# Chapter One: Social Exclusion, Poverty and Unemployment[1]

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## 1 Poverty and Social Exclusion

A central theme of the paper is the three-way relationship between poverty, unemployment and social exclusion. These concepts are related but should not be equated. In debates about Social Europe, the terms poverty and social exclusion have on occasion been used interchangeably. Cynics have suggested that the term 'social exclusion' has been adopted by Brussels to appease previous Conservative governments of the United Kingdom, who believed neither that there was poverty in Britain nor that poverty was a proper concern of the European Commission.

Poverty and social exclusion are not, however, the same. By "poverty", I mean the dictionary definition of "lack of money or material possessions". This may go together with being "shut out from society" (Tony Blair, 23 November 1997), but it does not necessarily do so. People may be poor without being socially excluded in the Prime Minister's sense. People may be socially excluded without being poor. Confusion of the two concepts is one reason for differences of view about the role of social security benefits.

The three-way relationship between poverty, unemployment and social exclusion is developed in the next three sections of the paper. A route map is provided by Figure 1. Unemployment may lead to poverty, but it does not necessarily do so (Section 2). Does unemployment lead to social exclusion (Section 4)? To answer this, we have first to define what we mean by social exclusion (Section 3).

A second theme of this paper is the tension within the European Union between different approaches to the labour market. We can represent the UK as being in the middle of a tug of war between American and Continental European conceptions of the future of the labour market and the welfare state. On one side, there is increased labour market flexibility, which has dominated Anglo-Saxon thinking, and which has been forcefully advocated by the IMF and the OECD. On the other, there is the Continental European approach, which gives more weight to labour market security and social partnership, and which values the economic contribution of a proper system of social protection. This over-simplifies the two positions, but the tension is a genuine one.

Reflecting this difference in approach, debates about social exclusion in the United Kingdom emphasise the role of workers and families. Increased labour market flexibility is interpreted by many politicians to be a matter of adjustments by those on the supply side of the labour market: workers and their representatives. There are, however, other actors who should not be overlooked and whose role has received more attention in Continental debates. The Government itself may contribute to social

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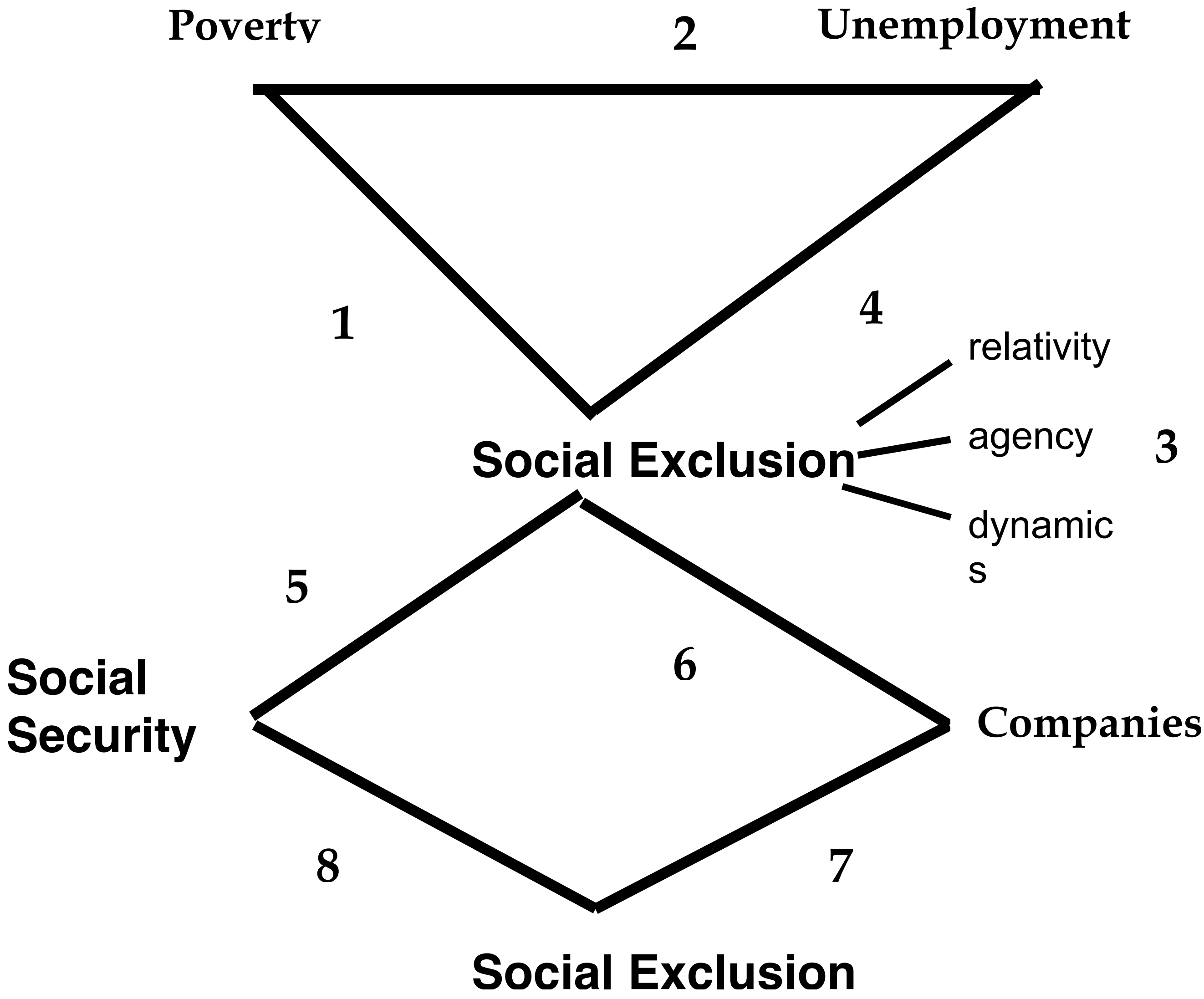
1 Presidential Address to Section F of the British Association for the Advancement of Science, Annual Meeting, University of Leeds, September 1997.

