

State of working Scotland: living standards, jobs and pay

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Executive summary

- With only months to go until May's Scottish Parliament elections, this report provides an analysis of the state of working Scotland. In particular, we focus on how Scotland's labour market performed in the run-up to the economic downturn and in the recovery.
- While in the early 2000s Scotland trailed England on many key labour market metrics, improved Scottish performance meant a number of those gaps had narrowed or even reversed by the time the crisis hit. In the years just before the crash, Scotland had a higher employment rate and lower unemployment than England. These **tighter labour market conditions provided the foundation for Scottish pay to grow more rapidly than the rest of the UK pre-crisis.**
- In contrast to the UK's employment-rich, pay-poor recession and recovery, **Scotland endured what could be characterised as a more 'traditional' downturn.** Employment bore more of the brunt in Scotland, falling more sharply than in the rest of the UK. In contrast to the tumbling UK unemployment rate and record employment rates, Scotland's unemployment rate hovered at an above-average 6 per cent for much of 2015, while employment rates remain below their pre-recession position. **Such trends have resulted in the Scottish labour market moving closer to the UK average on many indicators.**
- However, and indeed because, the Scottish picture on employment has disappointed since the crisis, it has undergone a less severe squeeze on pay and drop in productivity. As a result of both strong growth pre-2008 and a smaller fall after, **median pay in Scotland is now higher than in England,** overturning a long-established deficit.
- But, if Scotland's new pay advantage is to be maintained, its labour market must go through another period of tightening. There is some evidence that **Scotland's relatively weak recent employment record is beginning to have an impact on pay.** Hourly pay grew more rapidly at the bottom end of the earnings distribution in England than it did in Scotland in 2015.
- With this in mind, **the next Scottish government must focus its efforts on re-tightening the country's labour market,** including by making use of devolved back-to-work programmes. Compared to other parts of the UK, Scotland appears to have less of a problem in relation to housing and household debt. But prospects for living standards inevitably rest on labour market outcomes.
- How the next Scottish government uses **new tax and benefit powers** will also be key to living standards. UK-wide cuts in working-age benefits and in-work support will provide a drag on incomes, while the Westminster government's pledge to increase the personal tax allowance will do relatively little for those in the bottom half of the income distribution. Options open to the next administration include more progressive council tax charges.



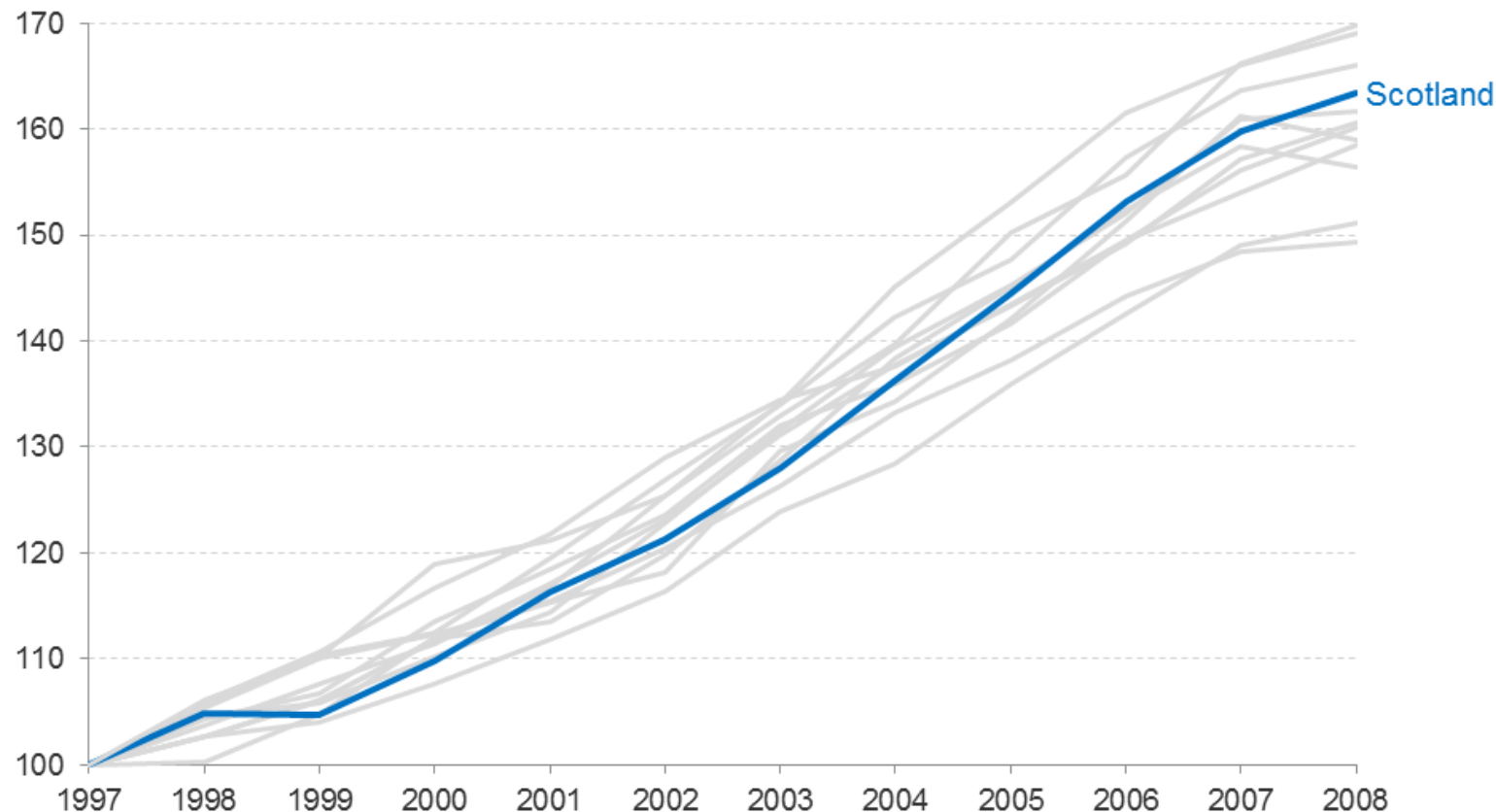
1. Scotland in the run-up to the recession
2. Scotland's shallower pay squeeze
3. Still some way off a fully recovered labour market
4. The impact of UK-wide policy in coming years
5. Housing and debt
6. What next for Scotland?

1. Scotland in the run-up to the recession

Scotland's economy grew steadily in the 2000s



GVA per head of population at current prices, 1997 = 100



Scotland's GVA per head growth closely mirrored the UK average from 1997-2008

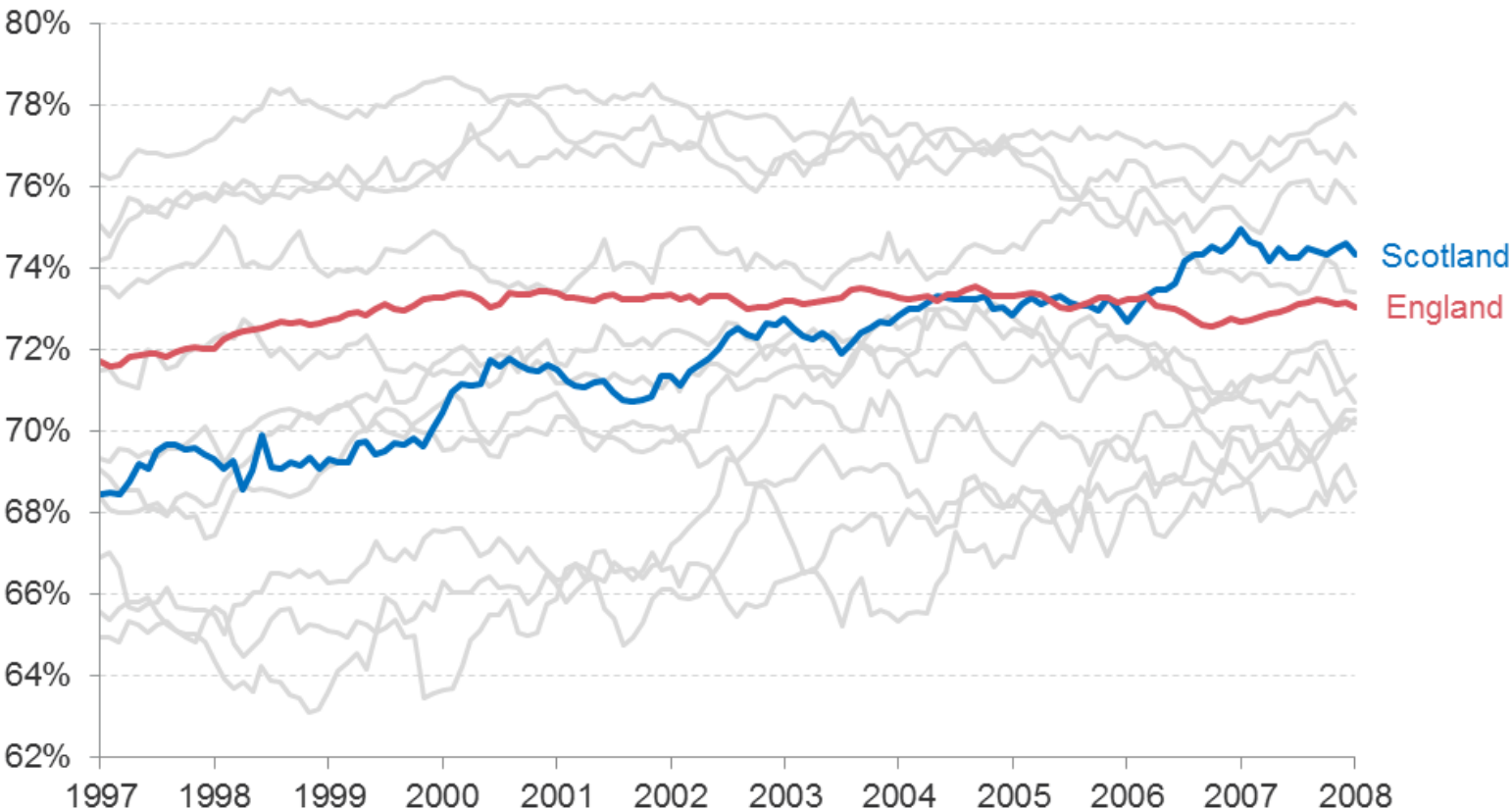
Scotland's GVA per head level trailed only London, the East of England and the South East immediately prior to the recession

Source: RF analysis of ONS, *Regional Gross Value Added (Income Approach)*, 1997 to 2014

Scotland's labour market became considerably tighter with a higher employment rate than England

RF

Employment rate (16-64) by nation/region, Apr-Jun 1997 - Apr-Jun 2008



Scotland's employment rate peaked at 74.9% in Apr-Jun 2007

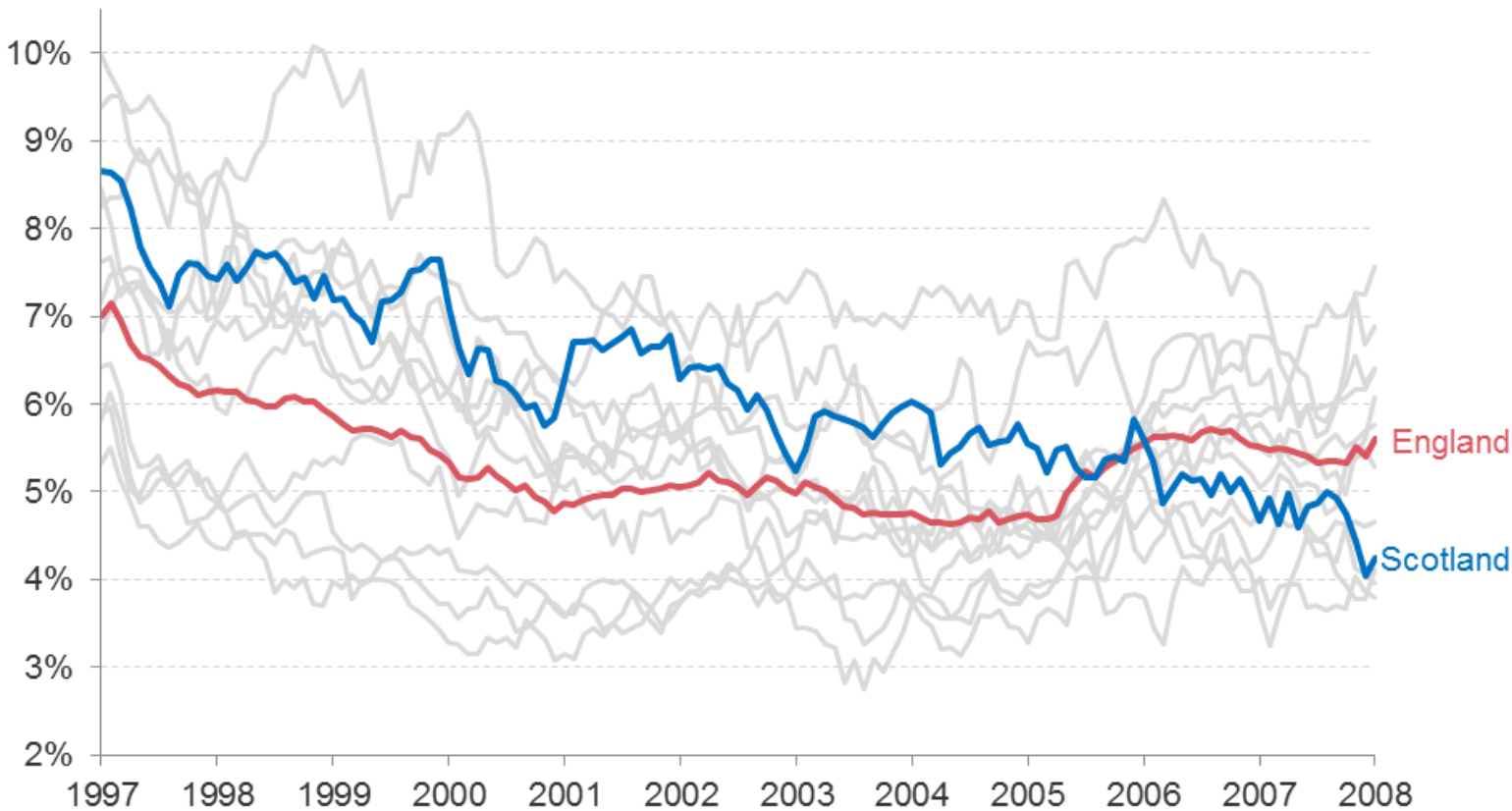
It rose by 8.5% from 1997 to 2008, much faster than the next best-performing nation/region (5.5% in the North East)

Source: RF analysis of ONS, *Labour Market Statistics*

Scotland's unemployment rate tumbled across most of the 2000s, falling well below the English rate

RF

Unemployment rate (16-64) by nation/region, Apr-Jun 1997 - Apr-Jun 2008



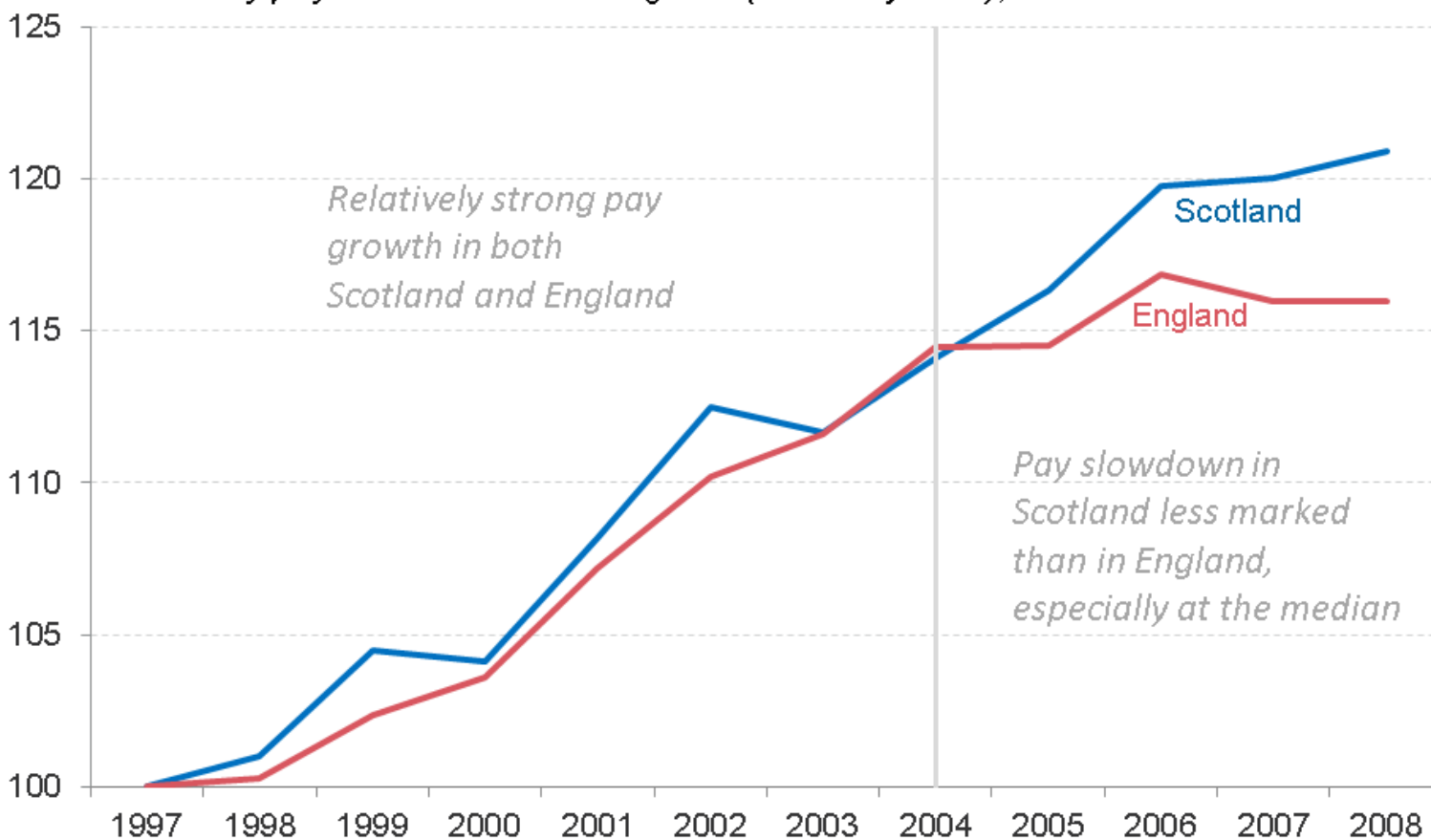
Scotland's inactivity rate also dropped steadily through this period, falling further than any other part of the UK and reaching a below-average rate of 21.4 per cent in Apr-Jun 2007

Source: RF analysis of ONS, *Labour Market Statistics*

Scotland's tightening labour market may have helped pay growth continue in 2004-08 as it slowed in England

RF

Median hourly pay in Scotland and England (RPIJ-adjusted), 1997-2008



Median pay grew strongly in both Scotland and England between 1997 and 2003

From 2004 onwards, English pay growth slowed significantly

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings* 2015

Both typical pay and employment grew faster in Scotland than any other nation/region of the UK

RF

By 2008, Scotland was placed amongst the leading nations and regions within the UK on both counts



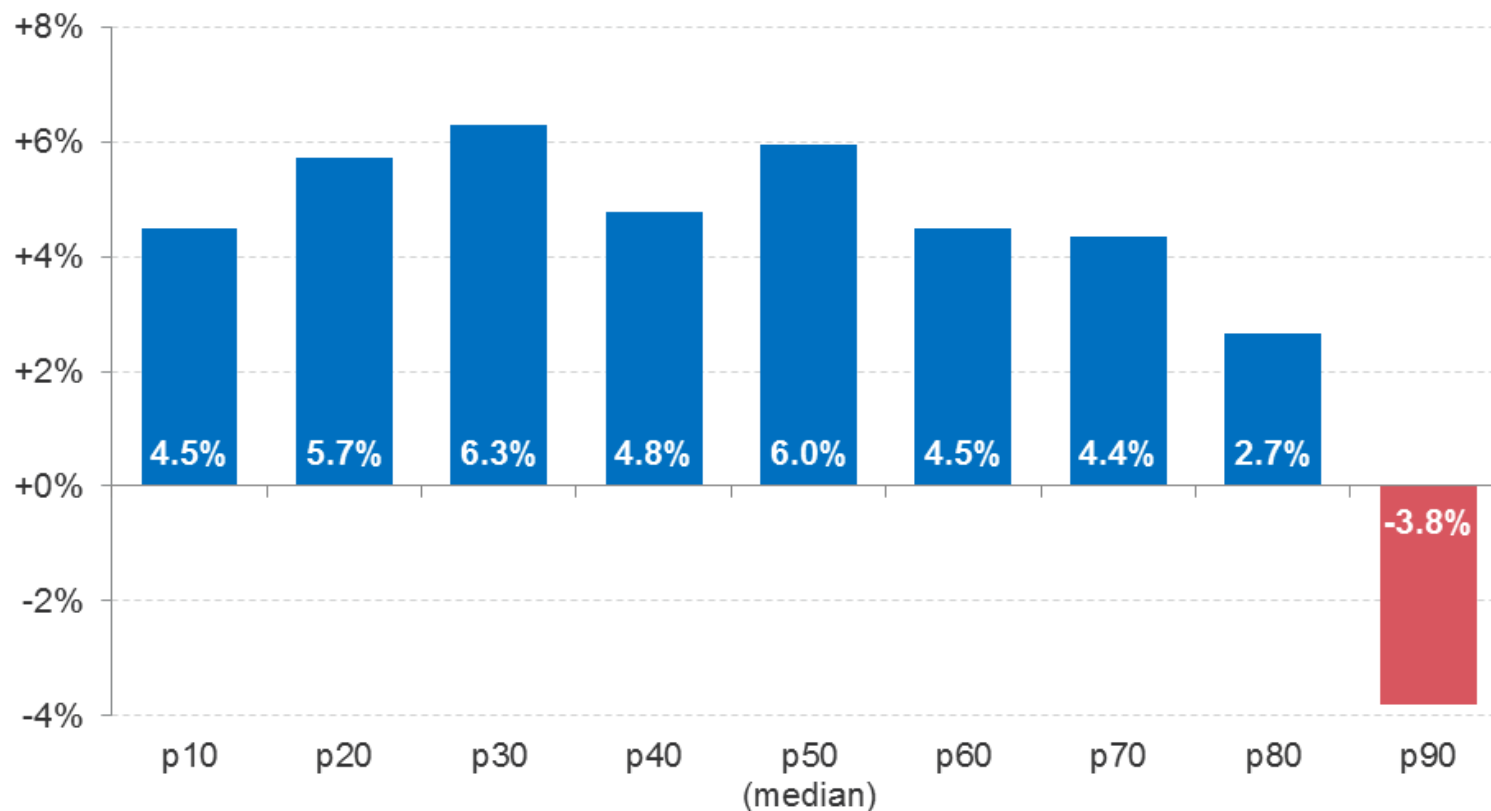
Source: RF analysis of ONS, *Labour Market Statistics* and *Annual Survey of Hours and Earnings*

That stronger pay performance was visible on most rungs of the pay ladder



Difference between Scotland and England's hourly pay growth (RPIJ-adjusted) 1997-2009 (positive figures indicate pay grew faster in Scotland)

