

# The Personal, Social and Economic costs of Social Exclusion in Scotland

Dr Roger Cook



'We look to  
Scotland for all our  
ideas of civilisation.'

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Voltaire



## Introduction from the Executive Chairman



The Scotland Institute is pleased to offer a second report in our commitment to exploring innovative solutions to Scotland's immediate problems. At a time when change is being discussed at all levels, it is important to think long term as well as basing policy on short term expediency if the problems of poverty, urban and rural deprivation and marginalization are to be effectively addressed.

The Personal, Social and Economic costs of Social Exclusion in Scotland follows our first report Social Exclusion in Scotland and details the costs and consequences of social inequality. When read in conjunction they illuminate current policies and suggest dynamic approaches to some of the challenges being faced by Scotland today. The second report, authored again by Dr Roger Cook, makes the point that social inequality has costs and consequences. The exclusion from opportunity of certain groups in a community affects not just the individuals who live in poverty, but also the wider community, socially and economically.

A traditional government response has been that the role of the state is to ensure work opportunities, arguing that those who work hard enough will escape poverty and those who do not are responsible for their own poverty. Related to this is the argument that the entry into work, regardless of the wages, security or career development on offer, is all that is needed to end social exclusion. However, policy makers seem to be ignoring the evidence that some 18% of Scots who are in paid employment are also categorised as living in poverty.

Low-paid work is obviously not the complete answer and policy makers should be addressing decent wages, changes in taxation and the use of social welfare to ensure an end to "in-work poverty".

The costs to the nation of extra expenditures on general and mental health care and unemployment subsidies drain from the nation resources that could be better spent on education, better housing and public goods such as parks, libraries and public transport.

The report confirms that it is not possible to isolate society as a whole from the problems that arise if social exclusion is not addressed and is welcomed as an additional analysis in the Scotland Institute's ongoing commitment to research into the social policy regarding Scotland's marginalized communities.

**Dr Azeem Ibrahim**  
Executive Chairman

## Foreword

By Martin Crewe, Director: Barnardo's Scotland



We need to challenge and break cycles of inequality and social exclusion. No child should be set onto a pre-determined path to poverty and the dire consequences that can come with it simply because of their parentage.

Many of the children and young people we work with are from areas of high deprivation and low income. Children born into poverty by virtue of their geography, ethnicity, disability or their parentage often spend their lives in a state of social exclusion with limited chances of escape. It is well known that those from the poorest backgrounds have the poorest health, the lowest life expectancy, are more likely to be touched by crime and the criminal justice system, and have the least chance of entering higher education or securing sustained employment.

Families are already under growing pressure as a result of the economic crisis and household debt is increasing, pushing more families into poverty. With the shadow of welfare reform looming there may be many more affected over the coming years.

On top of this Scotland is currently facing the prospect of losing an entire generation of young people to life-long unemployment as the number of 18-24 year olds unemployed continues to grow. This can be seen in the numbers of young people on jobseekers allowance for more than 12 months. Currently over 7,000 18-24 year olds have been claiming for more than 12 months a figure that has more than trebled in the last two years, and risen from just over 300 in four years.

The consequences of losing a generation to life-long unemployment are both economically dangerous and morally wrong.

Barnardo's Scotland understands that the fastest route out of poverty is not just employment, but employment that pays and we support the idea of a 'living wage'.

However, a 'living wage' cannot just be backed or delivered by those who believe it is the right thing to do. There needs to be leadership from the Scottish Government and Local Authorities and not just through the employment they offer but the contracts they enter into. Government and Local Authority procurement must ensure that all staff employed to deliver a service on their behalf must be paid at a living wage.

Poverty doesn't just cost the people and families who are affected directly, it has a wider impact on society and ultimately costs us all. Even if we don't all feel the despair of poverty, face the resulting crime or suffer the impact on our health, we all pay for it as the cost to the NHS and the Government is reflected in our tax bills.

Tackling inequality should be at the heart of any plan for economic recovery as freeing people from the shackles of poverty and social exclusion will help create a healthier, safer and fairer society that will benefit us all in the short and long term.

We welcome the publication of this report, which highlights not just the personal costs of poverty, but the societal ones. It poses challenges to the Government in Scotland and the UK, which must be addressed if these cycles are to be broken.

## About the Author

Dr Roger Cook is the Research Director at The Scotland Institute. He has a long history of research and analysis of issues connected with Social Exclusion including recruitment and success in Higher Education, mental health issues for teenagers and young adults and comparisons between various social welfare systems across Europe.

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This paper summarises the costs of poverty and social exclusion in three ways: the costs that are borne by individuals who are poor; the social costs that then fall on society, and the economic consequences of social exclusion.

The UK is now one of the most unequal societies in the OECD<sup>1</sup>; increasingly people are being locked into the income group of their parents. For the poorest this leads to grave imbalances even at birth in terms of infant mortality and low birth weight. These disadvantages quickly build up across schooling leading to educational outcomes that are very closely related to parental income. There is no evidence this is due to a lack of care by their parents or lack of concern for their children's progress<sup>2</sup> but that instead it is linked to economic deprivation often worsened by the concentration of poverty in particular districts<sup>3</sup>.

However, the costs of poverty are also borne by the rest of society. The linkage between inequality and health has been understood since the late 1970s<sup>4</sup> with this merely being confirmed by the frequent follow up reports such as by Wanless and Marmot<sup>5</sup>. In effect, poverty is one of the factors that is driving the steady increase in health costs. Equally, poverty is closely related to entry into crime<sup>6</sup> with costs both for those involved and their victims.

Finally, problems that have resulted from growing inequality sit at the heart of the current economic crisis<sup>7</sup>. Household debt grew as families sought to maintain a standard of living based on credit as real wages have fallen<sup>8</sup> and even the Government's own Office for Budget Responsibility has started to indicate that stagnant and falling incomes are a barrier to economic recovery<sup>9</sup>. Forty years of deliberately re-organising the labour market to ensure growing income inequality has created the conditions in which the UK economy is now locked into low demand and thus low output. In this respect, the concept of the living wage becomes even more relevant<sup>10</sup> as one way to create the demand that would in turn create new jobs is to improve the wages of the 'working poor'.

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1 OECD 2008. *Growing Unequal? Income Distribution and Poverty in OECD Countries*. Geneva: OECD, OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD.

2 Blanden, J. & Gibbons, S. 2006. *The persistence of poverty across generations: A view from two British cohorts*. York: Joseph Rowntree Foundation.

3 Biggart, A., Dobbie, F., Furlong, A., Given, L. & Jones, L. 2005. *Scotland's Young People: Findings from the Scottish School Leavers Survey*. Edinburgh: The Scottish Government.

4 Department of Health and Social Security 1980. *The Black Report: Inequalities in Health*.

5 The Marmot Report. 2010. *Strategic Review of Health Inequalities in England post 2010* [Online]. London: Fair Society, Healthy Lives. Available: <http://www.marmotreview.org/> [Accessed 15 November 2010], Wanless, D. 2002. *Securing Our Future Health: Taking A Long-Term View - The Wanless Review*. London: HM Treasury.

6 Prince's Trust 2007. *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*. London: Centre for Economic Performance.

7 Barba, A. & Pivetti, M. 2009. Rising household debt: Its causes and macroeconomic implications - A long-period analysis. *Cambridge Journal of Economics*, 33, 113-137.

8 Department of Work and Pensions. 2012b. *Households below average Income* [Online]. London: Department for Work and Pensions. Available: [http://statistics.dwp.gov.uk/asd/index.php?page=hbai\\_arc](http://statistics.dwp.gov.uk/asd/index.php?page=hbai_arc) [Accessed 30 August 2012].

9 Parker, G. & Pimmiot, D. 2011. *Osbourne defends budget as MPs hear of Oil Risks* [Online]. London: Financial Times. Available: <http://www.ft.com/cms/its-official-falling-real-wages-are-bad-for-the-economy> [Accessed 30 August 2012].

10 Scottish Living Wage Campaign 2011. *Submission from Scottish Living Wage Campaign*. SLWC.

In combination this relates to the question of independence in Scotland in several ways. The core issue is whether the UK as a whole, or Scotland in particular, is prepared to face up to the real costs of addressing these problems<sup>11</sup>. In either case, it cannot be dealt with by simply adding in some elements of redistribution or using tax credits to partially compensate for low wages. As discussed in an earlier Scotland Institute report<sup>12</sup>, there is a case to argue that the Scottish Government (both Labour and SNP) has used its devolved powers wisely over the last 15 years to offset some of these problems. However, what is clear is that the fundamental problem has not just persisted but has worsened, and will continue to do so as the combination of the recession and the Coalition Government's version of austerity come to affect more and more people.

One problem is that for over thirty years, the welfare debate in the UK has been increasingly narrowly framed in terms of the costs of social security transfers. As this paper makes clear, the real cost of poverty is not just the payments needed to alleviate it but the economic consequences that affect our entire economy. A more equal society is good for us all, in social and moral terms, but also in terms of economic performance. Framed in those terms, the debate becomes less about the costs of remedial actions and more about the costs of inactivity.

So far Scottish Governments (and again this includes both Labour- and SNP-led administrations) have concentrated on policies to offset or minimise the consequences of social exclusion. In part this has reflected the limited range of powers granted to the devolved administration but it also reflects the difficulty in investing in policies that prevent social exclusion rather than paying to address the consequences. However, addressing social exclusion means creating an economic and legal system that is designed to achieve this goal. If Scotland opts for independence, but leaves key issues such as monetary policy to Westminster (ie it retains sterling) it is implausible to see how the necessary policies can be developed. If so, i.e. Scotland could be well advised to seek greater devolution (so that specifically Scottish policies can be developed for Scottish problems) but equally to ensure that it retains a degree of influence over the Westminster policy process.

Actually estimating the cost of social exclusion is exceptionally difficult<sup>13</sup>. Some of the costs are direct (benefit payments), some can be estimated with a degree of confidence (some of the health consequences, loss of lifetime income) and some only by making assumptions (how much of the cost of the criminal justice system can be seen as a product of social exclusion). In consequence most of the systemic approaches that attempt to estimate the costs tend to look purely at the costs for young people.

In this respect, a useful report for the Prince's Trust by the London School of Economics<sup>14</sup> concentrated purely on the costs in terms of benefits, lost income and crime. For 2006, when youth unemployment in Scotland was just over 10% (as opposed to over 20% today<sup>15</sup>), these costs were respectively £1.9m (benefits), £2.1m (lost wages) and £120k (crime) per week. At the current rate of unemployment that suggests a weekly cost of well over £8m and that for young people alone. This ignores the long term health consequences. A recent Scottish Government report<sup>16</sup> indicated that the extra social care and health costs for young people due to income

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11 Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation, OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD, Parekh, A., Kenway, P. & MacInnes, T. 2010. Monitoring poverty and social exclusion in Scotland 2010 York: Joseph Rowntree Foundation.

12 Cook, R. 2012. Social Exclusion in Scotland. Glasgow: Scotland Institute.

13 Social Exclusion Unit 2001. Preventing Social Exclusion. London: Cabinet Office.

14 Prince's Trust 2007. The Cost of Exclusion: Counting the cost of youth disadvantage in the UK. London: Centre for Economic Performance.

15 Scottish Government 2012a. Labour Market Monthly Briefing - July 2012. Edinburgh: Scottish Government.

16 Hirsch, D. 2008. Estimating the Cost of Child Poverty in Scotland – Approaches and Evidence. Edinburgh: Scottish Government.



deprivation was almost £572m per annum across Scotland.

The same report<sup>17</sup> argues that the costs of a single cohort failing to make the transition from education to work is £190m per annum in the short term rising to £1bn as the compound consequences (low or intermittent wages, benefits, crime and health) are taken into account in the following 10 years.

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<sup>17</sup> Ibid, Scottish Government 2012b. Scotland's Youth Employment Strategy. Edinburgh: Scottish Government.

