

# **Even money? Trends in earnings and income inequalities in Scotland and the UK, 1997-2016**

## **EXECUTIVE SUMMARY**

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## Executive summary

Income inequality is a well-established ‘fundamental cause’ of health inequality. Given that earnings are an important component of income, the aim of this work was to explore trends in inequalities in earnings (as well as in overall household income) within Scotland and other parts of the UK over the last two decades. This was done by means of analyses of the UK’s Office for National Statistics (ONS)’s Annual Survey of Hours and Earnings (ASHE), a 1% sample of all employee jobs taken from HM Revenue and Customs ‘Pay As You Earn’ (PAYE) records. Analyses were undertaken for the four UK nations, as well as eleven large UK cities. These were supplemented by additional analyses of household income derived from the Scottish Household Survey.

The analyses highlighted a number of important issues:

### *Overall trends in inequalities*

- Absolute inequalities in earnings widened considerably in Scotland, and in other parts of the UK, between 1997 and 2016. Relative inequalities widened until around 2011, but then decreased to levels similar to those in observed 1997. However, there were differences between the scale of, and trends in, inequalities in earnings from *full-time* (lower and fairly static) and *part-time* employment (higher and increasing).
- Trends in overall household income (for a shorter period: 1999/2000-2016) followed a broadly similar pattern to that of full-time earnings: increasing absolute inequalities, and little change in relative inequalities.
- The narrowing of earnings inequalities in the later period of analysis was influenced by the recession and the decrease in the value of earnings in real terms among the highest paid after 2008. However, independent forecasts suggest income inequality is set to widen again in the next few years across the UK.

### *Earnings and inequalities in the public and private sectors*

- In Scotland around one third of all employee jobs, and 40% of all female employee jobs, are in the public sector. These figures are higher than in England, and they emphasise the importance of the public sector to any attempts to narrow economic inequalities in Scottish society.
- There has been some progress in this regard: in the public sector (but *not* in the private sector), increases in earnings among the lowest paid between 1997 and 2016 exceeded (proportionally) increases among the highest paid. As a result, relative inequalities in earnings in the public sector decreased over time, in contrast to the private sector where they increased (particularly for part-time employment). In addition, the lowest paid jobs in the public sector are now generally better remunerated than the lowest paid in the private sector.
- Median earnings in the public sector are also higher than in the private sector, particularly for part-time employment. This gap has widened over time, with the private sector having been much more affected by the decrease in earnings in real terms following the recession.

- Differences in public sector earnings between Scotland and England were also observed: among lower-paid *full-time* employees, increases in earnings over the period of analysis were notably greater in Scotland than in England; increases for the lowest paid *part-time* employees were also slightly higher in Scotland.

#### *Low pay and gender inequality*

- The scale of low paid employment is considerable. In 2016, half a million jobs in Scotland – 20% of all employee jobs, and almost 40% of part-time jobs – were paid below the level of the ‘real’ living wage (RLW). Approximately 65,000 of those jobs were in Glasgow. The figures had improved slightly by 2017 (and to a greater extent in some parts of Scotland) but remained high.
- The lowest paid jobs are predominantly held by women. Approximately two thirds of jobs paid below the RLW, and two thirds of jobs paid below minimum wage levels (i.e. including UK Government’s defined ‘national living wage’), are held by women.
- Men continue to be paid more than women on average. However, the size of the overall gender gap in earnings varies considerably depending on the choice of statistical measure employed. In 2016, *full-time weekly* earnings in Scotland for men were almost 20% higher than for women. However, the gap has reduced considerably since 1997 (when male full-time earnings were 38% higher in Scotland), with decreases seen across all occupation groupings.
- In Scotland, reductions in the gap in earnings between men and women have been observed in both the public and private sectors. However, a much larger gap remains in the private sector. In addition, the reduction in the earnings gender gap in the public sector has been greater in Scotland than in England.

Income inequalities in Scotland have widened considerably since the late 1970s. The more recent trends presented in this report show that there has been no real narrowing of the gap in the last 20 years: this is true of both household income inequalities, and also earnings inequalities – the main focus of this report. With income inequalities predicted to widen further in the years ahead, health inequalities in Scotland are also likely to widen unless there is a concerted political effort to address the issue.

One of the stated aims of the Scottish Government is to narrow health inequalities: to do this they will need to employ all available economic powers to narrow socioeconomic inequalities in the country. This could include a variety of approaches. For example, with power over public sector pay, the Scottish Government has the ability to directly redistribute paid income among a very sizeable section of Scottish society. Their current approach (as recently implemented as part of the NHS pay agreement) of freezing senior pay and increasing pay at lower levels could be expanded to reducing the pay of the highest earners in order to increase that of the least well paid. More broadly, previous recommendations aimed at narrowing income inequalities in Scotland highlighted a range of policy options that were available with existing and recently devolved powers<sup>1</sup>. These include increasing total income tax take and making it more progressive, using all available power to support reduced inequality in capital ownership (i.e. housing, companies, land, etc.), new measures of wealth and

asset taxation, and a variety of actions to address poverty. These could be implemented alongside additional learning from the approaches of other countries with narrower earnings (and income) inequalities.