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@TheIFS

# Earnings and income inequality



Economic  
and Social  
Research Council

# This presentation



- Employment and earnings
- Household incomes
- Poverty and deprivation
- Sub-national trends, patterns and policy implications
- Devolved tax and benefit policy

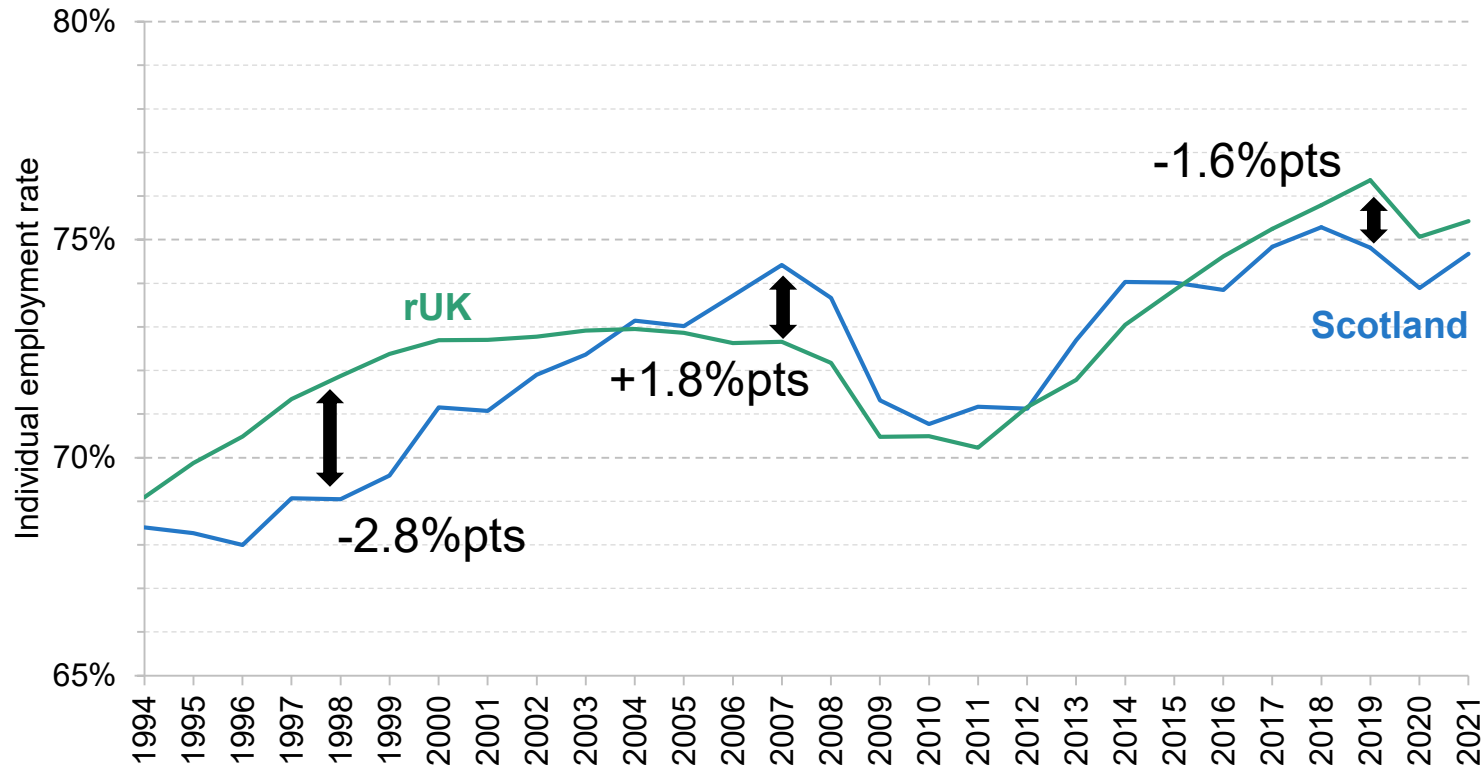


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# Employment and earnings

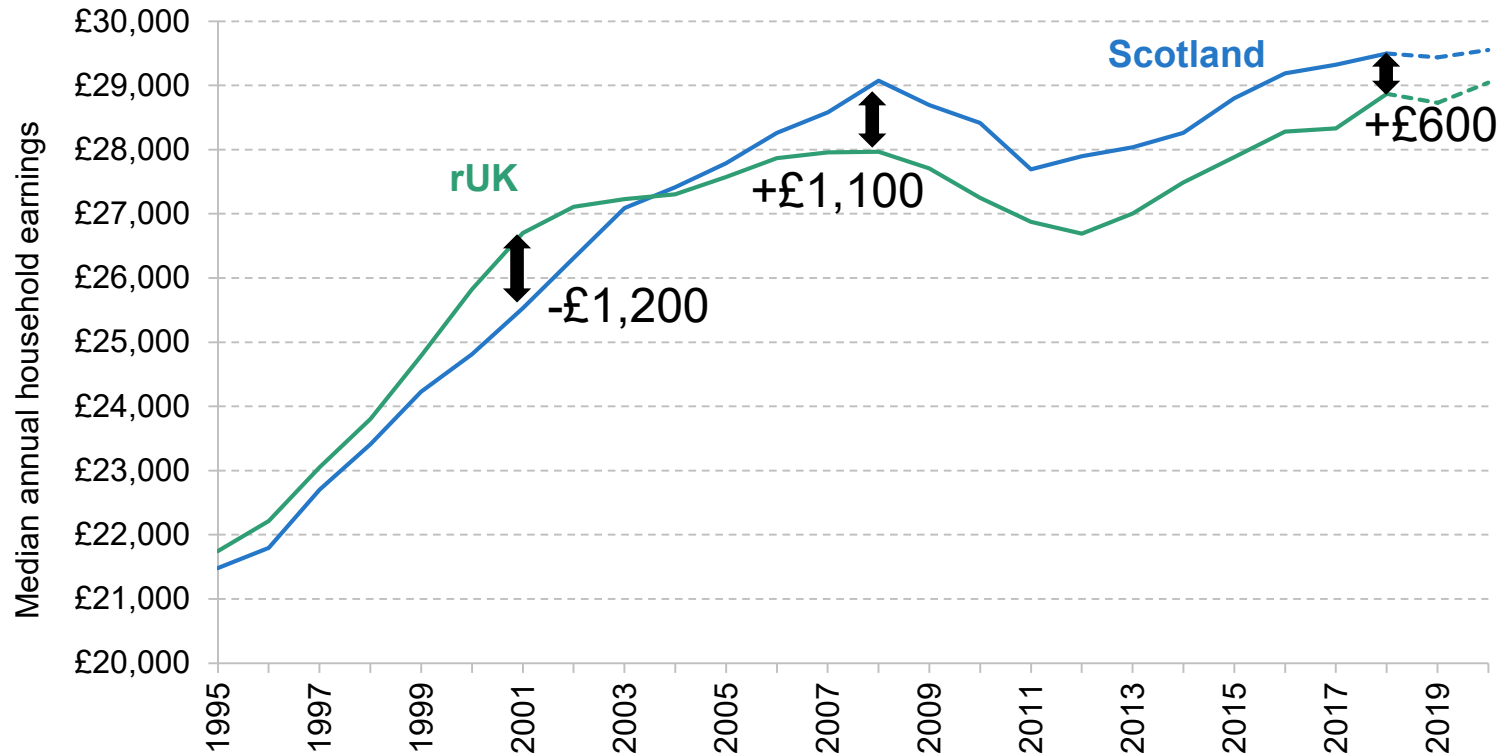
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# Employment in Scotland was on the rise, but has been sluggish in recent years...