This report develops the core theme in our earlier publication: *Social Exclusion in Scotland*<sup>18</sup> that social exclusion has consequences beyond lack of income or opportunities for the poorest. The post-1945 welfare state<sup>19</sup> was built on the twin principles of eliminating unemployment via economic management<sup>20</sup> and eliminating poverty through welfare transfers and the construction of public goods that could be accessed by all<sup>21</sup>. To some extent it can be argued that since 1945 there has been a consistent narrative that work is the best solution to poverty and that it is the role of the state to provide work opportunities<sup>22</sup>. However, the practical implementation of this policy has shifted radically. State support is now seen as ensuring that individuals are prepared for work<sup>23</sup> allied to use the compulsion to ensure they take up such opportunities<sup>24</sup>. Equally, this has seen the development of a mindset, and internally self-referential argument<sup>25</sup>, that the only reason for the persistence of poverty and social exclusion is either lack of commitment or choice of lifestyle.

In consequence, the group that remains excluded has come to be seen as separate to wider society<sup>26</sup>, largely responsible for their own problems, and that, in turn, the problem of poverty has no serious implications for the rest of society. However, this report argues that social exclusion has three main consequences that affect not only individuals trapped in poverty but the whole of society:

1. Those that affect the individuals who live in poverty;
2. The social consequences for us all that result from the existence of poverty;
3. The economic consequences of income inequality

It was the Victorians who first realised that the diseases which were rife among the poor had the disturbing habit of affecting all members of society<sup>27</sup>. This led to a massive investment in public health infrastructure such as sewers and clean water. In effect, then, as now, it is not possible to isolate society as a whole from the problems that arise if social exclusion is not addressed. Not least, as argued later, one of the main reasons for the economic slump, and the weak recovery, is a lack of demand and this can be traced to the problem of both unemployment and underemployment depressing the income of most families in Scotland<sup>28</sup>.

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18 Cook, R. 2012. *Social Exclusion in Scotland*. Glasgow: Scotland Institute.

19 Abel-Smith, B. 1992. The Beveridge Report: Its origins and outcomes. *International Social Security Review*, **45**, 5-16.

20 Hennessy, P. 1992. *Never Again: Britain 1945-1951*, London, Penguin.

21 Crosland, A. 1956. *The Future of Socialism*, London, Robinson Publishing.

22 Hutton, W. 1999. New Keynesianism and New Labour. *The Political Quarterly*, **70**, 97-102.

23 Joyce, R. 2012. *Households with children to lose most from tax and benefit changes in coming year* [Online]. London: IFS. Available: [http://www.ifs.org.uk/pr/taxben\\_080312.pdf](http://www.ifs.org.uk/pr/taxben_080312.pdf) [Accessed 6 April 2012].

24 Department of Work and Pensions. 2008. *Ready for work: full employment in our generation* [Online]. DWP. Available: <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/ready-for-work/> [Accessed 15 November 2010], Department of Work and Pensions. 2012a. *Get Britain Working* [Online]. London: Department of Work and Pensions. Available: <http://www.dwp.gov.uk/policy/welfare-reform/get-britain-working/> [Accessed 21 August 2012], Page, R. M. 2007. Without a Song in their Heart: New Labour, the Welfare State and the Retreat from Democratic Socialism. *Journal of Social Policy*, **36**, 19-37.

25 Slater, T. 2011. The Myth of 'Broken Britain': Welfare Reform and the Cultural Production of Ignorance. Edinburgh: Edinburgh University Institute of Geography.

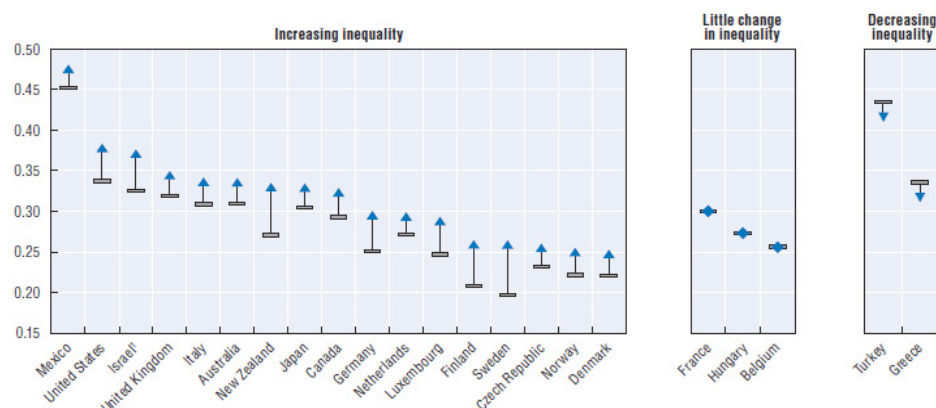
26 Mooney, G. 2009. The 'Broken Society' Election: Class Hatred and the Politics of Poverty and Place in Glasgow East. *Social Policy and Society*, **8**, 437-450.

27 Hobsbawm, E. 1987. *The Age of Empire 1875-1914*, London, Sphere Books, Mathias, P. 1969. *The First Industrial Nation*, London, Methuen.

28 Barba, A. & Pivetti, M. 2009. Rising household debt: Its causes and macroeconomic implications - A long-period analysis.

The trend towards growing social inequality predates the most recent economic crisis and has been a feature across the OECD for the last 30 years:

Figure 2:1: Change in the Gini Coefficients 1985-2005<sup>29</sup>



To some this is an inevitable, possibly even desirable, outcome as it reflects a dynamic free market economy. However, even the OECD is now arguing the growth in inequality is neither inevitable nor desirable<sup>30</sup>. In particular they have indicated that how the labour market is regulated has a substantial impact in the degree of equity in a society<sup>31</sup> and that proper labour market regulation can offset the potentially adverse consequences of globalisation (ie the potential transfer of work to less well paid locations) and migration (ie the increase in the labour force as individuals move in the search for work)<sup>32</sup>. In effect, if the labour market is properly regulated, and workers have real protection, then neither the consequences of work being transferred, nor of immigration have an adverse effect on incomes.<sup>33</sup>

Even in a globalised economy, there are a variety of policy measures that can be used to reduce inequality. The OECD stresses the importance of decent wages, of redistributive taxation and the use of social welfare payments of contributing to this goal. However, in addition, freely available 'public goods' are a critical means to offset the immediate consequences of inequality<sup>34</sup>. In effect, such universal provision helps to reduce the consequences of inequality both for those directly affected and wider society. If figure 2:1 is reworked to include the income gains from such public goods, a slightly different story emerges:

Cambridge Journal of Economics, 33, 113-137, Harvey, D. 2010. The Enigma of Capital and the Crisis this Time. *American Sociological Association*. Atlanta, Johnson, S. 19 January 2011. Did the Poor Cause the Crisis? . *Project Syndicate* [Online]. Available from: <http://www.project-syndicate.org/commentary/did-the-poor-cause-the-crisis-> [Accessed 23 August 2012], Treck, T. v. 2012. Did inequality cause the U.S. financial crisis? Düsseldorf: Macroeconomic Policy Institute (IMK).

29 OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD., p. 24

30 OECD 2008. Growing Unequal? Income Distribution and Poverty in OECD Countries. Geneva: OECD, OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD.

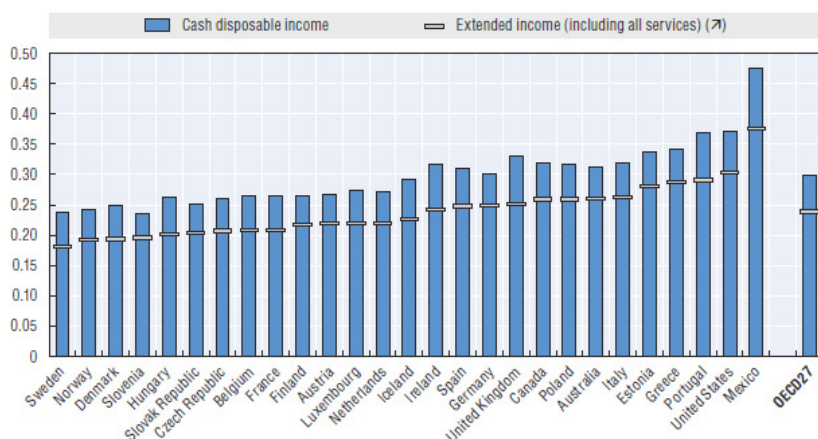
31 OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD.

32 Freeman, R. 2009. Globalization and Inequality. In: Salverda, W., Nolan, B. & Smeeding, T. (eds.) *Oxford Handbook of Economic Inequality*. Oxford: Oxford University Press, Scheve, K. F. & Slaughter, M. J. 2007. A New Deal for Globalization. *Foreign Affairs*, 86, 34-47.

33 Freeman, R. 2009. Globalization and Inequality. In: Salverda, W., Nolan, B. & Smeeding, T. (eds.) *Oxford Handbook of Economic Inequality*. Oxford: Oxford University Press.

34 OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD.

Figure 2:2: Gini Coefficients, taking into account Public Goods<sup>35</sup>



This still shows considerable levels of social inequality but the difference is at its worst in those countries that either struggle to invest in social goods (Italy, Greece, Portugal and Mexico) or opt not to do so (the US). The UK was in 2008 one of the regimes where public goods had the greatest impact on offsetting the effect of wage inequality and reduced social transfers. However, since 2010, in particular, the Westminster Coalition Government's austerity budget has deliberately set out to diminish this critical safety net.

Social goods represent a range of things. They can include pleasant green parkland that can be enjoyed by all<sup>36</sup> or clean well-maintained pavements. They include free primary and secondary education and subsidised tertiary education, as well as the provision of health services. As such, they are separate to welfare transfers that are designed to either compensate individuals (disability, unemployment, or pensions) or to offset other aspects of income inequality (free school meals, free social care provision for some of the elderly).

This report concentrates on the consequences of steadily increasing inequality and is intended to be read in conjunction with an earlier Scotland Institute<sup>37</sup> report: *Social Exclusion in Scotland*<sup>38</sup> and as such, the details on the extent of the problem are not repeated here. The focus in this report is on the consequences and costs (to us all) of social exclusion.

35 Ibid., p.37

36 Faber Taylor, A., Wiley, A., Kuo, F. E. & Sullivan, W. C. 1998. Growing up in the inner city: Green spaces as places to grow. *Environment & Behavior*, 30, 3-27.

37 The Scotland Institute. 2012. *Home Page* [Online]. Glasgow. Available: <http://www.scotlandinstitute.com/> [Accessed 1 July 2012].

38 Cook, R. 2012. *Social Exclusion in Scotland*. Glasgow: Scotland Institute.



### 3.1 Introduction

Report after report notes that the UK has become an increasingly unequal society and is now the OECD state with the lowest social mobility<sup>39</sup> and, in the UK as a whole, you are likely to remain in the same income decile as your parents. This situation is only marginally better in Scotland<sup>40</sup>. The circumstances of birth determine not just our future likely income but related issues such as health, education and the extent that we can lead a life with reasonable access to material goods<sup>41</sup>.

However, as with the data discussed in section 4 (social costs) there is a need for some caution in reading any data around the effect of poverty and indicators such as health. In particular there is a critical distinction between factors being correlated (ie you find one when you see evidence of another) and causal (ie one factor leads, directly or indirectly, to the other). Muddying these concepts has unfortunately been common on both sides of the debate about the actual effects of social exclusion<sup>42</sup>.

For example, any discussion of the impact of poor quality housing on mental health immediately encounters this problem. There is ample evidence that those who have suffered sustained mental health problems tend to live in poorer quality housing<sup>43</sup>. However, what is much less clear is whether poor quality neighbourhoods cause mental health problems or are a consequence of earlier problems<sup>44</sup>. Mental health problems unfortunately often lead to consequences such as family break up, intermittent employment, homelessness<sup>45</sup> and involvement with criminality<sup>46</sup>. In turn, these tend to ensure that individuals need to look for the cheapest and lowest cost housing available. On the other hand, there is equally evidence that the stresses from poor quality housing (noise, loss of privacy, damp, lack of social goods<sup>47</sup>) can in turn either worsen or trigger existing mental health problems. In effect there is a correlation between mental health and poor areas, but it is not immediately clear what the causal relationship is.