Pay grew faster in England only among the highest earners

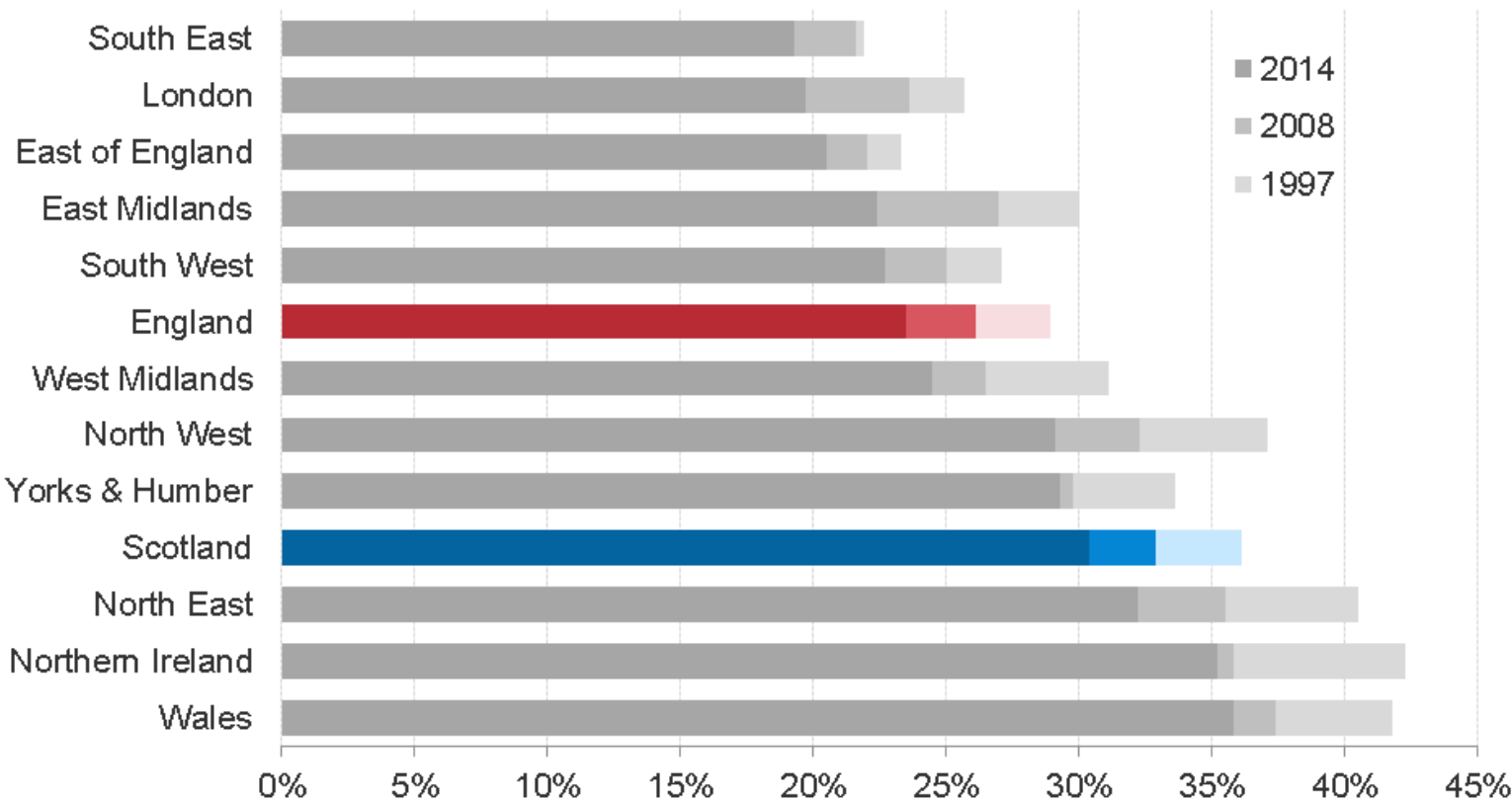


Source: RF analysis of ONS, *Annual Survey of Hours and Earnings 2015*

Alongside its tighter labour market, Scotland also had higher-than-average union membership

RF

Trade union membership as a proportion of employees by nation/region, 2008 and 2014



Scotland has an above average union density (though lower than the North East, Northern Ireland and Wales)

As with the rest of the UK, union density has fallen in recent decades though by slightly less in Scotland

Source: RF analysis of ONS, *Trade Union Membership 2014*

Higher public sector employment in Scotland may also have played a role in its better pay growth

RF

Average weekly earnings growth by sector, % change year-on-year, UK, 2001-2008



A greater share of Scottish workers (23.0% in 2008) work in the public sector than the UK as a whole (19.8%)

From 2003-2008 – the key period in which Scottish pay outpaced English – pay in the public sector grew at 4.2% a year compared to 2.8% in the public sector

Source: RF analysis of ONS, *Labour Market Statistics*

Summary – Scotland in the run-up to the recession



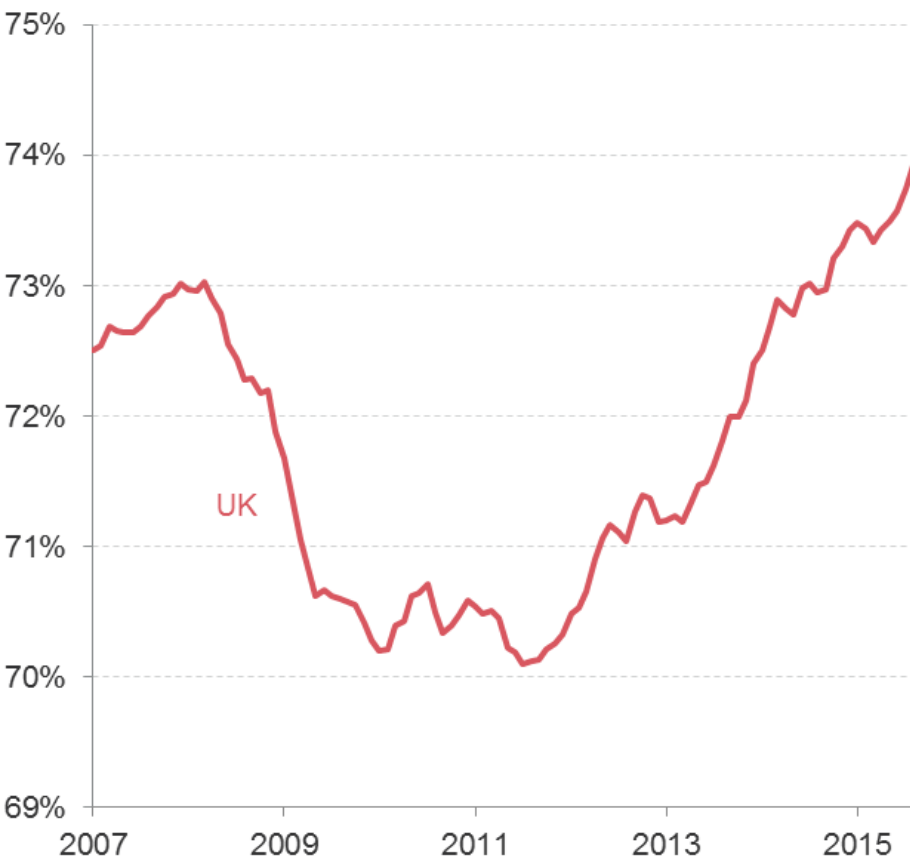
- While in the early 2000s Scotland trailed the UK on many key labour market metrics, improved Scottish performance meant a number of those gaps had narrowed or even reversed by the time the crisis hit
- In the years just before the crash, Scotland had a higher employment rate, and lower unemployment and inactivity rates than England
- These tighter labour market conditions provided the foundation for Scottish pay to grow more rapidly than the rest of the UK pre-crisis

2. Scotland's shallower pay squeeze

The overall UK story since the crisis has been impressive on employment but terrible on pay

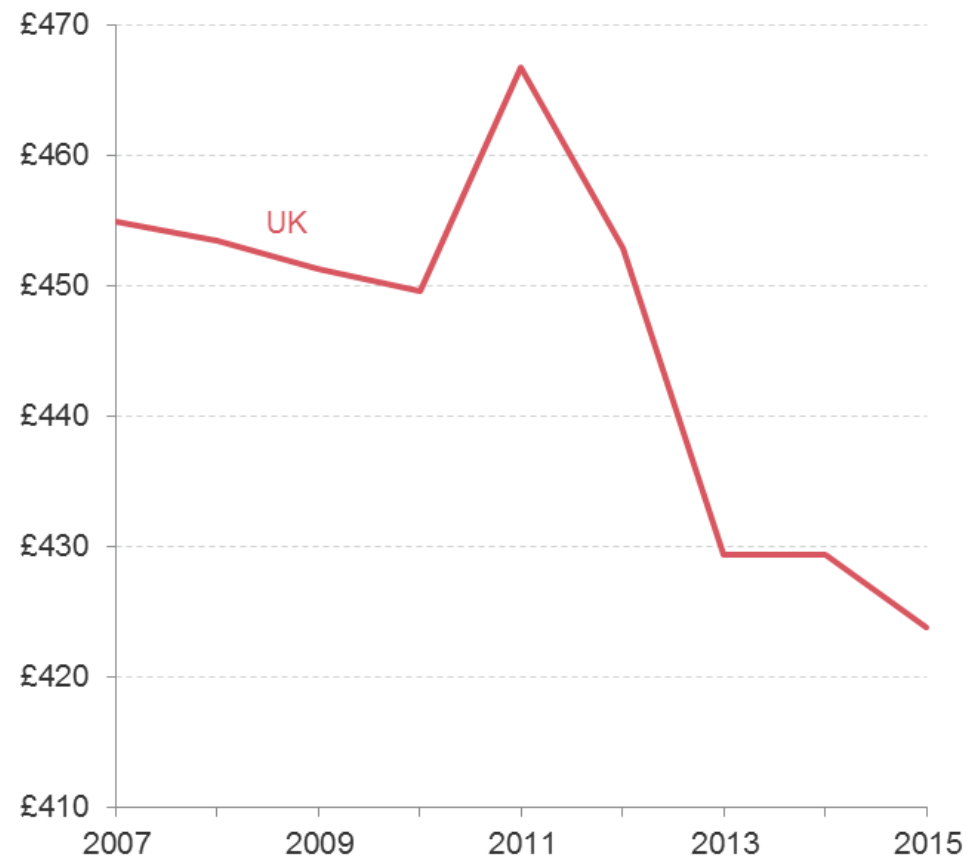
RF

UK & Scottish employment rate, 16-64, 2007-15



Source: RF analysis of ONS, *Labour Market Statistics*

UK & Scottish median weekly earnings (RPIJ-adjusted), 2007-15

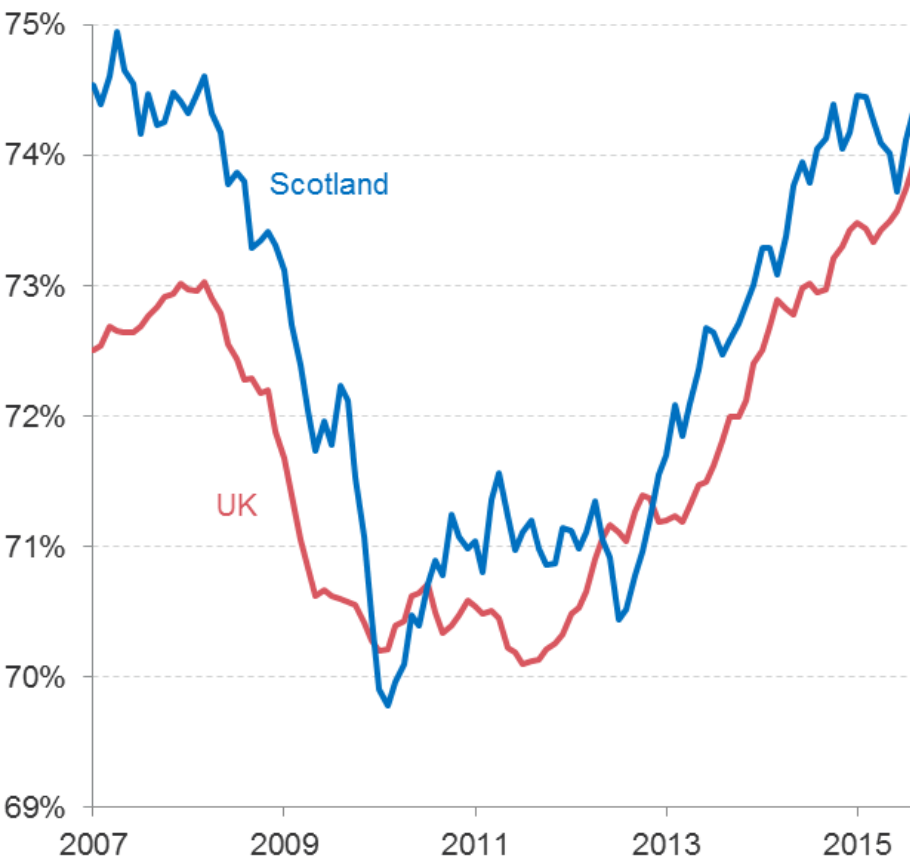


Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

In Scotland, employment plunged further but pay fell by less than the UK average

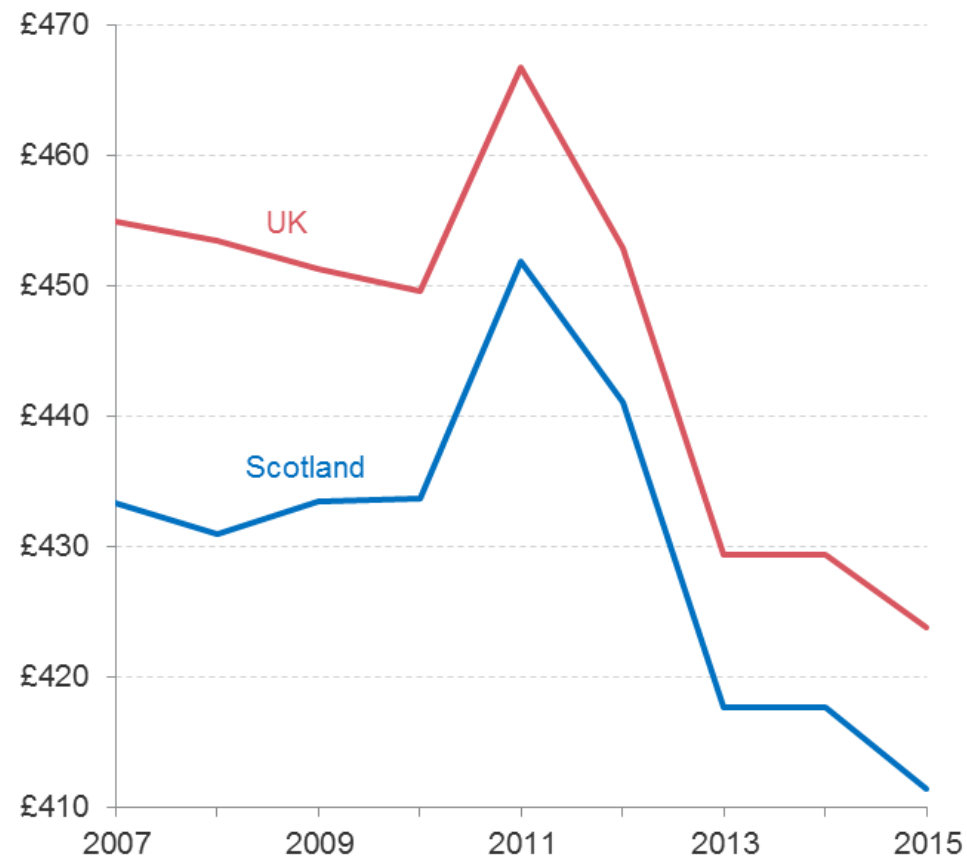
RF

UK & Scottish employment rate, 16-64, 2007-15



Source: RF analysis of ONS, *Labour Market Statistics*

UK & Scottish median weekly earnings (RPIJ-adjusted), 2007-15

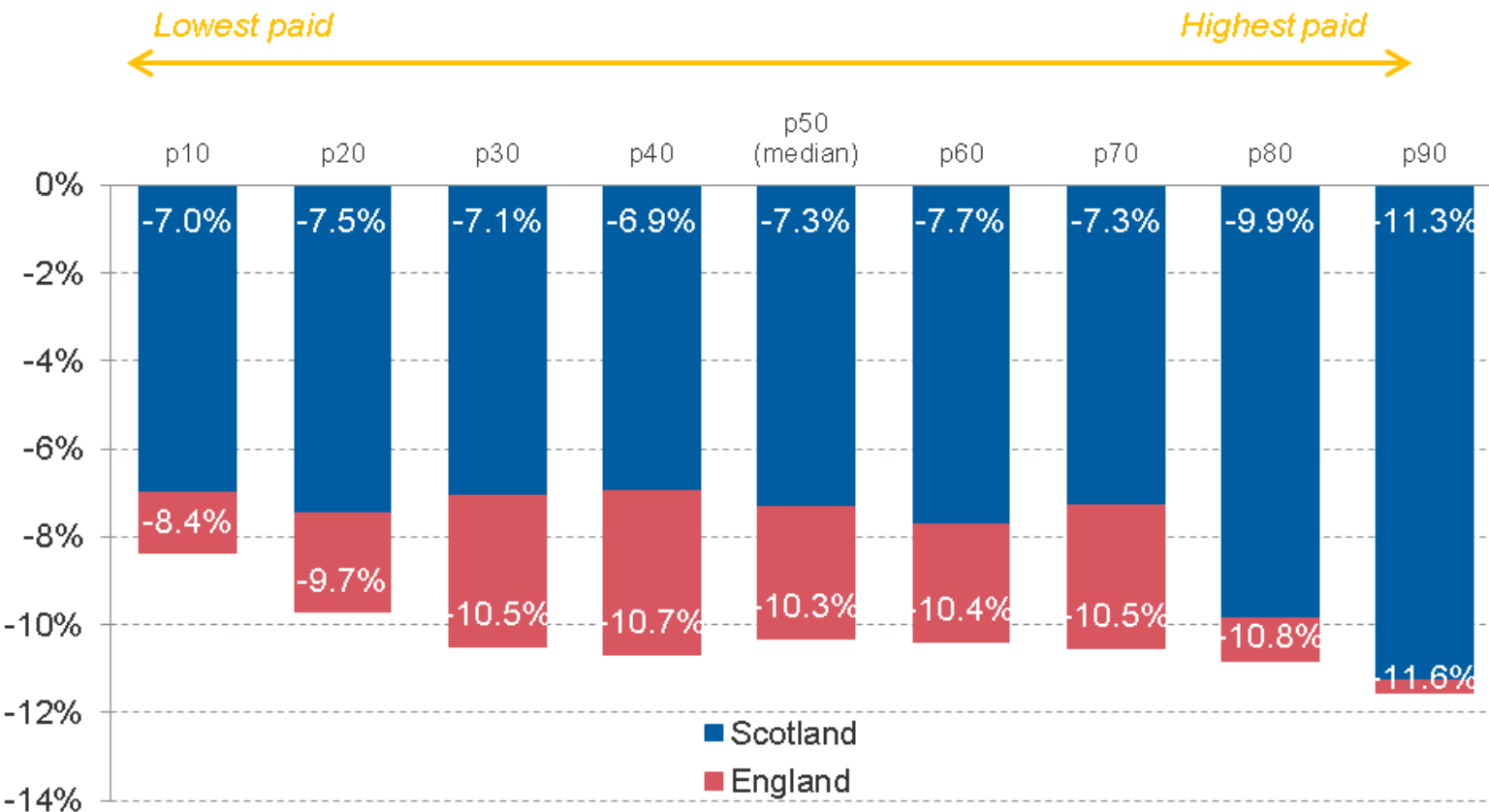


Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Scotland's pay squeeze was much shallower than the UK's right across the distribution



Cumulative change in real-terms median pay 2009-2014 (RPIJ-adjusted)



The pay of the typical worker fell by 3ppt less in Scotland than in England

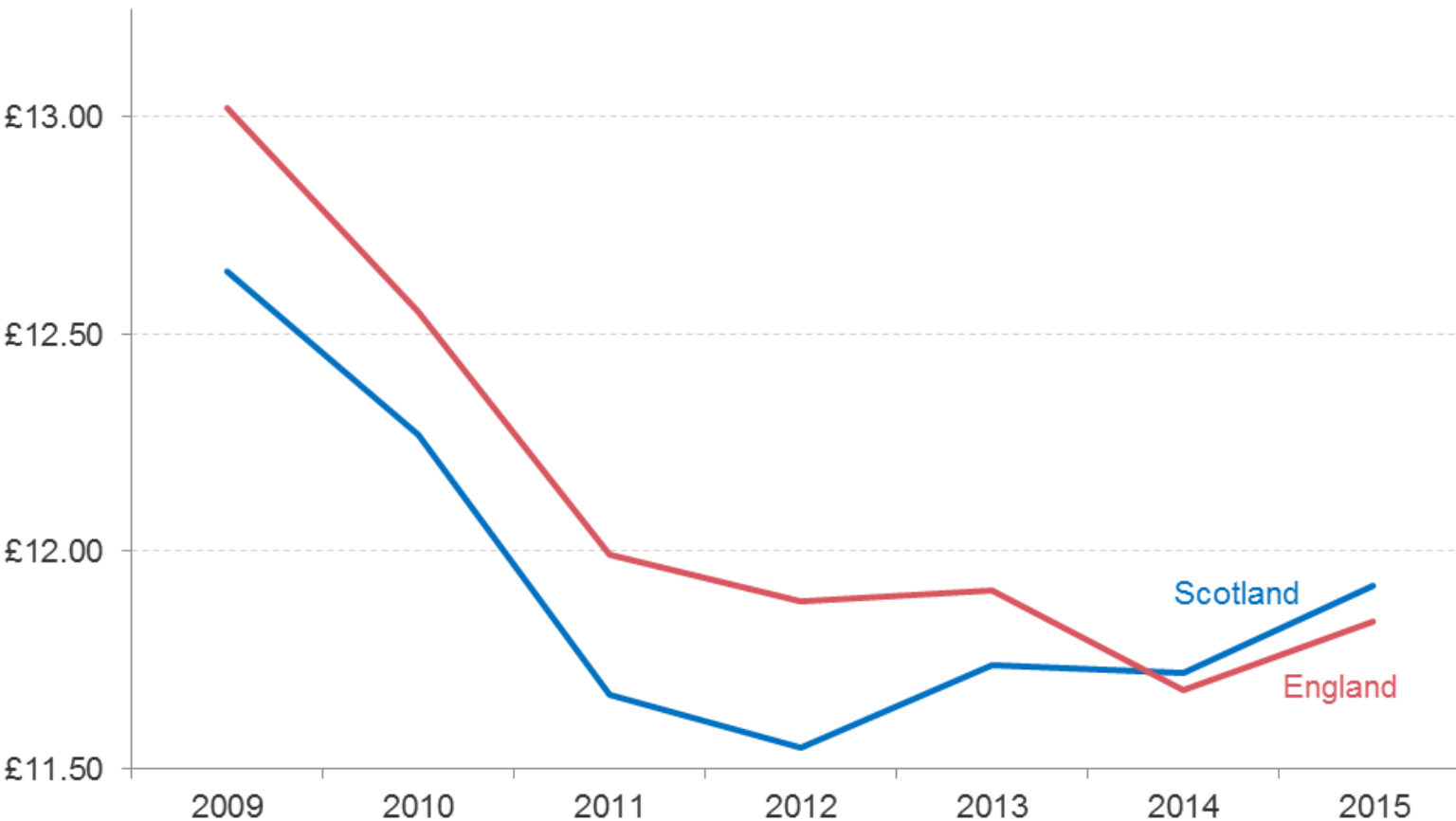
Hourly pay fell furthest among the highest paid workers in the period 2009-2014, but the overall trend was quite uniform

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings* 2015

Consequently, England's longstanding lead over Scotland on typical pay has disappeared and reversed

RF

Median hourly pay in Scotland and England (RPIJ-adjusted), 2009-2015



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings 2015*

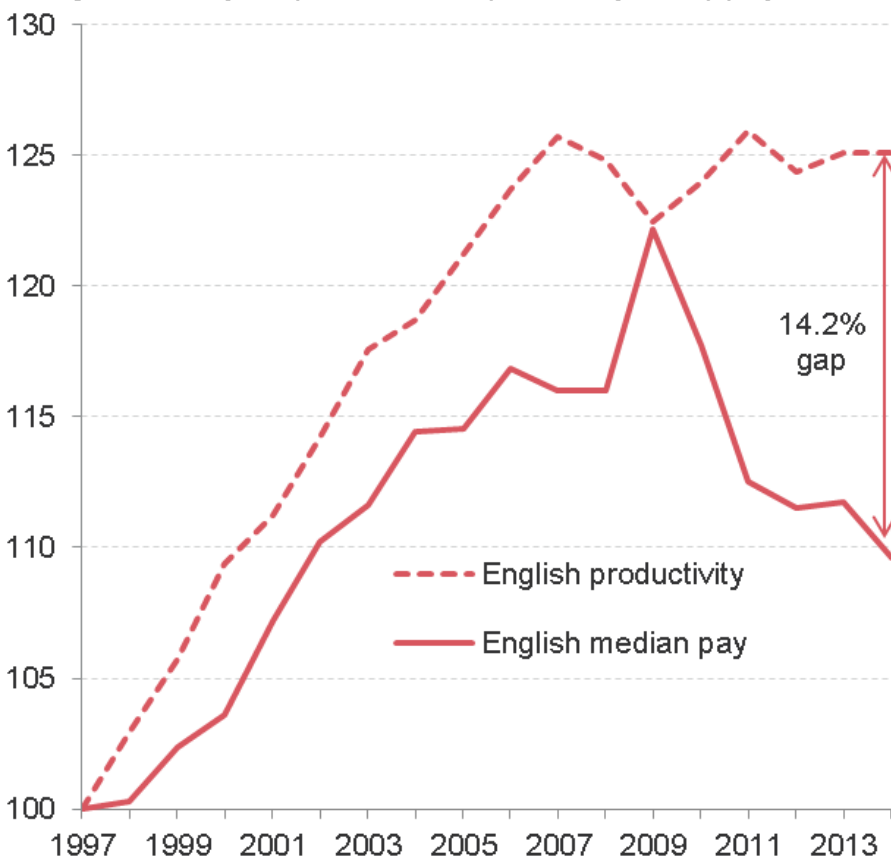
In 2004 typical hourly pay in Scotland was 7.7 per cent lower than in England. However, strong wage growth in the mid-2000s reduced the gap to just 2.9 per cent by 2009.