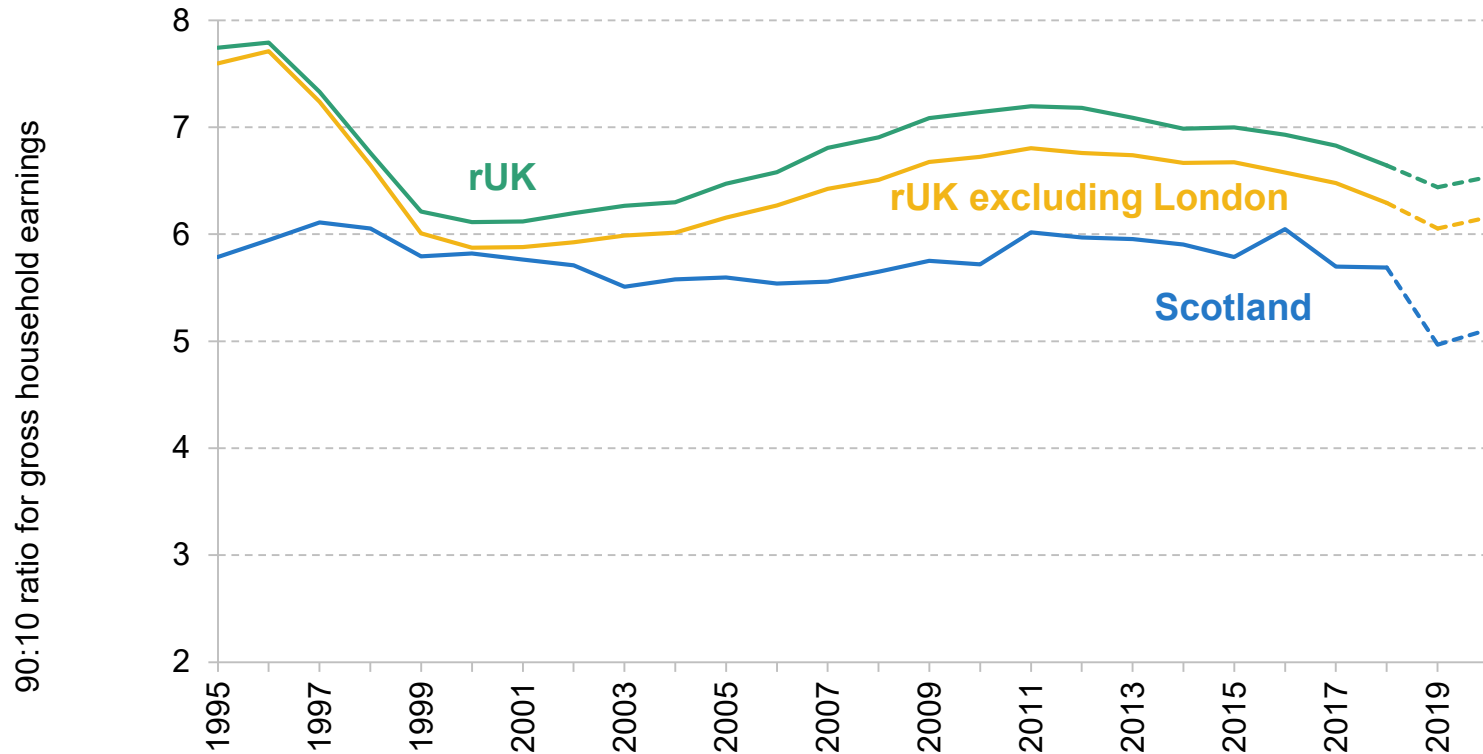
Note: employment rate calculated from LFS, among 16-64 year olds

# Household earnings show a similar picture...



Note: sample is working households only, earnings are equalized and in 2021-22 prices

# Household earnings inequality stable, and lower than rUK...



Note: sample is working households only, earnings are equalized

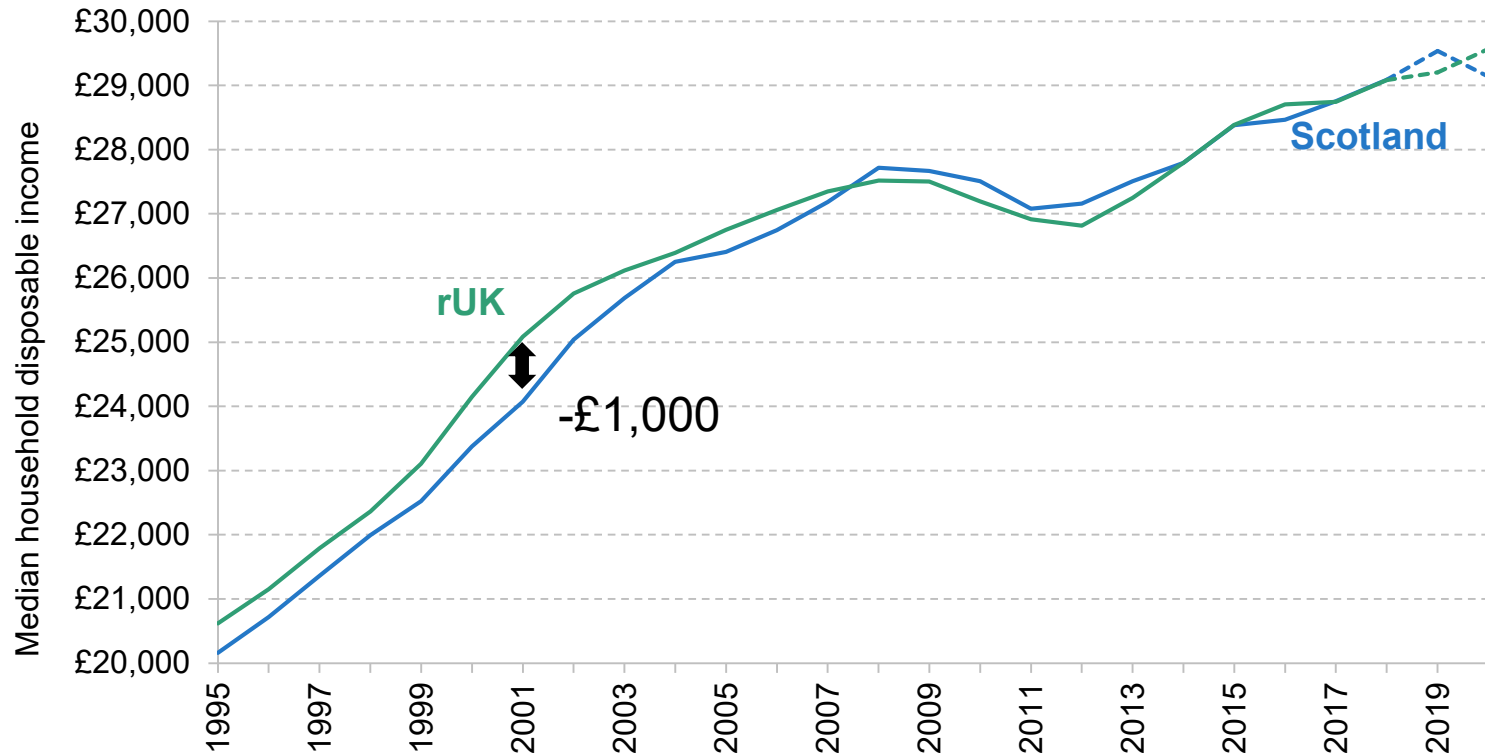


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# Disposable household income