A second general issue is that many measures of poverty rely on average levels of deprivation within a given area, not the characteristics of the individuals. This can be very useful as the extent that different types of deprivation combine is a useful measure.<sup>48</sup> However, the important factor

39 OECD 2008. *Growing Unequal? Income Distribution and Poverty in OECD Countries*. Geneva: OECD, OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD, Crawford, C., Johnson, P., Machin, S. & Vignoles, A. 2011. *Social Mobility: A Literature Review*. London: Department for Business, Innovation and Skills.

40 Parekh, A., Kenway, P. & MacInnes, T. 2010. *Monitoring poverty and social exclusion in Scotland 2010* York: Joseph Rowntree Foundation.

41 Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Noel Smith, Cusworth, L. & Williams, J. 2008. *A minimum income standard for Britain: What people think*. Joseph Rowntree Foundation.

42 Bartholomew, J. 2006. *The Welfare State We're In*, London, Politico Press, Wilkinson, R. & Pickett, K. 2010. *The Spirit Level: Why More Equal Societies Almost Always Do Better*, London, Penguin, Saunders, P. 2010. *Beware False Prophets: Equality, the Good Society and The Spirit Level*. London: Policy Exchange.

43 Clark, C., Myron, R., Stansfeld, S. A. & Candy, B. 2007. A systematic review of the evidence on the effect of the built and physical environment on mental health. *Journal of Public Mental Health*, **6**, 14-27.

44 Payne, S. 2006. Mental Health, Poverty and Social Exclusion. In: Pantazis, C., Gordon, D. & Levitas, R. (eds.) *Poverty and social exclusion in Britain: the millennium survey*. Bristol: Policy Press.

45 Scottish Government 2008. *Mental Health In Scotland: A Guide to delivering evidence-based Psychological Therapies in Scotland (The Matrix)*. Edinburgh.

46 Mullen, P. E. 2001. *Mental Health and Criminal Justice: A review of the relationships between mental disorders and offending behaviours*. Victoria, Aus: Criminology Research Council, Lord Bradley 2009. *Review of people with mental health problems or learning disabilities in the criminal justice system*. Department of Health.

47 Mind. 2010. *Mental health and the environment* [Online]. Mind. Available: [http://www.mind.org.uk/help/ecominds/ecominds/mental\\_health\\_and\\_the\\_environment](http://www.mind.org.uk/help/ecominds/ecominds/mental_health_and_the_environment) [Accessed 30 December 2011].

48 Cappellari, L. & Jenkins, S. P. 2007. Summarising Multiple Deprivation Indicators. In: Jenkins, S. & Micklewright, J. (eds.) *Inequality and Poverty Re-examined*. Oxford: Oxford University Press.

to bear in mind is that such an approach also masks a degree of difference between individuals. Even in the poorest areas of Scotland, not everyone is materially deprived<sup>49</sup>.

### 3.2 The consequences of birth

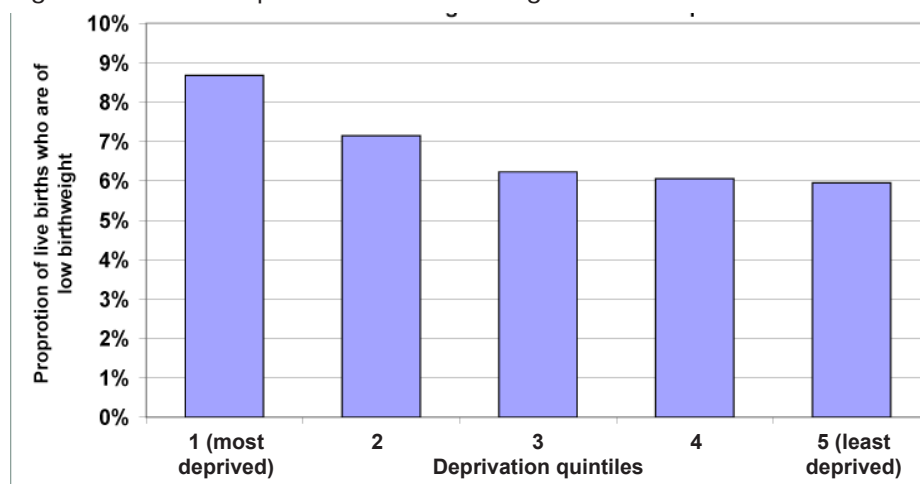
Again, the considerable evidence for the linkages between poverty and education and health has been covered in an earlier Scotland Institute Report<sup>50</sup>. The focus here is on several indicators that show how the circumstances of birth affect our life chances from an early age. Birth weight, for example, is often used as an indicator of poverty as low birth weights are usually associated with quality of parental diet and the wider environment<sup>51</sup>. In effect, maternal deprivation during, and before, pregnancy is a major cause of low birth weight. Scottish data to March 2010 shows the impact of deprivation on birth weight as:

Table 3-1: Birth Weight and Deprivation<sup>52</sup>

Live births	Total	Relative level of Deprivation				
		1 - Most Deprived	2	3	4	5 - Least Deprived
All weights	58051	25.72	21.13	18.96	17.94	15.74
Under 1500	570	30.88	24.21	14.74	16.14	13.68
1500 - 2499	3298	31.41	22.38	17.31	15.65	12.64
2500 +	54128	25.32	21.02	19.1	18.1	15.95

This can be shown graphically as:

Figure 3:3: Social Deprivation and Birth Weight<sup>53</sup>



49 Townsend, P. 1987. Deprivation. *Journal of Social Policy*, **16**, 125-146.

50 Cook, R. 2012. Social Exclusion in Scotland. Glasgow: Scotland Institute.

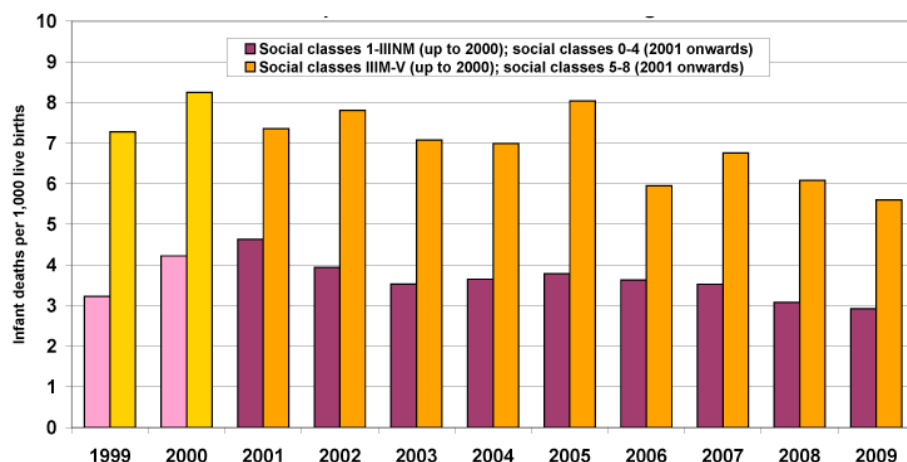
51 Fairley, L., Dundas, R. & Leyland, A. 2011. The influence of both individual and area based socioeconomic status on temporal trends in Caesarean sections in Scotland 1980-2000. *BMC Public Health*, **11**, 1-10.

52 ISD Scotland. 2010a. *Births in Scottish Hospitals* [Online]. Edinburgh: NHS Scotland. Available: <http://www.isdscotland.org/Health-Topics/Maternity-and-Births/Births/> [Accessed 24 August 2012].

53 ISD Scotland. 2010b. *Live births by birthweight and deprivation* [Online]. NHS Scotland. Available: <http://www.isdscotland.org/Health-Topics/Maternity-and-Births/Births/> [Accessed 24 August 2012].

Just over 25% of the births in Scotland happen to women who live in the most deprived areas (as defined with the SIMD data sets<sup>54</sup>), however across Scotland the 7% of babies described as having a low birth weight<sup>55</sup> (ie 4,000 out of 58,000 live births) are heavily concentrated in the poorest areas<sup>56</sup>. In addition, low birth weight has other consequences and a number of studies indicate that it leads to impaired cognitive and behavioural development<sup>57</sup>. In this respect, it is feasible to claim that social class and overall deprivation have a strong causal impact on the likelihood of a given child being born with low birth weight<sup>58</sup>. Social class does not just influence the possibility of low birth weight, and the related problems. In addition, social class has a direct impact on the probability of infant mortality<sup>59</sup>. For Scotland, the most recent data is:

Figure 3:4: Infant Mortality Rates in first year<sup>60</sup>



In effect, and quite consistently, babies born to working class families are twice as likely to die in their first year of life compared to those who are better off. This differential has been maintained even as the overall mortality rate has reduced and it is a finding that is equally consistent in other international settings<sup>61</sup>.

54 Scottish Government 2009b. Scottish Index of Multiple Deprivation: 2009 Report. Edinburgh.

55 ISD Scotland. 2010b. *Live births by birthweight and deprivation* [Online]. NHS Scotland. Available: <http://www.isdscotland.org/Health-Topics/Maternity-and-Births/Births/> [Accessed 24 August 2012].

56 Ibid.

57 Hack, M., Breslau, N., Aram, D., Weissman, B., Klein, N. & Borawski-Clark, E. 1992. The effect of very low birth weight and social risk on neurocognitive abilities at school age. *Journal of Developments in Behavioural Pediatrics*, **13**, 412-420, Shenkin, S., Starr, J. & Deary, I. 2004. Birth weight and cognitive ability in childhood: a systematic review. *Psychological Bulletin*, **130**, 989-1013.

58 Pattenden, S., Dolk, H. & Vrijheid, M. 1999. Inequalities in low birth weight: parental social class, area deprivation, and "lone mother" status. *Journal of Epidemiology and Community Health*, **53**, 355-358.

59 Weightman, A., Morgan, H. & Shepherd, M. 2012. Social inequality and infant health in the UK: systematic review and meta-analyses. *BMJ Open*, **2**.

60 The Poverty Site. 2011a. *Poverty Indicators, Scotland: Infant deaths* [Online]. The Poverty Site. Available: <http://www.poverty.org.uk/s21/index.shtml> [Accessed 24 August 2012].

61 Ross, N. A., Wolfson, M. C., Dunn, J. R., Berthelot, J.-M., Kaplan, G. A. & Lynch, J. W. 2000. Relation between income inequality and mortality in Canada and in the United States: cross sectional assessment using census data and vital statistics. *BMJ*, **320**, 898-902.

However, the consequences of being born to poorer parents or in one of the poorer districts in Scotland is not just limited to the impact at birth or the first year of life. It affects educational outcomes at key stages as well as the chances of moving from secondary to tertiary education. Thus the likelihood of completing education and exiting with no or few qualifications is highly correlated to parental background<sup>62</sup>, as:

Table 3-2: Highest Qualification at 18 by parental social class<sup>63</sup>

All Respondents	Higher Managerial/ Professional	Lower Managerial/ Professional	Intermediate & Self-employed	Lower Supervisory & Technical	Routine & Semi-routine	Total
	%	%	%	%	%	%
None	1	1	2	2	4	2
Standard Grades	11	23	38	44	53	32
Level 1-2	2	3	4	7	7	5
Highers	84	69	50	39	30	56
Level 3	*	2	4	3	4	3
Level 4-5	2	3	3	5	2	3
Ordinary Degree	0	0	0	0	0	0
Honours/Higher Degree	0	0	0	0	0	0
Bases (weighted)	341	1089	668	460	419	2977
Bases (unweighted)	453	1274	646	395	302	2977

Finally, social class has a strong correlation on what happens when someone completes their formal education:

Figure 3:5: Differential outcomes of Scottish School Leavers<sup>64</sup>



Source: Destination of School Leavers from Scottish Schools, 2008/09, Scottish Executive; updated Dec 2009

Thus those who were in receipt of free school meals are far less likely to progress to further or higher education and less likely to immediately enter employment. As discussed in our earlier report, there is a strong argument to make even greater use of schools to provide a safe environment, in particular with the provision of cheap nutritious meals for all.

62 Biggart, A., Dobbie, F., Furlong, A., Given, L. & Jones, L. 2005. Scotland's Young People: Findings from the Scottish School Leavers Survey. Edinburgh: The Scottish Government.

63 Ibid., p. 41

64 The Poverty Site. 2011b. *Scotland: Destination of School Leavers* [Online]. Available: <http://www.poverty.org.uk/s32a/index.shtml> [Accessed 21 August 2012].



