

## INEQUALITY: GOOD FOR THE RICH, BAD FOR THE ECONOMY?

This paper was prepared using the expertise of a Working Group of Royal Society of Edinburgh (RSE) Fellows, Young Academy Scotland members, and academics from a wide range of institutions and with diverse backgrounds. The Advice Paper has been approved by the General Secretary of the Royal Society of Edinburgh.

This paper does not seek to be prescriptive about the policies that governments should adopt to lessen inequality in society. Rather it is intended to be a contribution to, and a means of informing, public debate on inequalities. Its publication is timed to coincide with a debate, promoted by the British Academy in partnership with the Royal Society of Edinburgh, entitled *Inequality; Good for the Rich, Bad for the Economy?*, to be held at the RSE on Tuesday 4 October 2016.

### Introduction

Inequality is an important field of social science research and is a topical issue in a contested policy field. The debates on inequality span various disciplines, employ different research methods, and use global, cross-country, national and regional approaches. This paper focuses on inequality, specifically as it affects health, education, taxation and technology in Scotland and the UK. In particular, this discussion paper draws on evidence from several disciplines. It seeks to contribute to the debate on inequality by examining existing policy perceptions and the design of informed interventions in the future.

**Table One:**  
**Average life expectancy in Scotland (years)<sup>3</sup>**

	Men	Women
Most advantaged areas	81.0	84.2
Least advantaged areas	70.1	76.8

There is a key distinction between poverty and inequality, and the relationship between inequality and growth remains a debatable issue. Importantly, socio-economic inequality is multidimensional and is associated with key aspects of human life, from education and health, to crime and economic performance. For instance, economic inequality links with, and often leads to, other inequalities. These include educational opportunity, health and wellbeing.

Many government policies have been enacted with the intention of mitigating inequality. Some policies may unintentionally contribute to the creation of inequality. This can be attributed to the complexity of achieving different policy targets, which may be in conflict with each other. For greater levels of social cohesion to exist in society, an inclusive and strong welfare state and equal, or at least equitable, access to health and education are fundamental.

### Health

Health inequalities are the unfair and avoidable differences in people's health across social groups and between different population groups. They are most commonly associated with socio-economic inequalities<sup>1</sup>. These differences have a huge impact, as they manifest themselves through the worst off in society experiencing poorer health and shorter lives<sup>2</sup>. The two tables below illustrate this point. Table 1 shows the difference in average life expectancy for men and women between in the most advantaged areas and in the least advantaged areas.<sup>4</sup>

**Table Two:**  
**Table Two: Expected years in 'not good' health<sup>5</sup>**

	Men	Women
Most advantaged areas	12.1	11.6
Least advantaged areas	21.3	24.9

<sup>1</sup> <http://www.healthscotland.com/equalities/health-inequalities/index.aspx>

<sup>2</sup> <https://www.nice.org.uk/advice/lgb4/chapter/introduction>

<sup>3</sup> [http://www.audit-scotland.gov.uk/docs/health/2012/nr\\_121213\\_health\\_inequalities.pdf](http://www.audit-scotland.gov.uk/docs/health/2012/nr_121213_health_inequalities.pdf)

<sup>4</sup> These comparisons refer to people living in the one-fifth most deprived and one-fifth least deprived areas.

<sup>5</sup> [http://www.audit-scotland.gov.uk/docs/health/2012/nr\\_121213\\_health\\_inequalities.pdf](http://www.audit-scotland.gov.uk/docs/health/2012/nr_121213_health_inequalities.pdf)

The data shows that years spent in ‘not good’ health is also significantly higher between the most and least advantaged areas; 9.2 years difference for men, and 13.3 years difference for women.<sup>6</sup>

Health inequalities are highly localised and vary widely within individual NHS board and local authority areas. Children in deprived areas have significantly worse health than those in more affluent areas.<sup>7</sup>

The challenge is to reduce the difference in mortality and morbidity rates between rich and poor and to increase the quality of life and sense of wellbeing of the local community as a whole<sup>8</sup>. There is a need to balance the goals of improving the overall health of the population with reducing health inequalities.