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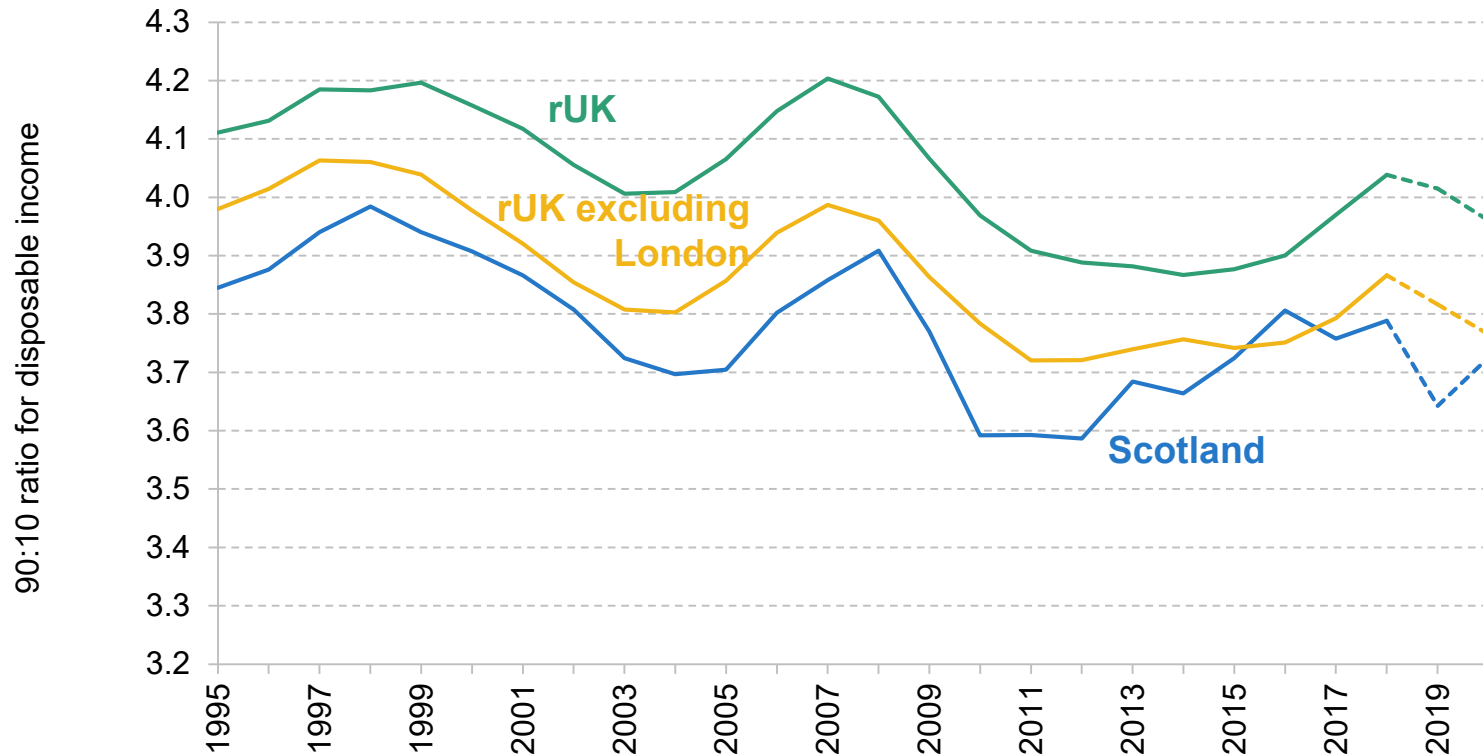
# Average disposable income has similar trends, but much closer to rUK