### ■ 3.3 The consequences of where you live

Again, there is a substantial body of evidence that indicates the correlation between poor quality physical environment and a variety of physical and mental health problems<sup>65</sup>. In addition there is evidence that once the incidence of poverty in an area reaches certain levels then wider private and public services (transport, banking, access to nutritious food, safe play spaces) start to be withdrawn<sup>66</sup>. In combination, as discussed in our earlier report<sup>67</sup>, there is a neighbourhood effect to poverty. Someone on low income in an otherwise well off area will have a higher standard of life (and access to cheaper goods) than someone on a low income but in a poor area<sup>68</sup>. Since Scotland, and in particular the West of Scotland, is noted for concentrations of deprivation<sup>69</sup>, then the consequences of social deprivation are worsened. As suggested in figure 2:2, one problem of poor areas is that the offsetting effect of public goods is less than it is in more affluent areas.

The Scottish Index of Multiple Deprivation (SIMD<sup>70</sup>) has been devised to capture the relative deprivation of a given small district on six measures (including health, income, crime, employment, housing and educational outcomes) as well as to combine these measures to give an overall level of relative deprivation. The index measures concentration of deprivation not the status of individuals but can still be used to indicate how closely income deprivation is correlated to employment, and educational outcomes as well as the link between poverty and crime<sup>71</sup>. The result of the methodology is it is possible to prepare a series of charts that indicate the extent that living in poverty is both a consequence of employment and health and leads to further social exclusion.

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65 Chu, A., Thorne, A. & Guite, H. 2004. The impact on mental well-being of the urban and physical environment: an assessment of the evidence. *Journal of Mental Health Promotion*, **3**, 17-32, Clark, C., Myron, R., Stansfeld, S. A. & Candy, B. 2007. A systematic review of the evidence on the effect of the built and physical environment on mental health. *Journal of Public Mental Health*, **6**, 14-27, Lynch, J. W., Smith, G. D., Kaplan, G. A. & House, J. S. 2000. Income inequality and mortality: importance to health of individual income, psychosocial environment, or material conditions. *British Medical Journal*, **320**, 1200-1204, Mind. 2010. *Mental health and the environment* [Online]. Mind. Available: [http://www.mind.org.uk/help/ecominds/ecominds/mental\\_health\\_and\\_the\\_environment](http://www.mind.org.uk/help/ecominds/ecominds/mental_health_and_the_environment) [Accessed 30 December 2011].

66 Spicker, P. 2001. Poor areas and the "Ecological Fallacy". *Radical Statistics*, **76**, 38-49, Wanless, D. 2002. *Securing Our Future Health: Taking A Long-Term View - The Wanless Review*. London: HM Treasury.

67 Cook, R. 2012. *Social Exclusion in Scotland*. Glasgow: Scotland Institute.

68 Stevens, A. H. 1995. *Climbing out of Poverty, Falling Back In: Measuring the Persistence of Poverty over Multiple Spells*. Cambridge MA: NBER.

69 Scottish Government. 2009a. *Inequalities* [Online]. Edinburgh: Scottish Government. Available: <http://www.scotland.gov.uk/About/scotPerforms/outcomes/inequalities> [Accessed 23 April 2012].

70 Scottish Government 2010. *SIMD 2009: Publication of Revised Income Domain and Overall Index - Explanation of Revision and Analysis of Results*. Edinburgh: Scottish Government, Scottish Government. 2012c. *Scottish Index of Multiple Deprivation* [Online]. Edinburgh. Available: <http://www.scotland.gov.uk/Topics/Statistics/SIMD> [Accessed 11 April 2012].

71 Cook, R. 2012. *Social Exclusion in Scotland*. Glasgow: Scotland Institute.

All these tables draw on the 2011 data<sup>72</sup> and show the linkage between respectively the lowest 5%, 10%, 15% and the rest of Scotland in terms of income and the correlation to other indices of deprivation.

Figure 3:6: Linkage between Income deprivation and lack of employment

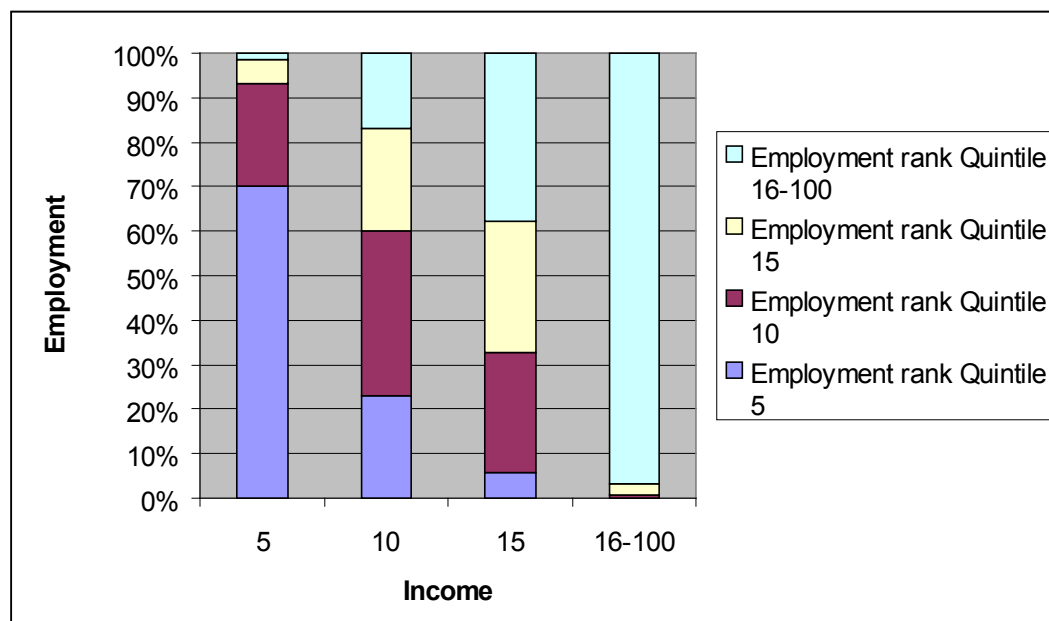
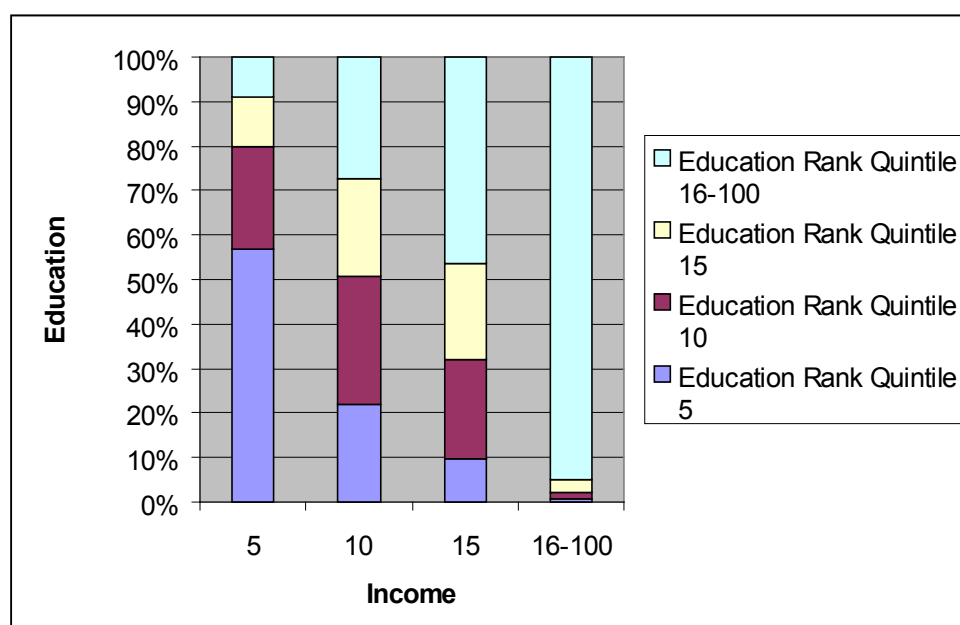


Figure 3-6 shows how closely lack of income is related to lack of employment. In effect, the 5% poorest regions in Scotland (the left hand column) account for almost 70% of the 5% most deprived areas of Scotland in terms of employment.

However, when the same data is compared in terms of educational outcome, although a clear pattern emerges it is less clear cut:

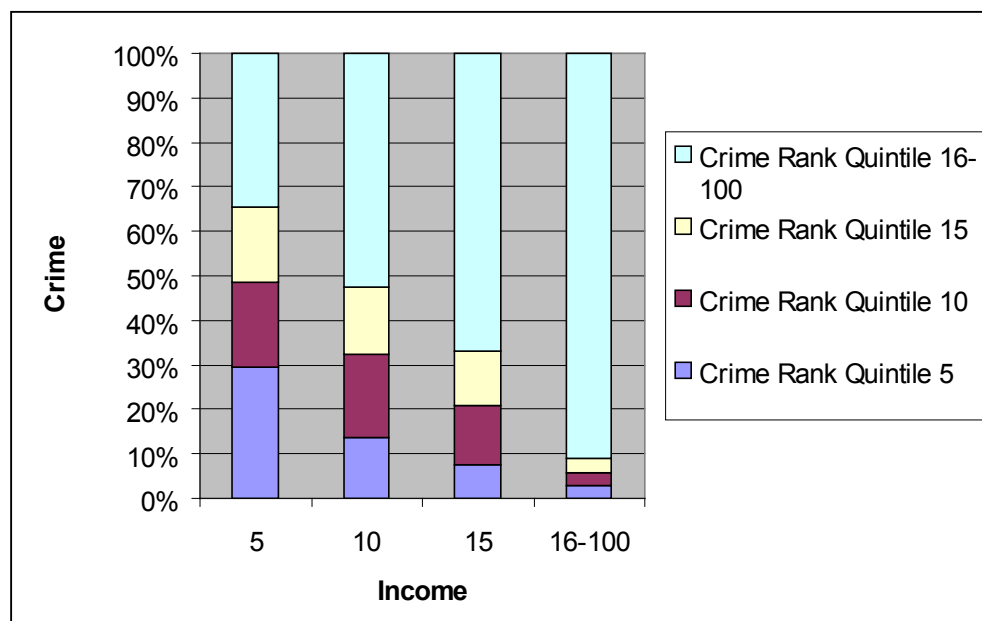
Figure 3:7: Linkage between Income deprivation and Educational Attainment



72 Scottish Government. 2012c. *Scottish Index of Multiple Deprivation* [Online]. Edinburgh. Available: <http://www.scotland.gov.uk/Topics/Statistics/SIMD> [Accessed 11 April 2012].

This indicates that simply gaining qualifications is not enough to overcome the effect indicated in figure 3:7 of area poverty leading to low levels of income. Almost 60% of the districts in Scotland with the lowest educational attainment are also among the 5% poorest regions. The final table shows the overlap between relative poverty and the incidence of crime in the immediate neighbourhood:

Figure 3:8: Income deprivation and levels of crime



This is less clear-cut than the previous two tables but still indicates a strong neighbourhood effect of relative poverty. 30% of the districts in Scotland with the highest reported rates of crime are also the 5% poorest.

The next section looks at the relationship between poverty and health.

### 3.4 The consequences for health

The direct impact of social exclusion and income on health has been clear to British policy makers since the publication (and immediate suppression) of the Black report in 1980<sup>73</sup>. Several reviews since such as by Acheson<sup>74</sup>, Wanless<sup>75</sup> and Marmot<sup>76</sup> have all done little but to revisit the same ground and identify the same problems.