Scottish typical hourly pay is now marginally higher – 8p per hour – than in England, though England still leads on weekly pay.

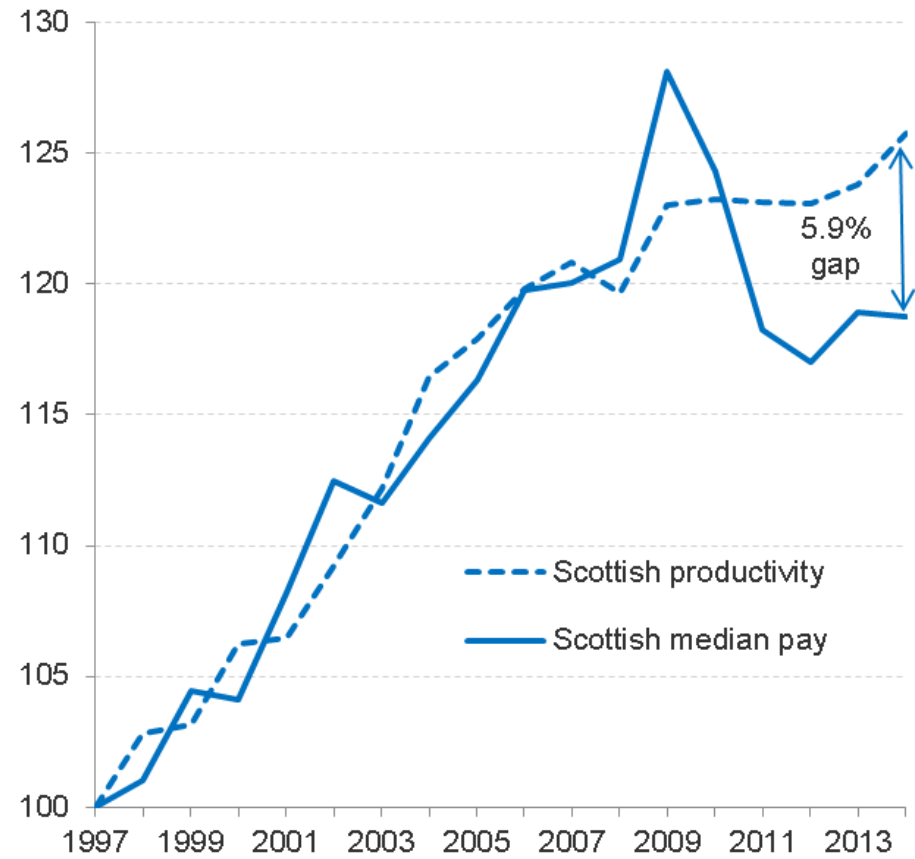
Scotland's better pay growth meant the pay-productivity divergence of England is less marked

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English hourly output and real (RPIJ-adjusted) pay



Scottish hourly output and real (RPIJ-adjusted) pay

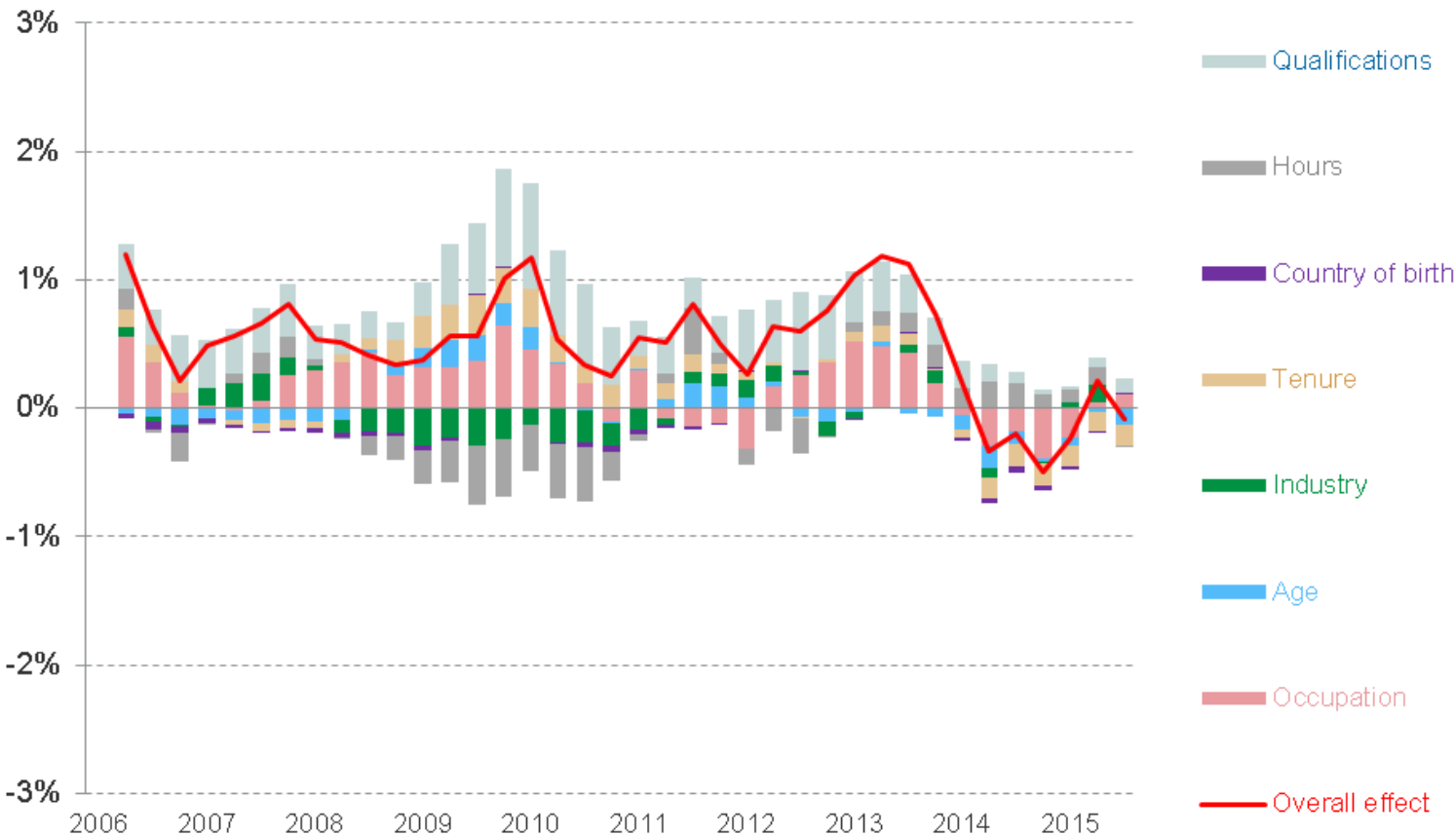


Source: RF analysis of Scottish Government ,Labour Productivity Statistics 1997-2014

Across the UK the changing make-up of the workforce helped to boost wages (other than in 2014)

RF

Compositional effect on annual changes in average weekly pay (nominal) - UK



Over time, the workforce tends to become more highly qualified and over recent decades higher-paying occupations have grown more quickly as a share of employment

Strong growth in employment among younger and less-experienced workers is likely to explain much of the negative effect in

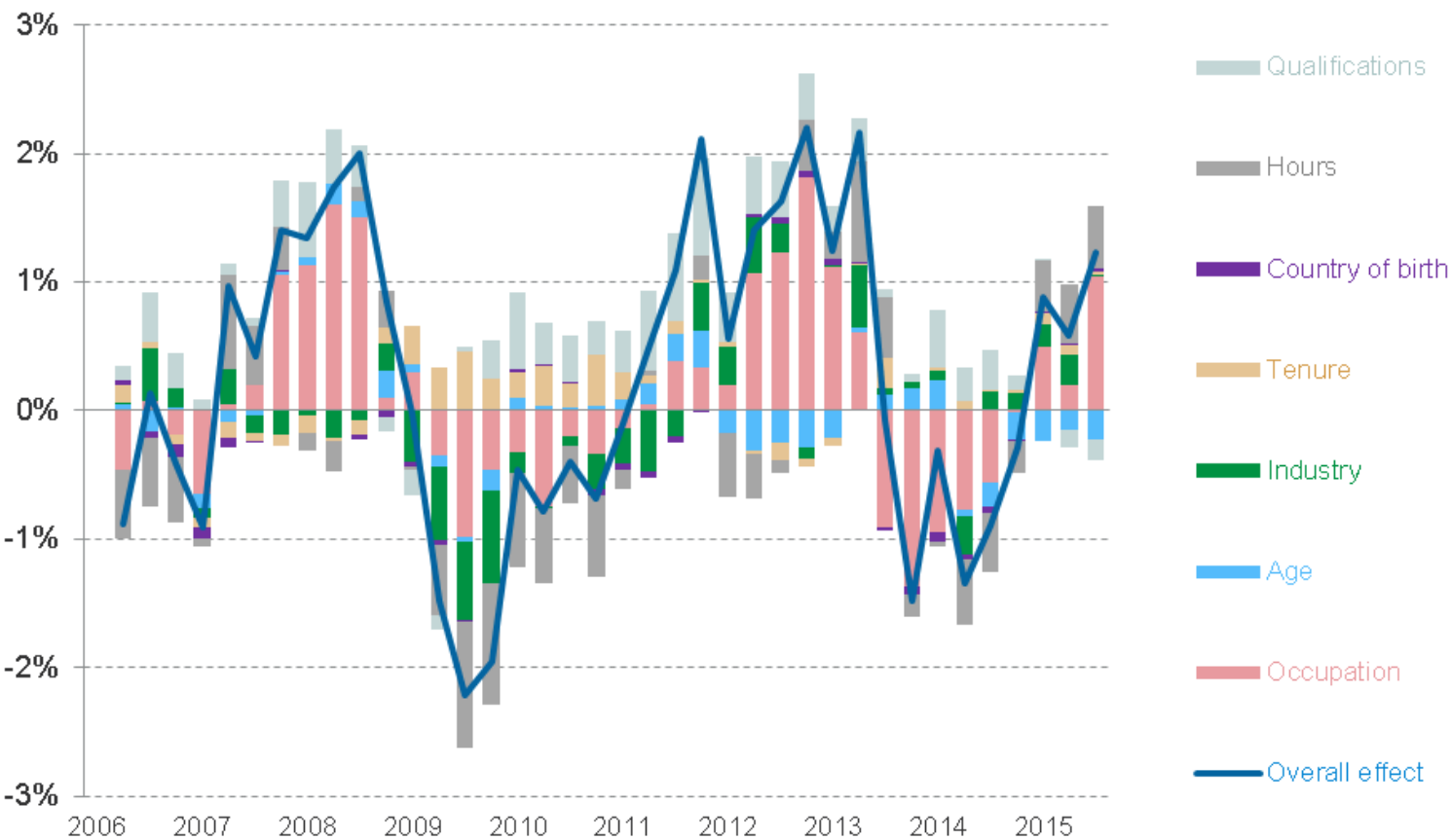
2014

Source: RF analysis of ONS, *Labour Force Survey* and *Average Weekly Earnings*

But the changing workforce was less of a boost to pay in Scotland so cannot explain stronger pay growth

RF

Compositional effect on annual changes in average weekly pay (nominal) - Scotland



Source: RF analysis of ONS, *Labour Force Survey* and *Average Weekly Earnings*

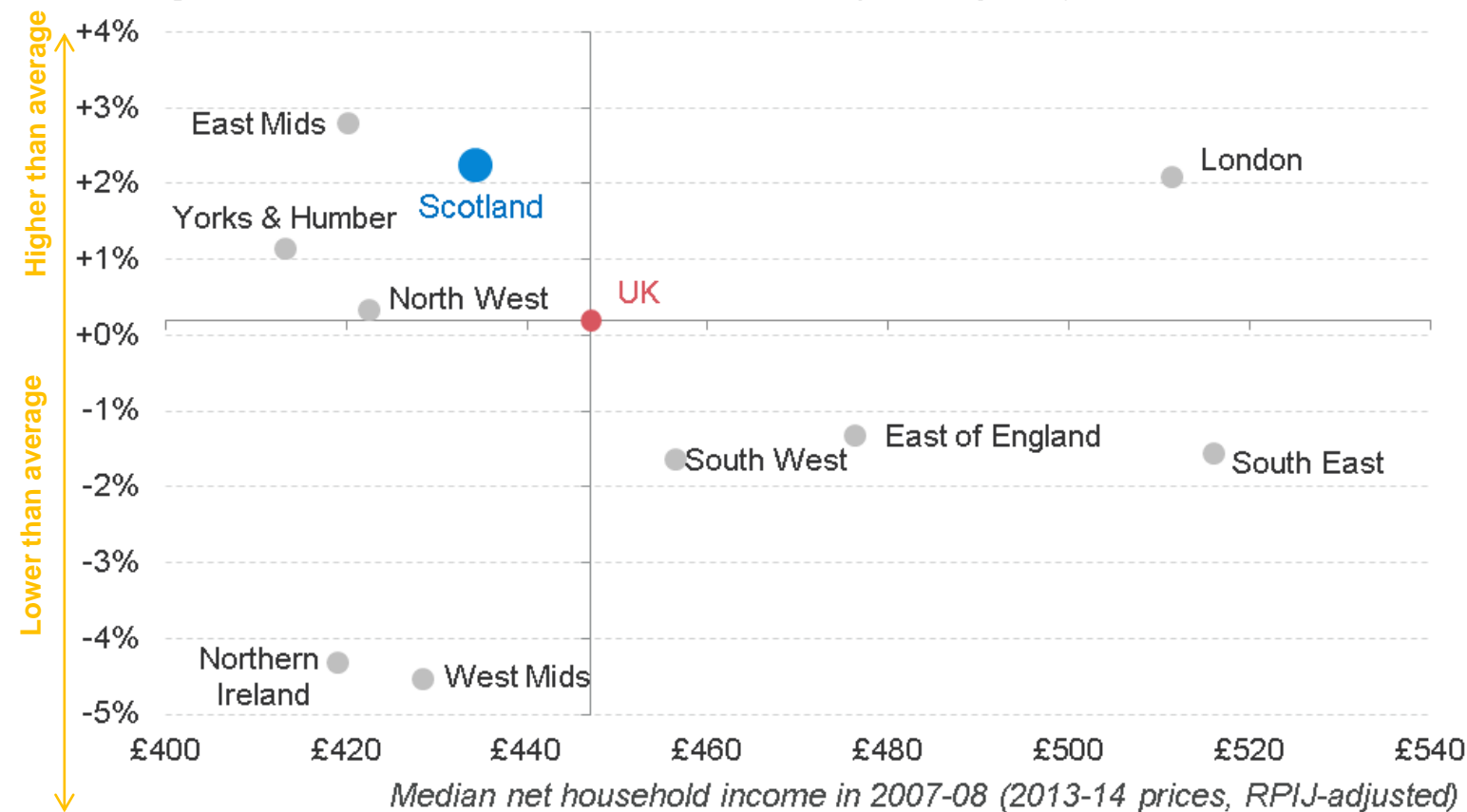
Boost averages 0.3% in Scotland compared to 0.5% in the UK -> doesn't explain Scotland's smaller squeeze

As well as the 2014 drag in the UK, the composition of the workforce negatively contributed in 2009-10 in Scotland, when industrial & occupational shifts along with a fall in hours dampened pay growth

These labour market trends meant Scottish household incomes grew more than the UK average

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Change in real-terms median net household income (RPIJ-adjusted) 2007-08 to 2013-14



Median household income growth in Scotland has been the second 'fastest' in the UK (i.e. the second smallest fall)

Similar change to that in London

Incomes higher than pre-crisis levels by end of 2014

Source: RF analysis of DWP, *Family Resources Survey*

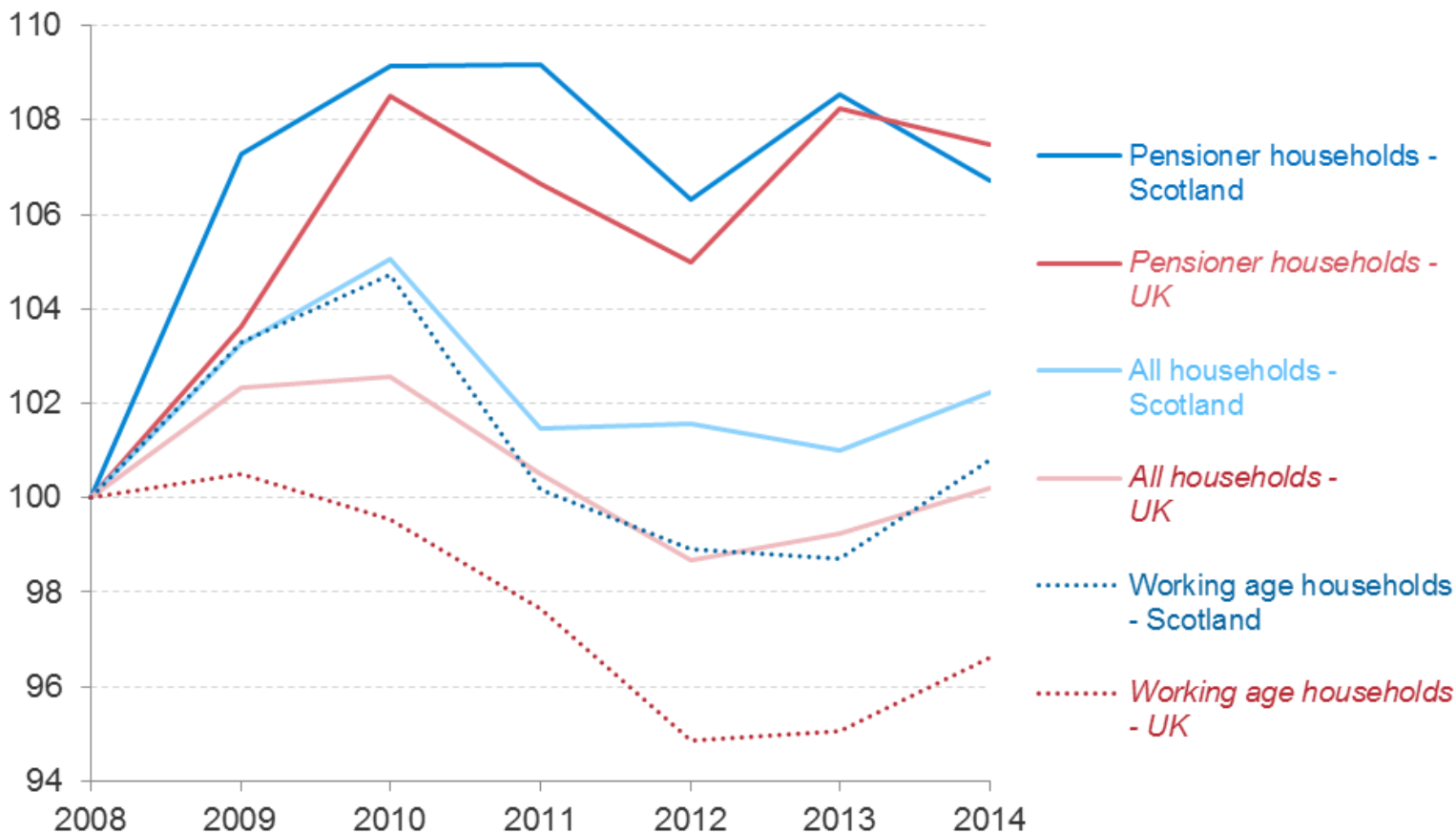
Lower than average

Higher than average

But this conceals a big variation in the experiences of different groups, especially the generational divide

RF

Indices of real-terms median net household income: 2007-08 = 100 (RPIJ-adjusted)



Typical incomes for Scottish pensioner households were 4% above their pre-downturn level last year, while working age households were still 2% below

Scottish working age households saw a smaller fall than the UK overall

Source: RF analysis of DWP, *Family Resources Survey*

Summary – Scotland's shallower pay squeeze

RF

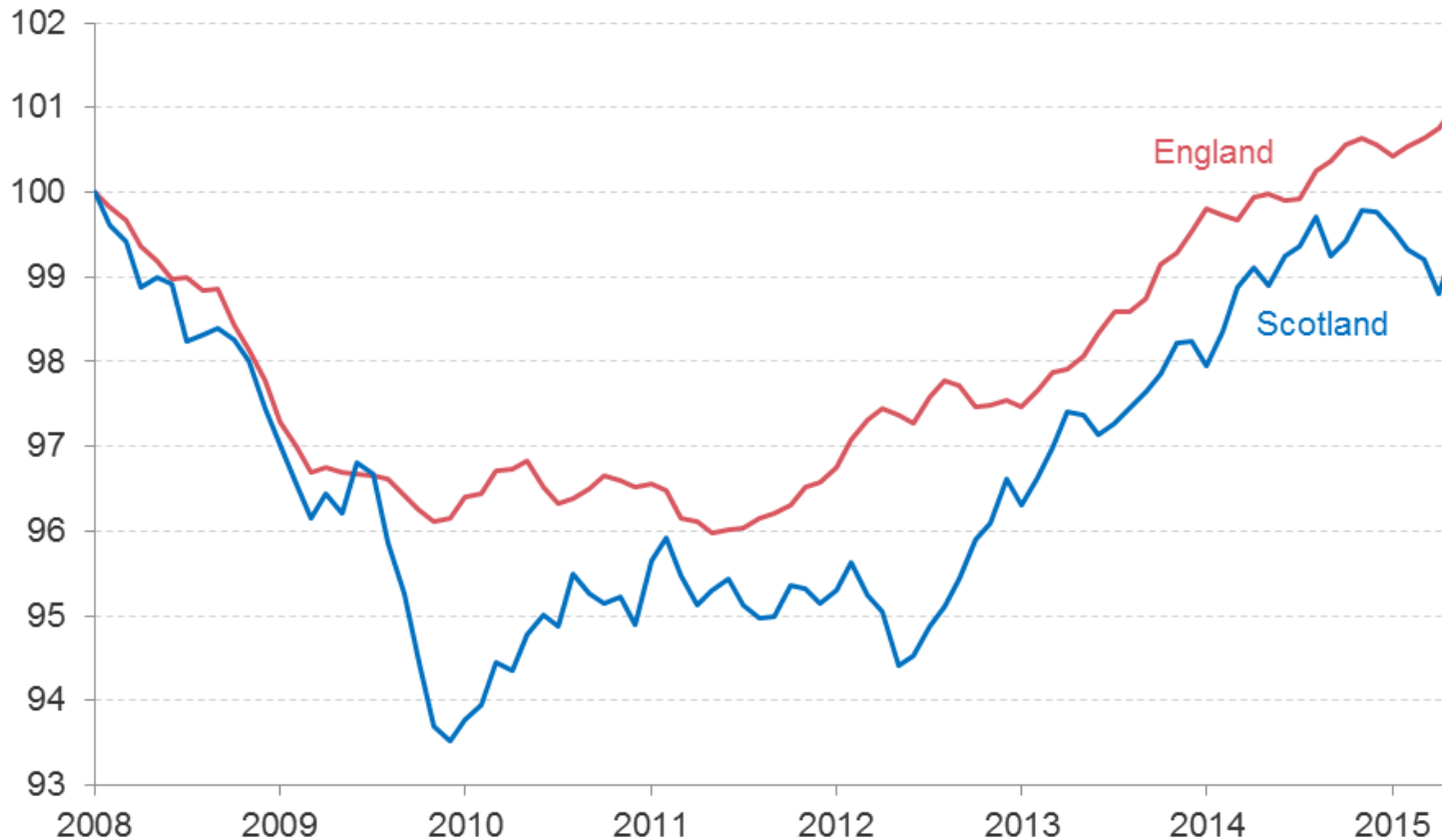
- Though pay fell for Scottish workers, the size of the hit was significantly smaller for employees across most of the pay distribution than for the UK as a whole
- As the next section will discuss, this better performance on pay post-crisis was partially due to a larger hit to employment
- If Scotland is to hold onto its new-found lead on pay over England and help incomes grow for families in the bottom half, regaining its tight labour market will be crucial. But on many counts, it appears that the Scottish jobs market still has a long way to go before being considered fully recovered

3. Still some way off a fully recovered labour market

While pay held up in Scotland, employment fell more steeply than in England or the UK as a whole

RF

16-64 employment rate, March-May 2008 = 100



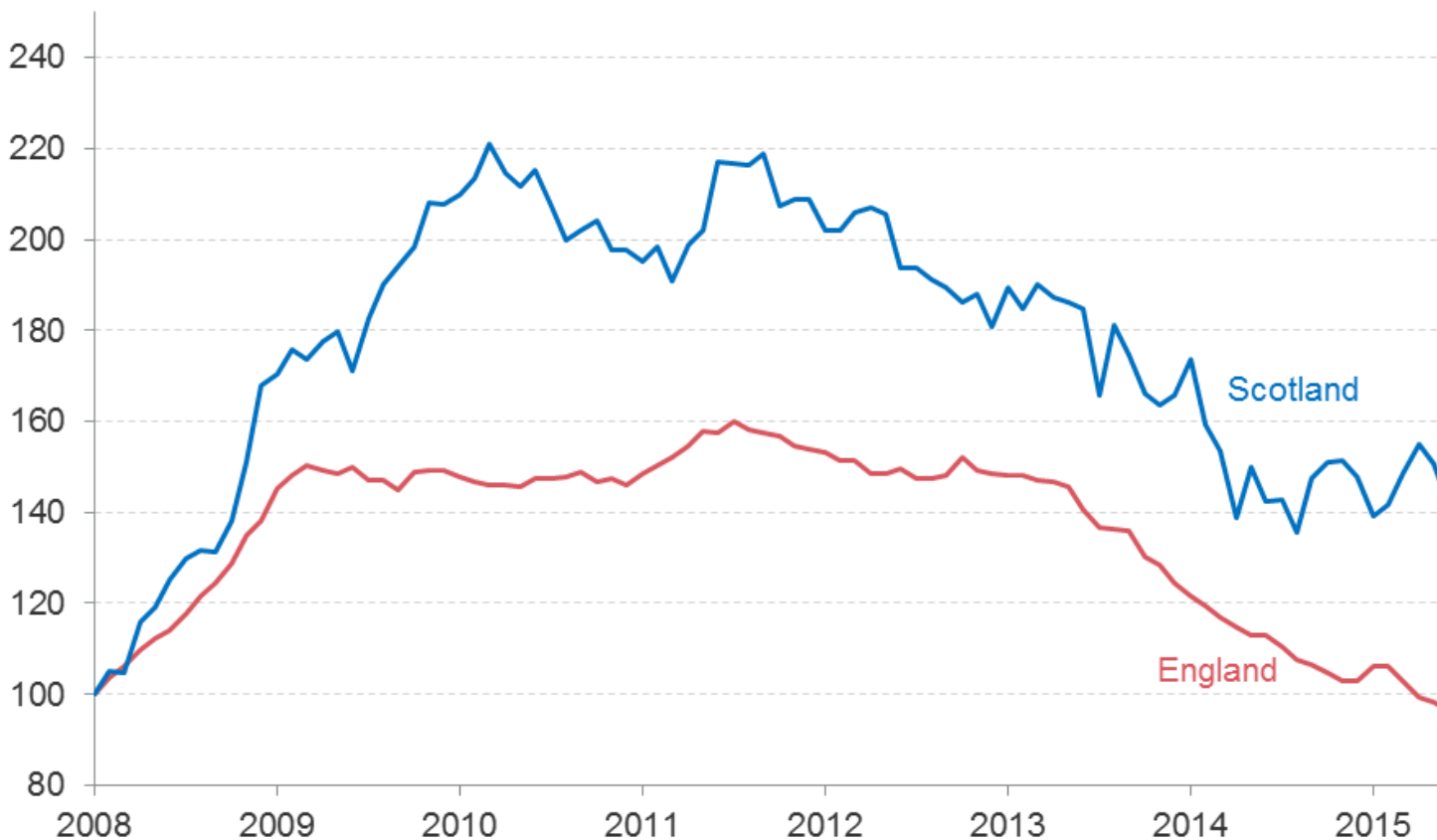
Scotland's employment rate was higher than England's pre-crisis but fell further. UK has continued to reach new employment rate peaks in 2015. Scotland's 2015 performance was less strong. Having nearly closed its 'jobs gap' in Q1 2015 it has since fallen back to level pegging with England at 74.3%.