Note: incomes are equivalized and in 2021-22 prices



# The gap in income inequality is narrower than the gap in earnings inequality



Note: incomes are equivalized

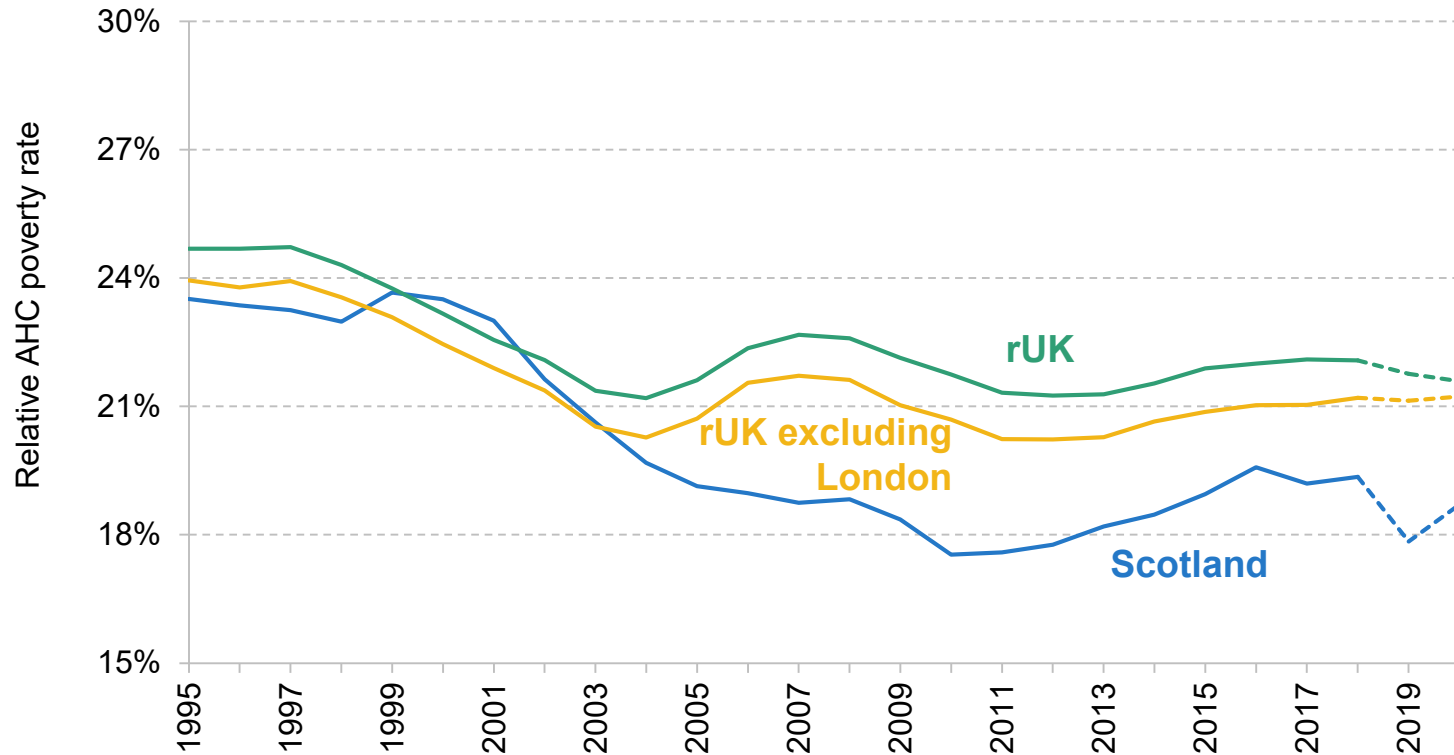


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# Poverty

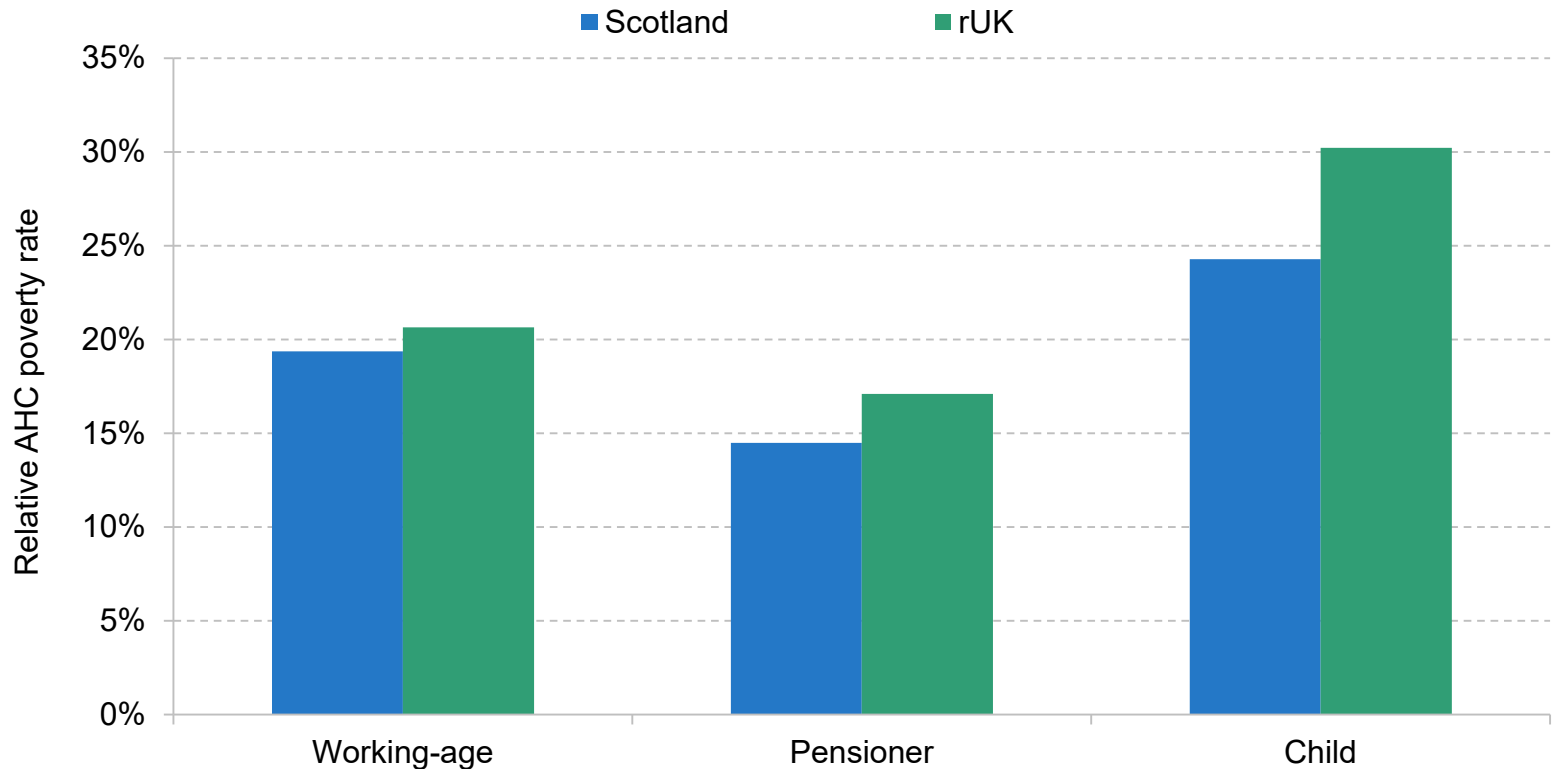
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# Relative poverty was on the rise pre-pandemic, but remained lower than rUK



Note: incomes are equivalized and measured after deducting housing costs

# Poverty lower than rUK among all groups, but especially children



Note: incomes are equivalized and measured after deducting housing costs. Data from 2017 to 2019

# Summary of trends

- Scotland caught up with and overtook rUK in terms of earnings and incomes over 2000s, but growth has been slower more recently
- Scotland's earnings and income inequality are lower, but the gap has been closing
- Lower housing costs have contributed to lower AHC relative poverty, but the gap with rUK has also been closing on this measure.



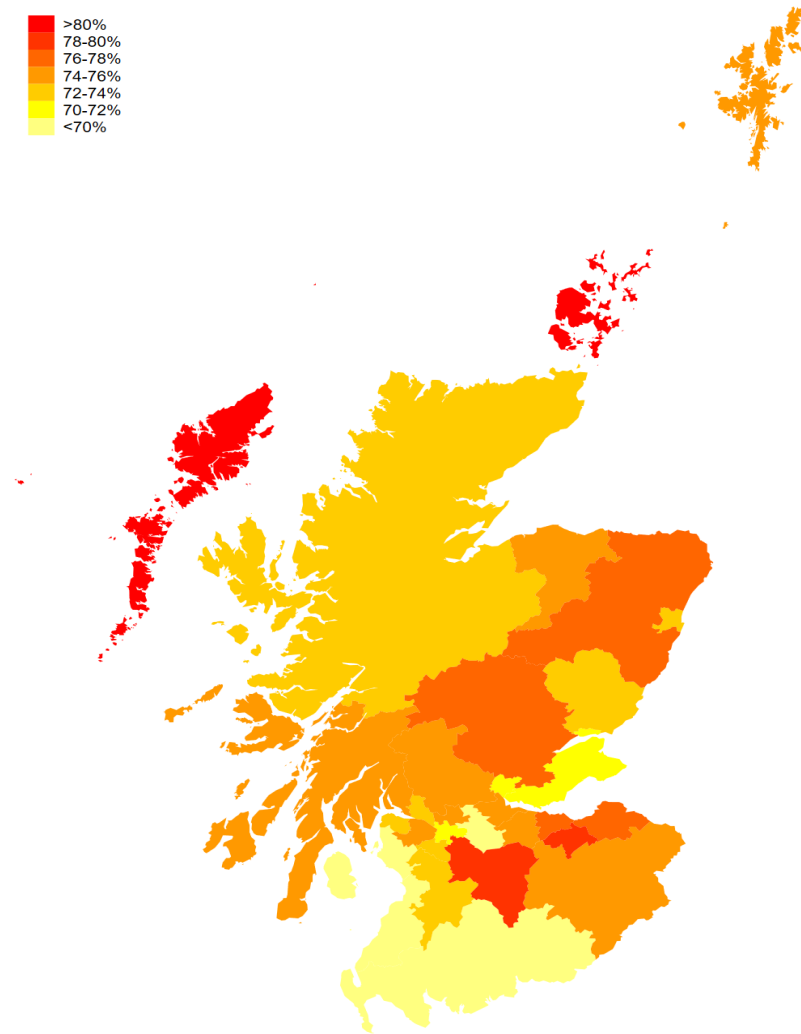
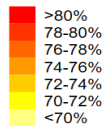
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# Geographical trends, patterns and implications