**Figure 1: Route Map (Section numbers)**




exclusion where its social security benefit programmes privilege certain groups of workers (Section 5). There are those who campaign for more inclusionary benefit schemes, such as a citizen's income; others argue that the state is too inclusionary and should be more open to pluralism in both welfare provision and life styles.

A further important class of actors is that of firms. There are two sides to the labour market, and we need to consider the role of employers, whose labour market decisions may contribute to the exclusion of workers (Section 6). A high required rate of return, or a short time horizon, may inhibit employers from taking on new workers. Firms may not be willing to invest in job creation. Examination of firm behaviour brings us to another dimension of social exclusion: that which occurs in the domain of consumption. People may be excluded if they are unable to participate in the customary consumption activities of the society in which they live. Their access to consumer goods and services depends in part on the pricing decisions of firms (Section 7). For utilities such as electricity or telephones, the connection of consumers may be influenced by regulatory and public sector policy.

Exclusion from consumption is also a function of income, which takes us back once more to social security benefits and the determination of benefit levels (Section 8). While poverty is not the same as exclusion, raising people's incomes via social security is an essential part of any programme to reduce exclusion. Simply linking benefits to retail prices is not sufficient to guarantee that benefit recipients can continue to participate in normal consumption activities. Their exclusion from consumption may in turn limit their capacity to engage in the modern labour market.

## 2 Unemployment and Poverty

The contrast between the US and Europe with respect to unemployment is striking. When I was a student in the first half of the 1960s, unemployment in the US was high (5%) and that in Europe was low: in the UK it was around 1%. The figure for 1997 for the US is much the same figure but that for the EU is over 10%. Europe has gone from being a low unemployment continent to being one with high unemployment.

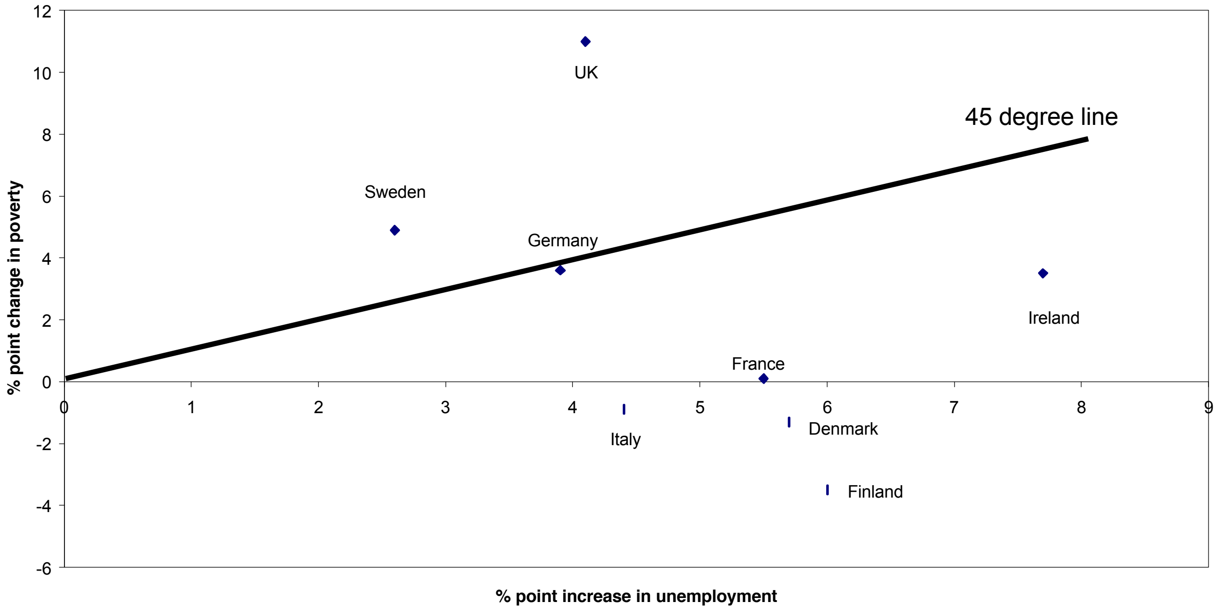
This is well known. Less well known is that, in many Continental European countries, the massive rise in unemployment has not been accompanied by a corresponding rise in poverty. Figure 2[2] is based on national estimates of income poverty that can be used to compare changes over time. The diamonds show the percentage point increases in poverty rates, from the late 1970s to the early 1990s, for eight European Union countries, plotted against the percentage point increase in unemployment between 1974-9 and 1990-93. From the line labelled 45$^{o}$, one can see whether the percentage point increase in poverty is larger or smaller than that in unemployment. This 1:1 relationship is a useful yardstick. Evidence for the United States, for example, showed that over the period 1959 to 1983 a 1 percentage point rise in prime-age male unemployment raised the poverty rate by about 1 percentage point (Blank and Blinder, 1986).[3]