Source: RF analysis of ONS, *Labour Market Statistics*

And unemployment rose more sharply and remains above its pre-crisis level

RF

16-64 unemployment rate, March-May 2008 = 100



As with its employment rate, a sharper initial rise has been followed by a fall

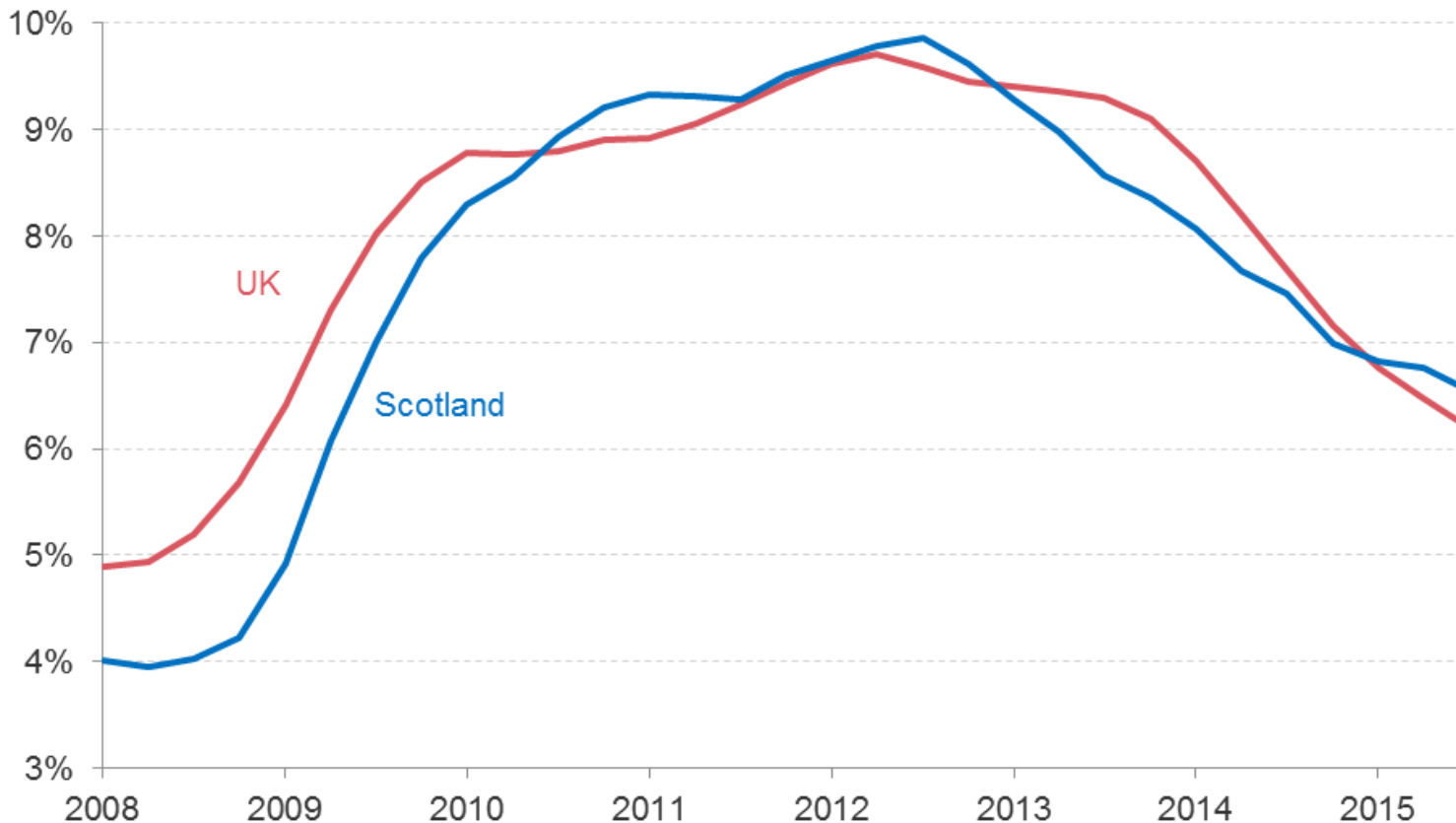
Across 2015 Scotland's unemployment rate averaged 5.9% compared to England's 5.5%

Source: RF analysis of ONS, *Labour Market Statistics*

On many counts, including 'slack', Scotland's labour market now looks more like the UK average

RF

Bell and Blanchflower's underemployment index



Underemployment (which captures those who are in work but seeking more hours, as well as the unemployed) far higher than in 2008, and has grown more in Scotland than in the UK

Notes: The index is described in Bell, D.N.F and Blanchflower, D.G. (2013) "Underemployment in the UK revisited"
Source: RF analysis of ONS, *Labour Force Survey*

Overall jobs growth since 2009 owes much to self-employment and part-time work

RF

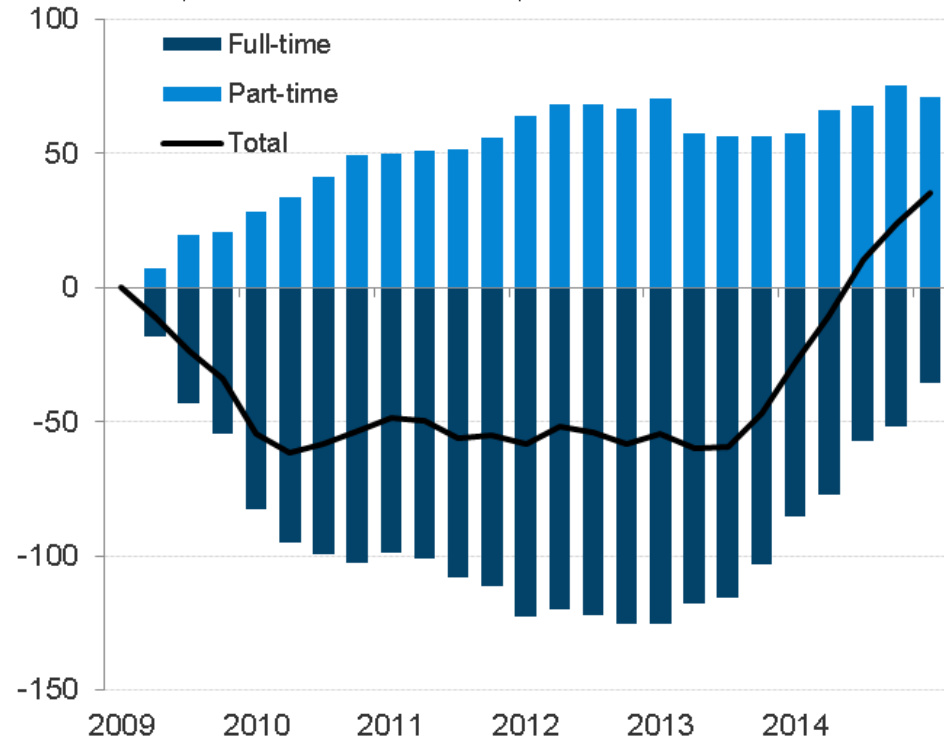
- Full-time work still lags its pre-crisis level (unlike in the UK)

Change in employees and self-employed since April 2008 - Mar 2009, thousands of workers, Scotland



Source: RF analysis of ONS, *Labour Market Statistics*

Change in full-time and part-time workers since Apr 2008 - Mar 2009, thousands of workers, Scotland

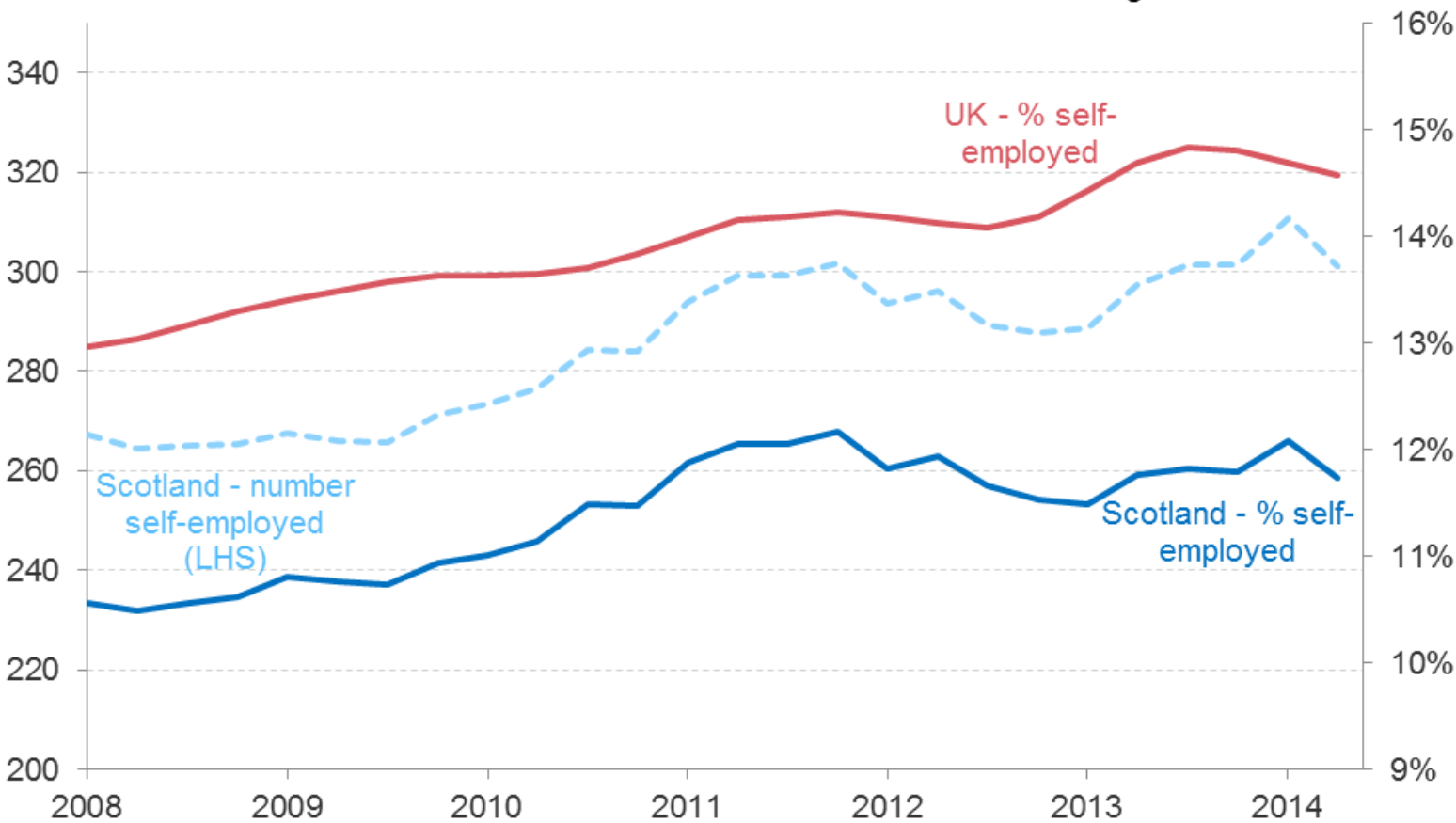


Self-employment in Scotland has risen, though it is far below the UK average



Number of jobs (thousands)

Percentage of workers



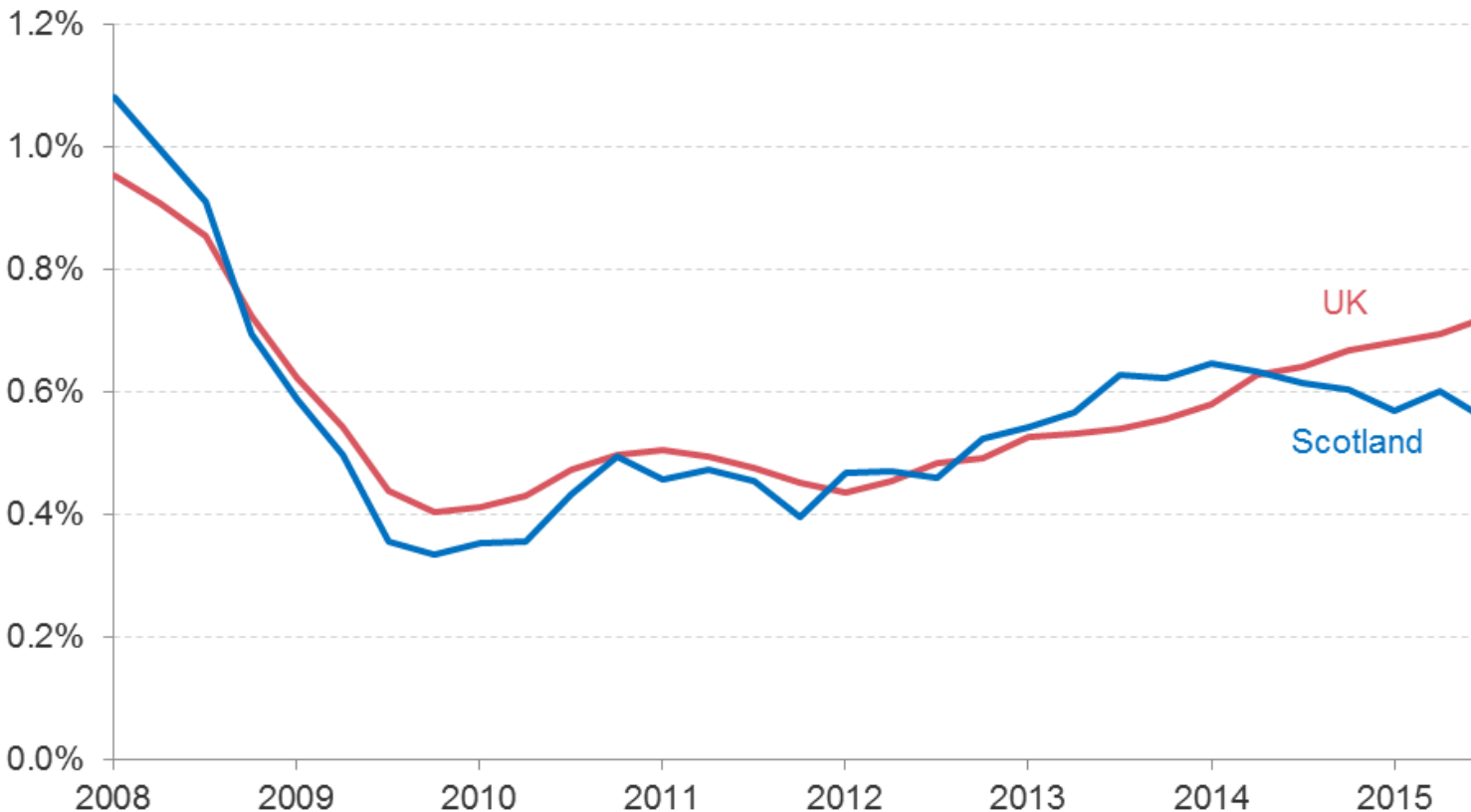
Source: RF analysis of ONS, Labour Market Statistics

Scottish self-employment 2.8ppt lower than UK figure
UK median self-employed earnings remain 32% lower than they were in 2006-07, compared to 9% fall in employee earnings
RF survey of self-employed however found that the majority were self-employed by choice

Job-to-job moves in Scotland – a leading indicator of pay trends – remain far below their pre-crisis level

RF

Proportion of workers voluntarily moving from one job to another each quarter; annual rolling average, Apr 2007-Mar 2008 - Oct 2014-Sep 2015

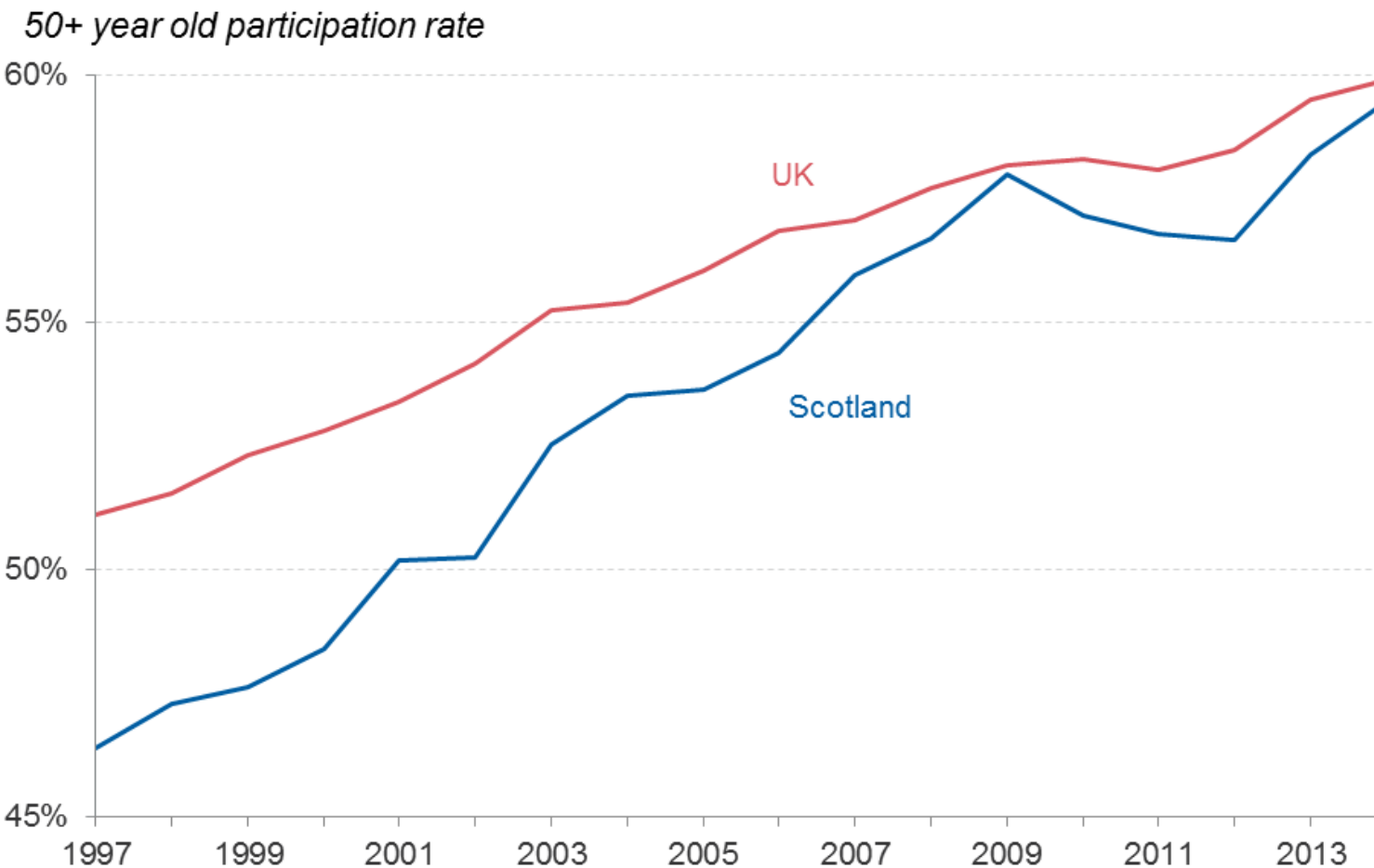


The rate of job-to-job moves is particularly important for younger workers' pay and progression as older workers changing roles opens up better-paying positions to progress into

Source: RF analysis of ONS, *Labour Force Survey*

But some positive trends have continued, including rising participation among over-50s in Scotland