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# Employment

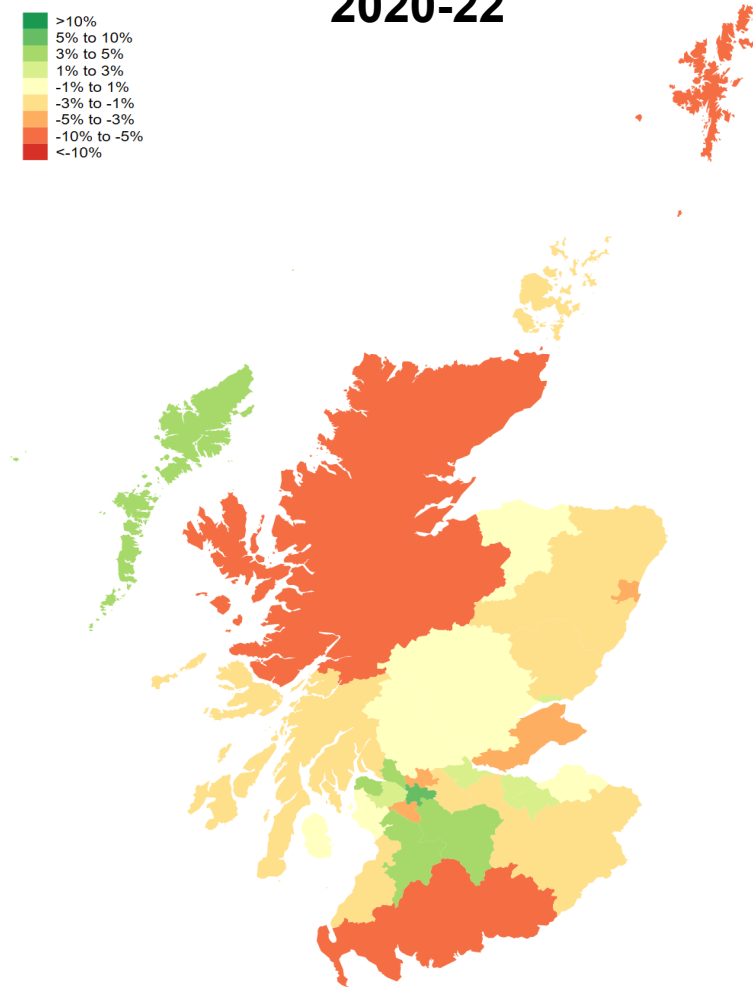
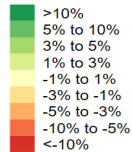
## Employment rate, aged 16-64, 2020-22



- Over 80% in Orkney and Western Isles
- Under 70% in Dumfries & Galloway, North Ayrshire, North Lanarkshire & South Ayrshire
- Above average in Edinburgh – unusual for a large city
- Inequality in employment rates across LAs lower than in rUK (excl London), and fallen more since mid 2000s

# Employment change

## Change in employment rate, 2004-06 to 2020-22

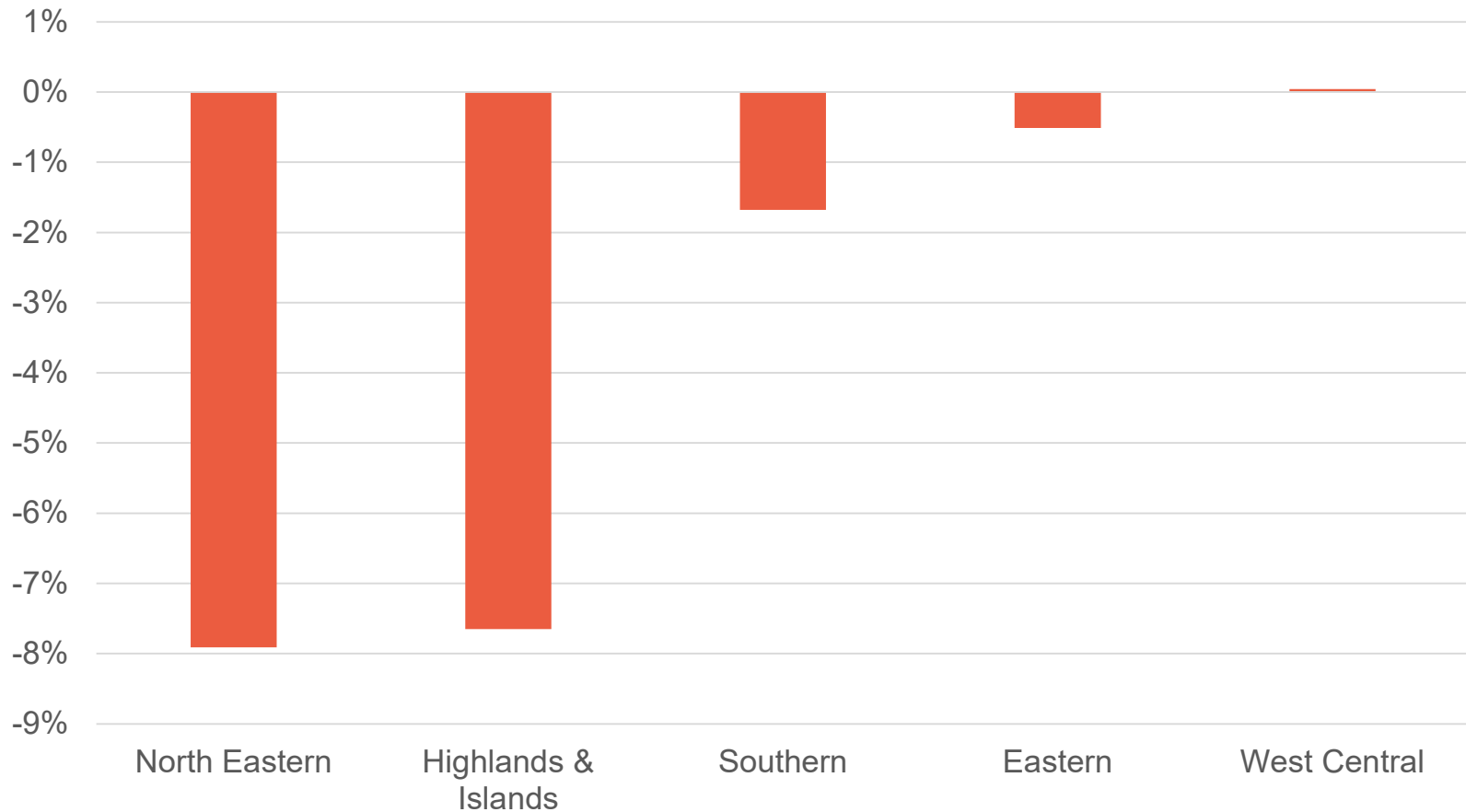


- Employment rate is up in Glasgow and many of its poorer neighbours – mostly since 2013-15
- Employment fallen in most of rural LAs in Scotland – with biggest falls in northern Scotland since 2013-15
- High degree of persistence in LA employment rates, although less so than in England and Wales



