

from the poor law to welfare to work

what have we learned from a
century of anti-poverty policies?

By David Coats

with Nick Johnson and Paul Hackett



Webb Memorial Trust

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Foreword

Paul Hackett, Director of the Smith Institute and Richard Rawes, Chair of the Webb Memorial Trust

"It is now possible to abolish destitution," claimed Beatrice Webb at a rally in 1909 to promote her *Minority Report of the Royal Commission on the Poor Laws*. This aspiration was shared by a generation of social reformers who followed in her footsteps, and remains the objective of anti-poverty campaigners today. For the Webb Memorial Trust and the Smith Institute, eradicating poverty and reducing inequalities are at the heart of the quest for the good society.

As this report shows, significant improvements have undoubtedly been made since Beatrice's time, when poverty consigned many families to the hardship of the workhouse. But progress has not come easily, and solutions suited to one era have often had to be reinvented for another, as definitions and public perceptions of poverty continuously shifted. The authors have successfully captured the story of how anti-poverty policies have evolved and highlighted the strengths and weaknesses of government interventions. They have also provided a useful international comparison and discussed the drivers for change and the lessons learned.

However, this report is much more than a historical commentary and critical assessment of what has been achieved. The evaluation of anti-poverty policies presented in this report is also intended to inform the current debate on how we eradicate poverty and reduce inequalities, which – as the authors show – have increased during recent periods of growth. The cornerstone of the report's analysis and its challenge to today's policy makers is the contention that redistribution (through welfare) is essential, but can only be part of the solution to combating poverty. The evidence from more than a century of reform is that lasting reductions in poverty and inequality also demand pre-distribution policies, notably in the labour market (through work and pay). This perspective is important and timely as governments seek to rebalance the relationship between the state and markets to achieve a fairer and more prosperous society.

We would like to thank David Coats, the lead author, and Nick Johnson, for researching and writing this report. We are also grateful to the following for their contributions: Paul Hunter, head of research at the Smith Institute; Michael Ward; Professor Baroness Ruth Lister; Barry Knight and the trustees of the Webb Memorial Trust; and all the members of the report's advisory group – Naomi Eisenstadt, Oxford University; Alison Garnham, Child Poverty Action Group; Donald Hirsch, Loughborough University;

and Stephen Machin, London School of Economics. The views expressed are those of the authors alone, who also take sole responsibility for any factual inaccuracies.

Executive summary

Executive summary

- Social reforms focusing on the structural causes of poverty date back to the ground-breaking research of the Webbs in their *Minority Report on the Poor Law* (1909). A century of anti-poverty policies since then has eradicated destitution in the UK, but despite prolonged periods of economic growth and a mature welfare state, poverty, deprivation and high levels of income inequality still persist.
- Evaluations of anti-poverty policies have been complicated by disagreements over the meaning and measurement of poverty and inequality, and widespread public misconceptions about the causes of poverty. Reference by some of today's politicians to the "deserving" and "undeserving" poor is reminiscent of the Victorian era and continues to undermine efforts by policy makers to tackle the primary causes of poverty.
- History shows that the state has taken on more responsibility for the reduction and elimination of poverty. However, evidence from a century of social policy demonstrates that non-state institutions – notably trade unions, collective bargaining, labour-market institutions, corporate governance arrangements and social norms – have also played a major role in reducing poverty. These instruments and agencies of "pre-distribution" (the way in which the market distributes its rewards, before the government gets involved) were particularly effective in reducing both poverty and income inequality in the period between 1945 and 1979. It is much easier for the state to implement effective policies if action has already been taken by others to achieve a more equitable initial distribution of market incomes.
- The success of post-war anti-poverty policies was a result of redistribution by the state, full male employment and pre-distribution. Even in the inter-war period, the incidence of poverty was reduced by the wages boards (later to become wages councils) pre-distribution arrangements, such as wages boards, the fair wages resolution (which ensured that public authorities only did business with the reputable) and collective bargaining.
- The dramatic reductions in poverty and improvements in social mobility in the post-war period until the mid-1970s were therefore based upon mutually reinforcing policies: a comprehensive welfare state; new systems of social security, health and education; policies for full employment (which increased the

incomes of those previously unemployed); and strong labour-market institutions (which ensured decent levels of pay). The political consensus that work and effective labour-market institutions were critical in reducing poverty and inequality lasted until the fiscal crisis in 1976 and the emergence of Thatcherism.

- The post-war period highlighted the tensions in anti-poverty policy making between setting relatively high insurance-based benefits and concerns over contribution levels, affordability and incentives. Means-tested benefits failed to provide adequate incomes, but became deeply embedded in the fabric of the welfare state. Support for the principle of mutuality (on which the welfare state was founded) is much harder to sustain when large numbers of people are reliant on means-tested benefits.
- The period from 1979 to 1997 witnessed a rise in both poverty and inequality. The evidence suggests that this was less to do with welfare reform and more a result of allowing the real value of benefits to fall, high unemployment and, most significantly, the transformation of the labour market. The Thatcher government's deliberate dismantling of the institutions of pre-distribution pushed more people into poverty and worklessness. Efforts to alleviate poverty were undermined by the attack on trade unions and employment rights, the revocation of the fair wages resolution and the eventual abolition of wages councils.
- The New Labour era saw a reassertion of the public commitment to the welfare state, with new anti-poverty programmes built around increases in transfers such as child and family benefits. Child and pensioner poverty was reduced and unemployment fell sharply as the economy recovered and the government adopted a proactive regional policy. However, poverty rates only reached mid-1980s levels by 2010 and means testing became more deeply entrenched in the system, principally through the development of tax credits. None the less, the Institute for Fiscal Studies has shown that poverty and inequality would have been much worse without Labour's reforms.
- The new wage floor established by the national minimum wage helped improve the incomes of the low-paid, but income inequality worsened, with most of the gains from growth going to the top 1% of earners. The delivery of Labour's anti-poverty ambitions was hampered by an unwillingness to countenance a wider range of labour-market interventions to reduce employers' reliance on low pay.

