

# A prelude to ‘building back better’ – how well have we tackled inequalities since the last recession

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## I Introduction

The full effects of the COVID-19 economic crisis are only now beginning to be fully understood. Recessions tend to impact most severely on those on lower incomes and, without government support in the form of social security, these impacts would be much worse.

The Scottish Government has a clear commitment to reduce poverty and to tackle inequalities, and the COVID-19 crisis is likely to only make this harder rather than easier to achieve.

Of course, tackling poverty and inequality has been a long-held ambition of the Scottish Government. These goals have been embedded in the outcomes based National Performance Framework (NPF). Tackling poverty and inequality were features of both Framework for Economic Development (FEDS) 2000, the original 2007 NPF and the subsequent refreshes.

In practice, drivers of income and poverty are not only shaped by external factors, but also by decisions made by the UK Government on reserved issues too. However, given policymakers in Scotland have had commissions, strategies, legislation and performance frameworks focussed on poverty and inequality, it is clearly an area that the Scottish Government believes is within their devolved competence to do something about.

And one would hope that a policy community measuring its own performance on outcomes related to tackling poverty and inequality would have been able to make some progress since then. The UK Government has not followed this same outcomes-based approach. The hypothesis we test in this article is whether the approach Scotland has taken has led to a marked improvement in outcomes relative to the UK average.

This article looks at three areas. First, we look at overall trends in a key indicator of living standards: relative poverty. Secondly, we look at the intersection between poverty and equality groups. Thirdly we look at income inequality comparisons with a wider group of countries to assess our impact against some international comparators.

Facing another deep recession, and with the Scottish Government talking very prominently about wellbeing and economic renewal, what can the last ten years tell us about the probability of seeing such a change if we follow a similar approach.

## **II Overall trends in poverty and income for those in poverty**

This article focuses on the trends in metrics in Scotland and for the UK as a whole. An important caveat for all data in this article is that even with three-year averages, Scottish data are still quite volatile. Hence, it is important to look at trends over time rather than individual data points.

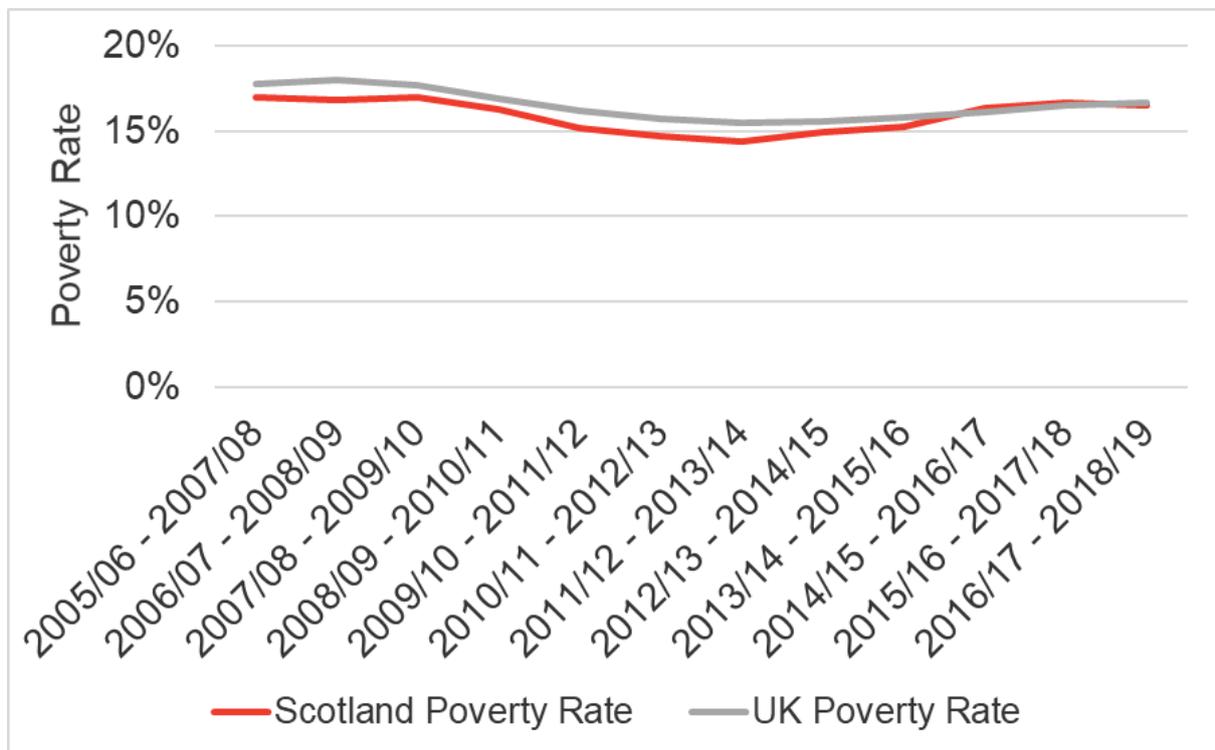
There are many different ways of measuring poverty – by which we mean people who cannot afford to meet their minimum needs. A commonly used measure of poverty is relative poverty, which assesses low income compared to the ‘average’ in society. Poverty under this measure is pegged to societal norms. There are two further distinctions to be aware of – that is whether or not housing costs are included. As a largely unavoidable, and large, expense poverty is often measured after housing costs have been taken away from income.