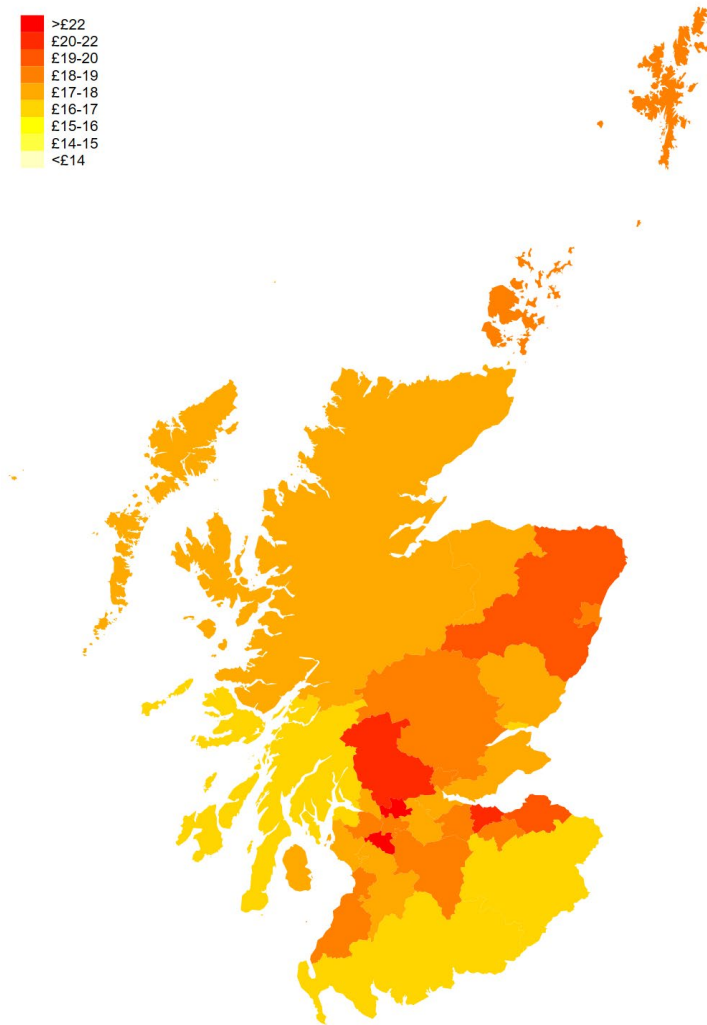
# Employment relative to rUK

Change in employment rate relative to rUK average, 2013-15 to 2020-22



# Earnings

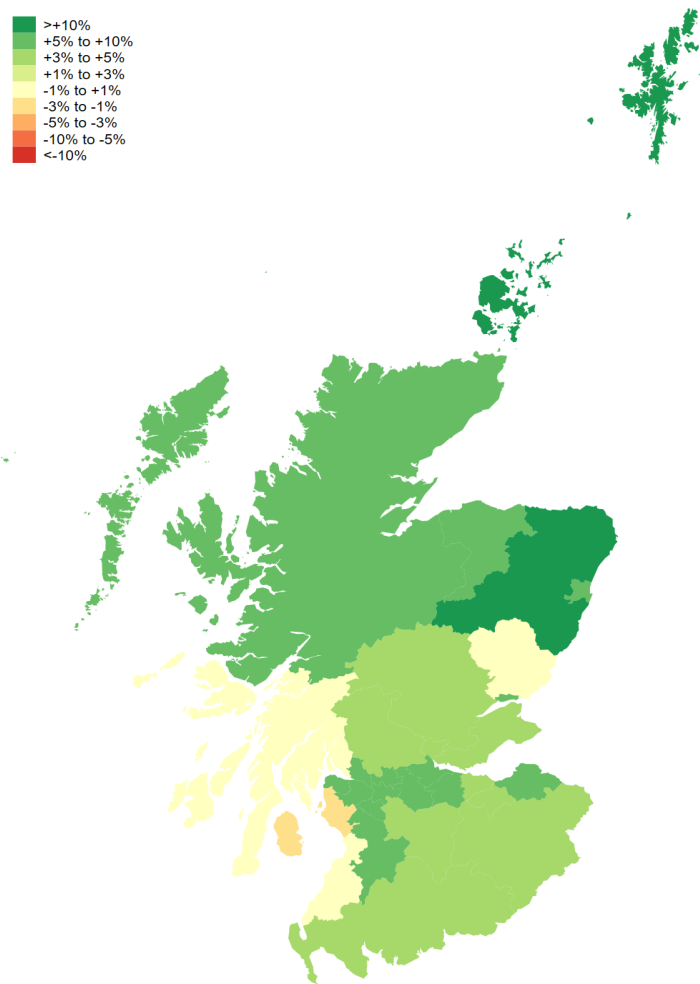
## Mean hourly earnings, 2020-22



- Lowest in Dumfries & Galloway (£16.10), Scottish Borders (£16.60) and Argyll & Bute (£16.70)
- Highest in East Renfrewshire (£26.30), and commuter areas for Aberdeen, Edinburgh and Glasgow
- Aberdeen has high mean earnings, but median earnings relatively low – two-tier local economy?
- Rural parts of Scotland do relatively well compared to rUK: 6 of top 10; 1 of bottom 10
- Inequality across LAs lower than rUK, but higher than outside the South of England

