State of working Scotland: living standards, jobs and pay

Conor D’Arcy and Gavin Kelly

January 2016
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

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

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

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. 

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. 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.

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

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.

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

- Relatively strong pay growth in both Scotland and England from 1997 to 2003.
- Pay slowdown in Scotland less marked than in England, especially at the median.

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.

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

@resfoundation
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.

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. 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.
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.

Source: RF analysis of ONS, *Labour Market Statistics* and *Annual Survey of Hours and Earnings*.
In Scotland, employment plunged further but pay fell by less than the UK average.
Scotland’s pay squeeze was much shallower than the UK’s right across the distribution.

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.

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

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.

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.

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

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 DSN, Labour Force Survey and Average Weekly Earnings

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

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

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

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

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

Incomes higher than pre-crisis levels by end of 2014.

Source: RF analysis of DWP, Family Resources Survey

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

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

Source: RF analysis of DWP, Family Resources Survey
Summary – Scotland’s shallower pay squeeze

• 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.

Scotland’s employment rate was higher than England’s pre-crisis but fell further. The 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%.
And unemployment rose more sharply and remains above its pre-crisis level

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

@resfoundation
On many counts, including ‘slack’, Scotland’s labour market now looks more like the UK average.

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.

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

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

Source: RF analysis of ONS, Labour Market Statistics
Self-employment in Scotland has risen, though it is far below the UK average.

Scottish self-employment is 2.8ppt lower than the UK figure.

UK median self-employed earnings remain 32% lower than they were in 2006-07, compared to a 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

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.

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.

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.

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

@resfoundation
Summary – Scotland’s labour market not fully recovered

- 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

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

- 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

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

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
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.

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

- **2. The work allowance makes entering work at lower hours more attractive**
- **3. Incentives to progress remain weak. Once income tax kicks in (at 26 hours), just 24p of each extra £1 earned is kept**

Universal Credit

Current System

1. *Current system provides a boost to income at 16 hours of work*

<table>
<thead>
<tr>
<th>Hours worked per week</th>
<th>£225</th>
<th>£250</th>
<th>£275</th>
<th>£300</th>
<th>£325</th>
<th>£350</th>
<th>£375</th>
<th>£400</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RF analysis using micro-simulation model

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

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

- 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.
After housing costs, Scotland moves slightly above the UK average

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

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.

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

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

<table>
<thead>
<tr>
<th></th>
<th>Buying with a mortgage</th>
<th>Private renting</th>
<th>Buying as a shared owner</th>
<th>Social renting</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>100%</td>
<td>100%</td>
<td>63%</td>
<td>9%</td>
</tr>
<tr>
<td>South East</td>
<td>70%</td>
<td>31%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>East of England</td>
<td>53%</td>
<td>28%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>South West</td>
<td>50%</td>
<td>22%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>19%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>13%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>North West</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Wales</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>North East</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Scotland</strong></td>
<td><strong>0%</strong></td>
<td><strong>3%</strong></td>
<td><strong>0%</strong></td>
<td><strong>0%</strong></td>
</tr>
</tbody>
</table>

Source: RF analysis from L. Gardiner, *Housing Pinched*
When interest rate rises finally occur, Scottish households look better positioned than UK average.

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>27%</td>
</tr>
<tr>
<td>North East</td>
<td>29%</td>
</tr>
<tr>
<td>South West</td>
<td>30%</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>30%</td>
</tr>
<tr>
<td>South East</td>
<td>32%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>33%</td>
</tr>
<tr>
<td>East of England</td>
<td>33%</td>
</tr>
<tr>
<td>North West</td>
<td>34%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>35%</td>
</tr>
<tr>
<td>Wales</td>
<td>36%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>37%</td>
</tr>
<tr>
<td>London</td>
<td>37%</td>
</tr>
</tbody>
</table>

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.

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

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

Summary: housing and debt

• 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?

• 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.

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.

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.

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

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

- **Scotland**: 1.9%
- **Yorks & Humber**: 2.1%
- **East of England**: 2.2%
- **South East**: 2.2%
- **London**: 2.2%
- **UK**: 2.4%
- **North East**: 2.6%
- **North West**: 2.7%
- **South West**: 2.8%
- **Wales**: 2.8%
- **East Midlands**: 2.9%
- **West Midlands**: 3.1%

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.

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

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

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

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.

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

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 levels.

**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.

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.
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