This article focusses on poverty before housing costs (BHC) rather than poverty after housing costs (AHC). This may seem odd as the latter is the headline measure used by the Scottish Government but we have chosen to focus on poverty BHC in this article to enable a focus on the non-housing drivers of poverty. In reality, whichever measure is used, the trend over the past ten years is similar.

Analysis of housing costs in relation to poverty has been looked at in detail by the Joseph Rowntree Foundation (Joseph Rowntree Foundation, 2019). They found that trends in poverty after housing costs between Scotland and the rest of the UK diverged in the early to mid-2000s and this divergence has remained relatively constant since. In 2005-07 the AHC poverty rate was 22% in the UK and remains 22% in the latest data for 2016-19, compared to 19% for Scotland in both 2005-07 and 2016-19.

Analysis of the poverty rate before housing costs for Scotland and the UK shows similarly little divergence over time, but unlike after housing costs, poverty rates in Scotland and the UK are very similar.

**Chart 1:** Poverty Rate before housing costs (BHC) in the UK and Scotland



Source: HBAI, DWP

From Chart 1, we can see that poverty did fall in both Scotland and the UK through the recession. This is largely a result of the fall in the relative poverty line (which is tied to median income) rather than due a rise in incomes for those in poverty. We return to the subject of median income later in the article, but first we turn to trends in low income.

The key determinants of BHC income are income from employment and income from social security as shown in Table 1. Chart 2 shows the trend in employment and benefit income for people in poverty over time. It is difficult to distinguish a differential trend, and certainly there is no significant divergence in Scotland compared to the UK average.

With reference to social security income this is of no surprise. It was only in the Scotland Act 2016 that the Scottish Parliament acquired limited powers related to social security, and regardless, the largest mean tested benefits remain reserved to Westminster.

However, one could have expected a differential with respect to employment income. Whilst employment regulation remains reserved, many other economic policy levers reside with the Scottish Government. Indeed, at the core of economic policy since 2007/08 (and indeed before)

has been the concept of inclusive economic growth, growth that not only encourages the participation of all in society in productive and decent work, and shares the proceeds of growth fairly, but also explicitly reduces inequalities.