The overall health of the Scottish population is continuing to improve. However, the gaps between those with the best and worst levels of health and wellbeing still persist, indeed some are widening, and too many Scots still die prematurely<sup>9</sup>. For some indicators, such as deaths from coronary heart disease, inequalities have decreased. For other indicators, such as healthy life expectancy, mental health, smoking, and alcohol and drug misuse, remain significantly worse in the most deprived parts of Scotland<sup>10</sup>. Inequalities in mortality in Scotland are among the highest in Western and Central Europe, having risen rapidly during the 1980s and 1990s. This is not inevitable and dealing with it should be a key element of social policy.<sup>11</sup>

## Education

Education can be a path to greater social mobility. Improving the quality of, and access to, education has the potential to increase equality of opportunity across society, and thus, reduce inequality.<sup>12</sup>

According to the Organisation for Economic Cooperation and Development (OECD), the UK has one of the highest associations between social class,

educational performance, and life opportunities in the OECD.<sup>13</sup> To address this issue, we must develop a better understanding of the nature of the ‘gap’ we wish to close.

### Early Childhood Education

Research has shown that, even at pre-school level, children from socially advantaged backgrounds achieve higher scores than other children, and that these differences in a child’s cognitive attainment increase through the various stages of the education system<sup>14</sup>. To combat this, policy interventions should take place well before the formalised education of nursery school begins. Interventions in the early years set a strong foundation for success in a child’s future.

It is important to encourage parental engagement and pupil aspiration, particularly in less advantaged areas. However, we must also recognise that inequality in educational outcomes often reflects social and economic inequalities rather than lack of aspiration and engagement.<sup>15</sup>

### School years

Low attainment in school is strongly linked to a young person’s future, with long-term effects on job prospects<sup>16</sup>. Scotland has one of the highest rates among the OECD countries of young people in the 15 - 19 age group in the NEET category (not in education, employment or training), with the majority of this group coming from deprived backgrounds and having fewer qualifications<sup>17</sup>. Therefore, closing disparities in education is vital to positively shaping life outcomes.

It is important that evidence informs policies to address educational inequality. The collection of baseline data and independent evaluation are vital, to assess what aspects are succeeding in tackling inequality and which are failing<sup>18</sup>. Such knowledge is fundamental to track our progress in achieving educational equity.

<sup>6</sup> These comparisons refer to people living in the one-fifth most deprived and one-fifth least deprived areas.

<sup>7</sup> [http://www.audit-scotland.gov.uk/docs/health/2012/nr\\_121213\\_health\\_inequalities.pdf](http://www.audit-scotland.gov.uk/docs/health/2012/nr_121213_health_inequalities.pdf)

<sup>8</sup> <https://www.nice.org.uk/advice/lgb4/chapter/introduction>

<sup>9</sup> <http://www.healthscotland.com/equalities/health-inequalities/index.aspx>

<sup>10</sup> [http://www.audit-scotland.gov.uk/docs/health/2012/nr\\_121213\\_health\\_inequalities.pdf](http://www.audit-scotland.gov.uk/docs/health/2012/nr_121213_health_inequalities.pdf)

<sup>11</sup> <http://www.healthscotland.com/uploads/documents/23047-2.%20HealthInequalitiesPolicyReviewKeyMessages.pdf>

<sup>12</sup> [http://www.hamiltonproject.org/assets/legacy/files/downloads\\_and\\_links/THP\\_13EconFacts\\_FINAL.pdf](http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/THP_13EconFacts_FINAL.pdf)

<sup>13</sup> <http://www.gov.scot/Publications/2010/12/10141122/1>

<sup>14</sup> Bradshaw, P. (2011). Growing up in Scotland: Changes in child cognitive attainment in the pre-school years. Edinburgh: Scottish Government.

<sup>15</sup> Kintrea, K., St Clair, R. & Houston, M. (2011) The influence of parents, places and poverty on educational attitudes and aspirations. Joseph Rowntree Foundation. <http://www.jrf.org.uk/sites/files/jrf/young-people-education-attitudes-full.pdf>

<sup>16</sup> <https://www.jrf.org.uk/report/closing-attainment-gap-scottish-education>

<sup>17</sup> [http://www.scottishinsight.ac.uk/Portals/50/Children%20&%20YP%20Inequality/PolicyBrief\\_SUIIProgramme\\_Education.pdf](http://www.scottishinsight.ac.uk/Portals/50/Children%20&%20YP%20Inequality/PolicyBrief_SUIIProgramme_Education.pdf)

<sup>18</sup> <http://webarchive.nationalarchives.gov.uk/20130401151715/http://www.education.gov.uk/publications/eOrderingDownload/RR671.pdf>

The two methods by which the Scottish Government is trying to achieve this goal are the National Improvement Framework and the Curriculum for Excellence. The National Improvement Framework has the twin aims of improving attainment overall, while also closing the gap between the most and least disadvantaged children. The Curriculum for Excellence aims to ensure that all young people develop the knowledge, skills and attributes they will need if they are to succeed in life.