- International comparisons show that conscious policy choices can make a real difference. The UK's performance in reducing poverty is by no means appalling, but other comparable countries have done significantly better (and did so especially during the 1980s and 1990s). Countries with less inequality have less poverty, and countries with less poverty and inequality have stronger welfare states and stronger labour-market institutions. International experience also shows that getting people back into work is the single most effective policy for poverty reduction.
- Experience of anti-poverty policies, particularly in the post-war period, shows how it is possible to build a fairer society under conditions of great adversity. There is still ample room for the UK to make very different policy choices. Investing in welfare and work and supporting non-state institutions which influence pre-distribution must be at the heart of future strategies to reduce poverty and inequality.

Chapter 1

Introduction

Introduction

This report has two broad objectives: to review anti-poverty policies over the course of a century; and to evaluate the results. Our analysis is not intended as a catalogue or scorecard of all actions taken to reduce poverty since the Webbs. That project would run to several volumes. Nor have we sought to compete with the wealth of academic literature in the field. We are offering a policy-focused narrative, rather than a close inspection of poverty statistics or a detailed assessment of particular anti-poverty programmes. Our objective is to identify the lessons that we can learn from more than a century of public policy, with a view to determining how new policies might be developed to eradicate poverty and reduce income inequality.

Given the complexity of the subject and the available data, we have divided our account into an analysis of the labour market, social security and benefits, income redistribution, and poverty and inequality. Where relevant to our wider narrative, we have referred to policies for housing, regeneration, education and health and to the role of the voluntary sector. We also explore the importance of economic geography and the regional differences in poverty and inequality.

The Webbs' early work on the Poor Law is our starting point and, where appropriate, we have tried to relate the changing policy landscape to the recommendations of the Minority Report. It could be said that the Webbs have few insights to offer policy makers today; after all, most of their recommendations have been implemented. None the less, many of the issues they addressed were related to the purpose and scope of the welfare state – the inadequacy of market incomes, the coverage of universal benefits, the scope of unemployment insurance, the level of conditionality in the benefits system – and these are of continuing relevance.

Our goal is to understand the main policy drivers, the nature of the interventions adopted by successive governments, and the effectiveness of different policies in reducing poverty. For convenience and for ease of analysis, we have grouped the policy initiatives into four time periods: 1905-42, 1942-79, 1979-97 and 1997-2010.

It is also important to examine how the UK's performance compares internationally. Although it is often asserted that global forces are causing a convergence of labour-market outcomes, the evidence suggests significant variation between nation states on the dimensions of both poverty and inequality. Moreover, it is equally clear that very different strategies have been pursued and very different results achieved, with the US at one end of the policy continuum and the Nordic countries at the other. Work

conducted by the Organisation for Economic Co-operation and Development identifies two general policy menus, which they describe as the "redistribution strategy" and the "work strategy".¹ The first uses the tax and benefits system to achieve poverty reduction (through relatively high marginal tax rates and generous benefits), while the second focuses on getting citizens back into the labour market as the principal route to improving the incomes of poor households. We can usefully view the UK's experience in this way, both to assess the effectiveness of policy in the past and to outline some possibilities for the future.

Through our analysis of UK and international evidence, we have sought to examine the development and implementation both of explicit anti-poverty policies and of measures that have contributed to a reduction in poverty and inequality; and we have placed them in the context of wider social and economic trends. In seeking to do this, we have deliberately put the spotlight on the institutions that shape the operation of markets and have a significant impact on the distribution of incomes and the incidence of poverty before the intervention of the tax and benefits system. The American scholar Jacob Hacker describes this as "pre-distribution".² So, for example, wage floors may be established in various ways – as a result of minimum wages or public sector contract compliance requirements, through collective bargaining and the extension of collective agreements, or through "living wage" policies in either the private or the public sector. Other arrangements can also influence the distribution of market incomes: corporate reporting and transparency in executive pay, for example, or a robust challenge from workers' representatives to excess at the top. As we demonstrate, these instruments of pre-distribution appear to be almost as important as the instruments of redistribution in reducing (or eliminating) poverty and equalising (and enhancing) life chances.

The principal focus of social policy since the 1960s has been the idea that the state is the most important actor in any anti-poverty programme. In comparison, labour-market institutions and the effectiveness of other policies that influence the initial distribution of market incomes have been relatively neglected.³ In part, this is a result of social and labour-market change. For example, the establishment of a comprehensive welfare state rendered many of the insurance functions of trade unions unnecessary. Equally important, perhaps, is the fact that collective bargaining has been in serious decline since the early 1980s, notably in the private sector. One might say, however, that

1 OECD *Growing Unequal* (2008)

2 Hacker, Jacob *The Institutional Foundations of Middle Class Democracy*, Policy Network (2011); Hacker, Jacob and Pierson, Paul S *Winner Take All Politics*, Simon and Schuster (2010)

3 With the exception of the national minimum wage, where the Low Pay Commission has sponsored an extensive research programme.

by minimising the importance of pre-distribution, social policy analysts have placed too heavy a burden on the state. Moreover, neglect of labour-market institutions has left the UK in a position where workers have much less bargaining power and cannot be certain that their wages will rise in line with productivity.

Our overarching narrative, based on an evaluation of anti-poverty policies, offers a distinct insight: if poverty is to be eradicated, then the state needs the support of independent intermediate institutions, such as trade unions, other representative bodies of workers, campaigning organisations and charities. Taxes and transfers on their own are not enough.

What is pre-distribution?