2 **Sources for Figure 2:**
**Changes in poverty: Denmark:** Nordisk Ministerråd (1996), Figur 1, page 35, persons aged 18-75, EU scale, 50% median; **Finland:** Nordisk Ministerråd (1996), Tabell 1, page 67, equivalence scale square root of household size, 50% median; **France:** EBF figure from Synthèses (1996), page 57 (corrected incomes), ERF figure from Synthèses (1995), page 56, EU scale, households, 50% median; **Germany (West):** Becker (1997), Tabelle 3 for EVS estimates, Hauser (1997), Tabelle 3 for GSOEP estimates, EU scale, persons, 50% mean; **Ireland:** Callan *et al* (1996), Table 4.13, EU scale, persons, 50% mean; **Italy:** Commissione di indagine sulla povertà e sull'emarginazione (1996), Tav. 1, page 15, and (1996a), Tav.1, page 7, Commissione equivalence scale, households, 50% mean; **Sweden :** Nordisk Ministerråd (1996), Figur 2, page 152, EU scale, persons, 50% mean; **United Kingdom:** Department of Social Security (1992), (1993), (1994), (1995), and (1996), Table F1, DSS equivalence scale, persons, 50% mean.

Change in unemployment (1974-79) to (1990-93) for total labour force from OECD (1995), Table 2.15.

3 This relationship, it should be stressed, relates to the period prior to 1983; subsequently, it does not appear to hold (Blank, 1993).

**Figure 2  Changes in poverty and increases in unemployment in Europe: late 1970s to early 1990s**




West Germany has close to a 1:1 relationship between unemployment and poverty; Sweden has a larger increases in poverty than unemployment. But it is the UK which stands out: the proportion of people living in households with low incomes more than doubled over the period when Mrs. Thatcher was Prime Minister (it fell a little while Mr. Major was Prime Minister).[4] In the majority of European countries, however, there has been little or no increase in poverty. Between the late 1970s and the early 1990s, poverty did not show a trend increase in Denmark, Finland, France or Italy.

The same picture is shown by studies using data from the Luxembourg Income Study. Smeeding (1997) uses a scale of

0 for a change of less than 1 percentage point,
+ (or -) for an increase (decrease) of 1 to 2 percentage points,
++ (--) for 2 to 4 percentage points,
+++ (---) for 4 points or more.

Taking a base year between 1979 and 1981, the UK scored +++ for the change up to the early 1990s, and the US ++, whereas Sweden and Norway scored +, and France

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4 The high quality of statistics in the UK on financial poverty owes a great deal to the Department of Social Security. The development of the Households Below Average Income series (for example, Department of Social Security, 1997) is one of the most important recent developments in official statistics. There is equally a long tradition of academic inquiries, from the postwar revival of concern with Abel-Smith and Townsend's *The Poor and the Poorest* (1965) to the establishment in October 1997 of the ESRC Centre for Analysis of Social Exclusion.

and Spain scored -. For shorter periods, West Germany and the Netherlands scored +, but Belgium, Denmark and Finland scored 0. Smeeding concludes that

> trends in poverty in the 1980s were generally flat with the exception of the United States and the United Kingdom (1997: 25).

This may suggest that we need not be concerned about unemployment in Europe. However, there is a serious risk, emphasised by Sen (1997), that Europeans become complacent about their levels of unemployment. He contrasts attitudes in the United States and Europe:

> American social ethics finds it possible to be very non-supportive of the indigent and the impoverished, in a way that the typical West European, reared in a welfare state, finds hard to accept. But the same American social ethics would find the double-digit levels of unemployment, common in Europe, to be quite intolerable (1997: 11).

As he, and others such as Clark and Oswald (1994), have stressed, unemployment has costs which go beyond the loss of cash income. Even if there were 100% replacement of lost income, individuals would suffer from unemployment. Moreover, it is not only individual welfare which is at stake but also wider objectives such as social integration.

At the same time, it does not follow that employment implies social inclusion. People may remain excluded even though at work. This however raises the question that I can avoid no longer – what do we mean by social exclusion?

