

REFERENDUM BRIEFING: POVERTY AND WORK IN SCOTLAND

This third referendum briefing looks at how far the often favourable trends in Scotland's labour market might go in reducing poverty – and at the challenges that a more 'work-rich' society would pose for a post-referendum Scotland.

Key points

- Employment has increased in Scotland over the last 20 years and economic inactivity has fallen. Scotland's rates for both have risen to above the UK average.
- The recession hit Scotland harder than the UK, with larger falls in employment and larger rises in unemployment. The employment rate is now recovering quickly but is still below its pre-recession peak.
- Those without degree-level qualifications have suffered bigger falls in employment since the recession than those with. Employment since the recession has shifted away from medium-paying sectors towards low- and high-paying ones.
- Average full-time earnings in Scotland are now almost as high as the UK as a whole.
- The risk of in-work poverty is lower in Scotland than for the UK overall for any given work intensity (that is, the average number of hours worked by household members of working age).
- The employment rate could rise to 80 per cent by the mid-2020s if it increases at the pace seen in the years prior to 2007 without further reductions in the risk of in-work poverty – but this would still leave one in seven working-age adults and children in poverty.
- Work intensity matters nearly as much as employment: if the extra jobs created in reaching 80 per cent were all full-time, the fall in the numbers in poverty would be about one-and-a-half times what it would be if they were all part-time.
- If Scotland does achieve higher employment rates, it must address challenges arising from people's time pressures, access to services and rights at work if work at higher levels of intensity is to be manageable.

The research

By Adam Tinson and Peter Kenway
at the New Policy Institute

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BACKGROUND

The Scottish labour market has improved over the last 20 years, and is now stronger than the UK labour market as a whole.

The labour market in Scotland used to be weaker than the UK as a whole, but this has changed. This is true for both employment and pay rates.

Table 1 shows that in the early 1990s, Scotland had a lower employment rate and higher rate of economic inactivity (those not ready or available to start work) than the UK as a whole. By the early 2000s, the Scottish and UK employment rates and inactivity rates were almost identical. Scotland has remained ahead of the UK as a whole on both measures since.

Table 1: Employment and economic inactivity, 1993–2013

Economic activity of working age	Employed		Unemployed		Economically inactive	
	Scotland	UK	Scotland	UK	Scotland	UK
1993	67.1	68.4	7.6	8.0	25.3	23.6
2003	72.3	72.8	4.4	3.9	23.4	23.4
2008	73.9	72.6	3.7	4.5	22.4	22.9
2013	72.4	71.7	5.8	6.0	21.8	22.3

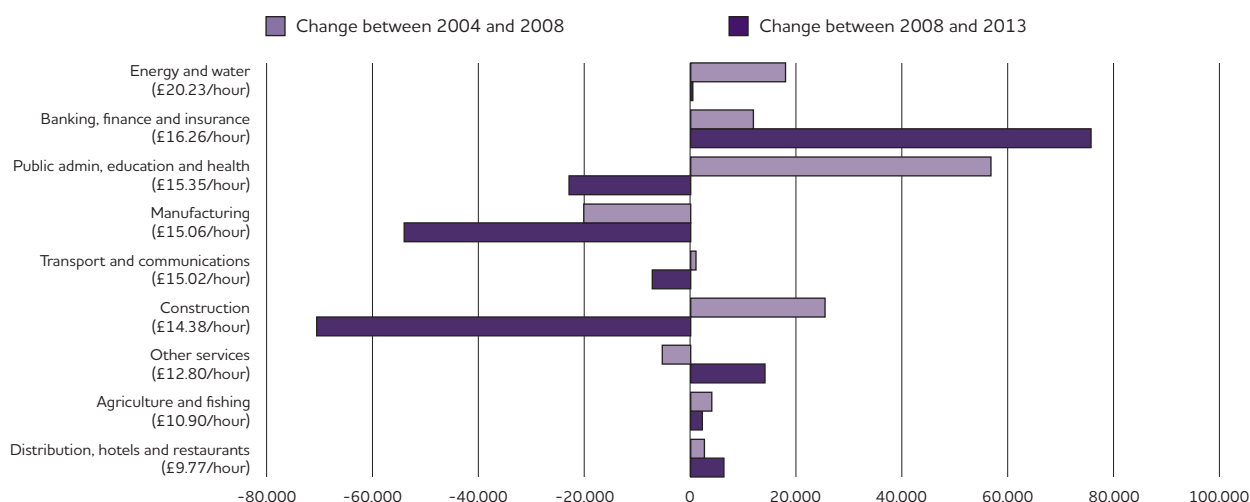
Source: Labour Market Statistics, ONS.

The recession hit Scotland harder than the UK on average. The employment rate in Scotland in 2013 was still 1.5 percentage points lower than it had been in 2008 (0.9 for the UK as a whole). Unemployment as a proportion of the working-age population was still 2.1 points higher (1.6 for the UK). This reflects a sharp fall in the employment rate during the recession (down 3.4 percentage points in Scotland between 2008 and 2010) and a strong recovery since.

Changes in the employment rate over the five years to 2013 show a lot of variation. For example, the rate for 18-to-24-year-olds was down seven percentage points but was up two for over 65s. The fall for those with no qualifications was four percentage points compared with just one for those with a degree. This followed a drop of five percentage points for those with no qualifications between 2006 and 2008.