"When we think of government's effects on inequality, we think of redistribution – government taxes and transfers that take from some and give to others. Yet many of the most important changes have been in what might be called 'pre-distribution' – the way in which the market distributes its rewards in the first place. Policies governing financial markets, the rights of unions and the pay of top executives have all shifted in favour of those at the top, especially the financial and non-financial executives who make up about six in ten of the richest 0.1% of Americans. The moral of this story is that progressive reformers need to focus on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits. This is not just because pre-distribution is where the action is. It is also because excessive reliance on redistribution fosters backlash, making taxes more salient and feeding into the conservative critique that government simply meddles with 'natural' market rewards. Further, it is because societies in which market inequality is high are, ironically, ones where creating common support for government action is often most difficult. The regulation of markets to limit extremes and give the middle class more voice is hardly easy – witness the fight over financial reform in the United States. But it is both more popular and more effective than after-the-fact mopping up."

Jacob S Hacker⁴

4 Hacker, Jacob *The Institutional Foundations of Middle Class Democracy*, Policy Network (2011)

Chapter 2

Why does poverty matter and what does it mean?

Why does poverty matter and what does it mean?

The development of anti-poverty policies over the last century is a history of hard-fought campaigns by reformers, like the Webbs, battling against strong vested interests and a hostile media. As Michael Ward observes in his study of Beatrice Webb, shifting the social policy agenda from the *relief* of poverty to the *prevention* of poverty in the early 20th century was not widely understood or necessarily popular at the time.⁵ Public attitudes towards tackling poverty have been slow to change, which in part explains why it took so long to abolish the Poor Law.

Today, it would seem self-evident that poverty matters to governments of all political complexions and to citizens too. Yet public attitudes towards poverty (and the perception of anti-poverty policies) are far from straightforward. Recent British Social Attitudes Surveys, for example, continue to show that more than a quarter of respondents think that poor people are poor because they are lazy; the comparable figure in the mid-1980s was less than a fifth.

The focus groups conducted by the Fabian Society's Commission on Life Chances and Child Poverty confirm these findings: better-off citizens are still inclined to blame people in poverty for their own fate.⁶ There is a widespread belief that no children are poor, but if they are, it is the fault of their parents. In the minds of these focus group participants, the distinction between the deserving poor ("those who work hard") and the undeserving ("those who live on benefits") is a matter of common sense. As Polly Toynbee and David Walker explain, these opinions are almost entirely shaped by media coverage rather than personal experience and only begin to change once some facts are adduced to explain the realities of poverty in general and child poverty in particular.

So why should policy makers embark on a war on poverty? The simple reality is that some families on very low incomes struggle to buy fresh food, pay their utility bills and find accommodation in decent but affordable housing. Poor households simply do not have the choices available to the majority: life is a struggle and things that are taken for granted by most of us are unavailable to those on low incomes. In other words, there is a strong sense in which living in poverty is by definition a kind of "poor living": something that prevents people from playing their full part in society; limits life chances, no matter what an individual's abilities may be; and confirms in the

⁵ Ward, Michael *Beatrice Webb: Her Quest for a Fairer Society*, The Smith Institute (2011)

⁶ Fabian Society *Narrowing the Gap: The Final Report of the Fabian Commission on Life Chances and Child Poverty* (2006); Toynbee, Polly and Walker, David *Unjust Rewards: Exposing Greed and Inequality in Britain*, Granta (2008)

minds of those living in poverty (particularly in social housing) that birth is destiny.⁷ We might go further and say that poverty is damaging to respect and self-respect; to tolerate avoidable poverty is to treat some people as less than full citizens.

There is other evidence adding weight to the argument that poverty is damaging to individuals and society. For example, careful epidemiological research has demonstrated that unequal societies have a much steeper social gradient in health and life expectancy. It is a stark truth that people in poverty in such societies (like the US and the UK, for example) have significantly lower life expectancy and worse health than the more affluent.⁸ Indeed, reducing the extent of income inequality can lead to improvements in the health of *all* groups in the population. In this sense, it is better to be poor (or rich) in Sweden, Japan or the Netherlands than to be rich or poor in the UK.

The real problem here is explained by the impact of low social status in those countries with a very wide (and widening) gap between the richest and the poorest. A social phenomenon (inequality) has profound physiological effects that increase susceptibility to disease, especially coronary heart disease and mental illness. As Professor Sir Michael Marmot has argued, a reduction in poverty and inequality would lessen the amount of suffering experienced by the most vulnerable in society.⁹

Richard Wilkinson and Kate Pickett develop this argument and suggest that societies with high levels of poverty and income inequality are characterised by a wide range of other social ills, including higher levels of obesity, higher rates of incarceration, a higher incidence of violent behaviour, less social mobility, worse educational performance, lower levels of social trust, and the more widespread use of environmentally unfriendly or unsustainable lifestyles and technologies.¹⁰ Whether causal relationships have been proved in *all* of these cases is rather beside the point. Causation has been proved conclusively in relation to health and social mobility, and these alone ought to be sufficient for policy makers and the wider public to recognise the challenge of poverty reduction.

Defining and measuring poverty

Understanding why poverty matters is critical to the effectiveness of anti-poverty policies. But it is also important to understand what poverty means – not least in a society characterised by abundance rather than scarcity. If poverty is defined as

7 Hanley, Lynsey *Estates*, Granta Books (2007)

8 Marmot, Michael *Status Syndrome*, Bloomsbury (2004); Marmot, Michael *Fair Society, Healthy Lives: The Marmot Review*, TSO (2010)

9 Marmot, Michael *Fair Society, Healthy Lives: The Marmot Review*, TSO (2010)

10 Wilkinson, Richard and Pickett, Kate *The Spirit Level*, Allen Lane (2009)

starvation, then nobody in the UK is poor today. But this is a rather useless statement, telling us nothing about the real experience of those on low incomes. As the late Professor Peter Townsend observed, "poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation".¹¹ Once a society has progressed beyond the struggle for survival, poverty can be defined only in terms of how much those on low incomes have in comparison with those further up the income scale.