RF



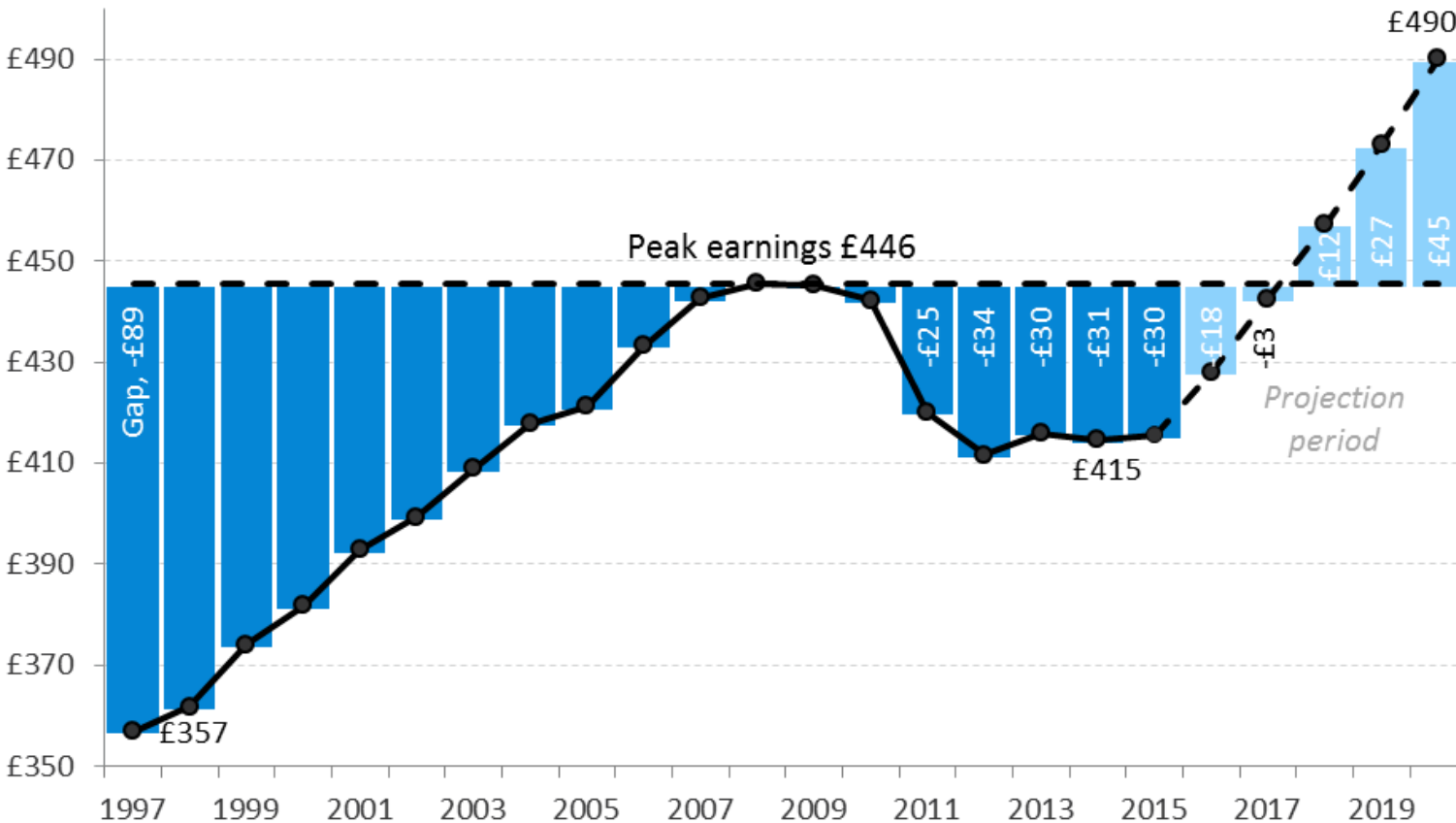
Further boosting the activity rates of those approaching the State Pension Age (and beyond) will be key in the drive towards full employment in both Scotland and the UK

Source: RF analysis of ONS, *Labour Force Survey*

Despite a smaller squeeze, it will still be several years before Scottish wages recover to their pre-crisis level

RF

Median weekly earnings: all employees (CPI-adjusted, 2015 prices)



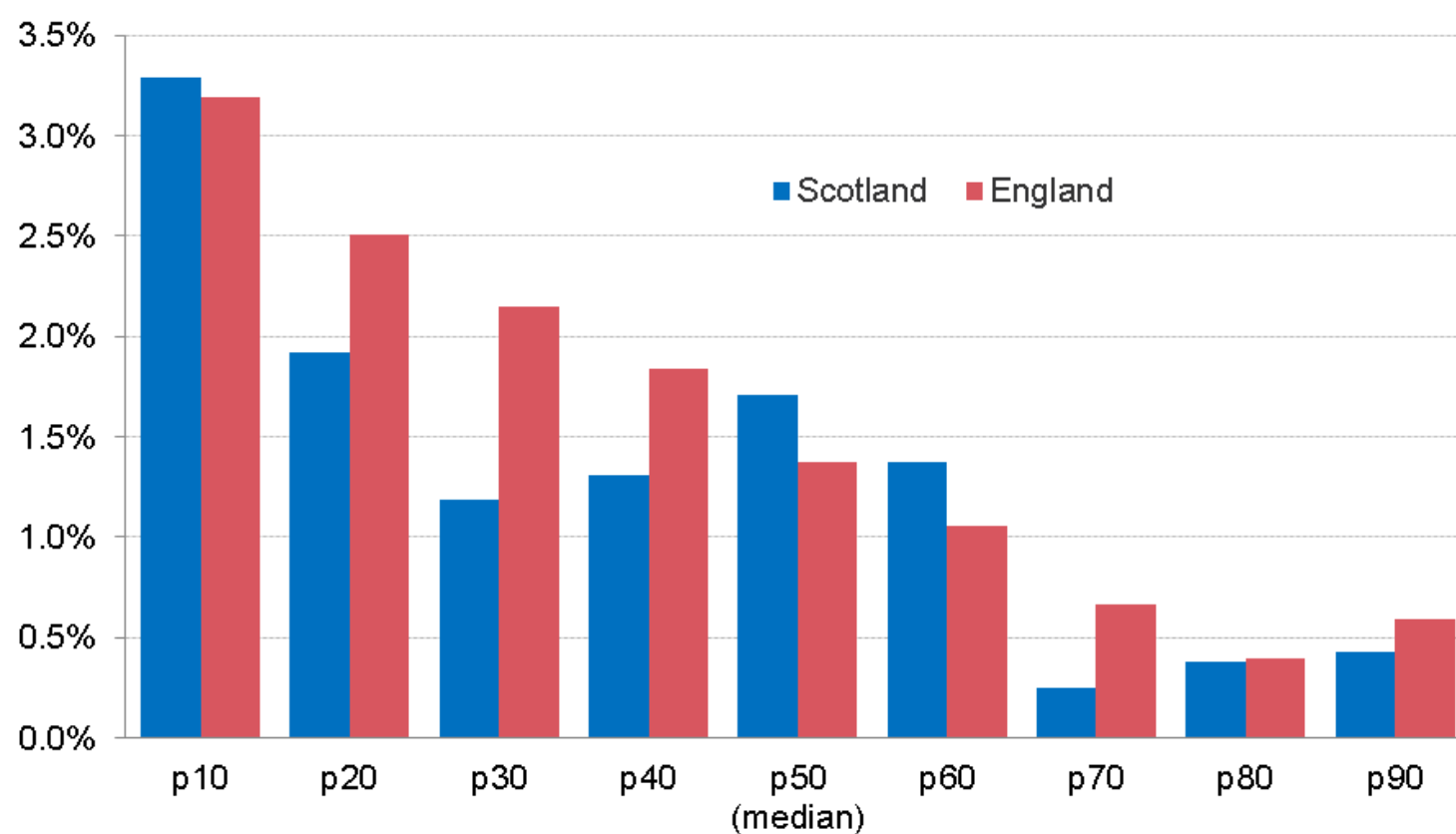
Although the exact year in which it occurs is uncertain, the new peak should be reached in Scotland some time before the UK as a whole, due to the smaller squeeze on median pay in Scotland

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings 2015* and OBR, *Economic and Fiscal Outlook November 2015*

And on many of the lower rungs of the earnings ladder, English workers had better pay growth in 2015



Annual change in hourly pay excl. overtime across the distribution, 2015



While median pay in Scotland continued to grow faster than in England, the difference in the rate of pay growth narrowed in 2015

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings 2015*

Summary – Scotland's labour market not fully recovered

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- On many labour market indicators, Scotland remains below its pre-crisis level, though level with the UK average
- The Scottish jobs recovery has disproportionately been made up of part-time workers; full-time work is below its pre-crisis level
- Some long-term positive trends in the Scottish labour market have continued throughout the recession and recovery however, such as the rising employment rate of older workers
- But Scotland's incomplete recovery on jobs may lead to slower pay growth in the future relative to other nations and regions of the UK
- And as the next section discusses, planned changes to UK-wide tax and benefits are unlikely to boost the incomes of low-to-middle income families in Scotland

4. The impact of UK-wide policy in coming years

Developments in the Scottish labour market will not be the only determinant of household income growth

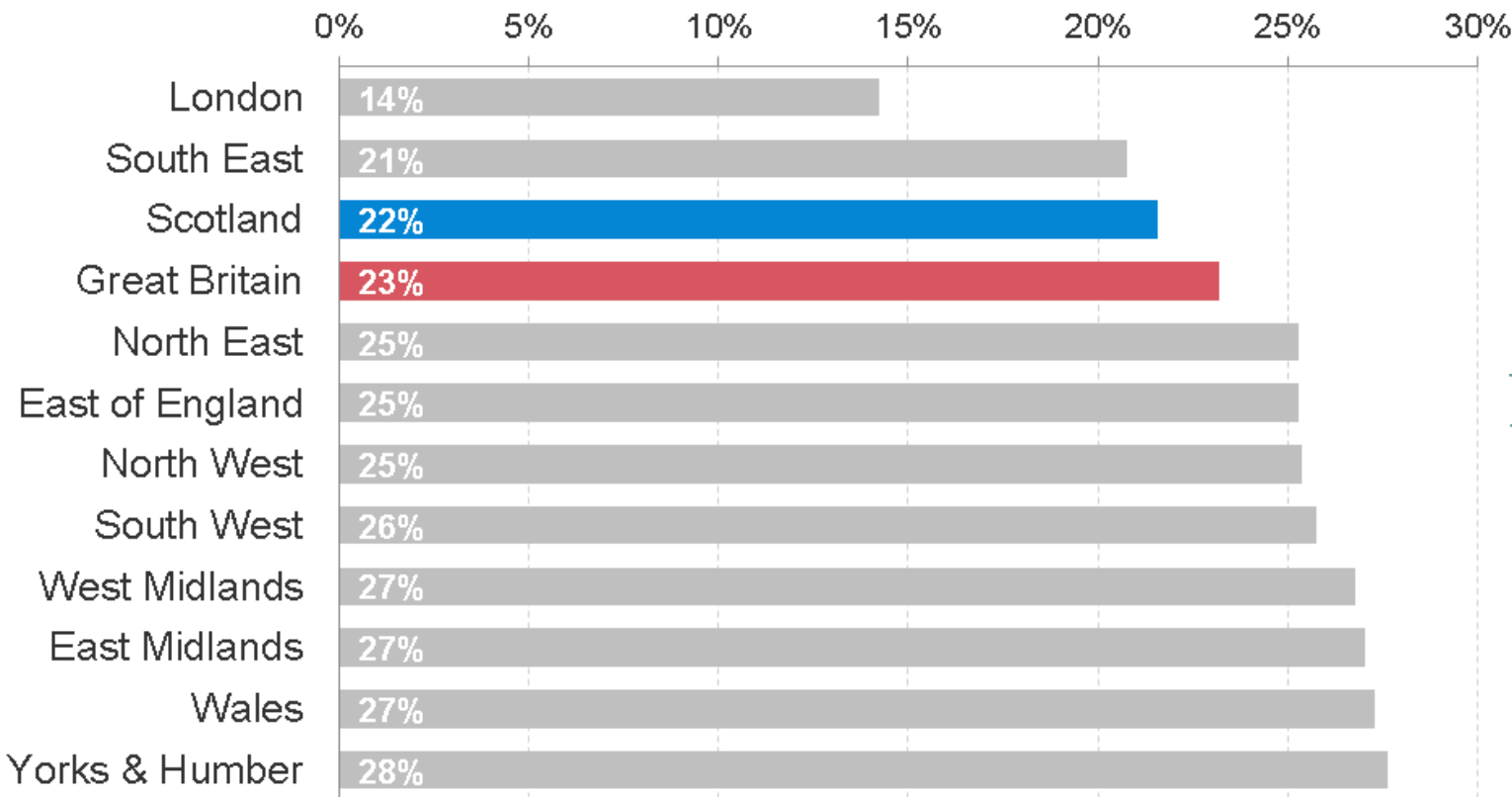
RF

- There are a number of UK-wide policies that will affect the incomes of Scottish households
- In this section, we consider a number of changes, some of which will undoubtedly boost the wages of Scottish workers (the National Living Wage) and some for which the impact on incomes appears less straightforward (the planned rises in the personal tax allowance and Universal Credit)

The NLW is projected to boost the wages of ½ million Scots by 2020, on average by £760

RF

Proportion of employees projected to be affected by the National Living Wage in 2020, by nation/region



While the NLW will bring a welcome pay rise for many low-paid workers in Scotland, it is set to have a less radical impact in Scotland than in many parts of the UK with a slightly smaller share of workers affected

This is likely to diminish Scotland's pay lead for lower-earning workers

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

As with the rest of the UK, the personal tax system in Scotland has changed significantly since 2010



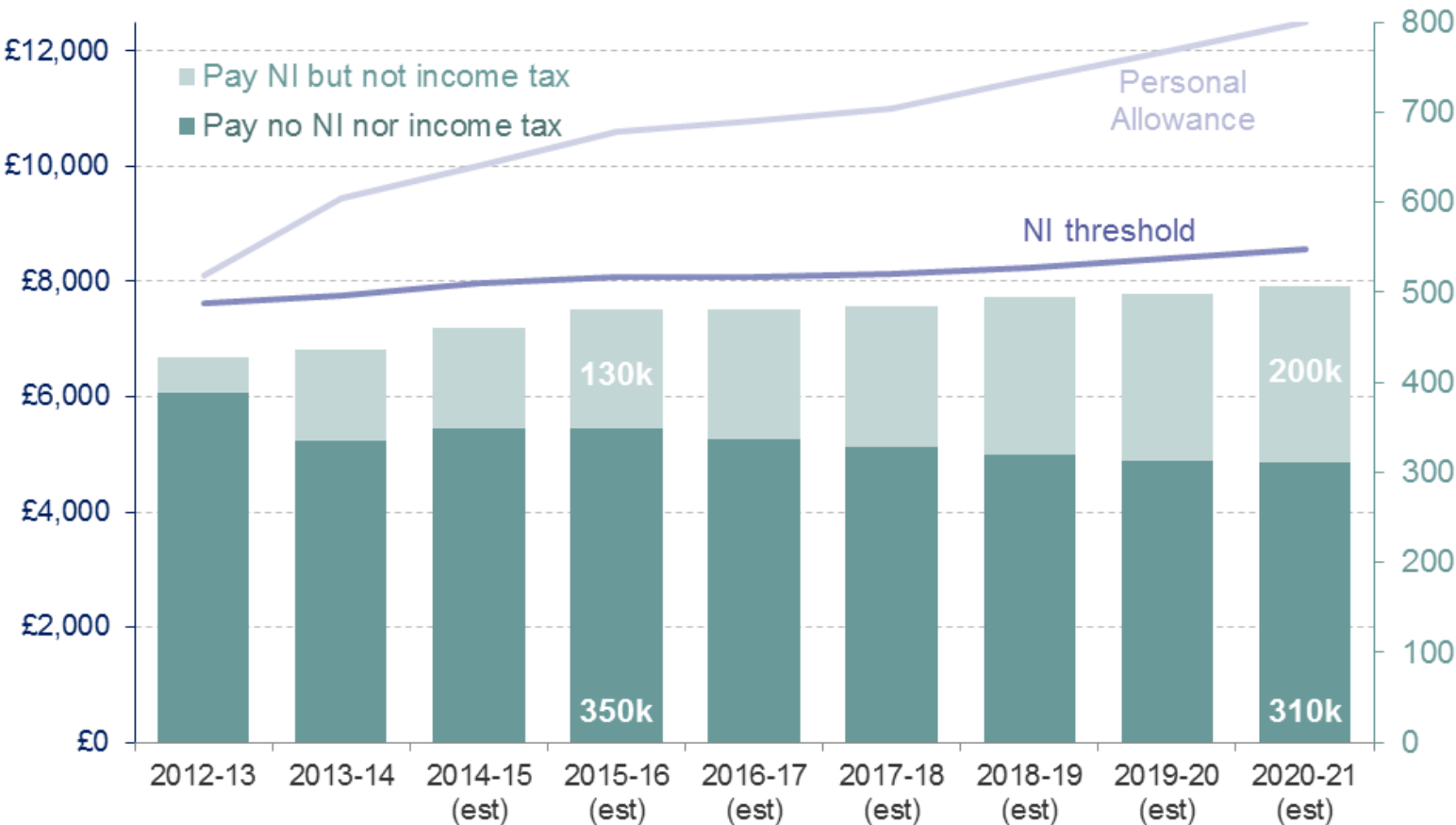
- Over the past five years, the personal tax allowance – the threshold at which workers start to pay income tax – has risen quickly, from £6,475 to £10,600
- The threshold at which workers begin paying National Insurance however has generally increased with inflation
- This has significantly reduced the amount of *income* tax paid by the majority of earners but plans to raise the personal tax allowance to £12,500 by 2020 will do little for the lowest earners who are already outside the tax system

Further increases in the personal tax allowance do nothing for Scotland's 500,000 lowest earners

RF

Personal Allowance / National Insurance threshold

Thousands of workers earning less than personal allowance and/or NI threshold



By 2020-21, 500,000 workers in Scotland will pay no income tax. But 200,000 of them will still pay NICs (there are 2.3m in this category across UK)

Gains from the higher personal tax allowance overwhelmingly flow to the top half of households

Source: RF analysis of DWP, Family Resources Survey

Universal Credit represents one of the biggest changes to the UK's welfare system in decades

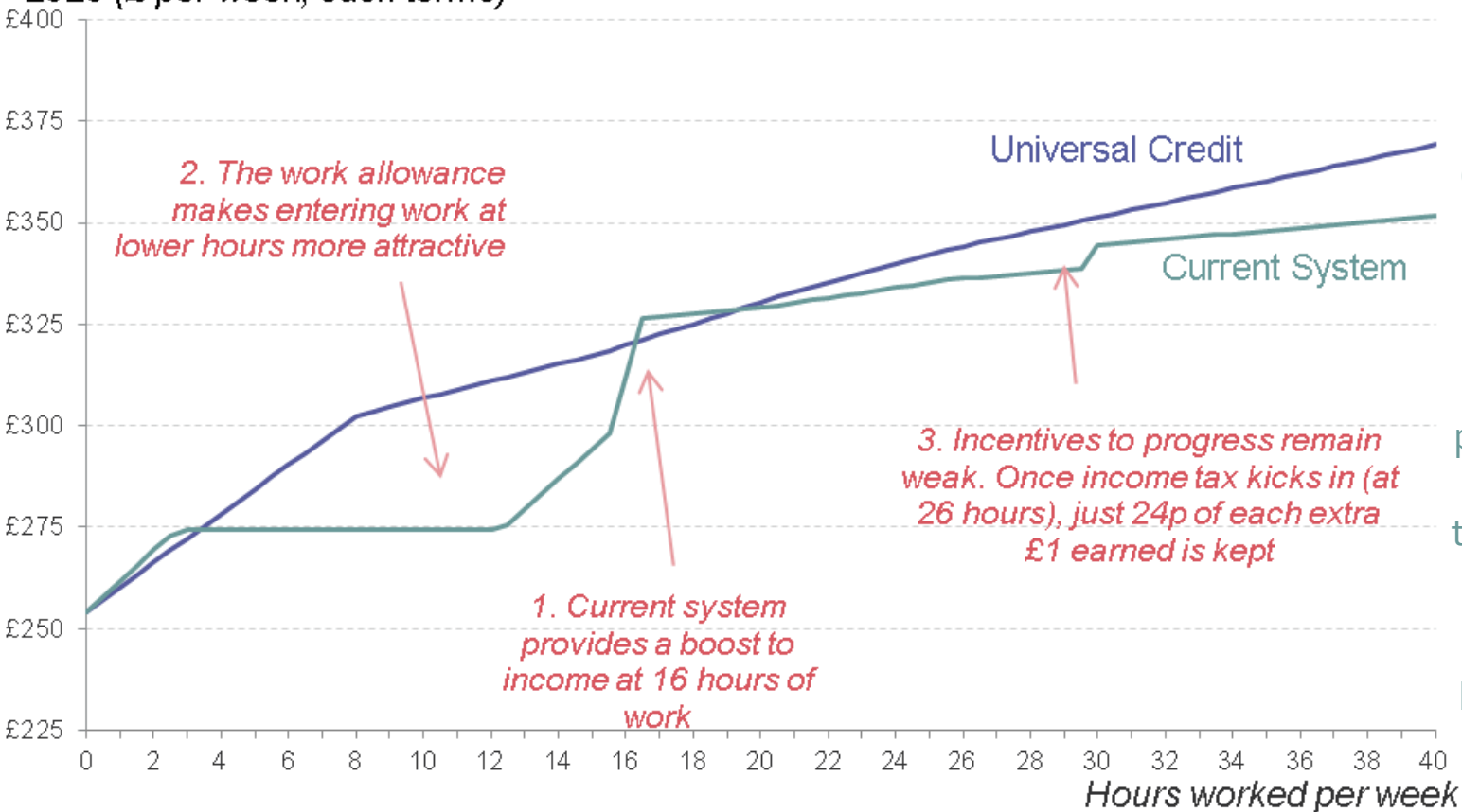


- Combines six key benefits into one payment
- Around three-in-ten working-age families in Scotland will be entitled to UC – similar to the UK overall
- Of those entitled in Scotland they are marginally more likely than the rest of the UK to be disabled or carers and workless singles without children
- But slightly less likely to be working couples with children

Despite some positives, UC risks encouraging more low-hours working among some groups

RF

Net income for a single parent renter with one child, earning NMW, £100 rent:
2020 (£ per week, cash terms)



Work allowances in UC improve incentives to start work at low hours (e.g. <16hrs p/w) but incentives to progress are weak

Risk that single parents renters work fewer hours than in the tax credit system

Second earners will lose out significantly (losing 65p of each £1 of earnings, rather than 41p as now)

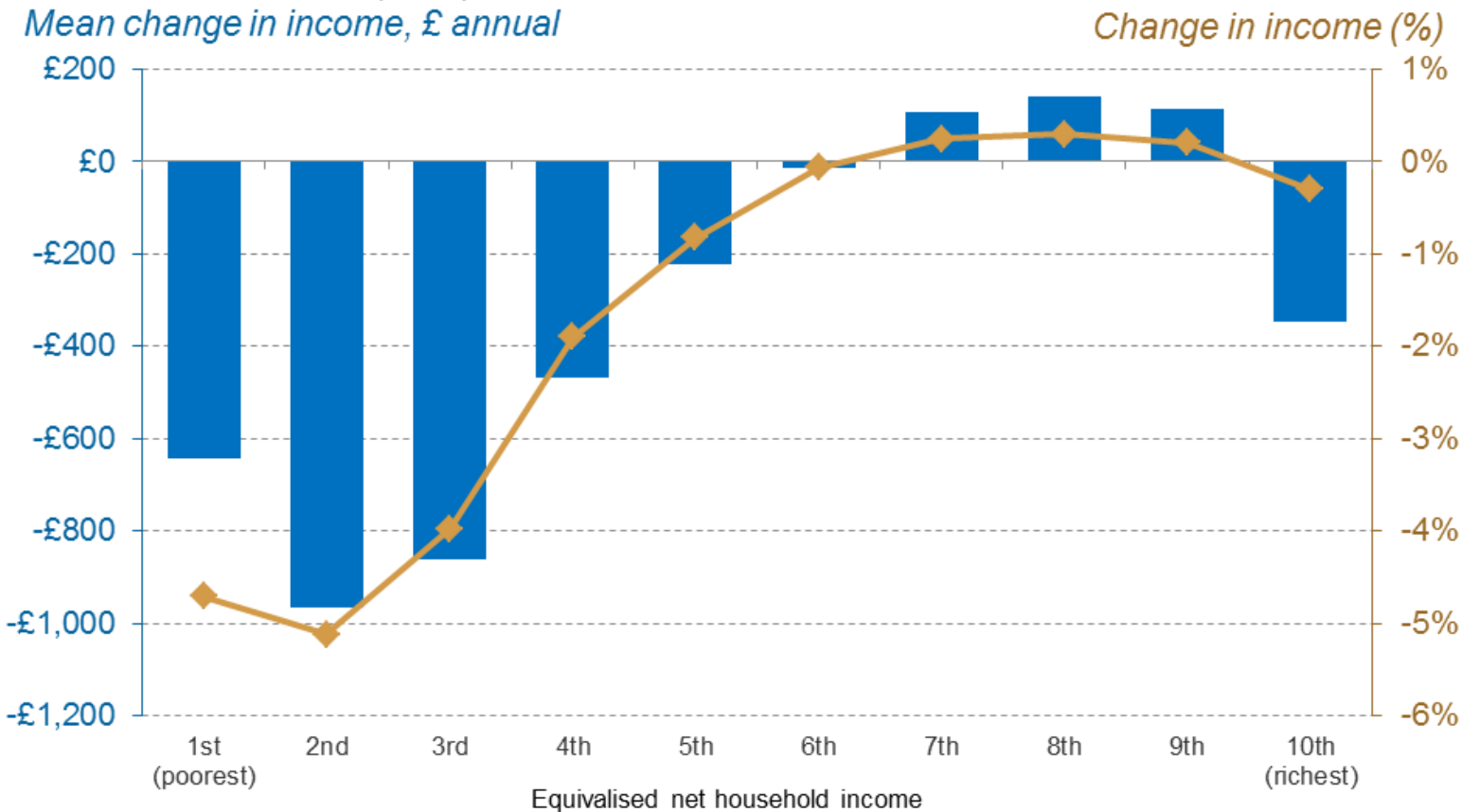
Source: RF analysis using micro-simulation model

Tax credit cuts cancelled but related cuts to Universal Credit going ahead in 2020

RF

Impact of wage floor, tax & benefit measures from Summer Budget and Autumn Statement in 2020-21 (cash)