## 3 The Definition of Social Exclusion

Social exclusion is a term that has come to be widely used, but whose exact meaning is not always clear. Indeed, it seems to have gained currency in part *because* it has no precise definition and means all things to all people. A review of the sociological literature concluded that

> Observers in fact only agree on a single point: the impossibility to define the status of the 'excluded' by a single and unique criterion. Reading numerous enquiries and reports on exclusion reveals a profound confusion amongst experts (Weinberg and Ruano-Borbalan, 1993, translation by Silver, 1995: 59).

There do however seem to be three elements that recur in the discussion. The first is that of *relativity*. People are excluded from a particular society: it refers to a particular place and time. In the case of poverty, such relativity has been challenged. According to Joseph and Sumption,

> A person who enjoys a standard of living equal to that of a medieval baron cannot be described as poor for the sole reason that he has chanced to be born into a society where the great majority can live like medieval kings (1979: 27).

However, whatever the merits of an absolute approach when measuring poverty, it has no relevance to social exclusion. We cannot judge whether or not a person is socially excluded by looking at his or her circumstances in isolation. The concrete implementation of any criterion for exclusion has to take account of the activities of others. People become excluded because of events elsewhere in society. Exclusion may indeed be a property of groups of individuals rather than of individuals. Economists tend to consider individuals and their families in isolation: for example, taking no account of whether the respondents in a sample survey come from the same street or neighbourhood. Yet social exclusion often manifests itself in terms of communities rather than individuals, an illustration being the use by financial institutions of street postcodes for purposes of credit rating.

This brings me to a second element, which is that of *agency*. Exclusion implies an act, with an agent or agents. People may exclude themselves in that they drop out of the market economy; or they may be excluded by the decisions of banks who do not give credit, or insurance companies who will not provide cover. People may refuse jobs preferring to live on benefit; or they may be excluded from work by the actions of other workers, unions, employers, or government. This notion of agency has been examined by Sen in his work on social justice, stressing the difference between (1) the realisation of one's objectives irrespective of one's own role and (2) their realisation as a result of one's own efforts (Sen, 1985 and 1992). Put the other way round, in terms of failure to achieve the status of inclusion, we may be concerned not just with a person's situation, but also the extent to which he or she is responsible. Unemployed people are excluded because they are powerless to change their own lives.

A third key aspect is that of *dynamics*. People are excluded not just because they are currently without a job or income but because they have little prospects for the future. By "prospects", we should understand not only their own but also those of their children. Social exclusion may apply across generations. Assessment of the extent of social exclusion has therefore to go beyond current status. The same can be argued of poverty, and Robert Walker has argued that this is one way of bringing together the two concepts:

> when poverty predominantly occurs in long spells ... the poor have virtually no chance of escaping from poverty and, therefore, little allegiance to the wider community ... In such a scenario the experience of poverty comes very close to that of social exclusion (1995: 103).

There is greatly increased risk but the two concepts should not be equated: social exclusion is not simply long-term, or recurrent, poverty. Social exclusion is not only a matter of ex post trajectories but also of ex ante expectations. We need forward-looking indicators.

Empirical implementation of measures of social exclusion poses major research problems, but the three elements of relativity, agency and dynamics provide a basis for considering in principle the mechanisms of exclusion and inclusion that are the subject of the rest of the paper.

## 4 Unemployment and Social Exclusion

The 1994 European Union White Paper on *Growth, Competitiveness, Employment* argues that the creation of jobs is necessary to safeguard

> the future of our children, who must be able to find hope and motivation in the prospect of participating in economic and social activity (European Commission, 1994: 3).

Would a fall in unemployment in Europe provide such a guarantee of social inclusion?

The answer must depend on the reason for unemployment and on the form taken by the increase in employment. If unemployment is due to deficiency of aggregate demand, or technological shifts, then an individual worker may reasonably feel that he or she is powerless in the face of macro-economic forces. Studies of unemployment in the 1930s, such as Bakke (1933) in the United States or Jahoda *et al* (1933) in Germany, emphasised the loss of personal control; and recent reviews in the 1980s

> have been impressed more by the similarities than the differences in research findings on current unemployment (Lewis *et al*, 1995: 159).

Reduction of such "involuntary" unemployment would score positively in terms of the agency dimension of exclusion. On the other hand, this presupposes that return to work does in fact restore a sense of personal control. As noted in one summary of Bakke's research, it

> suggested that much of the apparent inactivity and negative mood of the unemployed was not a function of job loss alone. It was also a function of past work experiences which left people feeling they lacked control of their lives (O'Brien, 1986: 195-6).

If, on the other hand, unemployment is attributed to high reservation wages, for example, on account of the level of unemployment benefit, then again the issue arises of the nature of the employment which would be generated as a result of policy measures to reduce unemployment (for example, benefit cuts). Critics of the American approach of labour market flexibility see it as generating jobs which are less privileged in their remuneration or in their security. The newly created jobs are seen as "marginal" rather than "regular" jobs, where the latter have the expectation of continuing employment, offer training and prospects of internal promotion, and are covered by employment protection. "Marginal" jobs lack one or more of these attributes; they may also be low paid. In this respect, the relativity of the concept of exclusion becomes important. If the expansion of employment is obtained at the expense of a widening of the gap between those at the bottom of the earnings scale and the overall average, then it may not end social exclusion.