### Higher Education

Evidence shows that many young people from socially disadvantaged backgrounds are denied access to particular schools and universities, as a result of not enjoying the economic, social and cultural benefits which have allowed their peers from socially advantaged backgrounds to thrive.<sup>19</sup> Educational qualifications (or lack of them) have a profound impact on young people's post-school trajectories and future life chances, as well as influencing their social status.<sup>20</sup>

The Scottish Government's policy of free tuition has not proved as effective at reducing educational inequality as the Government would have hoped. Young people from the most advantaged areas are still more than four times as likely to enter higher education as those from the least advantaged areas.<sup>21</sup> Research on widening access to higher education in Scotland suggests that there has been a focus on recruitment, rather than retention. Existing initiatives have resulted in minimal improvements in higher education participation by those from the least advantaged backgrounds<sup>22</sup>. In spite of overall levels of student debt being lower in Scotland in comparison to other parts of the UK, Scotland also has the least redistributive system of the four nations<sup>23</sup>. Students from the most affluent backgrounds in Scotland end up with less debt than those from poorer backgrounds, due to the fact that they do not pay tuition fees and are often helped with living and accommodation costs by their families, so that they may not need to take out the maintenance loan.

Importantly, the expansion of college education has been linked to increased – rather than reduced – wage inequality. In fact, when the supply of college graduates increases, employers interpret the lack of a HE degree as a clearer signal of low ability and offer to young non-graduates even lower wages, widening the already large wage gap between high and low educated workers<sup>24</sup>. This emphasises some unintended consequences related to the structure of recent HE reforms. Especially, it highlights that this type of college expansion primarily favours those from more privileged backgrounds who have been sufficiently prepared in early life to follow this route. It also serves to further stigmatise those in the labour market from disadvantaged families who did not have access to a college education.

### Technology

Technology policy in the UK recognises the need for everyone to have 'basic digital skills', reflecting the increasingly inescapable reliance we have on technology and electronic services in both our personal and professional lives. However, recent figures suggest that some 19% of the UK population and 30% of the Scottish population do not currently have such skills.<sup>25</sup>

The lack of affordable, reliable internet access continues to be a barrier to digital participation, despite digital infrastructure programmes being rolled out. It could be concluded that deprivation leads inevitably to digital exclusion. Therefore, it may seem logical that to promote digital inclusion we should first address the causes of deprivation. However, digital inclusion can itself help to address several important areas of deprivation: income, employment, health and education, among others.

<sup>19</sup> The Palgrave International Handbook of Education for Citizenship and Social Justice ISBN: 9781137515063 (primary) Editor(s): Andrew Peterson, Robert Hattam, Michalinos Zembylas, James Arthur, Publication date: 2016.

<sup>20</sup> The Palgrave International Handbook of Education for Citizenship and Social Justice ISBN: 9781137515063 (primary) Editor(s): Andrew Peterson, Robert Hattam, Michalinos Zembylas, James Arthur, Publication date: 2016.

<sup>21</sup> Blackburn, L.H., Kadar-Satat G., Riddell, S., & Weedon, E. (2016). Access in Scotland.

<sup>22</sup> Riddell, S., Edward, S., Boeren, E., & Weedon, E. (2013). Widening access to higher education: Does anyone know what works? Universities Scotland: A Report to Universities Scotland Edinburgh.

<sup>23</sup> Hunter Blackburn Hunter Blackburn, L. (2015). Student funding in Scottish higher education. Presentation to the Scottish Government's Commission on Widening Access.

<sup>24</sup> Koutmeridis, T. (2016). Misallocation, Education Expansion and Wage Inequality. University of Glasgow. Presented at the 2016 European Economic Association congress.