# Earnings relative to rUK (I)

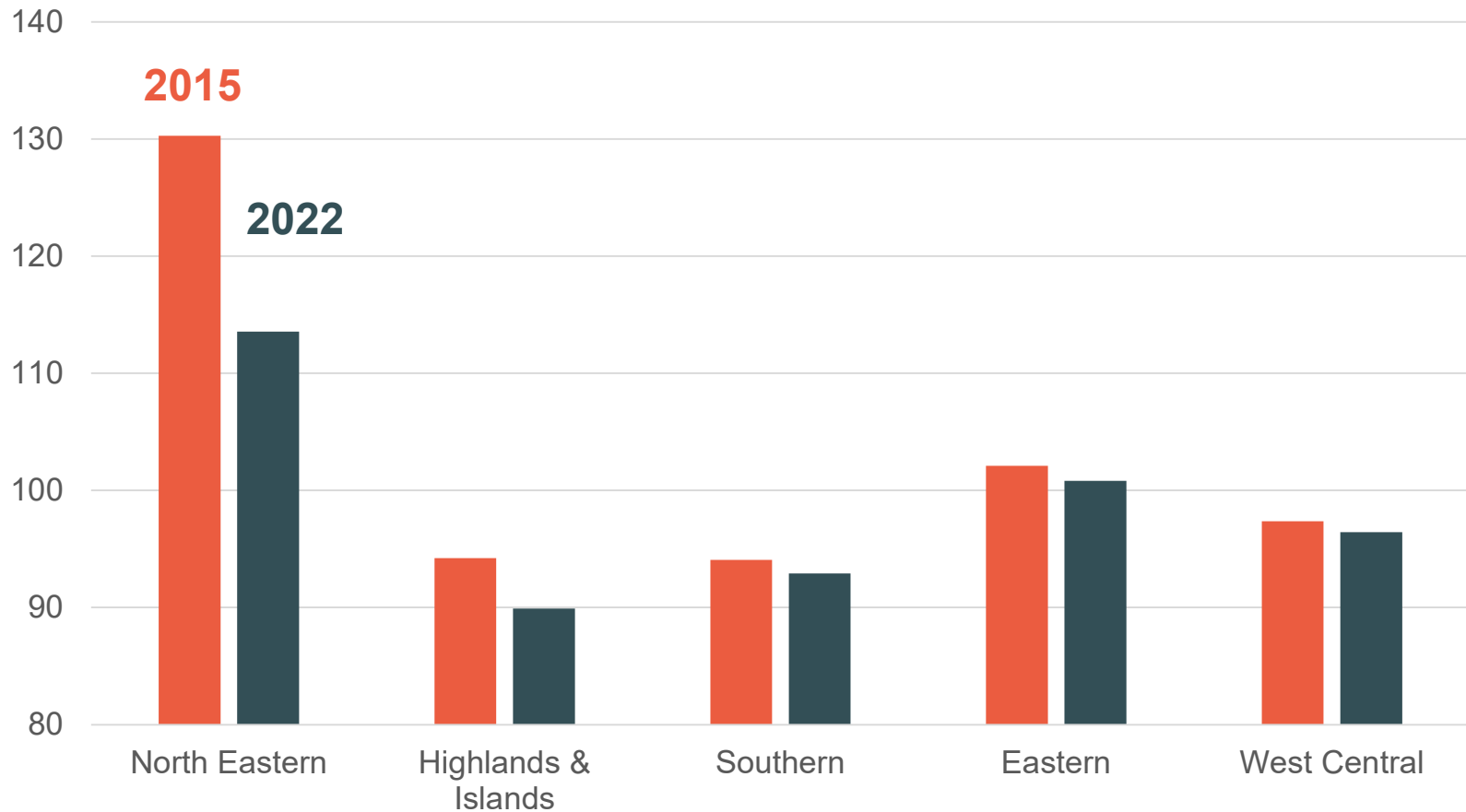
## Change in mean hourly earnings, 2002-04 to 2013-15



- During 2000s earnings grew faster than rUK across nearly all of Scotland – especially in the North of Scotland
- Since mid 2010s, this trend has partially reversed but the fall back has been more geographically concentrated

# Earnings relative to rUK (II)

Mean monthly earnings % of rUK (exc London) average



# Household incomes

- Highest in commuter areas for Aberdeen, Edinburgh and Glasgow
- Generally lowest in urban and former industrial areas of central and south western Scotland, although at or above average level outside South of England in every Scottish LA bar Glasgow and Dundee
- Like employment and earnings, improvement across most of Scotland during 2000s, with some fall back since 2014 – esp. in the North East of Scotland
- Income and earnings trends are not always consistent, e.g. Argyll and Bute has low and poorly performing earnings, but household incomes done much better – retirees?

# Summary

- Inequality in employment, earnings and incomes lower across LAs than rUK ex London, but higher than outside South of England
- Scottish employment, earnings and household incomes performed strongly up until 2014 and this was broad-based
  - Subsequent fall back has been geographically concentrated in North East and to a lesser extent Highlands & Islands
- Scotland's rural areas have relatively high hourly earnings compared to similar areas in rUK

# Policy considerations

- Recent worsening of labour markets in northern Scotland but lowest employment, earnings and incomes in South and West Central Scotland, despite improvements in the latter
  - Political trade-offs in responding to ‘trends’ or ‘levels’
  - Different interventions in different places
- IFS research shows that variation in education, experience and characteristics of labour force explains nearly 2/3 of variation in wages across parts of the UK
  - Highly educated people sort into productive areas of country
  - Fewer graduates from poorer areas – and more of those leave
- ➔ Need to tackle skills, availability of skilled jobs and local amenities together if want to boost local productivity, wages & opportunities
- ➔ Need to be realistic: focus on creating a few key ‘agglomerations’, while facilitating access to these places from outside, via transport, housing supply and educational opportunities



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# Tax and benefit policy

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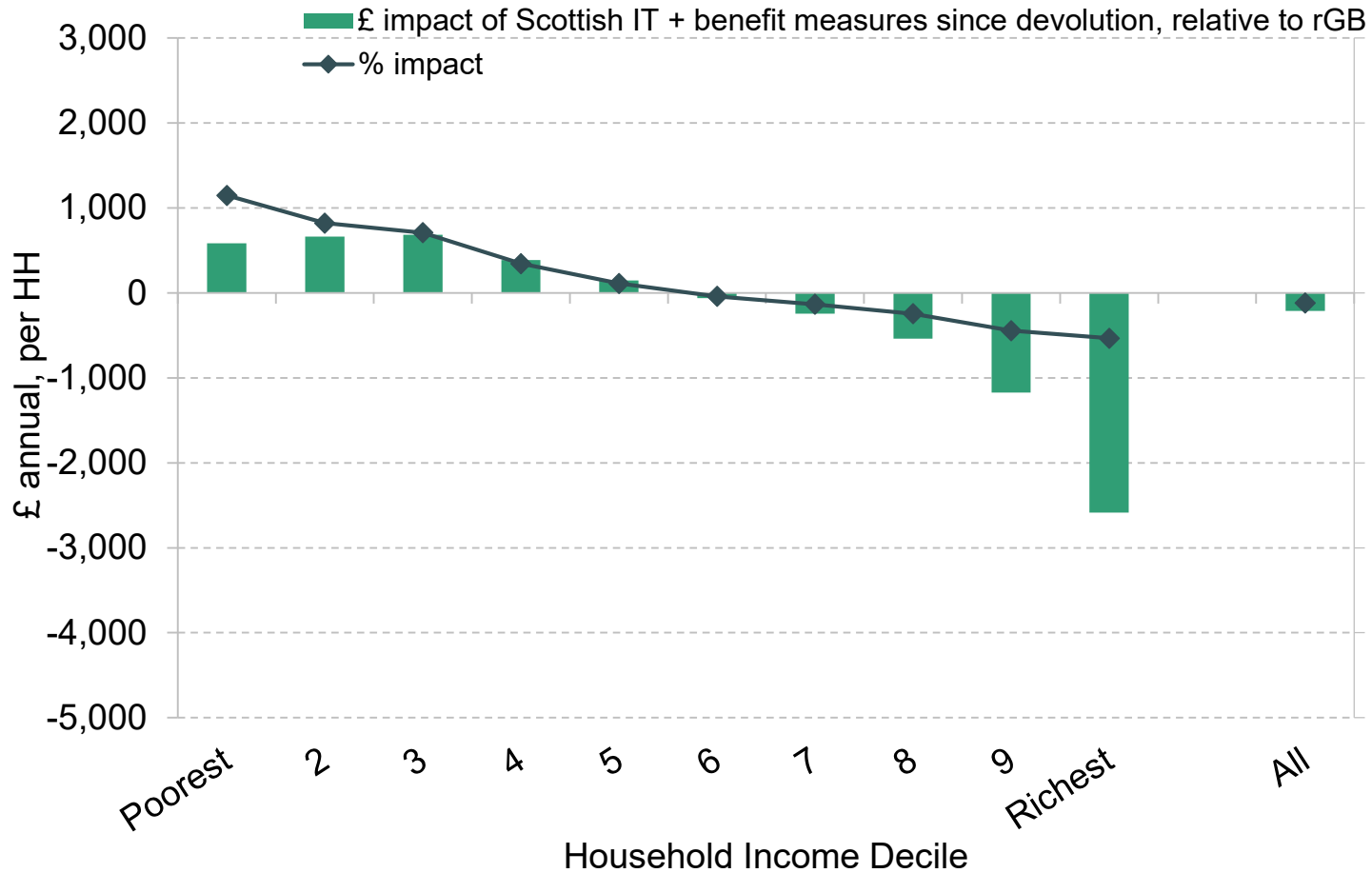