It is possible that new jobs are marginal, but offer future prospects, which brings us to the dynamic dimension of exclusion. The key question is whether these jobs are in fact stepping-stones to regular employment or whether they trap people in low paid and insecure jobs with recurrent unemployment. Does the young woman who comes in to do part-time photocopying get taken on as a management trainee? Figures 3A and 3B show two different stylised situations, where the size of the circles is an indicator of the relative probabilities of movement. In Figure 3B, employment in the marginal sector is indeed a stage of transition to regular employment. Workers progress. Having proved their employability, they stand a good chance of being taken on in a regular job. In terms of the typology in John Hills' paper in this volume, people are rising out of poverty. On the other hand, in Figure 3A there is little connection between the regular sector and marginal employment/ unemployment. People go up and down at the lower levels of income. Their trajectories are, in Hills' terminology, repeated poverty or blips out of (into) poverty. This happens independently of the overall rate of unemployment.

**Figure 3A: Social Separation**

| From: | To: Regular job | Marginal job | Unemployment |
|---|---|---|---|
| Regular job | ● | ● | ● |
| Marginal job | ● | ● | ● |
| Unemployment | ● | ● | ● |

**Figure 3B: Stepping Stone Mobility**

| From: | To: Regular job | Marginal job | Unemployment |
|---|---|---|---|
| Regular job | ● | ● | ● |
| Marginal job | ● | ● | ● |
| Unemployment | ● | ● | ● |

Which, if either, of these two pictures is more relevant is an empirical question. Recent research has made productive use of longitudinal data, such as those collected in the British Household Panel Survey (a far-sighted social science investment which is now paying off) to learn about labour market transitions. We have seen a series of very interesting studies, including chapters in this volume. Here I simply refer to one study, that by Amanda Gosling *et al* (1997), which casts light on the transitions out of low paid jobs, where low pay is defined in terms of hourly earnings in the bottom quartile. The findings (Gosling *et al*, 1997, Figure 3.1) indicate that 36% of low paid men in the first year of the survey had moved out by the next year, but this included 11% who were out of work. Of the 25% who moved up the earnings distribution, about 30% reverted to the low paid group in the next year or the following one. This suggests that a significant number are indeed trapped, although this kind of evidence tends to raise as many questions as it answers: for example, it is not clear that hourly earnings are an adequate yardstick. As at the top of the scale, it is the total remuneration package which is relevant, including the qualitative features associated with the marginality of jobs.

The link between employment and social inclusion is a complex one. Creating jobs can contribute to ending social exclusion, but success depends on the nature of these new jobs. Do they restore a sense of control? Do they provide an acceptable relative status? Do they offer prospects for the future? These are important questions.

## 5 Social Security

In describing the history of use of the word "exclusion" in France, Hilary Silver states that

> The coining of the term is generally attributed to René Lenoir, who, in 1974 ... estimated that `the excluded' made up one-tenth of the French population. ... All were social categories unprotected under social insurance principles at that time (1995: 63).

This brings us to a different source of exclusion: that people are excluded from the welfare state.

In France, concern with a patent lack of solidarity led to the introduction of the Revenu Minimum d'Insertion. In the UK the situation is different in that a national system of social assistance has long been in operation (although this has begun to come under threat). There are however questions as to how far means-tested benefits can be relied on as a source of inclusion. As is well known, take-up of assistance is significantly less than 100% (Department of Social Security, 1996a). Incomplete take-up in part reflects lack of information, or the time costs of claiming, but studies of the motives for not claiming reveal that it is also related to stigma associated with receipt of assistance. People do not wish to be identified as recipients of Income Support, and in this regard the benefit system itself is exclusionary. There are also fears that the new government measures stressing return to work will stigmatise those who remain on benefits, making them feel excluded by the state. There are serious dangers in stressing the negative aspects of welfare receipt. Headlines such as "The £X million Scandal of 'Skivers'" do not help.

Consideration of the role of the state may lead to more fundamental questioning. Goodin has argued that there is a sense in which

> the state, as presently conceived, is *too inclusive*. It is not necessarily itself the only source of social succour available to any given citizen. But it claims a monopoly on the power to legitimate any other sources of social succour (1996: 363).

He puts forward an alternative model in which

> we could be members of many different clubs, drawing on them in turn for many different purposes and many different kinds of support and assistance (1996: 364).

The European Union is, he suggests, a prototype of such an organisation. It is an intriguing thought that exclusion at a national scale might be resolved at a European level. Political realities indicate that access to Brussels may be even more difficult for those on margins of society, but the European Poverty Programmes have been explicitly concerned with the fostering of economic and social integration of under-privileged groups (see for example Duffy, 1994).

These considerations point to a rather different agenda from that usually envisaged under the slogan of "rethinking the welfare state", but they should not be taken as implying that national social security has no role to play in combatting social exclusion - to which I return in Section 8.

