

# The Cost of Inequality

## Inequality in the UK

In the UK today, the richest one hundred people have as much wealth as the poorest 30% of all households – or around 18,900,000 people. It's an astonishing comparison, but it shouldn't surprise us. For the past forty years, income inequality in particular has spiralled, leaving the gap between the rich and the rest more like a chasm. As the rich have got richer, the rest have been left behind.

The consequences of our unusually high levels of inequality are far-reaching. More unequal societies do worse on a range of social measures from mental health to life expectancy to crime. Of the developed OECD countries, the UK is ranked 17th out of 23 in life expectancy, 19th out of 22 on obesity, 17th out of 21 on teenage births, and 17th out of 23 for imprisonment. More equal societies, meanwhile, top the table in almost every measure.

But the impact of inequality on our health, wellbeing and crime rates also has a financial cost. Our research finds that the impact on the UK of some of the social consequences of inequality, including reduced life expectancy, worse mental health, higher levels of imprisonment and murder could cost the equivalent of over **£39 billion every single year**. By contrast, total government spending on defence for 2013-14 is expected to be around £40 billion.

We would not need to entirely eradicate inequality to see the benefits. Our estimate is based on a comparison between the level of inequality in the UK and the average level seen in developed countries. In other words, small changes to our level of income inequality would make the public purse richer, individuals healthier, and the UK a more pleasant society to live in.

The approach of the UK towards dealing with its various health and social problems is, as in many other countries, largely remedial. Where we do look at root causes, we often overlook the pernicious role of inequality. This is a mistake.

All political parties serious about reducing costly social problems must include in their manifesto an explicit goal that the net impact of their policies will be to reduce the gap between the richest and the rest. Parties should also produce an estimate of the net impact of their manifesto policies on UK inequality, and commit to produce an estimate of the net impact of their annual budgets on UK inequality, if elected.

The benefits of reducing economic inequality are clear. A more equal UK would experience less crime and imprisonment, better mental health, higher healthy life expectancy, and would be a socially and financially richer society.

## The Cost of Inequality

The overall cost of inequality to the UK can be estimated as equivalent to **£39 billion a year** (£39,312,152,414). If this was broken down to an individual level, it would show that the impact of inequality on every man, woman and child in the UK can be valued at **£622**.

The cost of inequality can be broken down as follows:

- £12.5 billion lost through reduced healthy life expectancy
- £25 billion lost through poorer mental health
- £1 billion lost through increased imprisonment figures
- £678 million lost through an increase in the number of murders

An explanation of these valuations, including their calculations and the methodology used to calculate the overall level of equality in a more equal UK is outlined below.

However, it should be noted that these figures may only scratch the surface of the true cost of inequality. Many of the costs associated with inequality remain incalculable. For example, how does one value the higher level of community cohesion, trust, and social mobility associated with less unequal countries?

## Calculating the Costs of Inequality

A regression model was used to calculate the levels of mental illness, homicide, imprisonment, and healthy life expectancy that could be expected to be found in the UK if there was a lower level of inequality. The data was drawn from a collection of international databases (see sources below) and the outcomes were selected on the basis that they had a relationship to income inequality, were costly yet preventable and could be costed with good quality UK sources.

The median level of inequality for a collection of developed countries<sup>1</sup> was input into the model. This was used to calculate the levels of social problems a more equal UK would be expected to have, and these levels were, in turn, costed using a variety of measures as set out in the following pages.

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<sup>1</sup> Country selection criteria: Richest 50 countries ranked by wealth according to the Atlas method, used by the World Bank to classify countries into Low, Medium and High Income categories (source: World Development Indicators Database, World Bank, April 2004). From the richest 50 countries, those countries with populations of less than 3 million were excluded, in order to exclude tax havens. The final countries used were those for which a comparable income distribution measure was available in the United Nations Human Development Reports.

## Physical Health

### Cost of inequality - £12.5 billion (£12,631,728,045)

In a more equal UK, people could expect an extra eight and a half months of healthy life expectancy, valued at £12,631,728,045.

This figure is calculated using NICE guidelines which suggest that the organisation would pay up to £20,000-£30,000 for a drug that granted a year of healthy life (Quality Adjusted Life Year).

Greater equality is modelled as a drug which increases healthy life expectancy. The total figure is found by comparing the difference in healthy life expectancy between the current UK and a less unequal UK, multiplied by the UK's current population, multiplied by £20,000 (the lower limit of the cost) and divided by the current UK's healthy life expectancy.