# Devolved personal tax and benefit policy now playing a bigger role



- **Income tax (non-savings, non-dividend income) since 2017-18**
  - Flexibility over all bands and rates except personal allowance
  - More bands and different rates than rest of UK, mean those earning above £28k pay more
- **Benefits devolved and powers to create new benefits since 2018**
  - Best Start Grant (replacing Sure Start Maternity Grant) and Scottish child payment (new benefit) targeting low income children
  - Mitigation of benefit cap and under-occupancy charge, carer's allowance supplement
  - Ongoing reform of disability benefits

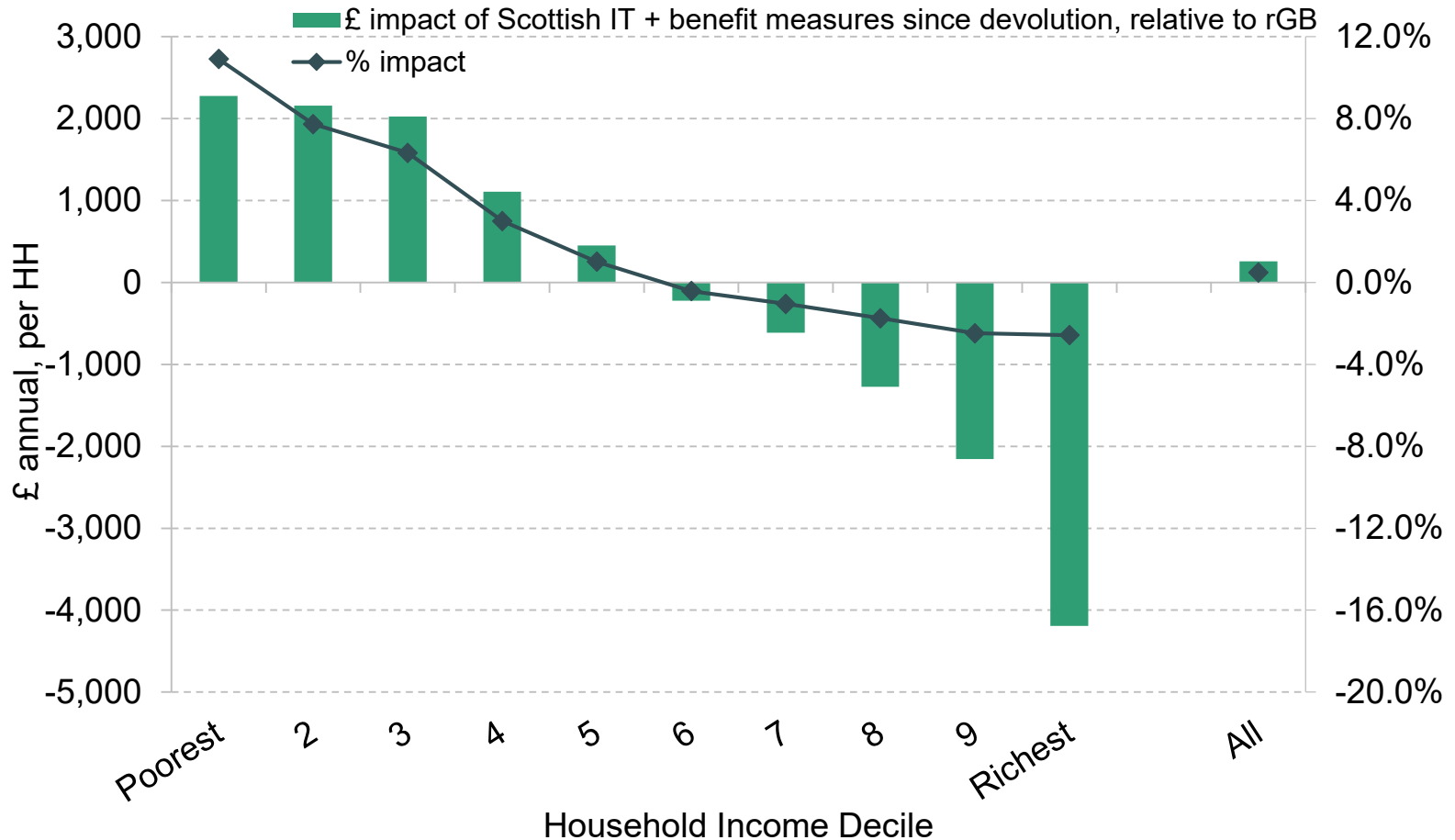
# Impact of income tax and benefit changes: progressive & revenue-raising



Note: Figure compares Scottish system with that of England and Wales.

Source: Figure 5.3 from Wernham and Waters, 2023

# Low-income households with children benefit the most from reforms



Note: Households with children only. Note: Figure compares Scottish system with that of England and Wales.

Source: Figure A.2 from Wernham and Waters, 2023

# Scotland is using tax and benefit levers to achieve distributional goals



- Overall effect on average households is to slightly reduce disposable income, and raise revenue for government
- But clear plan to shift income from richer households to poorer households...
- ... in particular poorer households **with children**, for whom the boosts to income are very substantial

# Pushing the limits of some of these policies?



- **Highest-income taxpayers most responsive to tax rates**
  - SFC estimate 90% of extra revenues raised from increases in additional rate offset by behavioural response
  - Effects via avoidance, migration, etc.
- **Child payment has a big cliff edge**
  - £1 extra earnings can reduce incomes by £50 a week for family with 2 children, (£2,600 per year)
  - With tax and NI, need to around £73 per week (£3,800) more before better off – around 7 hours a week on the national living wage
  - Discouragement from taking on more hours & seeking promotions and better paid jobs?
- **Opportunities to use different policy levers, improve policy design and devolution settlement?**

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