## 6 Role of Employers

In his Presidential Address to Section F in 1958, Professor Arthur Brown, seeking to explain how the postwar decade had come to surpass the hopes of Lord Beveridge with regard to unemployment, noted

> one factor which was imperfectly foreseen, and which may have played a very important part in realising the still lower level of unemployment which we have reached. That factor is a change in the attitude of employers, from regarding labour as a commodity always in elastic supply to treating it as something which, if once released, may not be easily replaced (1958: 450).

The role of employers is, in my view, too little emphasised in today's economic analysis. In seeking to explain the rise in unemployment, we have to consider the hiring decisions of employers. Are people now being excluded from the labour market by the employment practices of companies?

To illustrate this, let us return to the explanation of unemployment, in this case taking a simple model of equilibrium employment based on matching of vacancies/unemployed and bilateral wage bargaining, jobs are created until

Marginal return to labour =
Reservation wage
+ Cost of job creation * (Rate of job termination + Rate of discount) / Employer's relative bargaining power

Employment is expanded up to the point where the marginal return is equal to the right hand side. The left and side falls as employment increases, so that the larger the right hand side the lower is employment.

From this, we can see the basis for the labour flexibility argument referred to earlier. Cutting social security benefits, it is argued, reduces the reservation wage, and hence expands employment. Reducing hiring costs expands employment. Reducing trade union power, and hence increasing that of the employers, increases employment. This however focuses on the side of labour supply. Attention needs to be directed not just at workers and unemployed but also at employers. How do firms influence job creation and job destruction? If, for instance, employers now expect jobs to be short-lived, anticipating a high rate of termination, this raises the right hand side, making job creation less attractive. Perhaps most importantly, if employers are applying a higher rate of discount to future benefits, then they are less willing to invest in job creation. Debate about "short-termism" should not be confined to the capital market; it may be equally relevant to the labour market.

In this way, we are led to link social exclusion with the capital market, bringing it closer to the heart of economic analysis. The next step is to bring in the product market.

## 7 Social Exclusion in Consumption

Social exclusion has so far been equated with exclusion from the labour market, but it is only one face of social exclusion. People may face exclusion in other parts of their lives, notably in the domain of consumption. An important strand in the concerns that have been expressed is that people are unable to participate in the customary consumption activities of the society in which they live. The most evident example is that of homelessness, but also significant are access to durables, food expenditure (nutritional content), and expenditure relating to recreational, cultural and leisure activities. The last of these is particularly relevant to families with children. Peer group pressure may mean that a Manchester United shirt or Nike trainers are necessary for children to be included in neighbourhood activities.

Exclusion may apply not just to goods but also to services. The poor may be excluded from insurance cover where premia are set on a postcode basis; banks may refuse on similar criteria to open bank accounts or to issue credit cards. The services are not available locally:

> Using computerised mapping technology to show where profits are highest, banks and building societies have been pulling out of poorer areas. [For example] all the building society branches have closed in Birmingham's Aston ward since 1986 (Rossiter and Kenway, 1997: 7).

Such credit-rating criteria may be a rational response on the part of financial institutions, but this does not change the consequences for individual families. According to McCormick (1997), when a low income housing estate in Scotland suffered flooding in the winter of 1994, 95 per cent of the tenants were not insured.

A good example of exclusion in consumption is the telephone. A person unable to afford a telephone finds it difficult to participate in a society where the majority have telephones. Children are not invited out to play, because neighbours no longer call round - they call up. Letters do not allow the same contact to be kept with relatives who have moved away. A person applying for a job may not be called for interview since he or she cannot be contacted directly. This may sound like an advertisement for the telephone companies, but it is to them, and other suppliers of key goods and services, that I would like to direct attention. The conditions under which goods are supplied is an aspect which is overlooked in the analysis of poverty. The pricing decisions of the suppliers determine whether or not the poor are excluded from this dimension of consumption. If one examines the choices made by profit maximizing firms (Atkinson, 1995), then it is quite possible that the profit-maximizing price excludes some customers from the market. Equally, there is no guarantee that firms will go on supplying the qualities of goods that the poor want to buy. For example, it is not now easy to buy small quantities of foodstuffs, or cheap cuts of meat.

Exclusion of consumers is a particular issue where the supply of the good or service has passed from public to private hands. This raises questions to do with regulation – the subject of last year's Section F meeting. Whereas the government could require *public* enterprises to choose their tariffs in such a way that households living on Income Support can afford electricity or gas, or to travel to work, privatisation requires that some mechanism be put in place to avoid exclusion of low income customers by the new profit maximising management. Where the industry is regulated, then the regulators can impose an access condition. The United Kingdom privatisation legislation contains an obligation to supply "all reasonable demands", but this is open to a variety of interpretations, and some deny that social exclusion is an appropriate consideration. According to John Vickers,

> the advantages of regulators having discretion to pursue distributional ends are outweighed by disadvantages of capture, influence activities, uncertainty, and unaccountability (Vickers, 1997: 18).