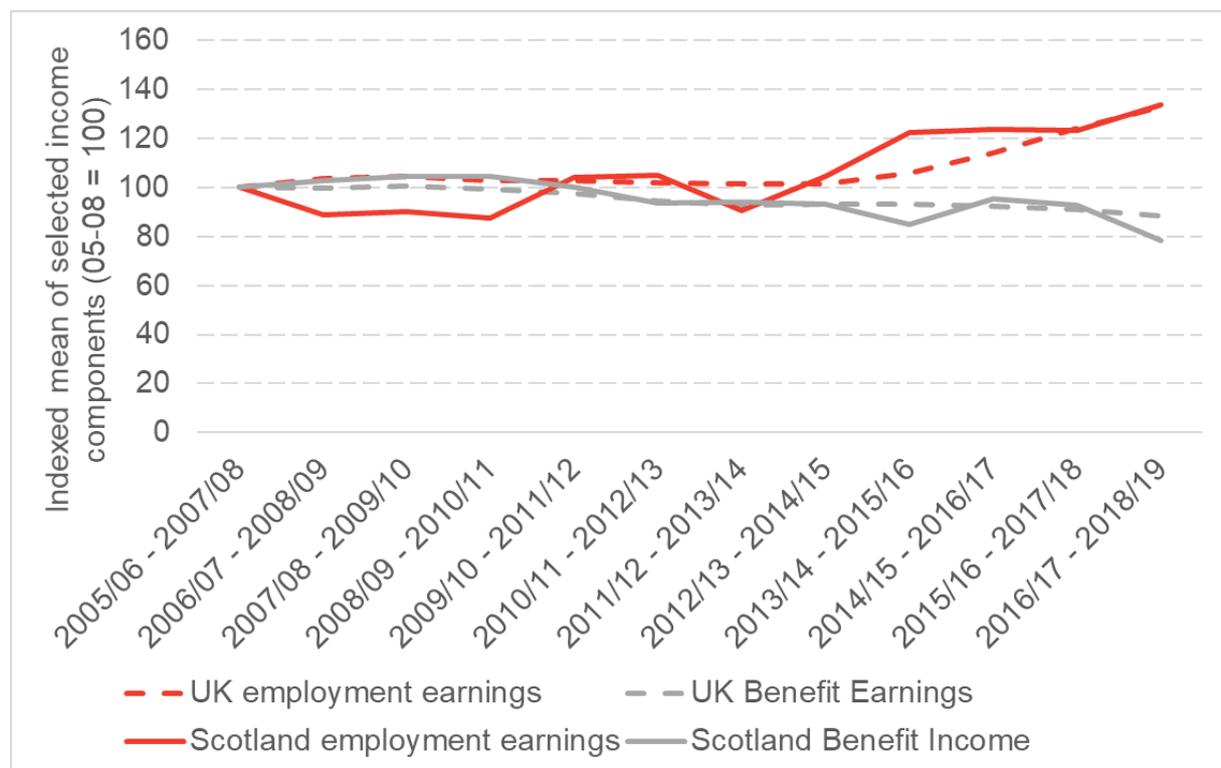
However, we can see that there has been no appreciable change in the earnings trajectory of people on the lowest incomes in Scotland compared to the UK as a whole.

**Table 1:** Breakdown of gross income sources for people in poverty (BHC) in the UK

Benefit Income	Employment Earnings	Self-Employment Earnings	Investment Income	Private Benefit Income	Misc Income
44%	40%	11%	3%	1%	2%