The previous Labour government, somewhat unhelpfully, measured "absolute" poverty as a household living on less than half the average (1997) income. While this was not the main measure New Labour used, it offered obvious political advantages in that it allowed the government to measure progress against a fixed benchmark over time. What an indicator of this kind does not do, however, is assess the extent to which the incomes of people in poverty are growing in line with the majority of the population. Nor is it right to say that absolute poverty assessed in terms of this slightly arbitrary benchmark is a truly accurate measure of the resources needed to allow a household to provide adequate nutrition, housing and health for all its members.

The central challenge of poverty reduction is to ensure that people in poverty today can, with appropriate policy changes, be equipped with the resources they need to achieve full participation in society. The aim must be to relieve avoidable suffering and extend the possibilities for people on low incomes to choose lives that they value. Inevitably, this means that the poverty benchmark will move over time. As the social policy analyst Brian Abel-Smith pointed out in the 1950s, to define poverty in terms of some absolute income level is a recipe for widening income inequality and deepening entrenched class distinction.¹² Those at the bottom of the income distribution should be enabled to share in the nation's rising prosperity in the same way as those higher up the income ladder. Tackling poverty and inequality effectively means that the *relative* position of those in poverty must be improved.

Most analysts and policy makers in the UK today use 60% of median household income as the most appropriate measure of poverty. The median is defined as the mid-point in the distribution where 50% of households have higher incomes and 50% have lower incomes. It is possible, therefore, to improve the incomes of those in the bottom 50% without shifting the mid-point of the distribution. Policy makers can avoid the arithmetical problems involved in using the mean and have a robust instrument to measure progress over time.

11 Townsend, Peter *Poverty in the United Kingdom*, Penguin (1979)

12 Abel-Smith, Brian "Whose Welfare State" in N Mackenzie (ed) *Conviction*, McGibbon and Kee (1958)

Some might question whether 60% of median household income is the right measure of poverty, or indeed whether any statistical assessment can capture the realities of life on a low income. In any event, some analysts use a wider range of measures to gauge the extent of poverty in a society. The Organisation for Economic Co-operation and Development, for example, in its comprehensive 2008 review of poverty and inequality across the developed world, reports the percentage of households with incomes below 40%, 50% and 60% of the median. A simple way of expressing the point is in terms of household income per week, which is a straightforward device to bring home just how low the incomes of those in poverty can be. Moreover, using a range of indicators (as the OECD does) can offer a richer description of the extent of extreme poverty. None the less, the choice of benchmark often reflects certain assumptions about the willingness of policy makers to tolerate poverty and inequality. And such a choice is rooted in beliefs about the resources that might be needed to achieve full social participation.

Another useful element of the OECD's analysis is the notion of the "poverty gap". This measures the difference between the *mean* (average) incomes of those in poverty and the poverty threshold (for these purposes the OECD uses the 50% threshold). This approach confirms that those countries with the highest percentage of poor households also have the largest poverty gaps. Interestingly, these data sets show poverty in the UK consistently falling over New Labour's period in government.

Any evaluation of poverty also requires some measure of income inequality because, as we have seen, income inequality affects social outcomes. The generally accepted measure of income inequality is the Gini coefficient. This is a measure of how income is distributed across society, using a range from 0 to 1. In other words, where the Gini coefficient is 0, incomes are distributed perfectly equally; where the coefficient is 1, one person has all the income and all the others have nothing. This is clearly a very useful measure for monitoring trends in the distribution of incomes (the Gini coefficient rose quite rapidly in the UK in the 1980s, for instance), but it is a highly technical measure and can be difficult to use as an instrument of public persuasion or political campaigning. "Reduce the Gini coefficient now" is not an especially compelling slogan. None the less, it does tell us something about the effectiveness of policy: just how well is the redistributive process working? And, when combined with other measures, it can advance our understanding of the dynamics of inequality.

An important criticism of the Gini coefficient is that it can be skewed by developments at the extremes of the distribution – by the super-rich and the very poor. For this reason many analysts use the 90:10 and 80:20 ratios, looking at the gap between the

90th and 10th percentiles of the distribution and the 80th and 20th percentiles. Both these indicators are important. The first tells us something about the gap between rich and poor excluding the distorting effects of the super-rich; the second tells us more about what is happening in the middle of the distribution. We use both in this report to measure progress in eradicating poverty and reducing inequality and to help evaluate the effectiveness of public policy interventions in the UK and internationally.

The commonplace definitions or measures of poverty largely depend on assessments of household income – an approach that has been criticised by some commentators as too limited. Peter Townsend was the leading advocate of a more sophisticated set of measures designed to overcome the limitations of purely statistical analysis. The critical question for these purposes is not "Where do people sit in relation to some particular point in the income distribution?" but "To what goods and services do low-income households have access and how does this compare with the expectations of the more affluent?" In other words, some effort is made to assess what a household needs to achieve full social participation, with an index of items developed to measure relative deprivation. This approach was the basis for the survey *Poor Britain* undertaken by Johanna Mack and Stewart Lansley in the 1980s. They created a deprivation index of 22 items and defined poverty as "an enforced lack of socially perceived necessities".¹³ This deprivation index was subsequently updated in the Poverty and Social Exclusion Survey.

There are some apparent similarities between Townsend's approach and the "capabilities" model developed by Amartya Sen – although the lively exchanges between Townsend and Sen suggest a profound disagreement about the practical implications and whether it is possible to talk about "absolute" poverty in a meaningful way.¹⁴ For Sen, the real test of social progress is whether individuals are able to acquire the capabilities they need to choose lives that they value.¹⁵ Capabilities in this context are related to "functionings", the practical things that people need to do to achieve their goals.