This is not apparent to me. The risks of political influence arise not just with regulation but also with taxes and transfers. Fiscal policy may be "captured", preventing a government from using redistributive taxes and benefits. One has to balance the two sides.

The potential seriousness of consumer exclusion is illustrated by the UK gas industry. Ruth Hancock and Catherine Waddams Price (1995) have examined the impact by income groups of the reductions in gas tariffs for those who pay by direct debit. A larger proportion in the top quintile already pay by direct debit and of the remainder almost all have bank accounts, so that they can take advantage of the preferential tariff. In the bottom quintile a sizeable proportion do not have bank accounts. What this points to is the risk of multiple exclusion, where people are unable to open a bank account and are thereby unable to avoid paying by more expensive slot meters.

The policy of utility suppliers is also relevant to the determination of social security benefits, which brings me back to this subject.

## 8 Social Security Cannot be Left Out

Results from the recent literature on the economics of industrial organisation can be used to illuminate the problem of regulation just discussed. They also point to the interdependence between the living standards of the poor and those of the society in which they live. From models of firm decisions about pricing and about the qualities supplied, it can be seen that in the long-run the price of goods rises as incomes rise in the community in general. As the bulk of the population becomes richer, so the poor need more income to keep up. Firms no longer find it profitable for example to produce goods of lower quality, when the rest of the population has moved "up market".

This has evident implications for benefit levels. Linking benefits to the general price index may be insufficient to prevent people from being excluded from the consumption of key goods and services. As the rest of the population becomes richer, there is a rise in the minimum income needed to participate. For example to compete for a job, it is today not enough to "avoid being shabby", which was the criterion applied by Seebohm Rowntree in 1899. To keep up at school, children need a range of goods which was inconceivable even fifty years ago. This may mean that benefits allow people to purchase a better basket of goods than in 1949, but this is what is necessary to avoid exclusion. And it would not be possible to purchase the 1949 basket, since not all the goods are available in today's richer society.

The role of benefits should be stressed, since present Government policy is focussed so exclusively on the labour market. Income from work is important but cannot be the sole solution. As discussed in Section 5, the form of social security needs to be reconsidered, but collective provision - whether social insurance or citizen's income or participation income - seems essential to assure social integration.

## Conclusions

In this paper, I have ranged widely; and indeed this is one of the main conclusions. Social exclusion is not just concerned with unemployment. People may be excluded from participation in today's society by the operations of the state: for example, through the use of means tested benefits that are seen as stigmatizing. People may be excluded by the pricing and other decisions of the suppliers of key goods and services. By the same token, government policy has to take a broad view. The setting up of the inter-departmental Social Exclusion Unit (Mandelson, 1997) is indeed the right way to go. Social exclusion is not just a matter for one government department. All policy proposals should be tested against the contribution that they make to promoting social inclusion.

The second conclusion is that government policy can make a difference. It is not the case that social exclusion is simply the product of world economic forces in the face of which the government is powerless. The government can make interventions in the labour market of the kind which have been announced under the heading of Welfare to Work, but the scope of policy should be broader. Employment in itself is not necessary inclusionary; the quality of the new jobs is also important. Policies of labour market flexibility may simply shift people from unemployment to marginal jobs with no prospects. The role of employers in job destruction and job creation needs to be considered. Labour market measures should not be seen as an alternative to social transfers; these policies are complementary. The form of social security needs to be re-considered from the standpoint of social exclusion, but it will remain important even with improved labour market opportunities. And there are other areas of policy which need to be reviewed. The government can intervene in the tariff policy of privatised utilities, such as gas, which may prevent people from having access to essential services.

The third conclusion is that economic analysis, for all its limitations, does have a useful role to play in illuminating the different elements of social exclusion. The flowering of empirical research using longitudinal data has come just at the right time to help understand the processes that determine how people escape, or do not escape, from social exclusion ("dynamics"). The analysis of employment determination casts light on the "agency" by which people are excluded. Models of decisions by firms about pricing show how people are excluded from consumption and demonstrate the "relativity" of the concept.

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# Exclusion, Employment and Opportunity

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**(editors)**

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## Centre for Analysis of Social Exclusion

The ESRC Research Centre for Analysis of Social Exclusion (CASE) was established in October 1997 with funding from the Economic and Social Research Council. It is located within the Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD) at the London School of Economics and Political Science, and benefits from support from STICERD. It is directed by Howard Glennerster, John Hills, Kathleen Kiernan, Julian Le Grand and Anne Power.

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## Editorial Note


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## Preface

The principal aim of Section F of the British Association is to show how economic analysis can be applied to illuminate important issues of public concern. The theme for the 1997 Section F Meeting of "Equality and Opportunity" surely satisfied this criterion. The subject matter is highly relevant to key initiatives of the Labour Government elected in May 1997. The first Budget of Gordon Brown was centred on Welfare to Work, seeking to create employment opportunities for the young and the long-term unemployed. Training, education, and the acquisition of skills are central to the Government's programme. In August 1997, Peter Mandelson, Minister without Portfolio, announced that there would be a campaign against social exclusion as a prominent plank in government policy. December saw the establishment of the new Social Exclusion Unit. According to the Prime Minister, this is in many ways "the defining difference between ourselves and the previous government" (The Observer, 23 November 1997).