*Source: ONS*

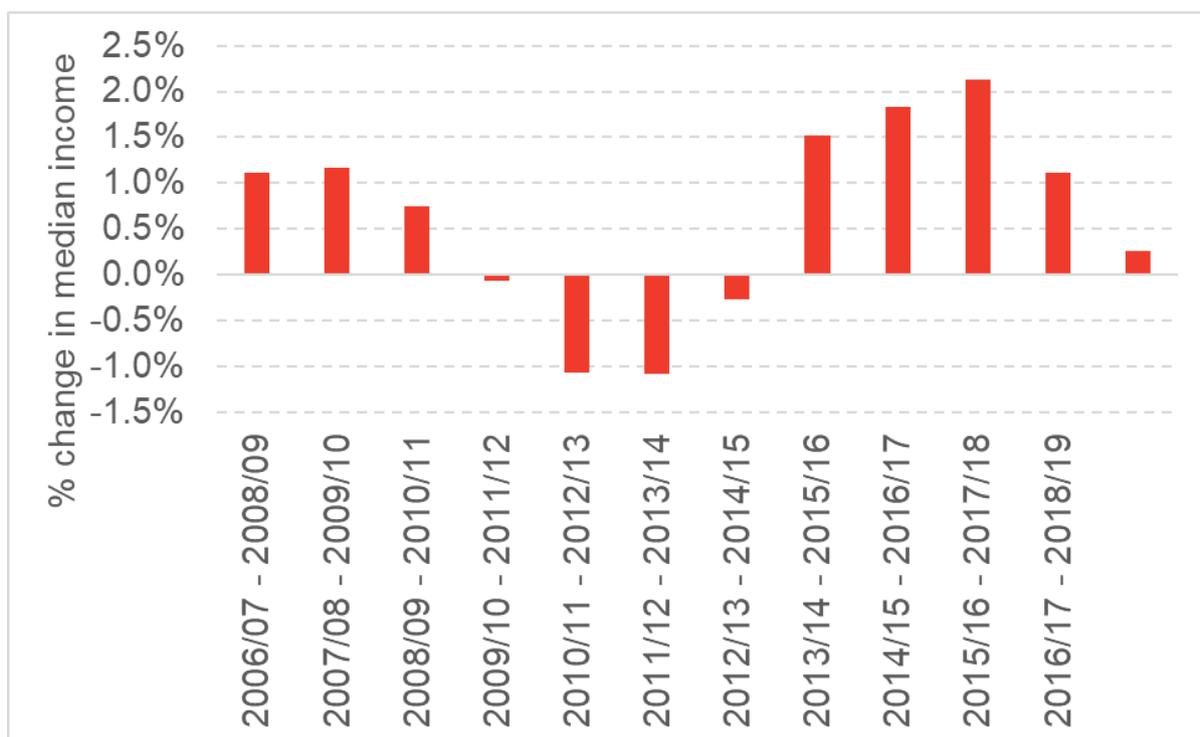
**Chart 2:** Trends in main components of gross income for people in poverty (2007/08 = 100)



*Source: HBAI, DWP*

Comparing Chart 2 to Chart 1, we can see that these main components of income were flat during the time when poverty was falling, yet when earnings started to increase poverty rates started to rise. This seems counterintuitive. As we can see in Chart 2, this is partly due to the offsetting fall in social security income, but it is also due to what was happening to median income. UK median income is used in both the measurement of UK and Scottish poverty, where 60% of the median determines the poverty line. If median income increases at a higher rate than the income of those lower down the distribution, then the relatively poverty line increases and more people find themselves under the poverty line. This is what has happened in recent years, as Chart 3 shows. If the characteristics of those newly tipped into poverty are different (e.g. are more likely to be in work and less likely to be on benefits) this could change the average characteristics of the ‘in poverty’ cohort, as well as changes to income that may have happened of people who were already in poverty.

**Chart 3:** Trend in UK median income



Source: HBAI, DWP

Whilst some think that this interaction with median income invalidates the measure, it is in fact the whole purpose of the relative poverty measurement – that is, it is not just how low incomes

change, it is also the relationship between low and ‘average’ income that matters. Understanding the interaction with median income is important for understanding movements in relative poverty, but this measurement issue does not detract from the analysis of this report that is looking at whether Scotland is doing better on key outcomes than the UK average.

### **III Analysing the intersection of poverty and equalities**

There are many factors which lead to people having low income and being in, or at risk of, poverty.

These include the level of qualifications for example, or living in a place where there is good transport and employment opportunities. However, there are structural factors in our society and economy that mean that some people are more likely to be in poverty. These are due to observable factors, such as caring responsibilities or ill health limiting your ability to work, but also factors that are harder to unpick around the basic concept of equality – discrimination being a key example.

So how have we performed when looking at the intersection of poverty and equalities?