The risk, of course, is that arguing for a measure of poverty "beyond income" can easily be misinterpreted as meaning that incomes do not matter – although this is certainly not Sen's intention. The same might be said of the notion of social exclusion, which could be viewed as shifting the burden of responsibility on to those living in poverty:

13 Mack, Johanna and Lansley, Stuart *Poor Britain*, Routledge (1985)

14 Sen, Amartya *A sociological approach to the measurement of poverty: A reply to Professor Peter Townsend*, Oxford Economic Papers 37 (1985); Townsend, Peter *A sociological approach to the measurement of poverty: A rejoinder to Amartya Sen*, Oxford Economic Papers 37 (1985)

15 Sen, Amartya *The Idea of Justice*, Allen Lane (2009)

you are poor because your own behaviour and choices have led to your exclusion from society.¹⁶

Some politicians have taken up the suggestion that looking for improvements in the incomes of those in poverty is an inadequate solution to Britain's poverty problem. This is certainly reflected in Frank Field's recent work on child poverty for the Coalition government¹⁷ and in Nick Clegg's Hugo Young Lecture,¹⁸ where he stated: "For old progressives, reducing snapshot income inequality is the ultimate goal. For new progressives, reducing the barriers to mobility is." A fair assessment of this argument would recognise that Mr Clegg does not object to the goal of reducing the number of households living on less than 60% of median income. But his rhetorical intention is clear. Widening life chances matters; statistical movements in the distribution of income do not. And yet, as we shall see, egalitarian societies have more social mobility than their less equal counterparts.

Our approach

Whichever measure we apply, there can be no doubt that poverty is still present in the UK. It continues to blight the lives of millions of people and has costly social and economic impacts. And despite a century of social reform, the questions of definition, measurement and policy effectiveness remain as politically controversial as they were at the time of the Webbs. Some politicians and parts of the media persist in making a distinction between the "deserving" and "undeserving" poor, despite the cumulative evidence demonstrating that people in poverty are not generally responsible for their own condition.

In the following discussion we have focused on the policy responses to the causes (rather than symptoms and perceptions) of poverty, and have done so in part by reference to a range of different measures, such as 60% of median income and the Gini coefficient. This has allowed us to evaluate the advantages and disadvantages of bundles of anti-poverty initiatives over different periods.

Our evaluation has drawn on the best data available. However, this is not an easy task for two main reasons. First, the available data for the whole period are patchy at best, which makes temporal comparisons difficult (although it is possible to be clear about

16 Jones, Owen *Chavs: The Demonization of the Working Class*, Verso (2011)

17 Field, Frank *The Foundation Years: Preventing Poor Children from Becoming Poor Adults*, report of the Independent Review on Poverty and Life Chances, TSO (2010)

18 Clegg, Nick, Hugo Young Lecture 2010, available from www.guardian.co.uk/politics/2010/nov/23/nick-clegg-hugo-young-text (2010)

the effectiveness of policy from the 1960s onwards, when data collection improved considerably). Second, the impact of many social policies can only be assessed with confidence over a long period of time. For example, the full impact of the National Health Service could only be judged over a generation (or more) following its establishment in 1948. Similarly, the consequences of full employment, improvements in nutritional standards for children, wider educational opportunity and a narrowing gap between rich and poor could only be measured over a 30- or 40-year period – hence the analysis of the National Child Development Survey, which has informed much of the recent discussion of social mobility.

Most importantly, perhaps, governments change and policies change with them. Obviously there are continuities from one administration to another, but sometimes an important initiative never reaches the stage of full implementation, or there is some significant revision made to a policy following a change of government, or some external shock (such as a deep recession) blows an otherwise well-designed policy off course. For all these reasons causal relationships can sometimes be hard to establish with absolute confidence. Yet, as we have attempted to demonstrate, it is still possible to identify bundles of policies that seem to have either positive or negative effects on both poverty and inequality.

Chapter 3

The Webbs and the Minority Report

The Webbs and the Minority Report

It is just over a century since the publication, in 1909, of the *Minority Report of the Royal Commission on the Poor Law*, jointly authored by Beatrice and Sidney Webb. At that time, the UK had little more than the workhouse and outdoor relief to support those who had failed to find secure or adequately paid employment or who were unable to work by reason of age or disability.

Old age pensions had been introduced in 1908, the year before the Minority Report was published, but there was nothing like the National Health Service available, nor the personal social services that we now take for granted or support for working parents, unemployment benefits or an employment service to help people back into work. There was a general consensus that labour exchanges would be a good thing (they were established in 1909), and Britain had a growing trade union movement, membership of which had been on a slow and steady rise since the middle of the 19th century. The government accepted that it should only do business with reputable contractors following the adoption of the first fair wages resolution in 1891, which had the effect of encouraging employers to accept negotiated conditions of employment.¹⁹ But collective bargaining was not especially well established across the entire economy and was largely absent in the "sweated trades" where pay was lowest and exploitation most likely.

A slightly more effective wage floor was introduced in the year of the Minority Report's publication through the establishment of the wages boards (later wages councils), which set minimum levels of pay and conditions in some (although by no means all) of the sweated trades. None the less, only an optimist could describe the landscape the Webbs observed as a rudimentary welfare state. This was not a world that a modern social policy analyst would find familiar.

Many of the Webbs' recommendations prefigured later initiatives such as the Beveridge Report and the 1944 employment white paper. G D H Cole wrote of the Minority Report:

*[It] is indeed a landmark: it is the first full working out of the conception and policy of the welfare state, more comprehensive, because covering a wider ground, than the Beveridge Report of 1942, which in many ways reproduces its ideas.*²⁰

¹⁹ The fair wages resolution required contractors to respect the general level of wages paid in that sector and locality, thus preventing a race to the bottom in matters of pay and conditions of employment.