Figure 1 shows the variation in employment by sector. Banking, insurance and finance – a sector with high average pay – has seen the biggest growth. There has also been some growth in low-paying sectors such as retail. Employment in the mid-pay sectors has fallen. The UK Commission on Employment and Skills *Working Futures Report for Scotland* (2012) foresees a continuation of this pattern to 2020.

Figure 1: Change in employment by sector



Source: Annual Population Survey via NOMIS; Annual Survey of Hours and Earnings via NOMIS, ONS.

Looking at pay more generally, the earnings gap between Scotland and the UK average narrowed between 1997 and 2013. Full-time median pay was 52p an hour lower in 1997, but just 12p an hour lower in 2013. Full-time pay at the bottom quarter was 22p an hour lower in 1997 but 13p higher by 2013. The pay gap between women and men in Scotland narrowed less, from £1.55 an hour at the median in 1997 to £1.14 in 2013.

How far can work be the route out of poverty?

The risk of a family being in poverty depends on its work intensity: the more hours worked by the adults in a family, the lower its risk of poverty. The table shows working-age families in Scotland using a three-way classification: full working (single adults with a full-time job or couples with at least one full-time and one part-time job between them), part working (other families where an adult is in work), and workless (no adults working). The term 'family' refers to both those with and without dependent children.

As the first two columns of Table 2 confirm, the risk of a family being in poverty increases as its work intensity decreases. Five per cent of those in full working families were in poverty in the three years to 2011-12, compared to 22 per cent in part working, and 55 per cent in workless. The other two columns illustrate the potential impact of a shift to an 80 per cent employment rate with a lower level of work intensity (scenario 1) and a higher level (scenario 2).

Table 2: Work intensity and risks of poverty

Numbers of working-age adults and children	Three years to 2011/12	Three years to 2011/12	Scenario 1:	Scenario 2:
			80% employment rate via extra part-time jobs for workless families	80% employment rate via extra full-time jobs for workless families
	Total	In poverty	In poverty	In poverty
Full working	2,140,000	100,000	100,000	120,000
Part working	1,220,000	270,000	350,000	270,000
Workless	770,000	430,000	210,000	210,000
Total	4,130,000	800,000	670,000	600,000
Change from base			-130,000	-200,000
Total		19.4%	16.2%	14.6%

* Figures have been rounded up or down so may not add up to the total.

Source: NPI analysis of Households Below Average Income, DWP and Labour Market Statistics, ONS.

When might Scotland reach an 80 per cent employment rate? In the first quarter of 2014 the rate was 73.5 per cent. If Scotland experienced the same average annual increase in employment rates that it did in the period between 1997 and 2007, it would reach a rate of 80 per cent around 2025. On the assumption of an unchanged working-age population, this equates to an extra 302,000 jobs in Scotland compared to the period covered by the table (when the employment rate was 71 per cent).

In scenario 1, the extra jobs created are all part-time: 390,000 adults and children move from the 'workless' to the 'part-working' group. Assuming the current poverty risks stay the same for the different groups, the number in poverty falls by 130,000. The overall poverty rate for working-age adults and children falls to 16.2 per cent.

In scenario 2, seven in every eight new jobs are full-time. This is sufficient to move the 390,000 people from 'workless' to 'full working'. For the same number of jobs created, the number in poverty falls by a further 70,000. Even so, 14.6 per cent of working-age adults and children remain in poverty – one in seven. Two thirds of children in poverty belong to a working family.

Challenges for a post-referendum Scotland

These scenarios highlight the challenges that Scotland must meet if poverty rates are to continue decreasing.

First, while much higher employment would cut poverty, it would not come close to eliminating it while in-work poverty remains so widespread. A higher work intensity is only part of the answer. Housing costs, rates of pay and the tax, tax credit and benefit systems are all implicated. Scotland after the referendum will need policy responses to all of these, whether independent or not.

Second, an 80 per cent employment rate by the mid-2020s is only conceivable if no deep recession intervenes. 'No more boom and bust' may now sound hollow but Scotland, again independent or not, must consider what it can do to prevent both these undesirable extremes.

Third, a higher work intensity has wider consequences. At present, 48 per cent of children in Scotland belong to full-working families. In scenario 2, this proportion rises to 57 per cent. As work intensity rises, what else needs to change to make this possible for parents and others? In particular:

- Are public services, from transport to health, available for people whose time is short and may well be inflexible too?
- What rights do people need at work to allow them the flexibility to manage the pressures on their time, including those arising from 'atypical' working hours?
- How are all these things to be identified, negotiated and enforced?

Although partly about an expansion of affordable, flexible and high-quality childcare (and support for caring more generally), this is first and foremost about the balance between home and work. If work is to be the route out of poverty for most, post-referendum Scotland will need to decide how to avoid replacing a problem of material deprivation with a problem of inflexible service provision and a lack of time to enjoy life.

About the project

This is the third in a series of three papers by the New Policy Institute exploring poverty, housing and work in Scotland before the independence vote. This briefing focuses on work and poverty.

FOR FURTHER INFORMATION

This briefing is part of JRF's research and development programme. The views are those of the authors and not necessarily those of the JRF.

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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
Tel: 01904 615905

email: publications@jrf.org.uk
www.jrf.org.uk
Ref: 3025