The same SIMD data reported above<sup>77</sup> can be used to compare the impact of lack of income on health outcomes. In this case, over 60% of the areas in Scotland with the lowest health outcomes are also the poorest districts in income terms. On the other hand, less than 5% of the 85% wealthiest districts also have poor quality health outcomes. In effect, as confirmed in report after

73 Department of Health and Social Security 1980. The Black Report: Inequalities in Health.

74 Acheson, D. 1998. Independent inquiry into inequalities in health (the Acheson Report). London: Department of Health.

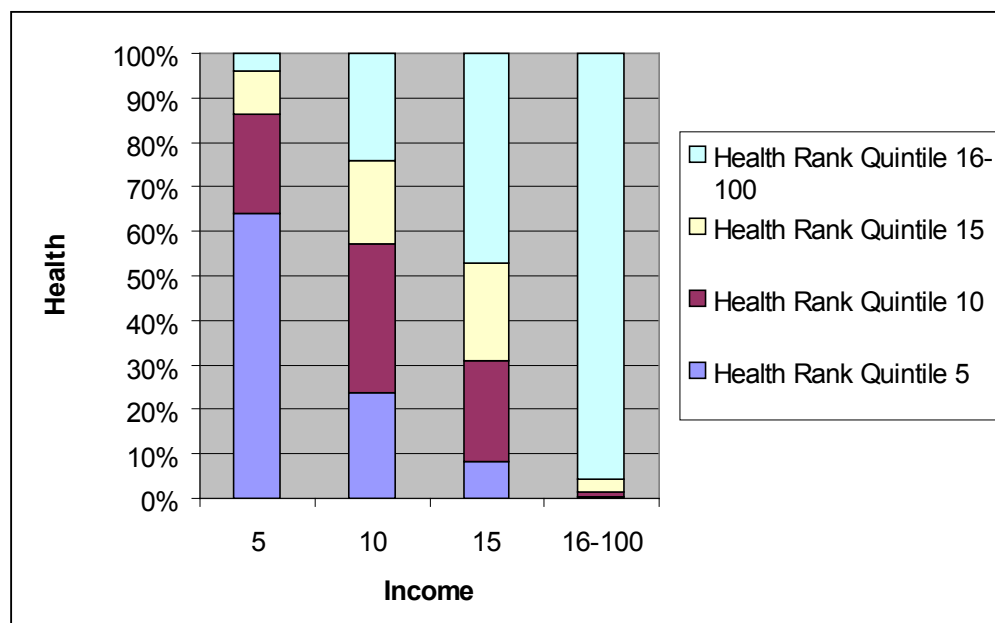
75 Wanless, D. 2002. Securing Our Future Health: Taking A Long-Term View - The Wanless Review. London: HM Treasury.

76 The Marmot Report. 2010. *Strategic Review of Health Inequalities in England post 2010* [Online]. London: Fair Society, Healthy Lives. Available: <http://www.marmotreview.org/> [Accessed 15 November 2010].

77 Scottish Government. 2012c. *Scottish Index of Multiple Deprivation* [Online]. Edinburgh. Available: <http://www.scotland.gov.uk/Topics/Statistics/SIMD> [Accessed 11 April 2012].

report, there is a strong correlation between wealth and health.

Figure 3:9: Linkage between income deprivation and health outcomes



However, a regular problem with using the SIMD is that it mostly does not record the data for individuals but is instead aggregated for the district<sup>78</sup>. Nonetheless figure 3-9 clearly indicates a close correlation between relative income and relative health. The causal process is more complex. Periods of poor health (physical or mental) are related to broken or non-existent engagement with work. In that case it is likely that health problems lead to lack of work. However, especially on a neighbourhood level, a concentration of individuals with low incomes leads to the systemic loss of both private and public services<sup>79</sup>. In health terms, the consequence is a loss of access to nutritious food<sup>80</sup> as well as the impact of a poor quality environment on mental health and wellbeing<sup>81</sup>. This section will only select a few of the many links to indicate the close linkage between poverty and mental health.

In terms of mental health, and in particular, of severe problems such as schizophrenia, there is a clear linkage among young people between income and the first onset of the illness. Figure 3-10 relies on a different definitional system to the SIMD<sup>82</sup> and instead uses the Registrar General<sup>83</sup>'s scale of social classes where 1 is the least deprived and 7 the most deprived. The difference is clear:

78 ISD Scotland 2004. Deprivation and Urban-Rural Measurements in ISD. Edinburgh: NHS Scotland.

79 Spicker, P. 2001. Poor areas and the "Ecological Fallacy". *Radical Statistics*, 76, 38-49.

80 Wanless, D. 2002. Securing Our Future Health: Taking A Long-Term View - The Wanless Review. London: HM Treasury.

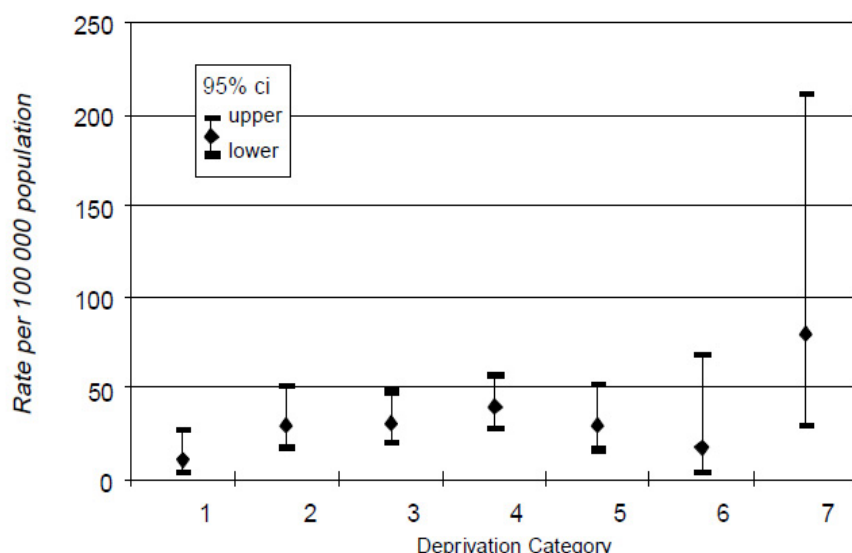
81 Mind. 2010. *Mental health and the environment* [Online]. Mind. Available: [http://www.mind.org.uk/help/ecominds/ecominds/mental\\_health\\_and\\_the\\_environment](http://www.mind.org.uk/help/ecominds/ecominds/mental_health_and_the_environment) [Accessed 30 December 2011], Payne, S. 2006. Mental Health, Poverty and Social Exclusion. In: Pantazis, C., Gordon, D. & Levitas, R. (eds.) *Poverty and social exclusion in Britain: the millennium survey*. Bristol: Policy Press.

82 ISD Scotland 2004. Deprivation and Urban-Rural Measurements in ISD. Edinburgh: NHS Scotland.

83 General Register Office for Scotland. 2012. *HomePage* [Online]. Edinburgh. Available: <http://www.gro-scotland.gov.uk/> [Accessed 1 June 2012].



Figure 3:10: Incidence of Schizophrenia by social class<sup>84</sup>

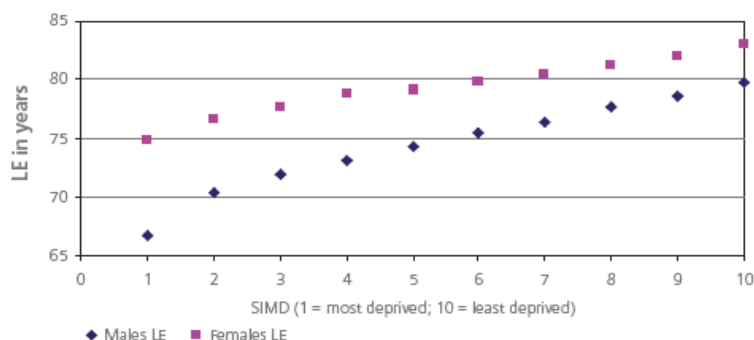


This figure is particularly informative. As discussed earlier the correlation between the incidence of mental health difficulties and relative poverty is strong but the causal process is complex. The causes of schizophrenia are complex but the consensus is there is a combination of biological/genetic factors that mean the illness is latent and behavioural and social factors that trigger the first onset. There is no reason to believe that the latent factors vary according to social class but figure 3-10 strongly indicates that the illness is more likely to be triggered by relative poverty<sup>85</sup>. In addition, 16-21 is the classic age for first onset so the illness does not lead to poverty (as some other forms of mental illness do) so the higher incidence of schizophrenia can be seen as being triggered by poverty.

The best evidence for the cost of schizophrenia is that it affects 0.2% of the population<sup>86</sup> and that in 2005 the costs per individual were around £90,000<sup>87</sup> (£30,000 of direct costs and £60,000 of indirect costs). The higher rate for those in the poorest income category indicates a substantial cost falling on the Scottish economy.

Equally, social background has a clear impact on likely life expectancy. Figure 3-11 uses the SIMD data areas (so 1 is the poorest, 10 represents the most well off areas) and again, the trend is clear:

Figure 3:11: Life Expectancy at Birth: by SIMD area<sup>88</sup>



84 ISD Scotland. 2008. *Deprivation and Health indicators* [Online]. Edinburgh: NHS Scotland. Available: [http://www.show.scot.nhs.uk/publications/isd/deprivation\\_and\\_health/](http://www.show.scot.nhs.uk/publications/isd/deprivation_and_health/) [Accessed 28 August 2012].

85 Roth, A. & Fonagy, P. (eds.) 2006. *What Works for Whom? A Critical Review of Psychotherapy Research*, London: The Guilford Press.

86 Mangalore, R. & Knapp, M. 2007. Cost of schizophrenia in England. *Journal of Mental Health Policy and Economics*, **10**, 23-41.

87 Ibid.

88 Scottish Government 2007. *Equally Well: Report of the Ministerial Task Force on Health Inequalities*. Edinburgh: Scottish Government.

However, this is not just a simple matter of relating income deprivation to poor health outcomes. What has been termed the ‘Glasgow effect’<sup>89</sup> means that on balance population health is worse in the city for all income groups and areas. Several reports have come to rather stark conclusions, not least that “following adjustments for socio-economic circumstances, health in West Central Scotland is significantly worse than elsewhere in Scotland. This was observed for indicators of mortality, physical illness, mental health and lifestyle behaviours associated with health”<sup>90</sup>.

In effect, while the linkage between poor health and low income is clear and many reports have confirmed this as the causal factor<sup>91</sup>, this does not mean that individual lifestyle decisions do not have a bearing. However, as ever, such choices are easier to make when the individual enjoys a reasonable, secure income and lives in a pleasant environment with access to a range of public resources<sup>92</sup>.

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89 Ibid.

90 Ibid., p.25

91 Department of Health and Social Security 1980. *The Black Report: Inequalities in Health*, The Marmot Report. 2010. *Strategic Review of Health Inequalities in England post 2010* [Online]. London: Fair Society, Healthy Lives. Available: <http://www.marmotreview.org/> [Accessed 15 November 2010], Wanless, D. 2002. *Securing Our Future Health: Taking A Long-Term View - The Wanless Review*. London: HM Treasury.

92 Dorling, D. 2010. *Injustice: Why Social Inequality Persists*, London, Policy Press.

Social exclusion and poverty has severe implications for the individuals who live in poverty. Section 3 has very briefly sketched out some of these but they include disadvantages that start at the moment of birth, affect access and attainment in education, lifetime earnings and overall health. However, it also has consequences for the whole of society. Estimating these costs is complex, but an understanding of the linkages is important if public policy in this field is to be properly informed.

A recent OECD<sup>93</sup> report on social exclusion suggests these costs include:

- Slow social mobility, preventing talent being available and rewarded;
- Intergenerational earnings mobility is low in high inequality countries;
- Social resentment;
- Direct costs in terms of the impact on public health.

The European Union has increasingly produced reports that focus on the social, political and economic costs of income inequality<sup>94</sup>.

A number of studies have tried to quantify one or the other of these issues. The Scottish Government has estimated that each cohort of school leavers who fail to make the transition from education to work will cost Scotland £2bn<sup>95</sup>. This cost is made up of welfare benefits that otherwise need to be paid, lost income, the health consequences of low income and the potential costs of those who resort to criminality as an alternative source of funding.

A report by the London School of Economics for the Princes Trust<sup>96</sup> tried to estimate the costs of social exclusion for young people in terms of the costs of unemployment, of criminality and the consequences of educational underachievement. Their main findings include:

1. If the transition to work is not direct, the permanent loss of income compared to their peers is 8-15% (in other words if someone enters unemployment or low grade work after school they will never recover in terms of income)<sup>97</sup>;
2. Across the UK, youth unemployment was estimated as a loss in production of £10 million per day, at a time when youth unemployment was at 10.1% in Scotland (it is now over 20%<sup>98</sup>);

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93 OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD.