Mean change in income, £ annual



Increases in the personal tax allowance and the introduction of the 'National Living Wage' will offset only a small share of the cuts to UC facing those affected

Source: RF analysis using the IPPR tax-benefit model

Summary – UK-wide policy

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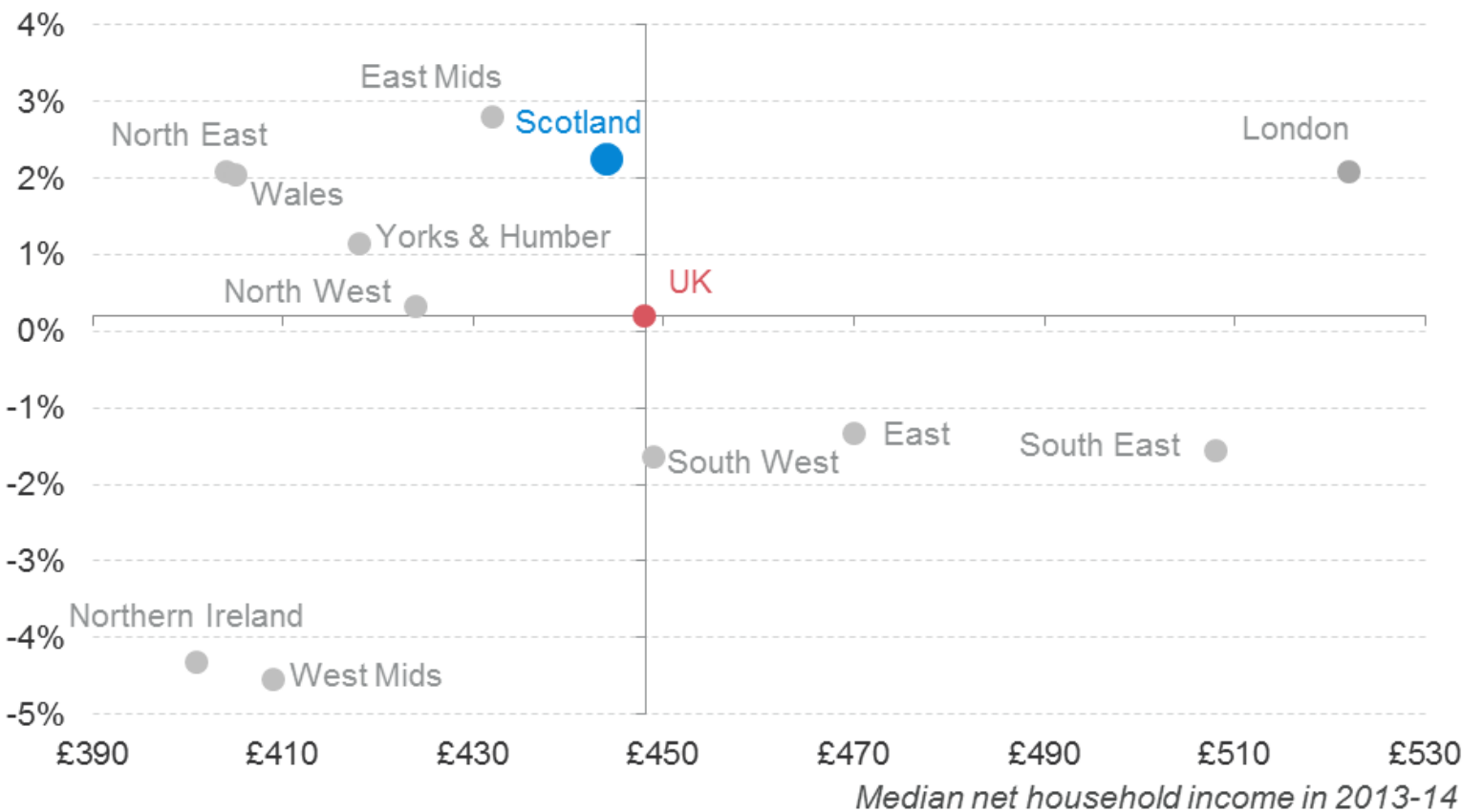
- When looking to boost the living standards of low and middle income Scots, forthcoming changes to the UK tax and benefit policy landscape are unlikely to provide a major boost
- The National Living Wage is projected to give a pay rise to approximately 500,000 low-earning workers
- Increases to the personal tax allowance primarily benefit higher earners
- Universal Credit is set to encourage short-hours working for some groups while cuts in 2020 will be a major hit to the incomes of many working families in Scotland
- But as the next section discusses, in some respects Scottish households are better positioned, specifically on housing and debt

5. Housing and debt

While typical incomes in Scotland are below the UK average before housing costs

RF

Change in real-terms median net household income before housing costs (RPIJ-adjusted), 2007-08 to 2013-14



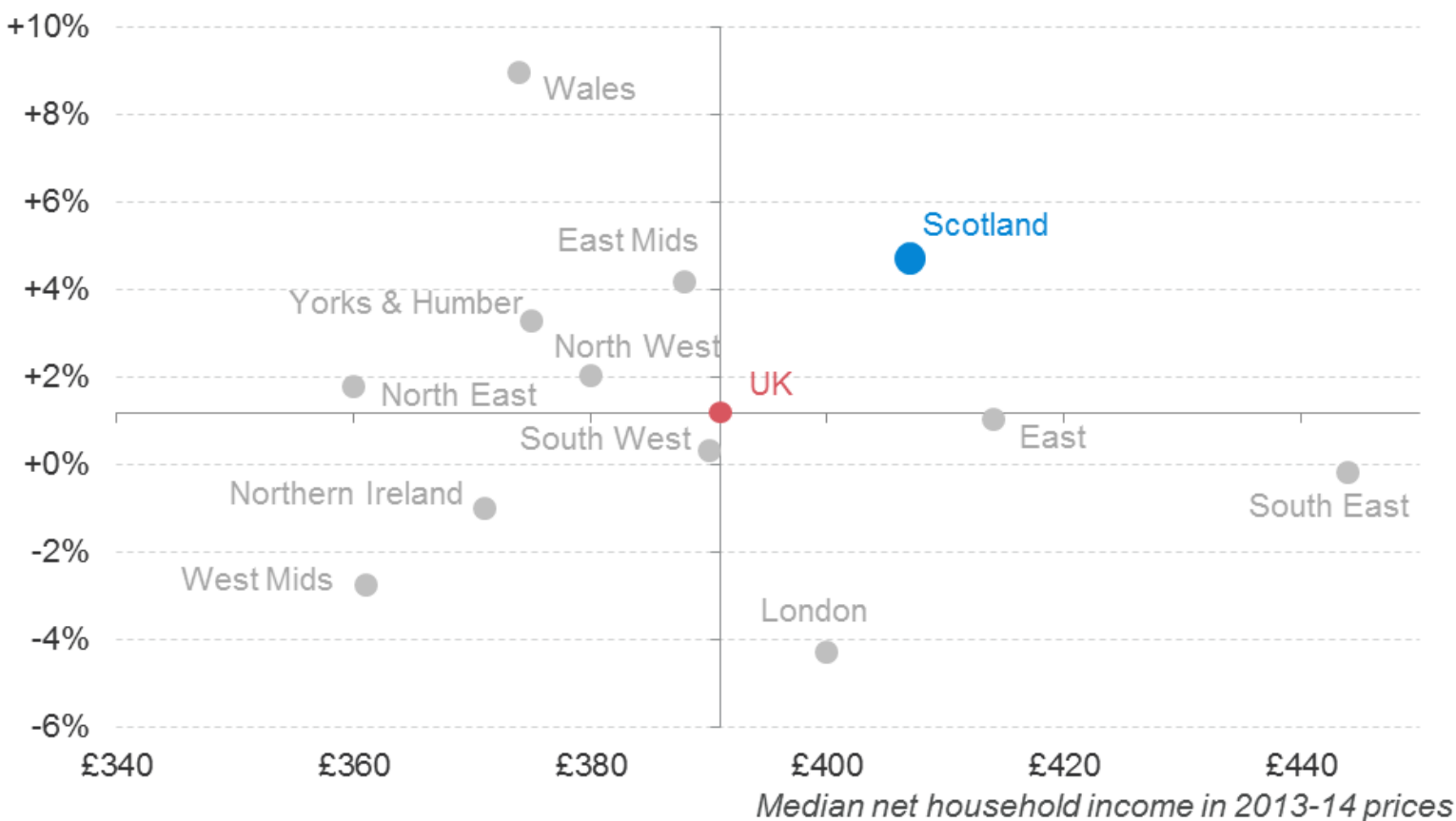
Housing costs include total amount spent on water rates, rent, mortgage interest, household rent, structural insurance and service charges

Source: RF analysis of DWP, *Family Resources Survey*

After housing costs, Scotland moves slightly above the UK average



Change in real-terms median after housing costs household income (RPIJ-adjusted), 2007-08 to 2013-14



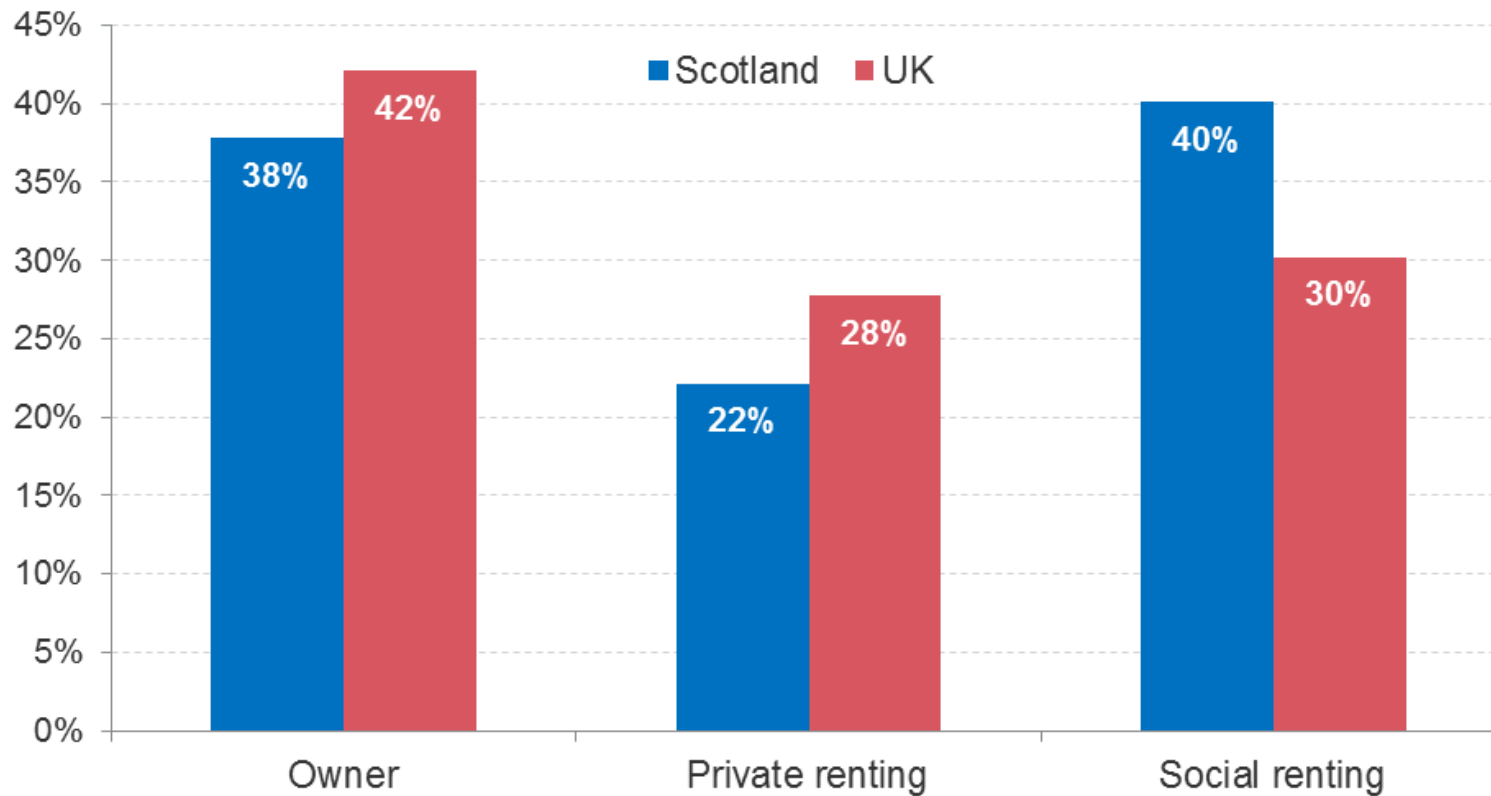
Scotland's relatively more affordable housing and slower increase in housing costs means typical Scottish households have higher after housing costs incomes than typical London households

Source: RF analysis of DWP, Family Resources Survey

Social renting remains more important for low/middle income households in Scotland than the UK average

RF

Housing tenure of households in the bottom half of the income distribution (BHC), 2014



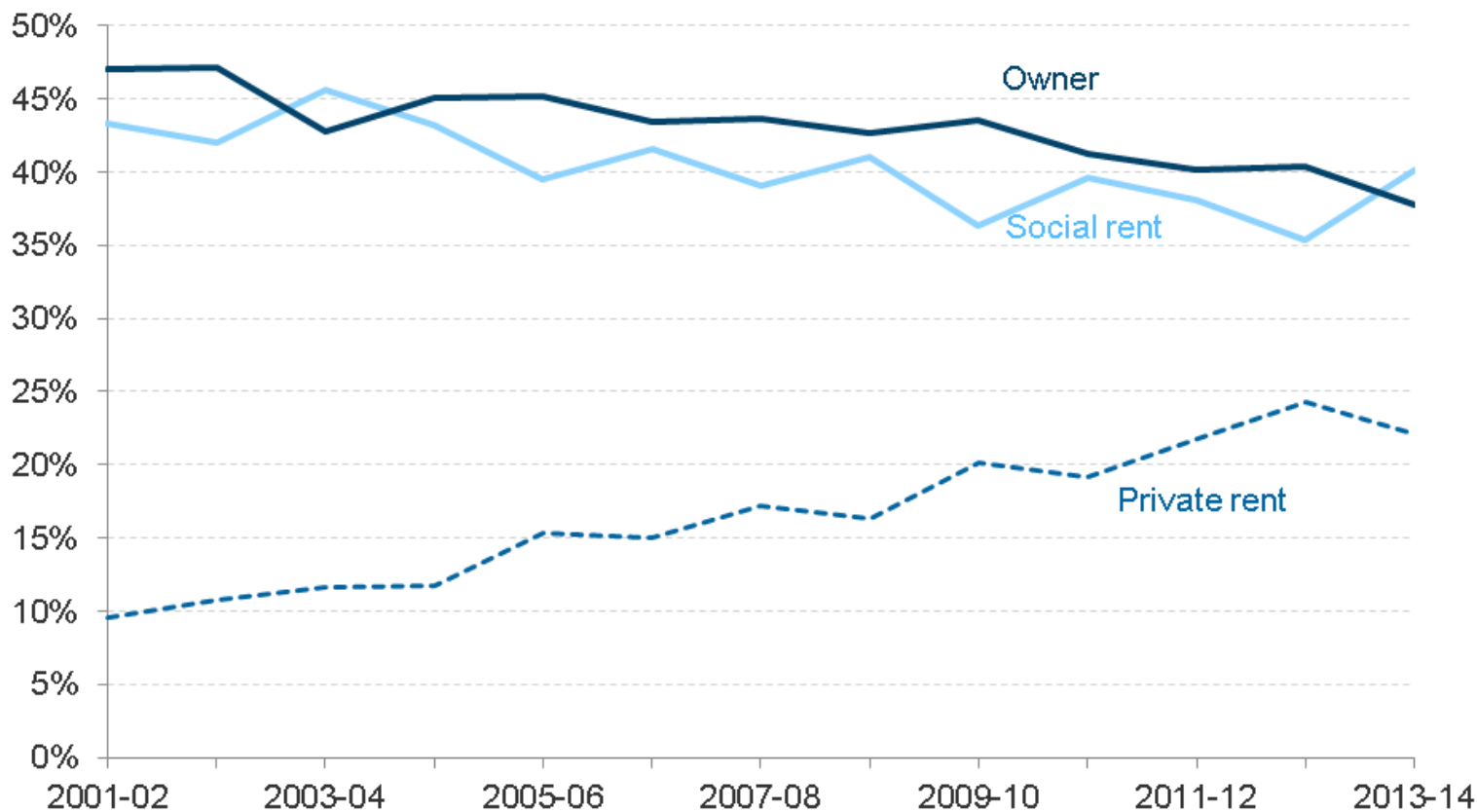
Differences in the make-up of Scotland's housing stock are likely to explain a part of its greater affordability but other factors such as the rate of population growth and the availability of land are also likely to have helped

Source: RF analysis of DWP, *Family Resources Survey*

But the biggest change in Scotland's housing mix in recent years has been the rise of private renting

RF

Housing tenure of households in the bottom half of the income distribution (BHC), Scotland, 2001-02-2013-14



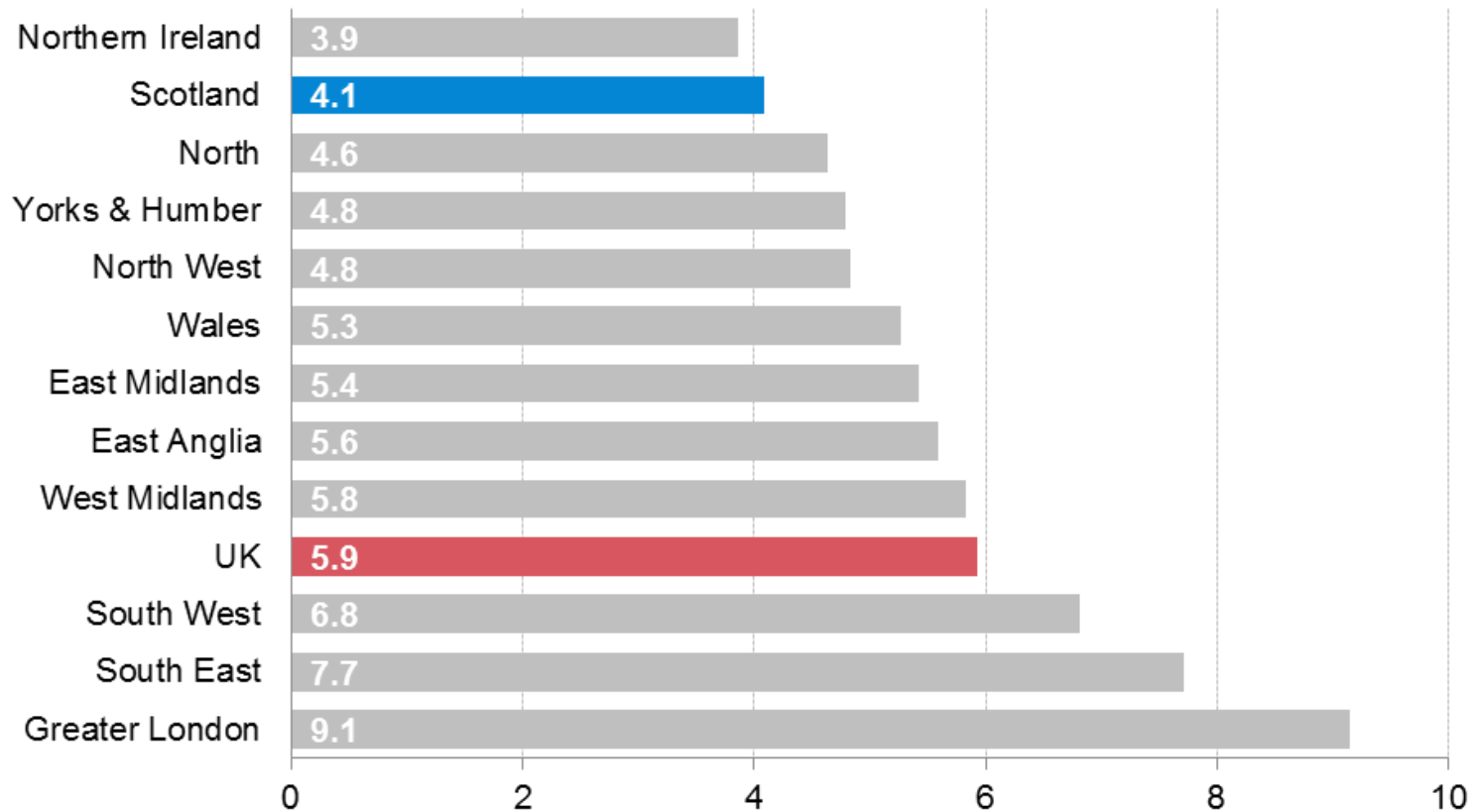
Though home ownership and social renting continue to be the most common tenures for households in the bottom half of the income distribution, the importance of private renting has grown steadily

Source: RF analysis of DWP, *Family Resources Survey*

Scottish house prices are a lower multiple of average salaries than in the UK

RF

Ratio of average house prices to average full-time male salaries



House prices are 4 times the average salary in Scotland compared with nearly 6 times in the UK as a whole

The initial drop in house prices as the recession began in Scotland was smaller but the downward trajectory continued for longer

Source: RF analysis of Lloyds Banking Group, *Halifax Housing and Affordability Data*

Overall, housing costs tend to be lower than elsewhere in the UK

RF

Proportion of all local authorities with housing cost to net income ratios above 33%, 2013-14

	Buying with a mortgage	Private renting	Buying as a shared owner	Social renting
London	100%	100%	63%	9%
South East	70%	31%	0%	0%
East of England	53%	28%	0%	0%
South West	50%	22%	0%	0%
Yorks & Humber	19%	0%	0%	0%
West Midlands	13%	3%	0%	0%
North West	5%	5%	0%	0%
Wales	5%	0%	0%	0%
East Midlands	0%	3%	0%	0%
North East	0%	0%	0%	0%
Scotland	0%	3%	0%	

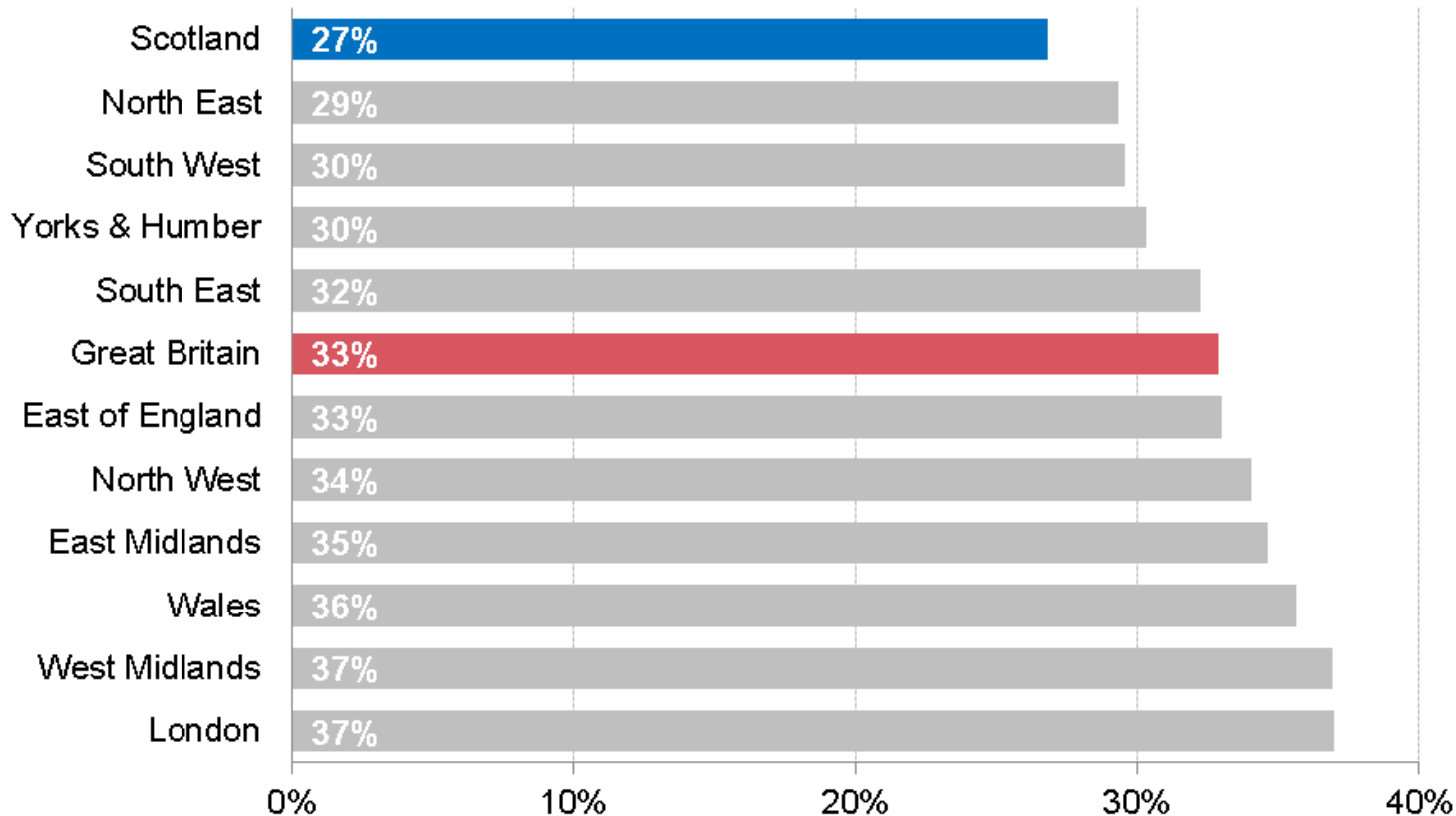
Only a minority of local authorities in Scotland face serious problems with housing affordability relative to the rest of the UK

Source: RF analysis from L. Gardiner, *Housing Pinched*

When interest rate rises finally occur, Scottish households look better positioned than UK average

RF

Proportion of households by nation/region who are somewhat or very concerned about their level of debt, 2015



Scottish households are least likely to say they are somewhat or very concerned about their current level of indebtedness. Despite that, one-in-four households are concerned about their debt, an important consideration as interest rate rises occur over the coming years.