²⁰ Fremantle, Anne *This Little Band of Prophets: The British Fabians*, New American Library (1959)

Eight pillars of the welfare state

It is possible to identify eight constituent elements of the modern welfare state and relate these to the recommendations of the Minority Report:

1 Full employment

A commitment to full employment was less robustly expressed by the Webbs than in the 1944 white paper, but they did recommend that "the duty of so organising the National Labour Market as to prevent or minimise unemployment should be placed upon a Minister responsible to parliament, who might be designated the Minister for Labour".²¹

2 Insurance-based benefits

The introduction of insurance-based benefits, such as pensions and sickness benefits, was seen as important, but the Webbs favoured trade union-based insurance provision over provision by the state. The Minority Report is clear: assuming that action was taken to minimise unemployment, it was not unrealistic to invite the trade unions to administer the unemployment insurance system, which would be funded jointly through subventions from members and a direct transfer from the public purse. In other words, the Webbs were offering the unions an arrangement that was initially established in the Belgian city of Ghent (hence its shorthand description as the Ghent system), which came to be applied widely in the Nordic countries and helps to explain why those countries continue to have high levels of union membership today.

It is also worth noting that the Minority Report includes measures that today would be seen as unduly coercive: compulsory detention in colonies "of a reformatory type" for men who had been convicted of "vagrancy ... the neglect to maintain family or to apply for public assistance for their maintenance if destitute, repeated recalcitrancy or breach of discipline in a training establishment etc". By today's standards the Webbs were not liberals. The notion of mutual obligation is at the heart of their recommendations, and they had no qualms about taking decisive action to deal with those deemed to be breaking the rules.

3 Non-contributory universal benefits

Beyond insurance-based benefits there are non-contributory universal benefits. The most obvious example of such benefits today is child benefit. The Minority Report recommends a more restricted benefit that should be universally available to the mothers of young children. Furthermore, the suggestion here is that mothers should

²¹ Ward, Michael *Beatrice Webb: Her Quest for a Fairer Society*, The Smith Institute (2011)

devote themselves full-time to the care of their children and should not be allowed to look for work – in that sense, the Webbs look rather old-fashioned today.

4 Means-tested benefits

A striking feature of the British welfare state remains the extensive use of means-tested benefits. The Webbs aimed at the abolition of the Poor Law and the notion of "outdoor relief" – payments to those on low incomes outside the workhouse. Reducing the incidence of means testing can be achieved through three policy approaches: universal (non-contributory) benefits must be set at a level to provide for the needs of most households; or insurance-based benefits should be available to most people on the basis of limited contributions histories; or incomes from work should be high enough to avoid a recourse to the benefits system.

The first possibility can prove to be expensive and is inconsistent with the principle of mutuality. The same is true of the second option. And achieving higher incomes from work raises serious questions about the effectiveness of the institutions of pre-distribution. Moreover, it is hard to envisage a situation where universal or insurance-based benefits are set at a level that can accommodate *all* needs. Households have diverse characteristics – family size, employment status, the incidence of physical disability or mental illness – and some element of means testing is probably inevitable if the system is to be responsive to complex needs.

As we shall see, decisions taken about the level of insurance-based benefits at the point when the Beveridge report was implemented had the effect of weaving extensive means testing into the fabric of the welfare state. This was contrary to the Webbs' thinking and William Beveridge's ambitions in 1942. Indeed, the inspiration for such policies owes more to the Speenhamland system of the late 18th and early 19th century than to anything in the Minority Report (or indeed in Beveridge).²² This will be an especially significant question as we explore both the effectiveness of policy and the prospects for the future.

5 Provision of health and education services

Even before the Minority Report some aspects of both health and education policy had

²² The Speenhamland system was an early attempt by the public authorities (in this case the parish) to relieve destitution by supplementing the incomes of those in poverty from public funds. Wages were to be topped up according to a scale based on the price of bread and the number of children in the family. The scheme was criticised for its effects on incentives to work on the one hand and the subsidisation of low pay on the other. Moreover, there was some evidence to show that landowners were pushing down wages even further in the belief that the parish would prevent destitution. Thomas Malthus argued that the scheme would encourage more childbirths, pushing up the population to unsustainable levels.

been removed from the market. While the Webbs fell short of presenting a programme for a comprehensive health service, they did suggest that more co-ordination was required to avoid the confusion caused by dividing responsibilities between the Poor Law institutions and local government. It might therefore be argued that the Webbs offered some inspiration to those who later designed the architecture of the National Health Service. In the matter of education, the Minority Report recommends the abolition of Poor Law schools and the integration of children into mainstream local authority schools.

6 Provision of free or subsidised goods and services

In some cases the welfare state provides goods as well as services for free or at subsidised rates: free prescriptions, travel and winter-fuel payments for the elderly, free school meals for children from low-income families. While the Webbs made no specific recommendations for more extensive provision, they did observe that poor levels of nutrition had led local education authorities to provide school meals, sometimes at no charge.

7 Care and preventative services

Many of the care, residential and preventative services available today have their origins in the Poor Law: services for children, for older people and for those with physical or mental disabilities. The Minority Report recommended that this network of provision should be professionalised and linked to existing local authority provision. While much progress has been made since 1909, Ward is right to observe that:

Adult social care is an uneasy and unsatisfactory legatee of the Poor Law, with provision spread across a mixture of public, private and voluntary sector organisations, under-resourced and subject to relentless demographic pressure. And there is no overall consensus on whom – state or individual? – should pay for the necessary care, whether home-based or residential.²³

Some of the problems that perplexed the Webbs remain unresolved today and are likely to become more acute as the population ages.