94 European Union 2008. *Child Poverty and Well-Being in the EU: Current status and way forward*. European Commission, European Union 2010. *Joint Report on Social Protection and Social Inclusion*. Brussels.

95 Scottish Government 2012b. *Scotland's Youth Employment Strategy*. Edinburgh: Scottish Government.

96 Prince's Trust 2007. *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*. London: Centre for Economic Performance.

97 Gregg, P. 2001. The Impact of Youth Unemployment on Adult Unemployment in the NCDS. *The Economic Journal*, **111**, 626-653.

98 Scottish Government 2012a. *Labour Market Monthly Briefing - July 2012*. Edinburgh: Scottish Government.

3. In 2008, when youth unemployment in Scotland was at 9.1% it was estimated this was costing nearly £2m per week in terms of direct benefit payments alone<sup>99</sup>;

4. Crime committed by young people in Scotland (in 2004) was estimated to cost £92m<sup>100</sup> per annum and once a young person enters the criminal justice system they are unlikely to be able to enter regular employment. In 2010, 900 people under 25 were in prison in Scotland (12% of the total prison population<sup>101</sup>);

5. The impact of the (now abolished) Educational Maintenance Allowance in England was to reduce the costs of burglary by £3,500-£5,000 per 1000 students as they did not resort to crime as an alternative source of income<sup>102</sup>;

6. The UK has a much higher proportion of young people exiting education with no or limited qualifications than is the norm in the rest of the OECD. As identified in figure 3-4, this is overwhelmingly among those from poorer areas. The net effect is to contribute to the 10-25% lower output per hour<sup>103</sup> in the UK compared to European countries such as France and Germany. In Scotland, the estimated cost of those leaving with low or no qualifications was estimated to be £1.2bn in lost wages and £200m in other social costs (again this reflects issues such as entry to crime, poor health etc)<sup>104</sup>.

All these figures are estimates and only deal with the impact on young people. Equally they are partial but start to present a picture of just how expensive social exclusion is.

In turn, as discussed in section 3.4, social exclusion is directly linked to health outcomes. These are mostly evidenced in terms of the cost to the NHS of treating the resulting illnesses<sup>105</sup>. Again analyses are patchy and complex but mental health alone has been estimated to cost the NHS £1.5bn in addition to the estimated £7bn in social and economic costs. Overall, a substantial portion of the burden placed on the NHS can be directly traced to ailments related to poverty (and the resulting problems of poor diet and self-medication with drugs and alcohol).

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99 Prince's Trust 2007. The Cost of Exclusion: Counting the cost of youth disadvantage in the UK. London: Centre for Economic Performance.

100 Ibid.

101 Aebi, M. F. & Delgrande, N. 2012. Annual Penal Statistics. Strasbourg: Council of Europe.

102 Prince's Trust 2007. The Cost of Exclusion: Counting the cost of youth disadvantage in the UK. London: Centre for Economic Performance.

103 Taylor, M., Haux, T. & Pudney, S. 2012. Can Improving UK Skills Levels reduce Poverty and Income Inequality by 2020. Joseph Rowntree Foundation.

104 Prince's Trust 2007. The Cost of Exclusion: Counting the cost of youth disadvantage in the UK. London: Centre for Economic Performance.

105 Scottish Government 2007. Equally Well: Report of the Ministerial Task Force on Health Inequalities. Edinburgh: Scottish Government.



Some of the economic costs of social exclusion are partly borne by the poor and partly by wider society (as discussed above). Social exclusion condemns a substantial portion of Scotland's population to a life where their income is below their reasonable expectations<sup>106</sup>. A relatively recent US report estimates that childhood poverty has the net effect of reducing GDP by 4%<sup>107</sup> when the direct and consequential costs are taken into account. However, social exclusion has consequences that go beyond merely creating and sustaining poverty and challenges the rationale behind the current economic crisis.

The preferred narrative of the Coalition Government, shared to a large extent with New Labour, is that this is a crisis of debt. There is some truth in this, in that personal debt was used to substitute for the relative fall in real incomes that have occurred for most people since the early 1980s<sup>108</sup>. Equally state debt is the result of an unwillingness to maintain fair and equitable levels of taxation or to ensure that corporations and the wealthy pay the taxes due. However, this masks the real problem, which is a lack of effective demand. In that context, social inequality has a direct causal link to the current crisis and is a major barrier to any attempt to find a solution<sup>109</sup>.

The growth in inequality from the early 1980s<sup>110</sup> initially produced a reliance on debt (and the reduction of savings) rather than be able to use income to fund consumption. The OECD has noted that income inequality due to stagnant wages in the UK increased by 20% from 1985 to 2005<sup>111</sup>. Most people have realistic, even modest<sup>112</sup> assessments of their needs, but for a period from deregulation of finance in the mid-1980s<sup>113</sup> to the start of the recent slump it was too easy to rely on credit to supply what income could not. Thus in the US and the UK:

“the political response to rising inequality ... was to expand lending to households, especially low-income ones. The benefits – growing consumption and more jobs – were immediate, whereas paying the inevitable bill could be postponed into the future<sup>114</sup>”.

In reality, inequality has influenced the financial crisis in various ways. It is not just the substitution of credit for income to pay for the basics, it is also the extent that the consumption of the well off (whose income has increased markedly since the early 1980s) has on other groups. Frank and his colleagues<sup>115</sup> argues that expenditure is driven by groups to which we can make reference and in effect such perceived levels of desired demand cascade down from the very wealthy to the well off and so on<sup>116</sup>. In combination with advertising, demand was increased beyond the ability to pay<sup>117</sup>. This is not new and started in the late 1970s as the UK government deliberately turned its back on the concepts of social equality with Margaret Thatcher openly announcing

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106 Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation.

107 Holzer, H. J., Schanzenbach, D. W., Duncan, G. J. & Ludwig, J. 2007. The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor. *Task Force on Poverty*. Washington: Center for American Progress.

108 Murphy, R. 2011. *The Courageous State: Rethinking Economics, Society and the Role of Government*, London, Searching Finance.

109 Treck, T. v. 2012. Did inequality cause the U.S. financial crisis? Düsseldorf: Macroeconomic Policy Institute (IMK).

110 OECD 2008. Growing Unequal? Income Distribution and Poverty in OECD Countries. Geneva: OECD.

111 Rajan, R. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, Princeton University Press.

112 Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation.

113 Hutton, W. 1996. *The State We're In*, London, Vintage.

114 Rajan, R. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, Princeton University Press., p.9

115 Frank, R. H. 1985. The demand for unobservable and other nonpositional goods. *American Economic Review*, 75, 101-116.

116 Levine, A. S., Frank, R. H. & Dijk, O. 2010. Expenditure Cascades. SSRN.

117 Murphy, R. 2011. *The Courageous State: Rethinking Economics, Society and the Role of Government*, London, Searching Finance.

‘there is no such thing as society’. By the late 1980s, it was possible to conclude that “for those in the lower 80 per cent of the income distribution, borrowing is largely a result of the need to maintain living standards in the face of the stagnation in real incomes since the early 1970s and the corresponding rise in real living costs, especially for housing<sup>118</sup>” leading to a conclusion that household debts have risen as inequality has increased<sup>119120</sup>.

The other consequence of inequality has been an increase in working hours (as individuals seek to make up their income by more work) which in turn has an impact on the overall supply of work<sup>121</sup>, especially for those looking to enter the labour market for the first time<sup>122</sup>. As the scope for additional work has been lost in recent years, the impact of inequality on family incomes has become more marked with many of those officially now living in poverty urgently seeking additional working hours<sup>123</sup>.

Some neo-liberal and conservative analysts have confused cause and effect. In their version the poor caused the crisis not due to income inequality but due to their excessive borrowing<sup>124</sup>. It is true that it was supposedly socially concerned regimes such as Clinton in the US and New Labour in the UK that used easy access to credit to offset the effect of neo-liberal policies that reduced real incomes and increased social inequality<sup>125</sup>. However, the narrative proposed by the right is incorrect in two critical forms. First income inequality was not chosen by the less well off as a desired outcome nor was it seen as desirable to have to enter into debt to buy goods and services that had previously been afforded from personal income<sup>126</sup>. Second, even though the Clinton-New Labour Governments fully accepted the argument that deregulated financial markets were axiomatically in the general interest<sup>127</sup>, the pressure to extend financial services to a wider section of the population came from the financial institutions themselves<sup>128</sup>.

In combination, social exclusion lies at the heart of the current economic crisis. The fiscal element, in particular that related to personal indebtedness can be traced to the ability (for a short period) of individuals to substitute financial loans to offset relative declines in real incomes. This reliance on debt was a deliberate policy choice by governments such as New Labour in the

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118 Pollin, R. 1988. The growth of U.S. household debt: Demand-side influences. *Journal of Macroeconomics*, **10**, 231-248., p.1

119 Barba, A. & Pivetti, M. 2009. Rising household debt: Its causes and macroeconomic implications - A long-period analysis. *Cambridge Journal of Economics*, **33**, 113-137.

120 Boushey, H. & Weller, C. E. 2006. Inequality and Household Economic Hardship in the United States of America. New York: United Nations, Department of Economics and Social Affairs.

121 Treck, T. v. 2012. Did inequality cause the U.S. financial crisis? Düsseldorf: Macroeconomic Policy Institute (IMK).

122 European Commission 2012. Study on a comprehensive overview on traineeship arrangements in Member States. Brussels: European Commission.

123 Aldridge, H., Parekh, A., MacInnes, T. & Kenway, P. 2012. Monitoring Poverty and Social Exclusion 2011. Joseph Rowntree Foundation.

124 Thomas, W. & Hennessey, K. 2010. Republican Commissioners on the Financial Crisis Inquiry Commission. Washington: House of Representatives.

125 Deacon, A. 2000. Learning from the US? The influence of American ideas upon ‘new labour’ thinking on welfare reform. *Policy & Politics*, **28**, 5-18, Page, R. M. 2007. Without a Song in their Heart: New Labour, the Welfare State and the Retreat from Democratic Socialism. *Journal of Social Policy*, **36**, 19-37.

126 Nolan, B. & Whelan, C. T. 1996. *Resources, Deprivation, and Poverty*, Oxford, Clarendon Press.

127 Hutton, W. 1996. *The State We’re In*, London, Vintage.

128 Johnson, S. 19 January 2011. Did the Poor Cause the Crisis? . *Project Syndicate* [Online]. Available from: <http://www.project-syndicate.org/commentary/did-the-poor-cause-the-crisis-> [Accessed 23 August 2012].

UK and the Clinton Administration in the US<sup>129</sup>. The consequence now is that households face further declines in their income, due to the decision to reduce social welfare transfers<sup>130</sup> while wages continue to be constrained both in absolute terms and due to the decline of the available number of hours. In addition, many families want to reduce their volume of debt and there is a clear problem caused quite simply by a lack of disposable income and effective demand in the economy<sup>131</sup>. In consequence, the OECD is now linking the problem of recovering from the slump to the need to address the decline in real wages over the last 30 years<sup>132</sup>. In addition, the Government's own Office for Budget Responsibility has linked the squeeze on real wages to the faltering recovery as:

"Mr Nickell, of the independent Office for Budget Responsibility, said that if wages failed to keep pace with inflation, real wages would fall, consumption would decline and growth would be weak. 'That, in some senses, is the worst of all possible worlds,' he told the Commons Treasury committee. 'You have higher inflation and lower growth as a consequence, which means the difficulties facing the [Monetary Policy Committee of the Bank of England] are of a very high order<sup>133</sup>."