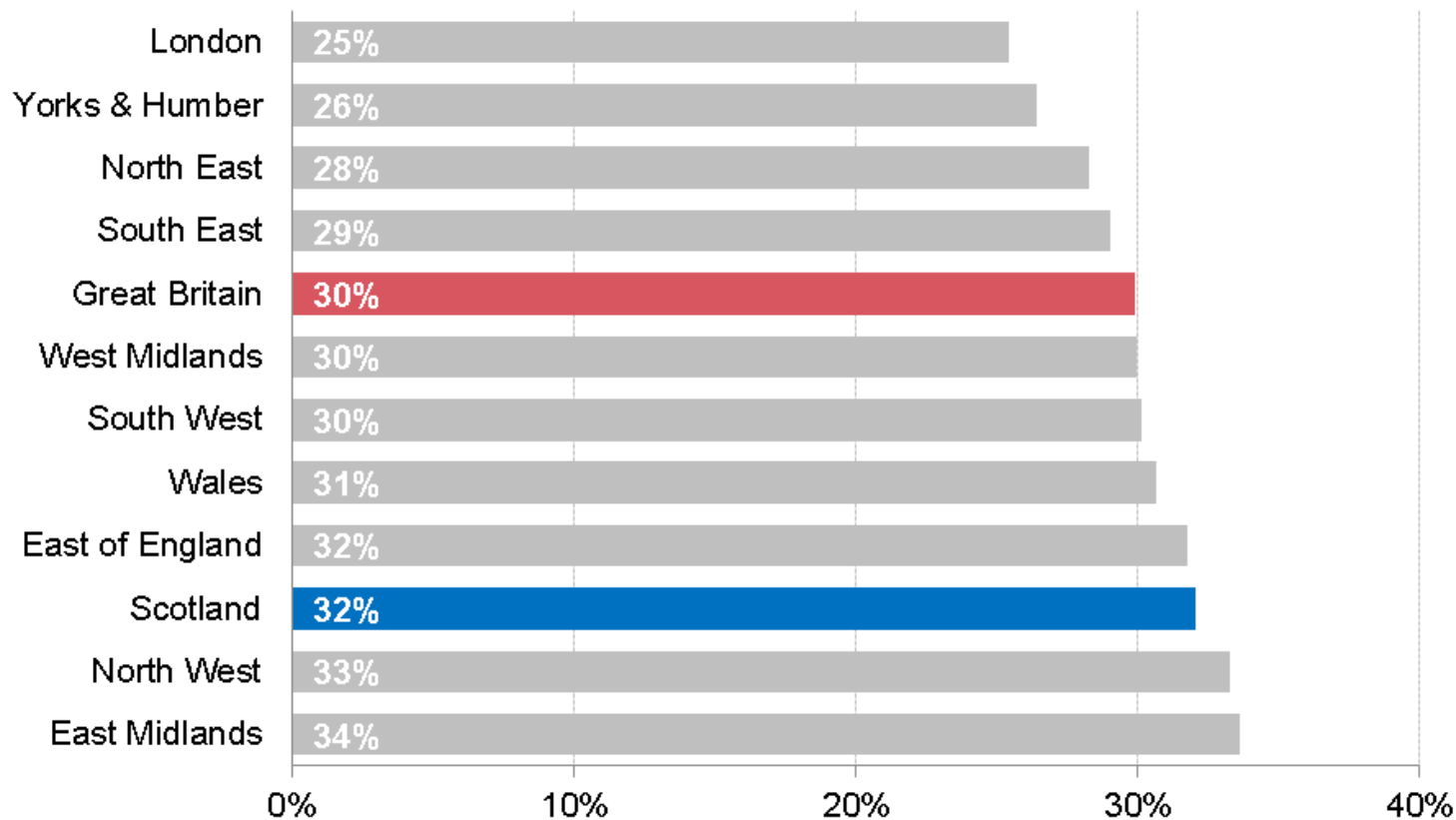
Source: RF analysis of Bank of England, NMG Survey 2015

But nearly one-in-three Scottish households save less than £5 per month

RF

As the recovery continues it will be crucial that this proportion rises in order to ensure that households have funds to fall back on

Proportion of households by nation/region who say they save less than £5 per month



Source: RF analysis of Bank of England, *NMG Survey 2015*

- Though the incomes of Scottish households in coming years face headwinds with a labour market that has yet to fully recover, Scotland's position on housing and debt appears better than the UK average
- Home ownership has fallen in Scotland among low and middle income families as house prices have risen. But compared with the rest of the UK, and in particular London and the South East, Scotland's housing affordability problems are less acute
- Over the next few years rising interest rates may present difficulties for more Scottish households – though less so than many other parts of the UK

6. What next for Scotland?

With May's Scottish Parliament election just months away, what should be the focus for the parties?

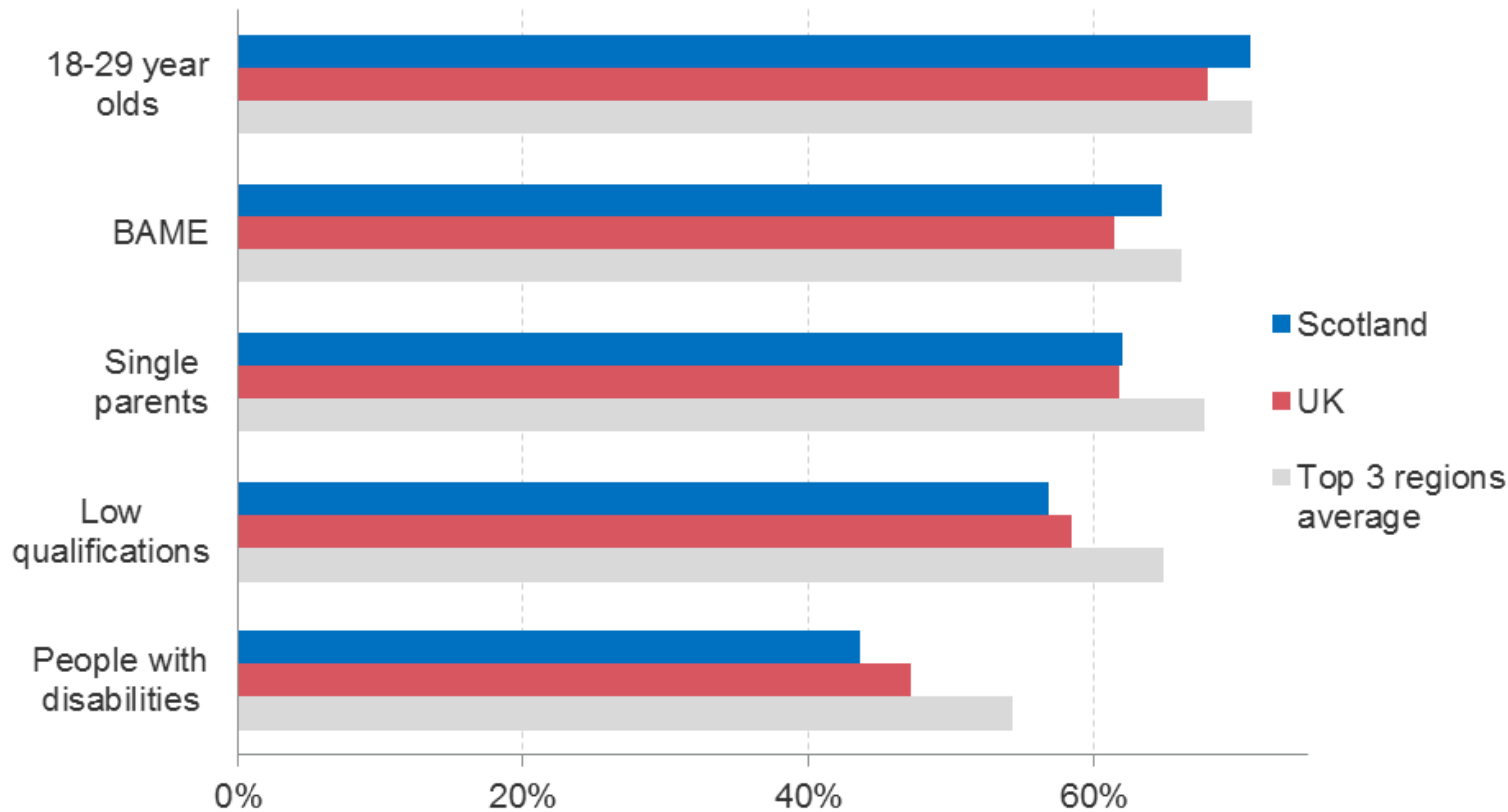
RF

- For all Scotland's stronger performance on pay over recent years, if it is to maintain its position as a labour market leader, helping the labour market to tighten must be a priority for the next Scottish government
- With Scotland yet to fully recover its pre-crash position on a number of metrics, it is clear there is still work to be done
- As we have discussed, while many important policies such as the personal tax allowance threshold and the National Living Wage are set by the Westminster government, there are a number of devolved areas such as back-to-work programmes and – potentially – council tax reform which could be just as vital

A tighter labour market is crucial and would be helped by boosting the participation of 'low-activity' groups

RF

Employment rates for different groups (16-64 year olds, 2013-14)



Broadly similar story to UK but poorer performance for those with low skills or disabilities

Reaching an employment rate of 78% would put Scotland in the 'premier league'

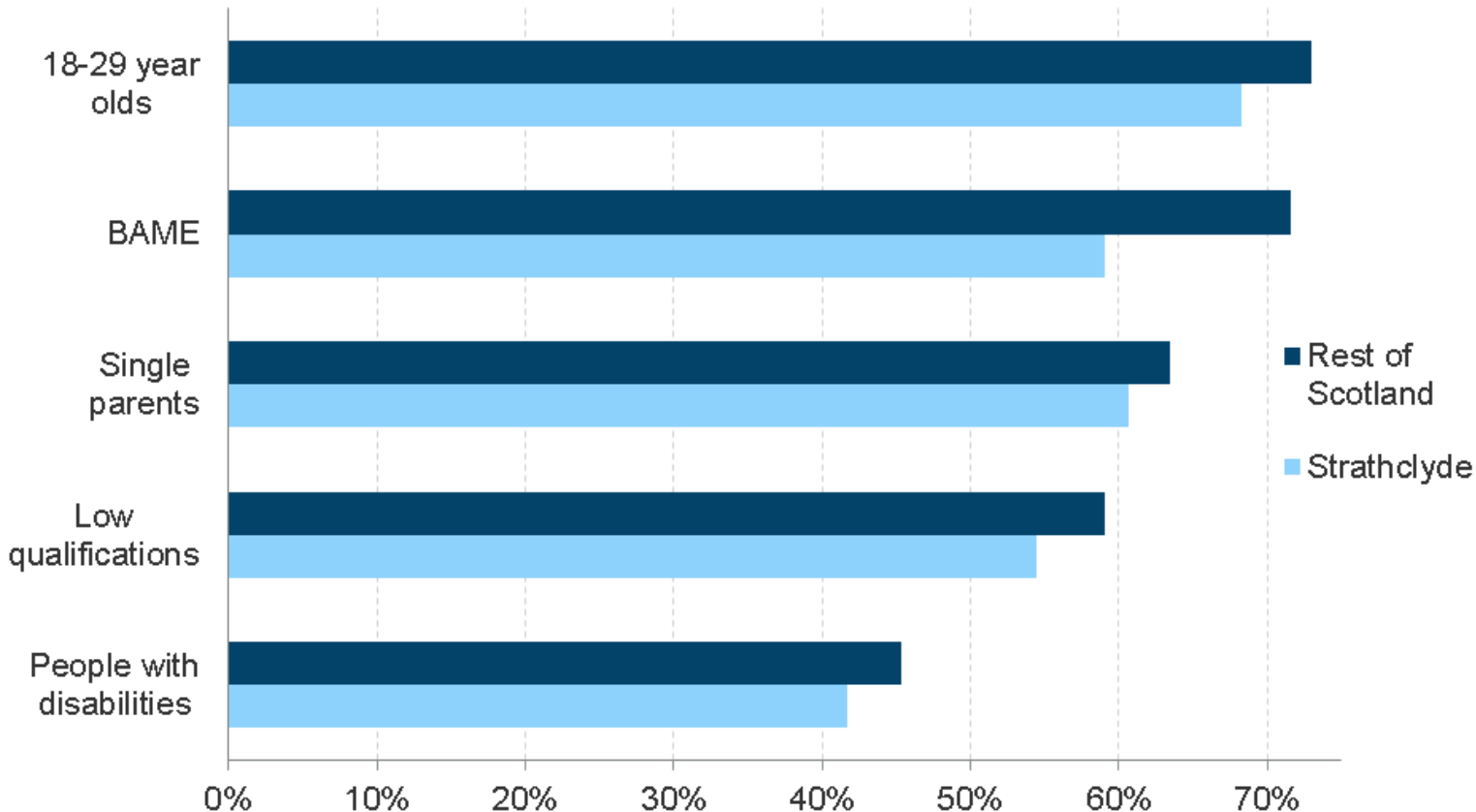
Raising activity rates of groups with lower participation rates towards those in best performing areas of UK would yield gains = c.100,000

Notes: 'Top 3 regions average' measures the average employment rates in East of England, South East and South West.
Source: RF analysis of ONS, *Labour Force Survey*

There are also significant differences within Scotland in terms of employment rates

RF

Employment rates for different groups (16-64 year olds, 2013-14)



All these groups perform less well in the Strathclyde region than in the rest of Scotland, with the gap particularly wide for black, Asian and minority ethnic groups

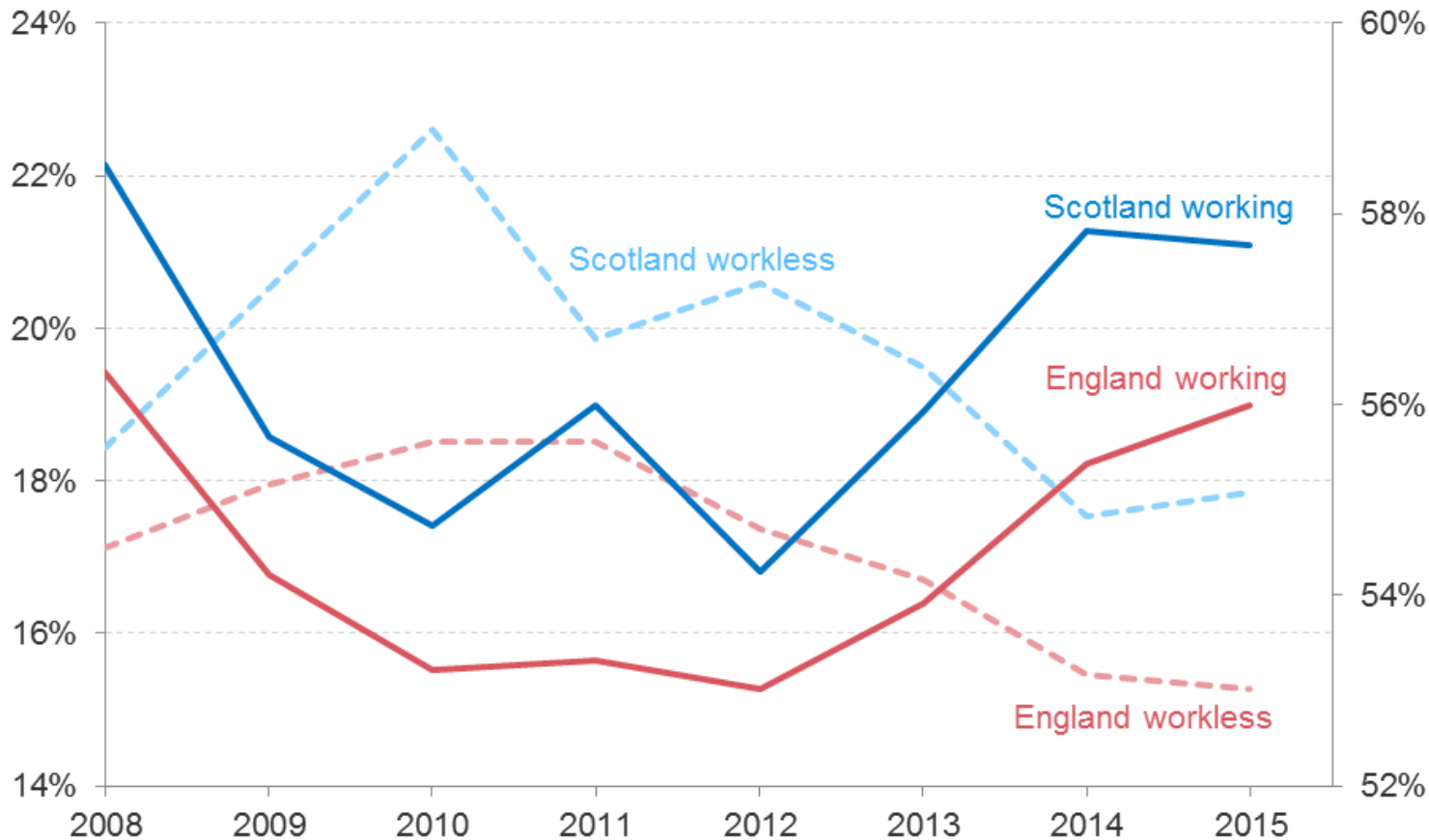
Devolved back-to-work programmes present an excellent opportunity to hone in on particular groups and areas

Notes: 'Top 3 regions average' measures the average employment rates in East of England, South East and South West.
Source: RF analysis of ONS, *Labour Force Survey*

Work is more polarised among households in Scotland with both more working and workless households

RF

Economic status of households, 2008-2015



As in most parts of the UK, the share of workless households has declined over time in Scotland (though it rose during the downturn)

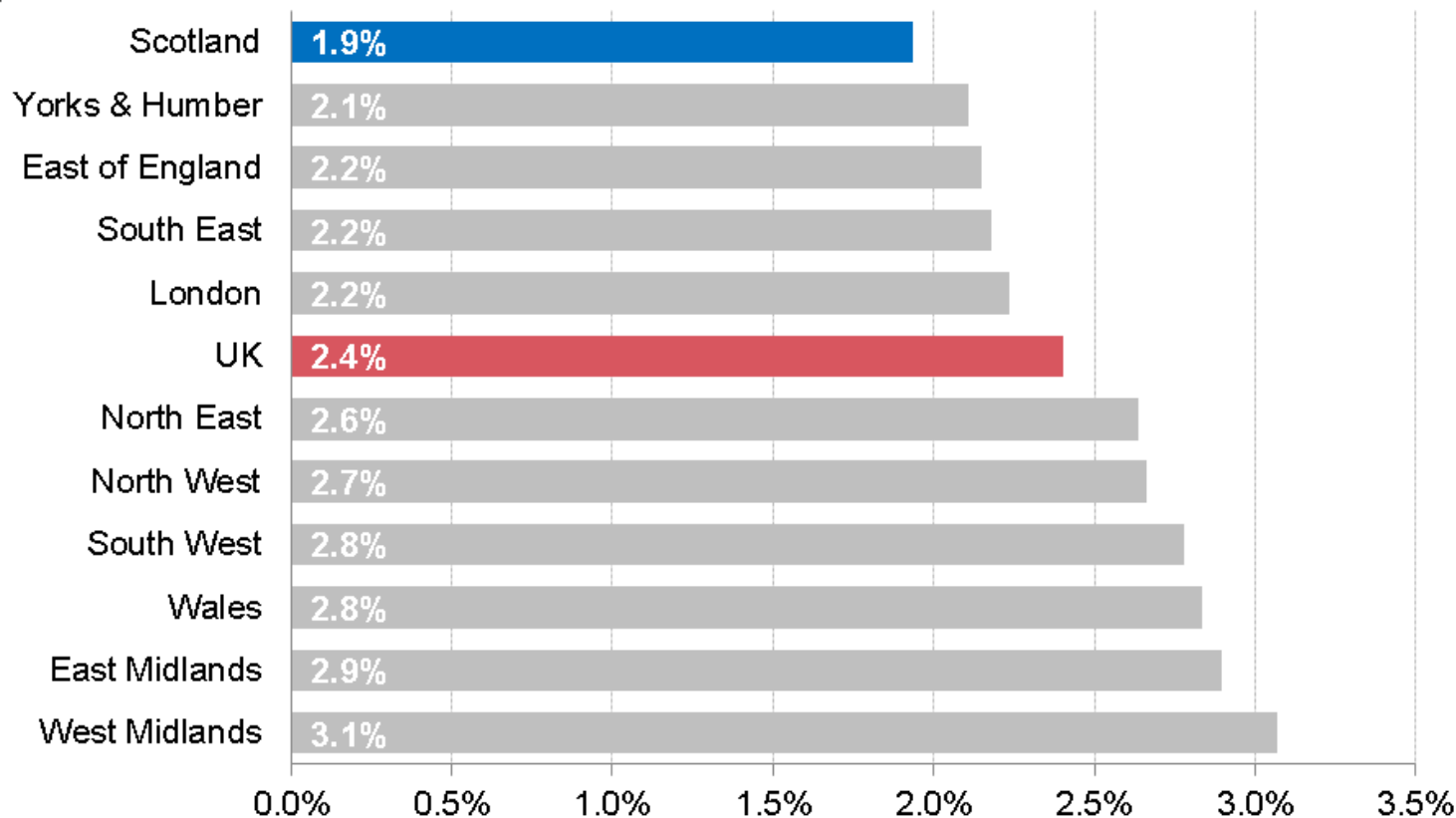
Tackling this concentration of worklessness will be a key challenge for the next government

Source: RF analysis of ONS, *Working and workless households 2015*

No overall rise in broadly defined 'insecure work' but the severity of precariousness for some has increased

RF

Proportion of people in employment on a zero hours contract by nation/region, Apr-Jun 2015



Share of temp or part-time employees in Scotland who can't find permanent or full-time roles has fallen but is still above the pre-crisis trend