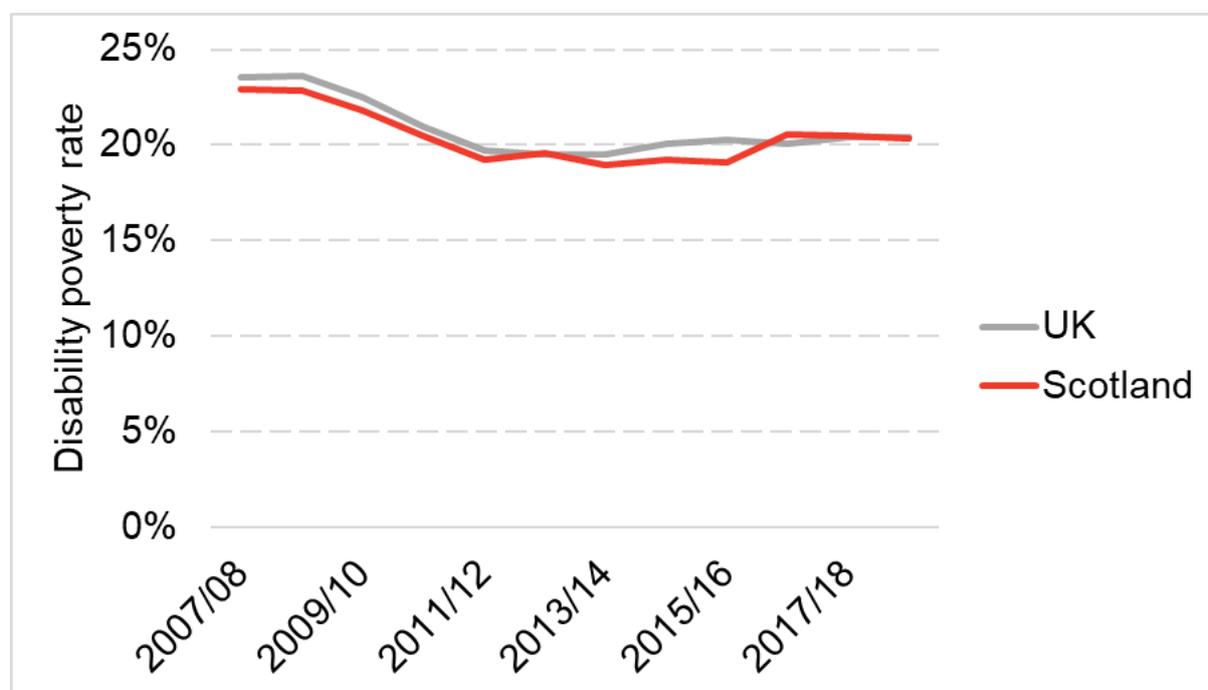
In this analysis, we look at outcomes for those with a disability or ill health, and those from ethnic minority groups.

The original National Performance Framework (Scottish Government, 2007) had a number of national outcomes and indicators related to those facing structural inequalities. Since then, there have been a number of strategies, action plans and policy initiatives designed to make progress on these measures. Have these made a demonstrable difference in Scotland?

As in the previous section, all data are poverty before housing costs and caution should be taken when comparing individual data points, with the trend over time more important.

Chart 4 shows that the trend Scotland has not demonstrated any improvement in the disability poverty rate over time relative to the UK, although both have fallen since the start of the period. The timing of the fall mirrors the timing of the fall in overall poverty which is discussed above.

**Chart 4:** Poverty rates for people with a disability or long-term limiting health condition



Source: HBAI, DWP

The Scottish Government does not produce a time series on poverty for minority ethnic groups due to concerns over the quality of the data (unfortunately, a common occurrence with ethnicity data). We have followed their example and produced a 10-year average instead using the disaggregation provided in the Households Below Average Income dataset produced by DWP.

As Table 2 shows, the evidence is mixed, with a better poverty rate for some groups, and worse for others. Overall, for this 10-year period, poverty for minority ethnic groups in aggregate in Scotland was three percentage points different with a rate of 30% in Scotland compared to 27% for the UK. It is obvious that there is much difference across specific ethnic groups.