8 Social housing

Housing policy was not an explicit part of the Minority Report, but the evidence is clear: the quality and location of housing affects health, life expectancy and life chances.²⁴ Sidney Webb was a prominent member of the London County Council (LCC),

²³ Ward, Michael *Beatrice Webb: Her Quest for a Fairer Society*, The Smith Institute (2011)

²⁴ Marmot, Michael *Status Syndrome*, Bloomsbury (2004); Hanley, Lynsey *Estates*, Granta Books (2007)

which began some early experiments with social housing.

The Webbs and pre-distribution

The Webbs understood the importance of pre-distribution and were, in the Minority Report, just as concerned about labour-market policy as "social policy" strictly so called. Of course, the Minority Report includes a great deal of material on unemployment and the importance of what eventually became labour exchanges. But the best way to read the recommendations is in the context of the Webbs' other work on industrial democracy and the role of trade unions.²⁵ They assumed that collective bargaining was an indispensable practice in an advanced capitalist economy; that trade unions should establish wage floors at sectoral level; and that the process of bargaining would ensure that the fruits of rising productivity would find their way into the workers' pockets.

The Webbs identified three elements of what they called the trade union method: first, mutual insurance; second, collective bargaining; and third, legal enactment. One might argue that it was the generalisation of this approach and its incorporation into the political programme of the early Labour Party that allowed British socialism to move from utopian aspiration to a practical, social democratic programme. Indeed, the Minority Report is rooted in many of the same assumptions about the role of trade unions and the importance of collective bargaining. Hacker's characterisation of pre-distribution is both an echo and a development of ideas articulated by the Webbs in their work on industrial democracy and in the Minority Report. In other words, the Webbs envisaged that progressive social policy objectives (broadly defined) could only be achieved through a partnership between the state, the citizen and intermediate institutions (in this case the trade unions).

²⁵ Webb, S and Webb, B *Industrial Democracy* (1897)

Chapter 4

From poverty relief to prevention, 1905-42

From poverty relief to prevention, 1905–42

Beginning with the reforming Liberal government of 1905, the period up to 1942 saw the emergence of the first notion of a welfare state. Inspired by the work of the Webbs and the Minority Report, there was growing support for the view that public policy should aim at the relief of poverty, not simply an end to destitution – a belief that was reinforced by the experience of the economic slump after 1929.

It was during the period from 1905 to 1942 that many of the questions that continue to perplex policy makers today first emerged: universalism versus needs-based provision; contributory versus means-tested benefits; the differential treatment of the "deserving" and "undeserving" poor; welfare rights versus discretionary payments. This period extends from the formation of the Liberal government under Henry Campbell-Bannerman to the publication of William Beveridge's report on social security in 1942. It also includes the review of the Poor Law and the Webbs' Minority Report, the disruptions of the First World War, the Great Depression and pre-war rearmament. It was self-evidently a period of great social and economic upheaval when the demands for protection against the vicissitudes of capitalism increased significantly.

The Liberal government began to lay the foundations of the welfare state in 1908, with the introduction of the first old age pension. This was non-contributory, funded from general taxation and, to begin with, restricted in application: only the poorest elderly people were beneficiaries, assuming that they passed a means test. When entitlements were extended in the 1920s, the "new" pension became contributory.

These tentative steps were followed by the National Insurance Act of 1911, which introduced sickness and unemployment insurance, initially for a very limited numbers of trades and sectors. In this case the contributory principle was the bedrock of the system, establishing the view that the state was providing a form of collective (social) insurance. The notion of "something for something" – that entitlement either is or should be related to contribution – was firmly established in this period. We should note here that the Webbs favoured a rather different approach: a trade union-based form of insurance, building on the arrangements that already existed, but with subventions from the state to ensure that the system was funded and offered a decent level of benefits. Paradoxically, the unions preferred the Liberal government's scheme to the Webbs' more union-friendly alternative – a choice that was later to have profound consequences for trade union membership and influence.

According to Michael Ward, the Liberal government had set an important precedent in

the introduction of the old age pension and national insurance:

Before that time the only public agencies with responsibility for the elderly, sick, or the unemployed were the local boards of (Poor Law) guardians. Afterwards, the central state had a role. That role grew with the extension of national insurance in 1920, and the extension of pensions on a contributory basis in 1925.²⁶

However, as Ward also comments, the weak actuarial basis of unemployment insurance meant that in reality many of the unemployed returned to the workhouse.

Even at this early stage in our story, we can see policy makers wrestling with the balance to be struck between means testing and an insurance-based system. One might say that the two approaches remained in tension, with the insurance principle dominant from the 1920s onwards, until the publication of the Beveridge report (discussed in the next section).

Returning to our earlier theme, we should note that there were labour-market institutions in this period that reduced the incidence of poverty. So, for example, the wages boards, established in 1909, continued to fix legally binding minimum rates in the sweated trades. Trade unions also worked to extend the reach of collective bargaining, although the general economic conditions meant that trade unionism was under pressure during the depression. Moreover, the aftermath of the General Strike (1926) saw legislative changes that limited the unions' room for manoeuvre.²⁷ None the less, governments accepted that they should only do business with reputable contractors, and the various fair wages resolutions established an effective series of sectoral wage floors observed by those supplying goods and services to the government.²⁸

In 1920 the limited 1911 national insurance scheme was extended to cover most trades and sectors. For a while in the aftermath of the war the economy continued to grow robustly, but the rosy prospects for growth were soon confounded by a competitiveness problem caused by an inappropriate monetary policy and the global slump. Under these conditions the insurance system was unable to cope. Workers either had not paid enough contributions to qualify for benefit, or rapidly exhausted their entitlement.