The measures are yet to take full effect, and it will not be possible to evaluate their impact for some time. But we can ask now what one can learn from modern economics, together with other social sciences, that is relevant to this policy area. Views differ as to the contribution of modern economics to understanding contemporary problems. Andrew Britton, in his chapter, reaches rather negative conclusions about the contribution of economics. He says that the subject of the Section's meeting shows up the limitations of economics rather than its strengths. In my contribution, I am more upbeat. While there are major gaps in our understanding, to a notable degree British economists have identified the areas where more knowledge is needed, and have invested in acquiring data and developing theories.

My Presidential Address, which is Chapter One of this Paper, is concerned with the three-way relationship between poverty, unemployment and social exclusion. These concepts are related but should not be equated. In debates about Social Europe, the terms poverty and social exclusion have on occasion been used interchangeably, but they are not the same. People may be poor without being socially excluded; and others may be socially excluded without being poor. Unemployment may cause poverty, but this may be prevented, as in a number of mainland European countries, by social security. In countries such as France there has not been the same rapid rise in poverty as in the United Kingdom. Unemployment may cause social exclusion, but employment does not ensure social inclusion; whether or not it does so depends on the quality of the work offered. "Marginal" jobs may be no solution.

The link between employment and social cohesion is the subject of Chapter Two by Andrew Britton, Executive Secretary of the Churches' Enquiry into Unemployment and the Future of Work, which reported in April 1997. He argues that conventional economic analysis is too committed to individualism and too narrowly focused on a material view of human well-being. It therefore misses an important part of the problem of unemployment: the role of work in providing self-esteem and a proper state of being. The search for social cohesion in the Report of the Churches' Enquiry may be seen as an application of a social contract, but a Christian approach is one based on sharing of suffering. The resulting policy recommendations have some congruence with the approach of the new Government, aiming to ensure enough good work for all, but there are also major differences. Notably, the Report argues that paying taxes is an important way in which we discharge our social obligations, and that higher taxation is necessary to finance the creation of new opportunities, and new jobs, in fields such as health and education.

A key aspect of social exclusion is that of dynamics. People are excluded not just because they are currently without a job or income but because they have little prospects for the future. Assessment of the extent of social exclusion has therefore to go beyond current status. Mobility in terms of incomes is the subject of Chapter Three by John Hills, Director of the newly established Centre for Analysis of Social Exclusion at LSE. As he notes, longitudinal data are being used to argue that there is considerable social mobility, so that a great deal of poverty may be a one-off event, and that mobility had increased with labour market flexibility, so that we need be less concerned about the associated rise in earnings differences. He makes the point that mobility is in part a life-cycle phenomenon. This insight goes back at least to Seebohm Rowntree's study of York in 1899, but he and Karen Gardiner have taken the analysis an important step further by characterising different types of trajectory, such as “rising out of poverty” or “blips into poverty”. Their characterised trajectories account for a much higher fraction of households than would be expected on a random basis. His chapter points the way to a much richer understanding of income dynamics.

By future prospects, we have in mind not only those of the current generation but also those of their children. Social exclusion may apply across generations. Intergenerational transmission of economic status is the subject of Chapter Four by Stephen Machin. Using data from the National Child Development Survey, he finds that the extent of intergenerational mobility is limited in terms of earnings and education, and that there is evidence of asymmetry in that upward mobility from the bottom is more likely than downward mobility from the top. He argues that childhood disadvantage is an important factor in maintaining immobility of economic status across generations. If this is the case, then inequality of outcome today is a cause of inequality of opportunity in the next generation.

The acquisition of skills is the subject of Chapters Five and Six. Wiji Arulampalam and Alison Booth in Chapter Five explore the connection between labour market flexibility and work-related training. They find, using data from the British Household Panel Survey, that workers on short-term contracts, or not covered by a union collective agreement, are less likely to be involved in work-related training to improve their skills. They suggest that there is a conflict between expanding the more marginal forms of employment and expanding the proportion of workers getting training. Such a finding underlines the importance of the quality of employment.

In Chapter Six, Francis Green and colleagues use evidence from the 1997 Skills Survey, and a comparison with the 1986 SCELI survey, to examine what has been happening to skills, with particular reference to those actually used in the workplace. The findings show a significant increase in the skills used in Britain, with the increase being particularly marked among women. There is greater use of problem-solving skills, of communication and social skills, and of computing skills. At the same time, the authors emphasise that the findings apply only to those in employment, nothing being said about skill acquisition by those not in work.

The chapters in this Paper draw on extensive economic research. A significant part of this research has been financed by the Economic and Social Research Council, and I end by stressing the importance of this funding, and that from independent foundations such as the Leverhulme Trust and the Joseph Rowntree Foundation.

Tony Atkinson
January 1998