**Table 2:** Ethnic minority poverty rates – 10-year average

	<b>Scotland</b>	<b>UK</b>	<b>Difference between Scotland and UK</b>
Mixed/ Multiple Ethnic Groups	26%	21%	5%
Indian	17%	21%	-4%
Pakistani	39%	44%	-5%
Bangladeshi	33%	45%	-12%
Chinese	43%	25%	17%
Any other Asian background	32%	22%	10%
Black/ African/ Caribbean/ Black British	30%	25%	5%
Other Ethnic Group	20%	26%	-6%

*Source: HBAI, DWP*

## **IV Performance against other countries**

So this is how Scotland is performing relative to the rest of the UK. With the clear conclusion that there is little obvious difference.

But what about other countries?

Measuring performance against other countries can be difficult as many use slightly different methodologies for measuring poverty. Instead, here we provide an overview of the Palma ratio. According to the OECD, the Palma ratio is “the share of all income received by the 10% people with highest disposable income divided by the share of all income received by the 40% people with the lowest disposable income” (OECD, 2020).

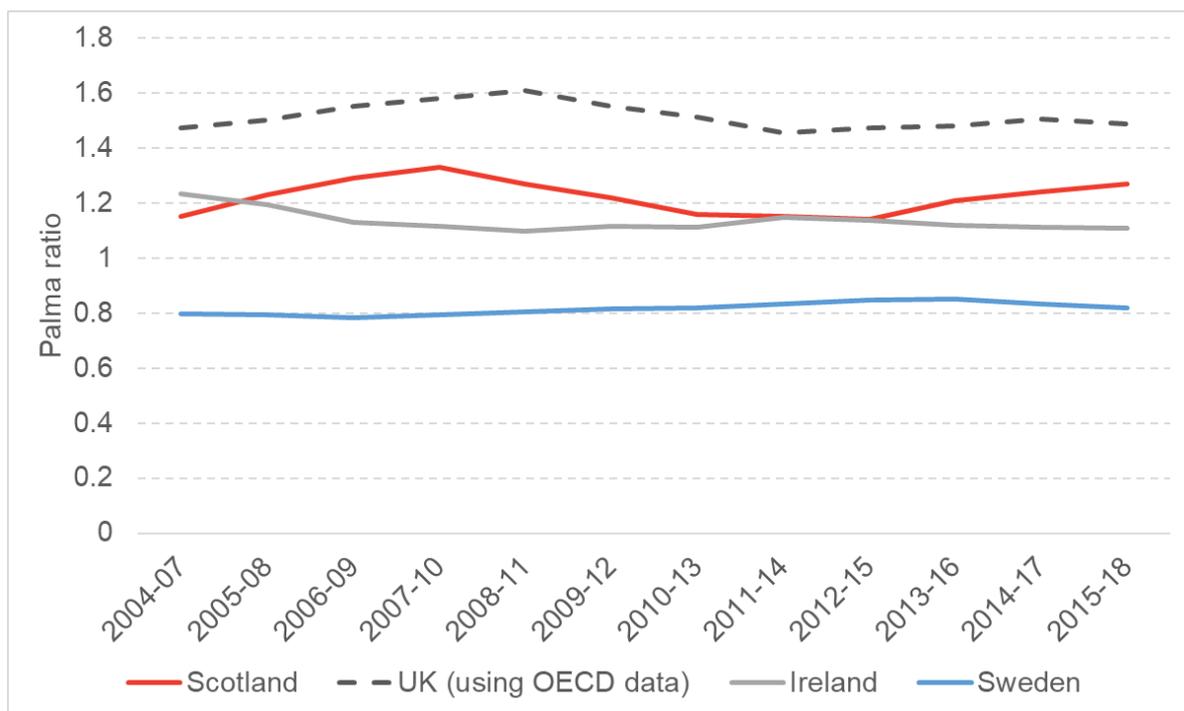
In Chart 5, we have used the figure produced by the Scottish Government for Scotland, and OECD data for the other countries shown. A lower Palma ratio means less income inequality.