<sup>25</sup> Ipsos MediaCT for BBC; Media Literacy: Understanding Digital Capabilities follow up September 2013 and March 2014; March 2014; [http://www.bbc.co.uk/learning/overview/assets/digital\\_capabilities\\_2014.pdf](http://www.bbc.co.uk/learning/overview/assets/digital_capabilities_2014.pdf)

A lack of digital skills may be one more barrier to be overcome; this may be compounded by basic numeracy problems and lower levels of education. Literacy is another barrier for many who lack the confidence to go online. In addition, that lack of skills often limits the benefits that even those who are online can derive from internet use. Many people who are not online, or cannot effectively navigate the web, are becoming increasingly excluded from the job market. This can be attributed to job opportunities being publicised only online, or requiring an online application. Research has found that low income and low employment correlate strongly with low broadband uptake.<sup>26</sup>

For older people and people with disabilities, these barriers may be even more challenging. For example, the costs of getting online can be more significant if assistive technologies are required, whilst incomes may be lower.

### Financial Inequality

In Scotland, the top one per cent of income earners receives around nine per cent of total income.<sup>27</sup> In recent years, the highest levels of income have increased dramatically, but taxation of this has remained relatively constant. There is considerable uncertainty over how mobile the tax bases of Scotland and the UK are, and whether an increase in the highest rate of Income Tax could result in high income (and general high value-adding) individuals relocating. The UK system is far from ideal; for example, it contains over a thousand exemptions.<sup>28</sup> Such loopholes not only provide scope for individuals to 'game the system' and avoid tax, but also raise questions of equity as these exemptions are often only available to those with the resources to access them.

There is an inequality between groups; between pensioners and non-pensioners, for example. In recent times, it is those of working age on benefits who have suffered, not pensioners. For example, the median pensioner income in 2013 – 2014 was 7.0% above its pre-recession level, while the median non-pensioner income was 2.7% below its pre-recession level.<sup>29</sup>

### Gender pay gap

Differences in hourly wages between men and women remain substantial, despite some convergence. The hourly wages of female employees is currently about 18% lower than men's on average, having been 23% lower in 2003 and 28% lower in 1993.<sup>30</sup>

### Council Tax

The Council Tax system has fallen into disrepute. The Council Tax freeze that has been in place means that this tax has proved regressive: wealthier households continue to contribute a lower proportion of their incomes than poorer households that are not eligible for full Council Tax benefit. Both the system and the structure of Council Tax are flawed. The Scottish Parliament has had competency over Council Tax since it was established in 1999, yet successive administrations have failed to take meaningful action to reform the system. The proposals put forward by the current Scottish Government to unfreeze the rates of Council Tax, with increases for those in the highest bands, do little to address any of the underlying problems.

### Taxation

In addition to funding public services and correcting negative externalities, the taxation system also serves the purpose of redistributing income from the wealthiest to the poorest, while taxation is available to the government as a tool with which to reduce inequality, it is constrained in the extent to which it can ameliorate the harm that market-driven inequality can cause. Redistributive tax policies must be appropriately balanced against the need to grow a successful economy. The main instruments of redistributive policies are progressive direct taxes and welfare benefits. Progressive direct taxes reduce the incomes of the rich proportionately more than those of the poor. Welfare benefits and means-tested transfers increase the disposable incomes of the poor.<sup>31</sup>

### Conclusion

Overall, this paper highlights some overlooked aspects and points to some promising policy directions that have the potential to contribute meaningfully to the debates on inequality. Further research on inequality from across the conventional disciplinary and methodological boundaries is essential for the design of informed policy interventions based on evidence, which can lead society to sustainable and equitable advancements.

<sup>26</sup> <https://www.royalsoced.org.uk/cms/files/advice-papers/inquiry/digitalparticipation/pages/j321440/j321440-06.htm#section1.2>

<sup>27</sup> <http://www.davidhumeinstitute.com/wp-content/uploads/2015/01/Inequality-in-Scotland-New-Perspectives-Bell-et-al.pdf>

<sup>28</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/198570/ots\\_review\\_tax\\_reliefs\\_final\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198570/ots_review_tax_reliefs_final_report.pdf)

<sup>29</sup> <https://www.ifs.org.uk/uploads/publications/comms/R107.pdf>

<sup>30</sup> <https://www.ifs.org.uk/uploads/publications/bns/bn186.pdf>

<sup>31</sup> <http://www.davidhumeinstitute.com/wp-content/uploads/2015/01/Inequality-in-Scotland-New-Perspectives-Bell-et-al.pdf>