The international data on healthy life expectancy comes from the World Health Organisation's World Health Report 2004.

## Mental Health

### Cost of inequality - £25 billion (£24,935,601,739)

Reducing inequality would improve people's mental health by five per cent, valued at £24,935,601,739.

The wider economic cost of mental illness in England is estimated to be £105.2 billion each year. This includes direct costs of services, lost productivity at work, and reduced quality of life. The cost of poor mental health to businesses is just over £1,000 per employee per year, or almost £26 billion across the UK economy. In 2008/9, the NHS spent 10.8% of its annual secondary healthcare budget on mental health services, which amounted to £10.4 billion. Service costs, which include NHS, social costs, and informal care costs mounted to £22.5 billion in 2007 in England.

The cost per incidence of mental ill-health in the current UK was multiplied by the expected rate in the more equal UK to give an overall cost in a more equal UK. This was then compared with the total cost of mental health in the current UK to calculate the total cost saving.

Data for the prevalence of mental ill-health (defined as the prevalence of any mental illness in previous 12 months for adults) was drawn from World Health Organization and official national surveys for Australia, New Zealand and Canada for 2001-2003.

## Crime

### 1. Imprisonment

#### **Cost of inequality - £1 billion (£1,066,925,764)**

Reducing inequality in the UK would result in 37 per cent fewer people being imprisoned each year, valued at £1,066,925,764.

The reduced imprisonment rate of a more equal UK was used to calculate the total amount of prisoners in a less unequal UK. This was multiplied by the cost per prison place to give a new total cost figure for imprisonment. The cost saving was found by comparing this number with the total number of prisoners according to the current UK imprisonment rate, multiplied by the cost per place.

The international data on imprisonment rates comes from the United Nations Crime and Justice Information Network, Survey on Crime Trends and the Operations of Criminal Justice System, 2000. The cost for imprisonment is calculated using the government's cost per prison place of £36,808.

### 2. Murder

#### **Cost of inequality - £678 million (£677,896,865)**

A more equal UK could expect 33 per cent fewer murders each year, valued at £678 million (£677,896,865).

The cost for homicide is calculated using the UK Peace Index's total economic cost per homicide of £3,601,604. To avoid overlap with the cost of imprisonment, the Peace Index's cost per homicide to the criminal justice system (£187,510) was subtracted from the total economic cost per homicide.

The cost per homicide in the current UK was multiplied by the number of homicides in a more equal UK to give a total cost. This was then compared with the total cost in the current UK to give a cost saving.

The international data on homicide rates comes from the United Nations Crime and Justice Information Network, Survey on Crime Trends and the Operations of Criminal Justice Systems, 2000.

## Appendix

### Sources

Healthy life expectancy: Healthy Life expectancy at birth for men and women, 2002, WHO, World Health Report

Mental health: Prevalence of mental illness, 2001-2003, WHO 10

Imprisonment: Log of prisoners per 100,000, United Nations<sup>17</sup>

Homicides: Homicide rate per 100,000, Period average for 1990-2000, United Nations 17

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World Health Organisation. World Health Report. Annex Table 4. Switzerland, 2004 ([www.who.int/whr](http://www.who.int/whr)).

Guardian (2013), Crime statistics for England & Wales: what's happening to each offence? <http://www.theguardian.com/news/datablog/2011/jul/14/crime-statistics-england-wales#murder>

Institute for Economics and Peace (2013), UK Peace Index: [http://www.visionofhumanity.org/pdf/ukpi/UK\\_Peace\\_Index\\_report\\_2013.pdf](http://www.visionofhumanity.org/pdf/ukpi/UK_Peace_Index_report_2013.pdf)

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NHS (2014) Mental health outcomes strategy: <http://www.nhs.uk/nhsengland/NSF/pages/Mentalhealth.aspx>

NICE (2013), Measuring effectiveness and cost effectiveness: the QALY: <http://www.nice.org.uk/newsroom/features/measuringeffectivenessandcosteffectivenessstheqaly.jsp>

**Note on uprating**

All costs have been uprated to today's (2012) prices using the Bank of England inflation calculator.

<http://www.bankofengland.co.uk/education/pages/inflation/calculator/flash/default.aspx>  
(accessed 01/2014)