As Chart 5 shows, Scotland has lower income inequality than the rest of the UK. Given we know that poverty rates are similar, this reason for this gap is likely to be due to higher incomes of the top 10% of the population in the UK average compared to Scotland. Even with this difference, we can see the trends are broadly similar over time. There was a rise in inequality

towards the start of the period, then a fall and since then a slight rise. This is in contrast to Ireland where inequality fell at the start of the period and has since stayed fairly constant.

Sweden, a country regarded as having a good record on income inequality, has had a far lower Palma ratio through this period than either Scotland or the UK, and the ratio here has stayed broadly constant over time.

**Chart 5:** Palma ratio



Source: Scottish Government, OECD

#### **IV What does this mean for ‘building back better’?**

In summary, both poverty either measured before or after housing costs, has remained fairly steady in the UK and Scotland. Scotland has not outperformed the UK average for earnings of those in poverty, nor have they performed better when we have looked at some of intersections of poverty and equality.

Looking at Scotland compared to other OECD countries suggests that whilst inequality is lower than the UK average, it has not fallen over the past 15 years as has been the case in Ireland, nor

is it close to levels in Sweden, which is often held up as an exemplar of a country with a good record on inequality.

Based on these high-level indicators, it would be hard to justify that a material improvement in poverty and inequality has been achieved, despite this being an explicit objective of government.

There will be no doubt be two readings of this analysis – and of course, the reality is likely to lie somewhere in the middle of both interpretations.

On the one hand some will say that this clearly shows that Scotland is not using the powers it has effectively enough, either through lack of ambition or challenges around delivery. The postponement of the planned rollout of the Scottish Child Payment could be used – as just one example – to back up this argument.

Others will say that this clearly shows that Scotland does not have sufficient policy levers to make the real change required to people's financial lives. If only Scotland had access to all the policy levers around social security, a better outcome could be achieved.

But if you accept this second interpretation, even in part, the problem is that we not only have a policy agenda in Scotland that is explicitly about changing these outcomes we actually have legislation, via the Child Poverty Act 2017, mandating this and future Scottish Governments to ensure just that. This legislation, including explicit statutory poverty targets for 2030, was passed with the constitutional settlement we have right now.

Therefore, and notwithstanding constitutional debates, we need to find a way in Scotland to shift the trend on inequality and poverty. The Coronavirus crises is likely to have made these challenges harder, but it has not fundamentally changed the nature of the challenges we were already trying to remedy and have been ever since the NPF was established.

We are not starting from anew. There have been clearly been efforts over the last ten years to make change happen, and if we really are to 'build back better' then we need to understand what has worked in terms of tackling inequality and poverty in the recent past and do more of it.

Perhaps more importantly, we need to be clear over what hasn't worked, and make sure we learn from that and reprioritise spending to where it can make a difference. Stopping things should not be seen as a sign of failure. It should be seen as a sign of success that something was tried,

did not have the intended impact for whatever reason, and the resources have been shifted to areas which are successful.

The efforts to reduce child poverty should stand front and centre over the next few weeks, months and years. The Child Poverty Act mandates targets for significantly reducing child poverty by 2030, with interim targets due to be met in a few years. Ensuring that all parts of government pull together to realise that is crucially important.

Yet as well as the postponed start of the new Scottish Child Payment, the annual report that looks at progress against the targets which was due out this month has been indefinitely postponed because resources have been diverted to the Coronavirus response. This is difficult to comprehend. Given the severity of the economic impact of the pandemic, which we know will fall hardest on those already financially vulnerable, how can tackling poverty not be close to top of the priority list? – especially when considering the close relation between poverty and another key government priority under threat: educational attainment (a focus of another article in this commentary).

In summary, the past ten years has told us that frameworks, such as the NPF, are just that, a framework. The NPF has offered no strong sense of prioritisation and it appears to have had little - if any - significant impact on outcomes related to poverty and inequality. If we are to ‘build back better’, we must do better. If we do not, this article could effectively become a cut-and-past exercise at the onset of the next recession with many lives harmed as a result.

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