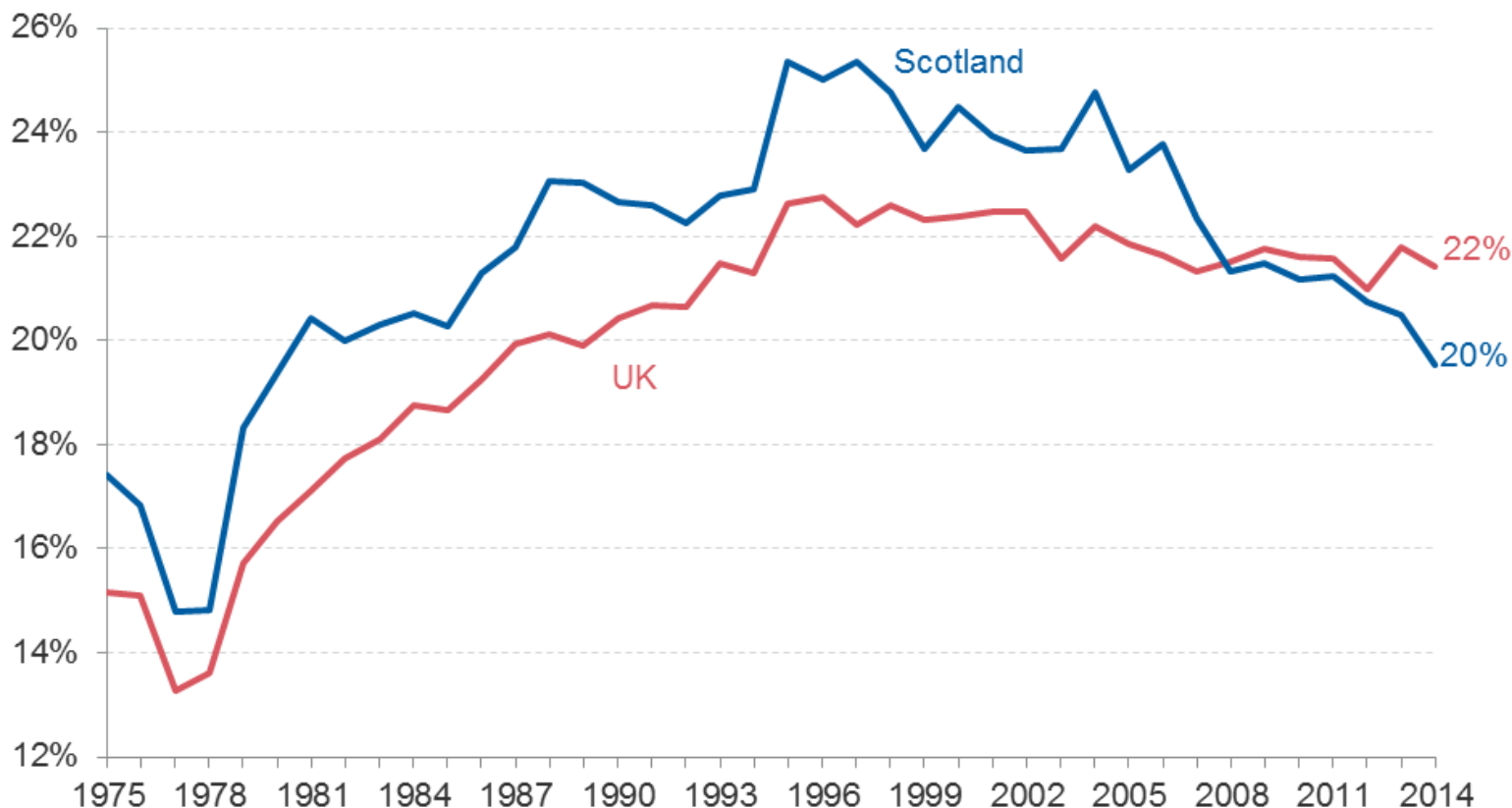
Roughly 2% of Scottish workers are on zero-hours contracts – lower than elsewhere

Source: RF analysis of ONS, *Contracts with No Guaranteed Hours*, Employee contracts that do not guarantee a minimum number of hours: 2015 update

Over recent years Scotland has performed comparatively well on low pay using a UK benchmark

RF

Proportion of employees earning less than 2/3rds median hourly wage, 1975-2014



In the 80s, 90s & early-00s, Scotland had a higher rate of low pay than UK average – fall since mid-2000s has reversed this

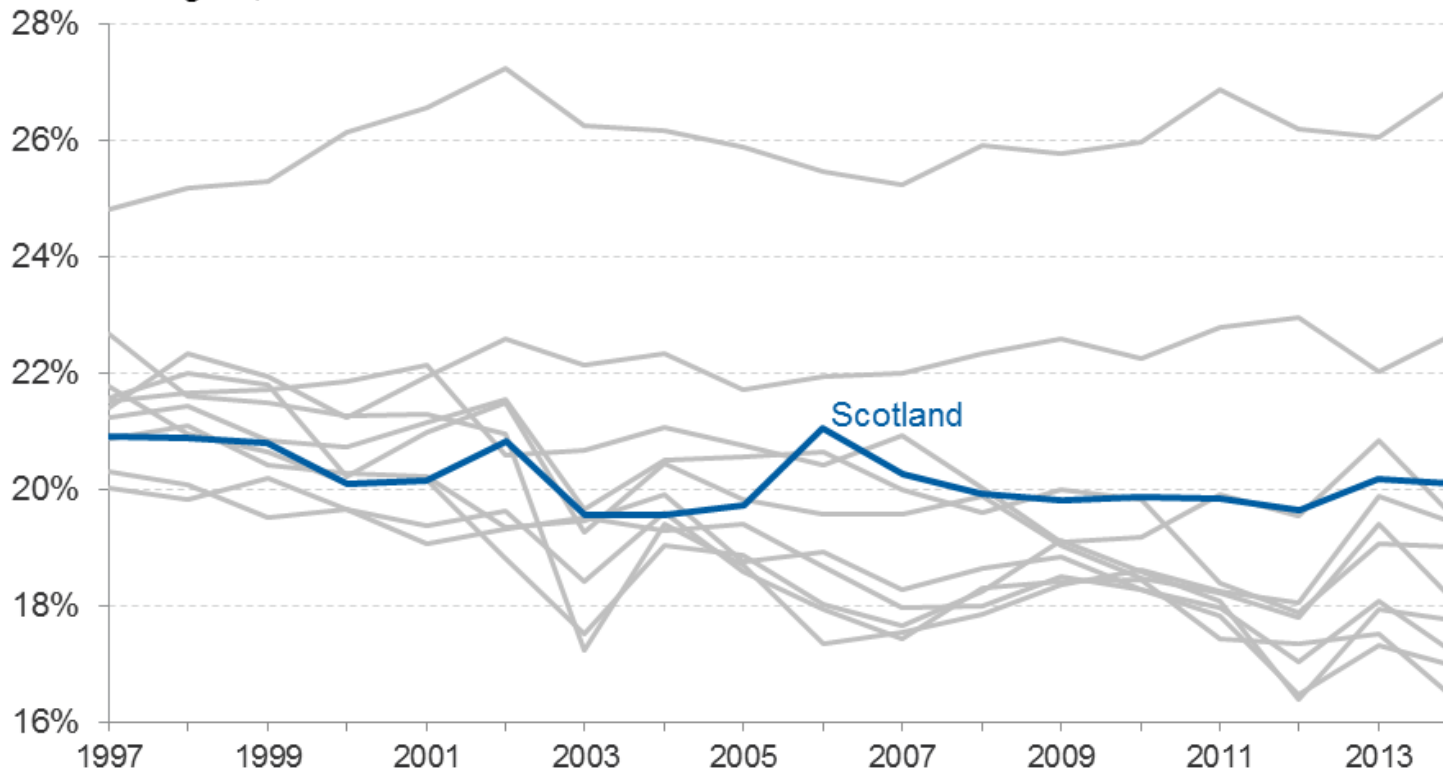
Shallower pay fall in Scotland relative to UK median likely to explain

Source: RF analysis of ONS, *New Earnings Survey* and *Annual Survey of Hours and Earnings*

But the share of workers earning less than 2/3rds of the Scottish median has remained flat

RF

Change in proportion of employees who are low paid relative to median within nation/region, 1997-2014



This is because the Scottish median wage (which helps determine the low pay threshold) has out-performed the UK median

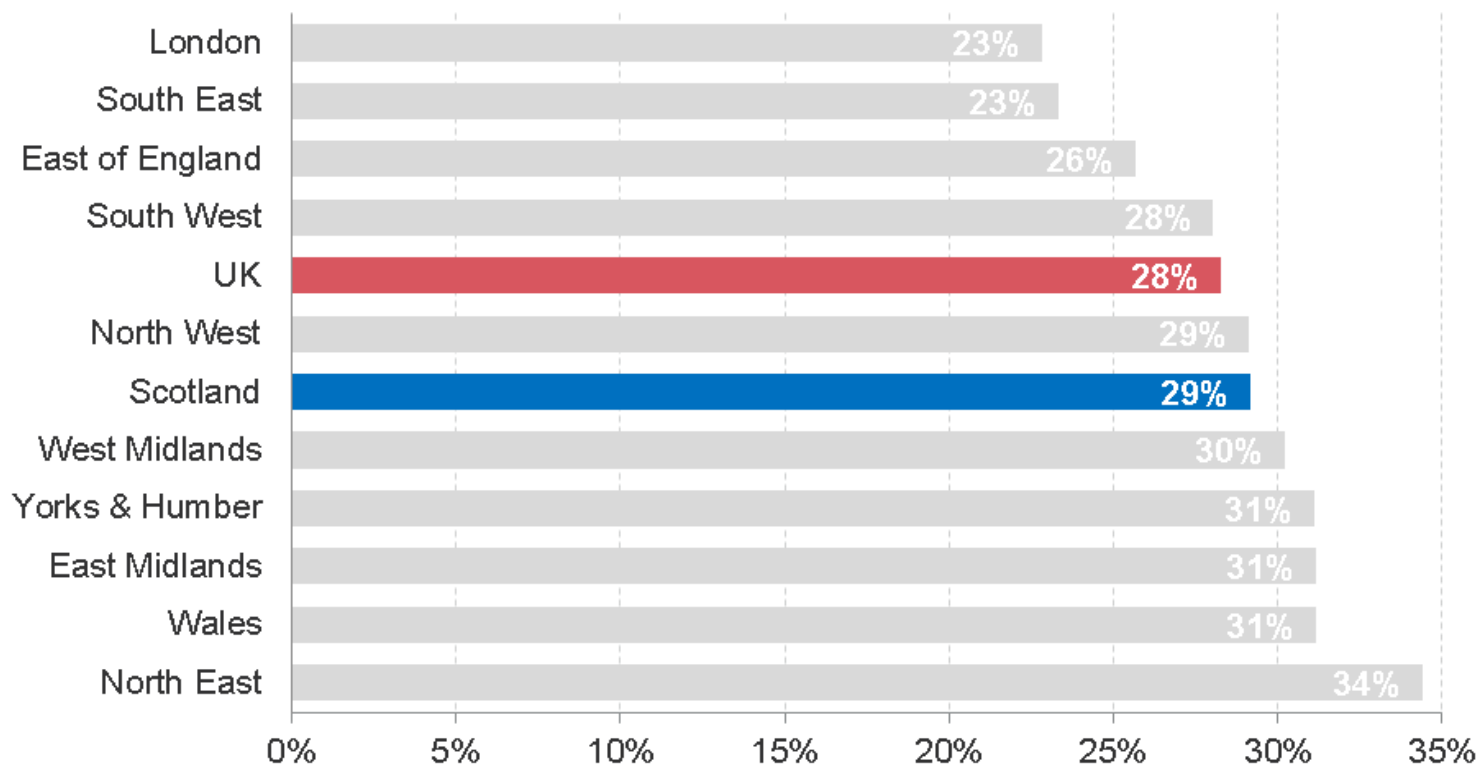
This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings*

Almost three in ten of the low paid in Scotland are *persistently stuck*, failing to escape over a decade



Proportion of low paid that are 'stuck' in low pay, 2012



Of Scotland's low paid workers, 29% are long-term stuck on low pay (i.e. failing to escape in any year over a decade)

Single parents, people with disabilities and older workers are less likely to progress, as are those working in sales or hospitality roles

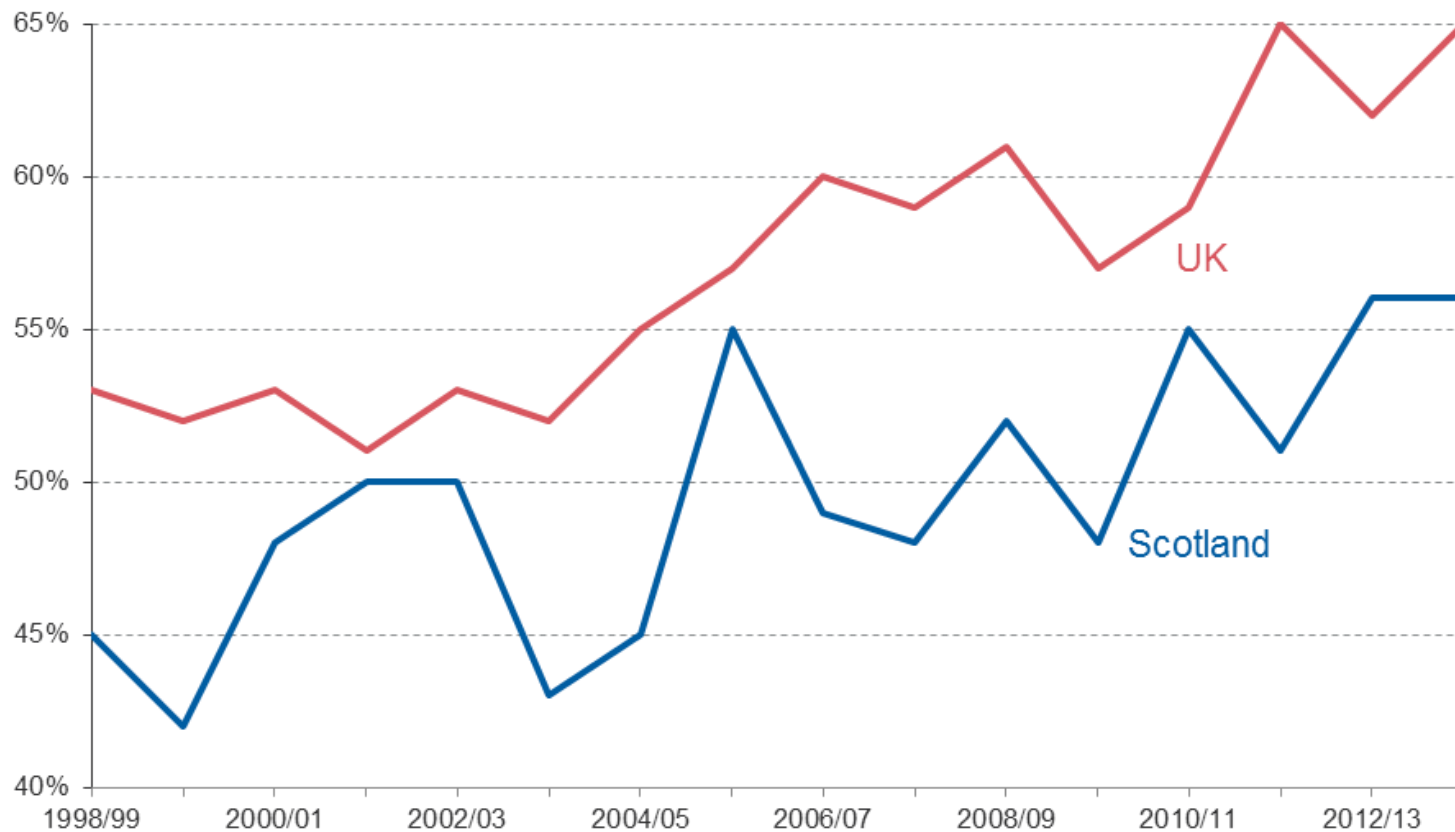
Notes: Employees are defined as stuck on low pay if they are low paid and aged over 25 in 2012, and have only ever held a low paid job in the previous decade (2002-2011).

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings* and *New Earnings Survey Panel Dataset*

Low pay part of shift that has seen child poverty become mostly found in working households

RF

Proportion of all children in poverty living in a household with a member in work, 1998-99-2013-14



The total proportion of children in poverty did however fall from 27% in 2001/02 to 17% in 2011/12

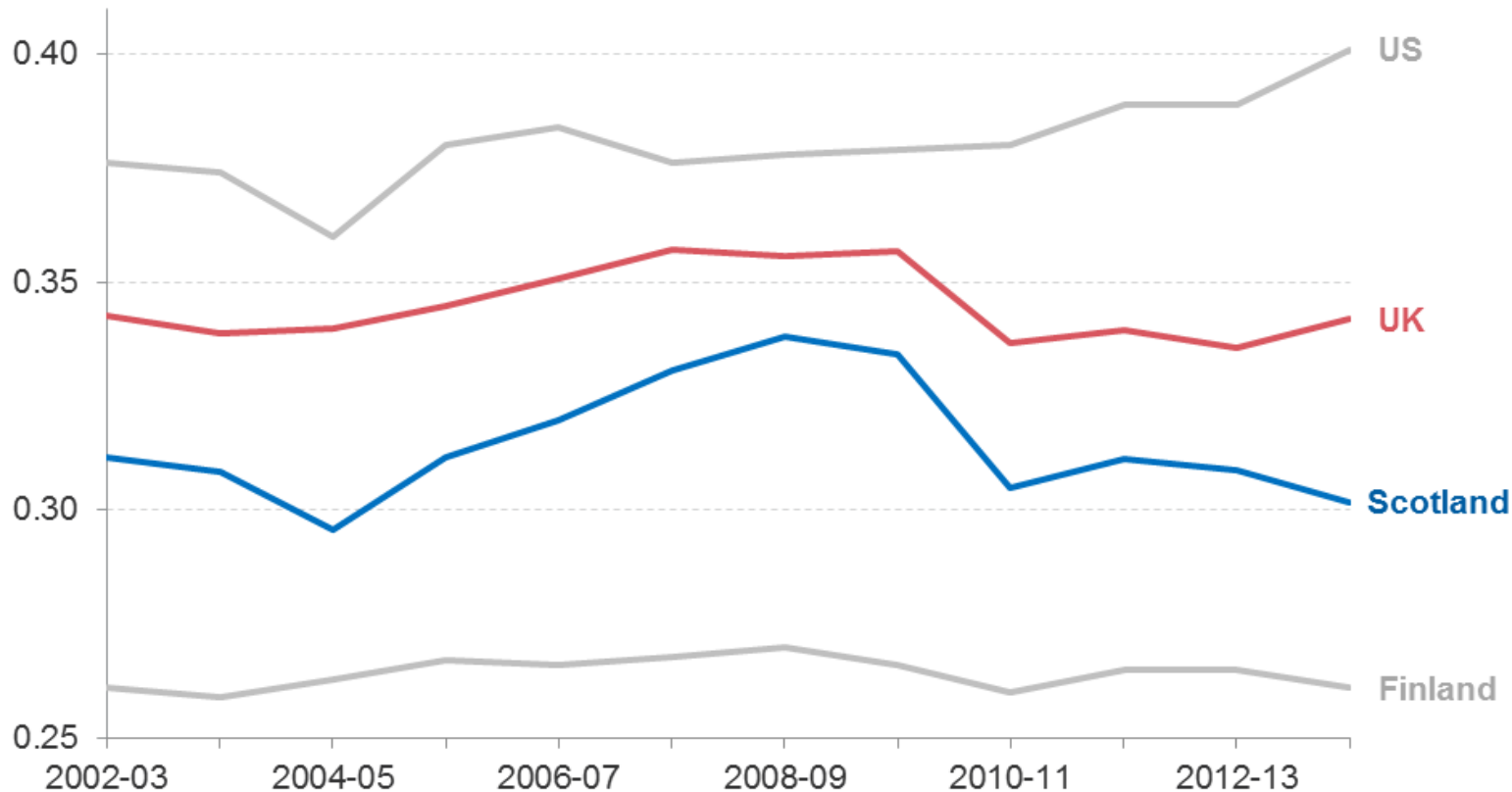
However, children in working households now make up the clear majority of Scottish children in poverty

Source: RF analysis of DWP, *Family Resources Survey*

Trends on worklessness and low pay may be boosting income inequality which remains high though below UK

RF

Gini coefficient by country, 0 = perfect equality, 1 = perfect inequality



Inequality rose sharply in the run-up to the crisis before falling significantly and then levelling out

When London and the South East are excluded, Scotland experiences very similar inequality levels to the rest of the UK*

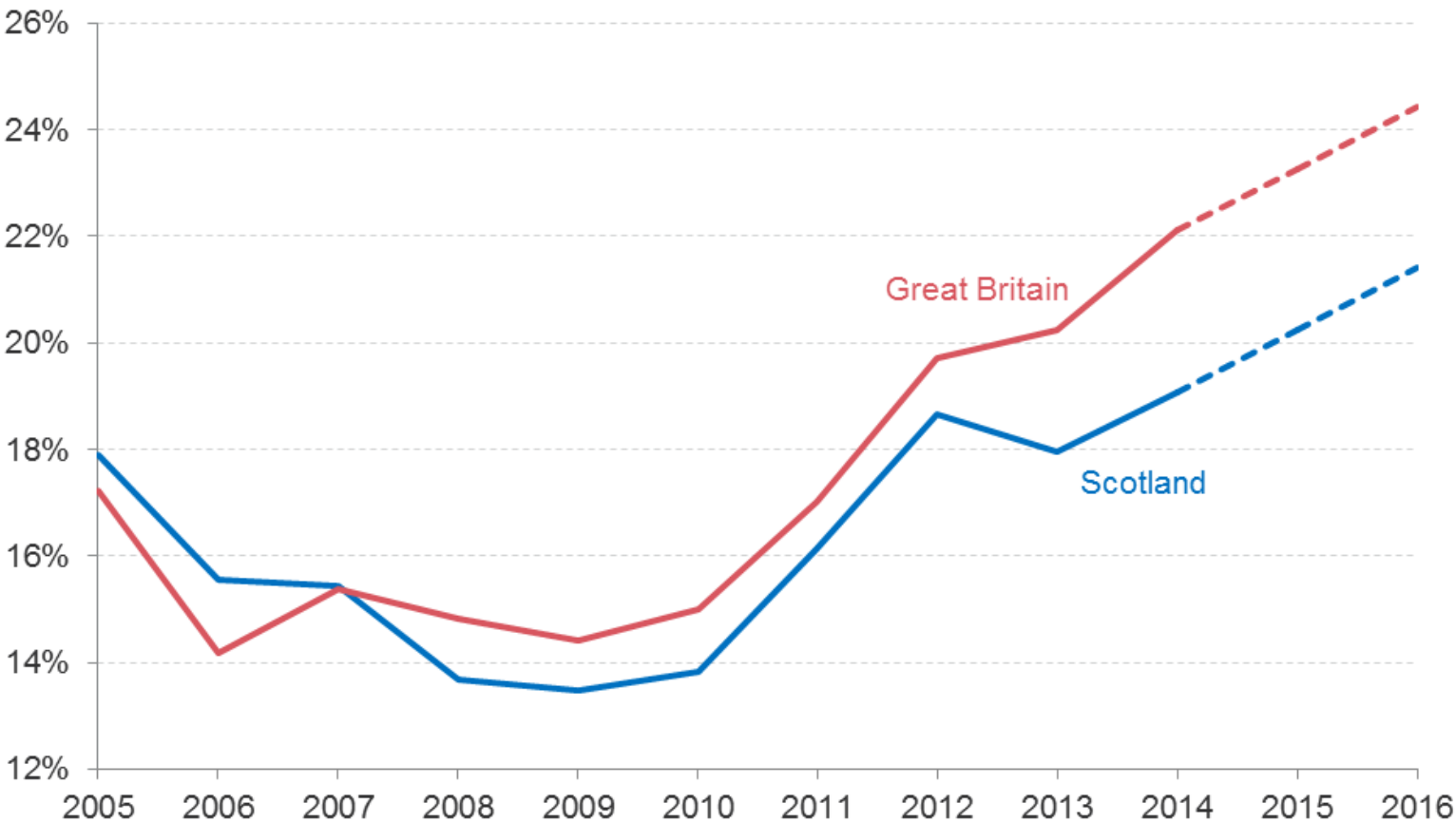
Source: UK and Scotland data from Scottish Government analysis of HBAI / Family Resources Survey; US and Finnish data from OECD

* Bell/Eiser 2013

Supporting the uptake of the voluntary Living Wage is another route to tackling low pay in Scotland

RF

Proportion of employees paid below the Living Wage, 2005-2016



For the Living Wage to have a bigger impact, it's crucial that its reach continues to expand beyond the public sector

Source: RF analysis of ONS, *Annual Survey of Hours and Earnings 2015*

Recent work by the Commission on Local Tax Reform is just one example of potential reforms



- The Commission on Local Tax Reform recommended the abolition and replacement of the current council tax system
- Introducing a more progressive system would be one method of helping lower-income families
- That is before taking into account additional powers soon to be devolved, including over Income Tax rates

Conclusion: Regaining a tight labour market will be crucial if Scotland's growth is to be widely shared

RF

- Steady economic growth and impressive improvements in its employment rate meant the 2000s was a period of catch-up for the Scottish economy and labour market. Scotland then had a more 'traditional' recession – a steep fall in jobs but a less precipitous pay drop – compared to the UK's employment-rich, pay-poor experience. These pre- and post-crash trends have contributed to median pay in Scotland now being slightly higher than in England.
- However, Scotland's employment rate is yet to return to its pre-crash position and unemployment remains above the UK average. These looser labour market conditions appear to be beginning to have an effect on pay, with pay for workers on the lower rungs of the earnings ladder growing faster in England than Scotland in 2015.
- Changes in UK-wide policy will have varying effects on Scottish households in coming years. The National Living Wage should boost the pay of thousands of Scottish workers though will be less transformative than in many parts of the UK. The work incentives structure of Universal Credit may result in some workers reducing the number of hours they work and cuts planned to in-work support from 2020 will have a large impact on the incomes of many Scottish households. Alongside personal tax allowance cuts which will primarily benefit higher earners, it appears that UK tax and benefit policy is unlikely to act as a boost to the income of low and middle income Scottish families.
- Though from a living costs perspective – particularly on housing affordability and exposure to interest rate rises – Scottish households are in a relatively privileged position compared to some parts of the UK, it is clear that Scotland's performance on employment and pay will matter more than ever for those on low and middle incomes in the next few years.

State of working Scotland: living standards, jobs and pay

Conor D'Arcy and Gavin Kelly

January 2016