Since the start of the recession average earnings have increased by 1.7-1.8% per annum<sup>134</sup> with this minimal growth wiped out by RPI running at 2-4% per annum across the same period. However, in this context, average income is misleading and instead what matters is the impact of declining wages on overall inequality. The Department of Work and Pensions estimates that in 2011, £251 per week constituted 60% of the median wage (ie the poverty threshold) with the resulting income distributions as:

Table 5-3: Income Inequality in the UK, 2011<sup>135</sup>

£pw equivalised 2010/11 prices								
	Mean	Median	60% median	Bottom quintile	Second quintile	Middle quintile	Fourth quintile	Top quintile
<b>Before Housing Costs</b>								
Couple with no children								
(equivalised income benchmark)	511	419	251	< 272	272 - 365	366 - 480	481 - 654	655 +
Single with no children	342	281	168	< 182	182 - 245	246 - 321	322 - 438	439 +
Couple with two children aged 5 and 14	782	641	384	< 415	415 - 559	560 - 734	735 - 1,000	1,001 +
Single with two children aged 5 and 14	613	502	301	< 326	326 - 439	440 - 576	577 - 784	785 +

129 Treck, T. v. 2012. Did inequality cause the U.S. financial crisis? Düsseldorf: Macroeconomic Policy Institute (IMK).

130 Joyce, R. 2012. *Households with children to lose most from tax and benefit changes in coming year* [Online]. London: IFS. Available: [http://www.ifs.org.uk/pr/taxben\\_080312.pdf](http://www.ifs.org.uk/pr/taxben_080312.pdf) [Accessed 6 April 2012].

131 Harvey, D. 2010. The Enigma of Capital and the Crisis this Time. *American Sociological Association*. Atlanta.

132 OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD.

133 Parker, G. & Pimmiot, D. 2011. *Osbourne defends budget as MPs hear of Oil Risks* [Online]. London: Financial Times. Available: <http://www.ft.com/cms/its-official-falling-real-wages-are-bad-for-the-economy> [Accessed 30 August 2012].

134 ONS 2012a. Labour Market Statistics: August 2012. London: Office for National Statistics.

135 Department of Work and Pensions. 2012b. *Households below average Income* [Online]. London: Department for Work and Pensions. Available: [http://statistics.dwp.gov.uk/asd/index.php?page=hbai\\_arc](http://statistics.dwp.gov.uk/asd/index.php?page=hbai_arc) [Accessed 30 August 2012].

However, this is not a recent trend, as the incomes of the poorest 20% have declined steadily since 1994:

Table 5-4: Income shares 1994-2011

	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
<b>Quintile shares of total income (%)</b>																	
Bottom 20% of the income distribution	8	8	8	7	7	7	7	7	7	7	8	7	7	7	7	7	8
Second quintile	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Middle quintile	17	17	17	17	16	16	16	16	16	17	16	16	16	16	16	16	16
Fourth quintile	23	23	23	22	22	22	22	22	22	22	22	22	22	22	22	21	22
Top 20% of the income distribution	41	41	41	41	42	42	43	42	42	42	42	42	43	43	43	43	42

In addition, this only captures (declared) income in the time period, not the consequences of having, or lacking, accumulated savings and social capital. The impact since the start of the recession has been to enhance this inequality as those on higher incomes have seen their income increase and those on lower incomes have seen falls:

Table 5-5: Relative income changes 1997-2010<sup>136</sup>

	<i>Median income</i>			<i>Mean income</i>		
	Lower	Point	Upper	Lower	Point	Upper
1997-98	0.3%	1.8%	3.1%	0.9%	2.6%	4.0%
1998-99	0.3%	1.5%	3.1%	1.5%	3.5%	5.5%
1999-00	1.7%	3.1%	4.6%	-0.2%	2.1%	4.3%
2000-01	1.6%	3.1%	4.5%	2.4%	4.4%	6.6%
2001-02	3.6%	4.9%	6.2%	2.2%	4.4%	6.6%
2002-03	0.8%	2.0%	3.4%	-0.9%	1.3%	3.4%
2003-04	-1.1%	0.0%	1.2%	-2.3%	-0.4%	1.8%
2004-05	-0.2%	1.0%	2.1%	-0.5%	1.4%	3.1%
2005-06	-0.2%	1.1%	2.3%	-0.7%	1.4%	3.4%
2006-07	-0.9%	0.4%	1.7%	-1.4%	0.8%	3.2%
2007-08	-1.3%	0.2%	1.6%	-1.6%	1.1%	3.4%
2008-09	-0.8%	0.7%	2.4%	-1.5%	1.1%	3.7%
2009-10	-0.7%	0.9%	2.3%	-1.3%	1.6%	4.4%
From 1996-97 to 2009-10	21%	23%	24%	25%	28%	31%

The second cause of the debt crisis lies in the imbalance that has grown up between the costs of public expenditure and the willingness of governments to raise the necessary finance. Some of this can be traced to the persuasive belief for some policy makers in the fiction that ‘trickle down’ economics actually work<sup>137</sup> as opposed to the realities of social inequality. Also, the state’s lack of commitment to collect the revenue it is due from the wealthy and larger corporations has further undermined the public finances<sup>138</sup>.

In summary, the linkage between rising inequality and the economic costs can be set out as:

1. The relative decline of real incomes (mostly wages but also social welfare transfers) since the early 1980s led to an increased substitution of credit for earnings (as well as a decline in savings);

136 Jin, W., Joyce, R., Phillips, D. & Sibiet, L. 2011. Poverty and Inequality in the UK: 2011. London: Institute for Fiscal Studies., p. 9

137 Kwarteng, K., Patel, P., Raab, D., Skidmore, C. & Truss, E. (eds.) 2012. *Britannia Unchained: Global Lessons for Growth and Prosperity*, London: Palgrave MacMillan.

138 Murphy, R. 2012. What’s the Tax Gap? Available from: <http://www.taxresearch.org.uk/Blog/2012/07/29/whats-the-tax-gap/> [Accessed 23 August 2012].

2. The decline in effective hourly wages saw an increase in the amount of work done by a smaller group of individuals;

3. As families cope with further declines in income and seek to clear their debts, the level of effective demand has dropped. In turn this has led to further pressure being placed on public finances<sup>139</sup>;

4. Equally continued pressure to maximise access to the available work has contributed to the growth in youth unemployment as they are less able to access the labour market<sup>140</sup>.

In combination, social inequality was as much a cause of the financial crisis as lax regulation of the financial sector. Equally, continued social inequality will prolong the depression as private demand for goods is depressed and public revenues continue to fall in consequence.

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139 ONS 2012b. Public Sector Finances, July 2012. London: Office for National Statistics.

140 Scottish Government 2012a. Labour Market Monthly Briefing - July 2012. Edinburgh: Scottish Government.



In considering what can be done to address these problems it is useful to attempt to quantify the problem. In many cases estimating the costs, never mind the potential benefits, of any policy is highly problematic. Various methodologies exist to address this problem and one example is an EU study of the Swedish childcare reforms<sup>141</sup>. In this case, a policy that built on the traditional Swedish model of heavily subsidised state provided childcare in order to facilitate a return to work by lone parents cost some 7.4bn Euros but led to the collection of an additional 9bn Euros in direct taxes alone<sup>142</sup>.

One approach is to build on the work of the Joseph Rowntree Trust<sup>143</sup> and estimate what income level is needed to allow for a moderate standard of living. This work has been carried out over several years<sup>144</sup> and suggests that a minimum decent standard of living would be secured by a weekly income of £193 for a single person, £454 for a couple with two children and £276 for a lone parent with one child. When compared to table 5-3 (which indicates even those in the second quintile only earn £182-£245 a week), this indicates well over 20% of the UK population fails to earn enough for a very basic standard of living. Equally, anyone reliant on the minimum wage falls short of these basic income standards as:

Table 6-6: Comparison of Minimum Wage to Basic Needs<sup>145</sup>

	<b>Single, working age</b>	<b>1-earner couple, 2 children, no childcare</b>	<b>2-earner couple, 2 children, with childcare</b>	<b>Lone parent, 1 child, with childcare</b>
MIS (including rent, childcare* and Council Tax), weekly	262.25	537.19	685.04	502.80
Gross earnings required, weekly	314.19	668.95	704.37	457.61
Hourly wage rate	8.38	17.84	9.39	12.20
Amount above the NMW, hourly	2.30	11.76	3.31	6.12
Annual earnings required	16,383	34,881	36,728	23,861

Note: \* Childcare, where specified.

(Note: MIS in this table is the 'minimum income standard, as calculated by the panel brought together by the Joseph Rowntree Trust)

141 Brink, A., Nordblom, K. & Wahlberg, R. 2007. Maximum Fee vs. Child Benefit: A Welfare Analysis of Swedish Child-Care Fee Reform. Bonn: Institute for the study of Labor.

142 Smith, M. & Bettio, F. 2008. Analysis Note: the Economic Case for Gender Equality. European Union.

143 Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation.

144 Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Noel Smith, Cusworth, L. & Williams, J. 2008. A minimum income standard for Britain: What people think. Joseph Rowntree Foundation, Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation.

145 Davis, A., Hirsch, D., Smith, N., Beckhelling, J. & Padley, M. 2012. A Minimum Income Standard for the UK In 2012: Keeping up in Hard Times. Joseph Rowntree Foundation., p. 32

An alternative method to calculate the level of income shift needed to ensure that everyone can afford a basic standard of living is to consider what type of income transfers are needed to end relative poverty<sup>146</sup>. Since this is defined as an income under 60% of the median income<sup>147</sup> this is actually achievable. The median income says nothing about the overall distribution of income identifying instead the earnings level of the person at the middle of the scale. At the moment in the UK, the median income is defined as £26,244<sup>148</sup>, and the resultant poverty threshold as just under £16,000. Parekh and colleagues<sup>149</sup> estimate that the poorest 20% of Scotland's population only have 13.2% of the total income (and as discussed in our earlier report, sustained periods on low incomes lead to low levels of social capital<sup>150</sup> which in turn creates a long term poverty trap). The problem has been steadily deteriorating since before the financial crisis and is attributed to:

"The reason for the fall is that the amount of income, and so the proportion of total income, going to the top three deciles, and in particular the top decile, has increased sharply in the last five years. In contrast to this sensitivity to changes at the top of the income distribution, changes at the bottom have little effect. For example, if everybody in the bottom two deciles (roughly equivalent to those in poverty) were lifted just above the low-income threshold – thereby eliminating poverty, a hugely significant change – the proportion of income held by the bottom three deciles is estimated to rise by between 2.5 and 3 percentage points<sup>151</sup>"

However the income gap is measured it is substantial. But equally it is not accidental. Decisions to depress wages through the regulation of the workplace<sup>152</sup> and removal of employment protection<sup>153</sup> have been deliberate parts of UK Government policy since 1979 as has been the removal of collective bargaining rights<sup>154</sup>. Equally, the growing use of self-employment and zero hours contracts<sup>155</sup> has led to the creation of 'employment traps' where individuals are unable to progress and become trapped into low pay and low skilled work<sup>156</sup>. Also the deliberate reduction of income transfers in the form of social welfare payments has been a chosen part of Government policy as has been the steady privatisation of many public goods. As we have noted, to the extent possible, the Scottish Government has sought to offset some of these trends<sup>157</sup>, but even so income inequality and relative poverty in Scotland has continued to rise<sup>158</sup>

146 Parekh, A., Kenway, P. & MacInnes, T. 2010. Monitoring poverty and social exclusion in Scotland 2010 York: Joseph Rowntree Foundation.

147 Department of Work and Pensions. 2012b. *Households below average Income* [Online]. London: Department for Work and Pensions. Available: [http://statistics.dwp.gov.uk/asd/index.php?page=hbai\\_arc](http://statistics.dwp.gov.uk/asd/index.php?page=hbai_arc) [Accessed 30 August 2012].

148 ONS 2012a. Labour Market Statistics: August 2012. London: Office for National Statistics.

149 Parekh, A., Kenway, P. & MacInnes, T. 2010. Monitoring poverty and social exclusion in Scotland 2010 York: Joseph Rowntree Foundation.

150 Cook, R. 2012. Social Exclusion in Scotland. Glasgow: Scotland Institute.

151 Parekh, A., Kenway, P. & MacInnes, T. 2010. Monitoring poverty and social exclusion in Scotland 2010 York: Joseph Rowntree Foundation., p. 11

152 OECD 2011. Divided We Stand: Why Inequality Keeps Rising. OECD.

153 European Union 2010. Joint Report on Social Protection and Social Inclusion. Brussels.

154 Visser, J. & Cecchi, D. 2009. Inequality and the Labour Market: Unions. In: Salverda, W., Nolan, B. & Smeeding, T. (eds.) *Oxford Handbook of Economic Inequality*. Oxford: Oxford University Press.

155 Roberts, S. 2012. No snakes, but no ladders': Young people, employment, and the low skills trap at the bottom of the contemporary service economy. Resolution Foundation.

156 Goos, M. & Manning, A. 2007. Lousy and Lovely Jobs: The Rising Polarization of Work in Britain. *Review of Economics and Statistics*, **89**, 118-133.

157 Cook, R. 2012. Social Exclusion in Scotland. Glasgow: Scotland Institute.

158 Parekh, A., Kenway, P. & MacInnes, T. 2010. Monitoring poverty and social exclusion in Scotland 2010 York: Joseph Rowntree Foundation.

This paper has drawn together a range of existing reports and data on the consequences of social exclusion. To some extent, the implications for individual health, educational attainment and overall quality of life are relatively well known. Where the policy debate occurs is the extent that these are consequences of poverty or the freely chosen outcomes by individuals who could act otherwise. To those on the right of British politics, whether their politics are notionally Liberal<sup>159</sup> or Conservative<sup>160</sup>, social inequality does not, as such, have consequences. It is undesirable but those who work hard enough will escape<sup>161</sup> and the role of the state is to ensure they are ready to enter work<sup>162</sup>. This mindset often slips over into a version that sees those who are poor as being responsible for their own poverty<sup>163</sup> and, in some parts of this narrative, that poverty is in some way a judgement on their lifestyle and lack of commitment to bettering themselves<sup>164</sup>. That this view lacks evidence<sup>165</sup> does not stop its prevalence in the Coalition narrative about poverty<sup>166</sup>.

Related to this is the argument that the entry into work, regardless of the wages, security or career development on offer, is all that is needed to end social exclusion. This approach has been as much part of New Labour's thinking in this field<sup>167</sup> as that of the current Westminster Coalition<sup>168</sup>. While it is true that employment offers the means to escape poverty it is not sufficient in itself<sup>169</sup> and often, seemingly wilfully, both New Labour and the Coalition have ignored the evidence that some 18% of Scots who are in employment are also categorised as living in poverty<sup>170</sup>.

The second part of this paper looks at the wider social costs of poverty and social exclusion. Some of these are indirect. We all suffer if individuals fail to realise their full potential and do not contribute as much as they can to society. However, estimating the costs of this is nearly impossible but both the paper by Gregg<sup>171</sup> and the more recent Scottish Government analysis<sup>172</sup> have indicated that if young people fail to make an early transition to work (or well structured training<sup>173</sup>) then there is a lifetime cost in terms of lost income and lost productivity.

On the other hands some costs are very direct. As numerous reports have made clear, social exclusion and poverty are linked to crime<sup>174</sup>. This can be seen in the higher incidence of criminality

159 Marshall, P. & Laws, D. 2004. *The Orange Book: Reclaiming Liberalism*, London, Profile Books.

160 Kwarteng, K., Patel, P., Raab, D., Skidmore, C. & Truss, E. (eds.) 2012. *Britannia Unchained: Global Lessons for Growth and Prosperity*, London: Palgrave MacMillan.

161 Clegg, N. 2010. *Inequality becomes injustice when it is passed on, generation to generation* [Online]. London: The Guardian. Available: <http://www.guardian.co.uk/commentisfree/2010/nov/22/inequality-injustice-nick-clegg> [Accessed 22 November 2010].

162 Lister, R. 1998. From equality to social inclusion: New Labour and the welfare state. *Critical Social Policy*, **18**, 215-225.

163 Bartholomew, J. 2006. *The Welfare State We're In*, London, Politico Press.

164 Centre for Social Justice 2006. The State of the Nation Report: Fractured Families. *Breakdown Britain*. London: Centre for Social Justice.

165 Blanden, J. & Gibbons, S. 2006. The persistence of poverty across generations: A view from two British cohorts. York: Joseph Rowntree Foundation.

166 Kwarteng, K., Patel, P., Raab, D., Skidmore, C. & Truss, E. (eds.) 2012. *Britannia Unchained: Global Lessons for Growth and Prosperity*, London: Palgrave MacMillan.

167 Department of Work and Pensions. 2008. *Ready for work: full employment in our generation* [Online]. DWP. Available: <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/ready-for-work/> [Accessed 15 November 2010].

168 Department of Work and Pensions. 2012a. *Get Britain Working* [Online]. London: Department of Work and Pensions. Available: <http://www.dwp.gov.uk/policy/welfare-reform/get-britain-working/> [Accessed 21 August 2012].

169 Dorling, D. 2010. *Injustice: Why Social Inequality Persists*, London, Policy Press.

170 Cook, R. 2012. Social Exclusion in Scotland. Glasgow: Scotland Institute.

171 Gregg, P. 2001. The Impact of Youth Unemployment on Adult Unemployment in the NCDS. *The Economic Journal*, **111**, 626-653.

172 Scottish Government 2012b. Scotland's Youth Employment Strategy. Edinburgh: Scottish Government.

173 European Commission 2012. Study on a comprehensive overview on traineeship arrangements in Member States. Brussels: European Commission.

174 Aebi, M. F. & Delgrande, N. 2012. Annual Penal Statistics. Strasbourg: Council of Europe, Prince's Trust 2007. The Cost of

in the poorest areas of Scotland<sup>175</sup> as well as the unfortunate likelihood that those out of work, or in very marginal employment, will slip into criminal activity. As such there is a dual social cost, in part the cost of the criminal justice system and in part of society bearing the costs of criminality, in addition to the cost borne by the individuals who are caught up in the criminal justice system.

Equally the health costs are not just borne by the poorest. The costs of the diseases of poverty have been identified in many reports<sup>176</sup> and we all pay a price for dealing with illnesses that result from poor quality living environments and poor quality diet. The Wanless Report<sup>177</sup> in particular stressed that a problem in poor neighbourhoods was the withdrawal of shops selling nutritious food and often the loss of suitable cooking facilities. Their replacement by shops selling calorie heavy, nutrition poor, food in turn leads directly to costs that fall onto the NHS<sup>178</sup>.

The third strand in this paper is perhaps the most important. Since the late 1970s, British Government policy has been driven by the belief that there are no economic consequences to social exclusion. Instead, shifting income to the most well off will lead to economic gains as they innovate and the subsequent wealth trickles down. This policy has been followed for over 30 years in the UK and there is little evidence that it has worked<sup>179</sup>. However, inequality is not just a moral or social issue, it sits at the core of the current economic crisis and is a major reason holding back recovery<sup>180</sup>.

Up to recently, UK governments (both Conservative and New Labour) were able to paper over the problem of falling wages in two ways. One was the increase in working hours (with increasingly all members of a household taking on paid work to sustain a desired standard of living) and the other was the use of debt as a substitute for income. In combination, these two factors held up aggregate demand. Since 2007, the available hours have decreased<sup>181</sup> and the ability (and any desire) to use debt has been removed as banks have reduced lending.

We are seeing the consequences in terms of reduced demand as the real effect of the steady erosion of wages (and the loss of social transfer payments) comes to the fore. When even the Government's own Office for Budget Responsibility warns of the negative consequences of falling or static wages<sup>182</sup>, then it is time to take notice.

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Exclusion: Counting the cost of youth disadvantage in the UK. London: Centre for Economic Performance.

175 Scottish Government. 2012c. *Scottish Index of Multiple Deprivation* [Online]. Edinburgh. Available: <http://www.scotland.gov.uk/Topics/Statistics/SIMD> [Accessed 11 April 2012].

176 Scottish Government 2007. *Equally Well: Report of the Ministerial Task Force on Health Inequalities*. Edinburgh: Scottish Government.

177 Wanless, D. 2002. *Securing Our Future Health: Taking A Long-Term View - The Wanless Review*. London: HM Treasury.

178 Scottish Government 2007. *Equally Well: Report of the Ministerial Task Force on Health Inequalities*. Edinburgh: Scottish Government.

179 Department of Work and Pensions. 2012b. *Households below average Income* [Online]. London: Department for Work and Pensions. Available: [http://statistics.dwp.gov.uk/asd/index.php?page=hbai\\_arc](http://statistics.dwp.gov.uk/asd/index.php?page=hbai_arc) [Accessed 30 August 2012].

180 Barba, A. & Pivetti, M. 2009. Rising household debt: Its causes and macroeconomic implications - A long-period analysis. *Cambridge Journal of Economics*, 33, 113-137, OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD, ONS 2012a. *Labour Market Statistics: August 2012*. London: Office for National Statistics, Parker, G. & Pimmiot, D. 2011. *Osbourne defends budget as MPs hear of Oil Risks* [Online]. London: Financial Times. Available: <http://www.ft.com/cms/its-official-falling-real-wages-are-bad-for-the-economy> [Accessed 30 August 2012], Roberts, S. 2012. No snakes, but no ladders: Young people, employment, and the low skills trap at the bottom of the contemporary service economy. Resolution Foundation, Treck, T. v. 2012. Did inequality cause the U.S. financial crisis? Düsseldorf: Macroeconomic Policy Institute (IMK).

181 ONS 2012a. *Labour Market Statistics: August 2012*. London: Office for National Statistics, Scottish Government 2012a. *Labour Market Monthly Briefing - July 2012*. Edinburgh: Scottish Government.

182 Parker, G. & Pimmiot, D. 2011. *Osbourne defends budget as MPs hear of Oil Risks* [Online]. London: Financial Times. Available: <http://www.ft.com/cms/its-official-falling-real-wages-are-bad-for-the-economy> [Accessed 30 August 2012].



The problem is the process of driving down the value of wages has been built into the British economic system since 1979. Systemic removal of labour protection has gone along with the removal of effective workplace bargaining<sup>183</sup>. To this has been added a sustained development of a narrative around welfare ‘scroungers’ by both New Labour and the Coalition<sup>184</sup> that has been used to reduce the value of many transfer payments that previously helped to sustain overall economic demand.

In consequence, addressing the reasons for social exclusion and poverty are equally challenging<sup>185</sup>. New Labour approaches such as working family tax credits were useful but effectively subsidised employers who were then able to pay even lower wages. Many British policy makers (of both right and left) delight in extracting individual policies from Scandinavia but ignore the extent that the effect of a particular approach is rooted in an overall economic and social system<sup>186</sup>. In effect, if Scotland is to achieve the goal, seemingly agreed across the political debate, of becoming an inclusive, more equal, society, then there is a need to design an economic structure that will underpin this.

If Scotland remains tied to UK wide economic policy, and if that continues to set primarily to meet the needs of the City of London<sup>187</sup>, then the best that can be achieved is a set of policies that will mitigate the worst effects. If, as currently suggested, independence means retaining sterling then that independence will preclude the ability to create a genuinely different economic model.

183 OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD, Visser, J. & Cecchi, D. 2009. *Inequality and the Labour Market: Unions*. In: Salverda, W., Nolan, B. & Smeeding, T. (eds.) *Oxford Handbook of Economic Inequality*. Oxford: Oxford University Press.

184 Department of Work and Pensions. 2008. *Ready for work: full employment in our generation* [Online]. DWP. Available: <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/ready-for-work/> [Accessed 15 November 2010], Department of Work and Pensions. 2012a. *Get Britain Working* [Online]. London: Department of Work and Pensions. Available: <http://www.dwp.gov.uk/policy/welfare-reform/get-britain-working/> [Accessed 21 August 2012], Mooney, G. 2009. The ‘Broken Society’ Election: Class Hatred and the Politics of Poverty and Place in Glasgow East. *Social Policy and Society*, 8, 437-450, Page, R. M. 2007. Without a Song in their Heart: New Labour, the Welfare State and the Retreat from Democratic Socialism. *Journal of Social Policy*, 36, 19-37.

185 Jin, W., Joyce, R., Phillips, D. & Sibieta, L. 2011. *Poverty and Inequality in the UK: 2011*. London: Institute for Fiscal Studies, OECD 2011. *Divided We Stand: Why Inequality Keeps Rising*. OECD.

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