²⁶ Ward, Michael *Beatrice Webb: Her Quest for a Fairer Society*, The Smith Institute (2011)

²⁷ The Trade Union and Trade Disputes Act (1927) introduced restrictions on sympathy strikes (secondary action), prevented unions from organising strikes with the purpose of "coercing the government" (like the 1926 General Strike), and declared some forms of industrial action illegal as "intimidation". None the less, as Pelling (1992) has noted, trade union membership recovered as the economy emerged from depression. Some of the legislative constraints (on sympathy action) were never invoked and unfavourable public policy did little to halt the trade union advance.

²⁸ The first fair wages resolution was adopted in 1891; the last, adopted in 1946, was rescinded in 1983.

Indeed, the Labour government fell in 1931 following the Cabinet's failure to agree to reductions in unemployment benefits.²⁹ At the same time, the concentration of poverty in particular places fuelled the demand to nationalise "poor relief" on the grounds that the hardest-hit areas would never be able to meet their obligations to citizens – payment of outdoor relief under the Poor Law – through local taxation alone.

In high-unemployment areas ratepayers simply could not carry the cost of supporting a growing army of the unemployed. For a while, governments avoided the problem with so-called "uncovenanted benefit", but this proved to be an inadequate solution. When the unemployed then turned to the Poor Law, the guardians, who were responsible for administering the system, were unable to enforce the workhouse test. Organised labour-movement campaigns finally broke the principles of the 1834 Poor Law, and in 1929 the guardians were abolished. In 1934 outdoor relief to the unemployed became a national responsibility, as means-tested national assistance. These changes effectively confirmed in law the situation that had existed in practice since 1929, with the Treasury accepting responsibility for payments to the long-term jobless.

Inevitably, the rise in unemployment, which averaged 13% between 1921 and 1931 for the insured workforce, pushed more people into poverty, and the increase in worklessness made it difficult to argue that those without jobs were lazy, feckless or in some other way delinquent. The tragedy of the depression vindicated the Webbs' insistence that structural causes of poverty needed to be addressed and added weight to the emerging argument, first advanced systematically by J M Keynes in the *General Theory of Employment Interest and Money*,³⁰ that government had a role to play in boosting demand when private consumption was falling and business investment was sluggish. One might say that the Webbs prefigured Keynes's case for full employment (and the 1944 white paper on employment policy) in the Minority Report. Their central recommendation was the establishment of a ministry of labour to organise the labour market to minimise unemployment. Indeed, as we shall see, the Beveridge model of the welfare state is only workable if the government's commitment to full employment remains absolute.³¹

Most importantly, perhaps, the impact of unemployment on poverty was becoming increasingly central to political thinking. There was a gradual evolution of policy and

29 Skidelsky, Robert *Politicians and the Slump: The Labour Government of 1929-1931*, 2nd edition, Papermac (1994)

30 Keynes, J M *The General Theory of Employment, Interest and Money*, Macmillan (1936)

31 By the time Beveridge's report was published in 1942, Beatrice Webb had said that she believed unemployment could not be eliminated under capitalism. The remedy might lie, therefore, in learning from the best of the Soviet system, which was, in her view, "a new civilisation".

action rooted in the widespread belief across all political parties that the pre-war status quo could not be reinstated (although the Conservative Party subsequently opposed the creation of the National Health Service and some other elements of Labour's settlement after 1945). This emerging consensus set the scene for, and was influenced by, Beveridge's *Report of the Inter-Departmental Committee on Social Insurance and Allied Services*,³² the implementation of which is explored in the next section.

Key points

- The Edwardian era showed the value of evidence-based policy making, led by the work of the Webbs on the structural causes of poverty. Progress was slow, but anti-poverty policy makers began to look for more state interventions. The first old age pension (1908) and the National Insurance Act (1911) showed what governments could achieve.
- Early anti-poverty programmes were limited in scope and funding. Initial welfare reforms were disjointed and displayed the tensions and compromises caused by uncertainty over whether benefits should be means-tested or insurance-based. These pressures have continued to shape anti-poverty policies.
- Poverty rates would have been even higher without the introduction of wages boards and the extension of both collective bargaining and fair wages resolutions. These labour-market institutions helped increase the levels of pay for some of the poorest workers.
- During the inter-war years, high unemployment pushed more people into poverty. The structural causes of poverty and the link between poverty and unemployment were highlighted, making it hard to argue that those without work and in poverty were lazy or feckless. Nevertheless, public perceptions about the so-called "deserving" and "undeserving" poor limited government's room for manoeuvre.

32 Beveridge, William *Social Insurance and Allied Services* (The Beveridge report), Cmnd 6404, HMSO (1942)

Chapter 5

The foundation of the welfare state and the “rediscovery” of poverty, 1942–79

The foundation of the welfare state and the “rediscovery” of poverty, 1942–79

The structure of the welfare state as we know it today was designed during the wartime period following the Beveridge report (1942) and the white paper on employment policy (1944). Clement Attlee's Labour government implemented most of these recommendations after 1945, although the wartime coalition made significant changes to education policy under the supervision of R A Butler in the 1944 Education Act. This period is characterised as one of political consensus, although the parties had significant differences in matters of detail. The post-war settlement largely endured until the economic crisis of the 1970s and the Labour government's application for a loan from the International Monetary Fund in 1976.

It was largely as a result of the experiences of the previous decade that Beveridge was asked to conduct his investigation and make recommendations for reform. Persistent high unemployment, a multiplicity of agencies supplying a range of social services and an inability to ameliorate the social conditions produced by the slump persuaded politicians across the political spectrum that a departure from the pre-existing arrangements was essential in the post-war world. Beveridge's work owes much to the Minority Report and to Seebohm Rowntree's research in York, which had been published in 1941. Beveridge accepted that poverty had structural causes that could only be addressed through national policies. This meant in turn that those living in poverty could no longer be considered the authors of their own condition. A combination of bad luck and the consequences of general economic conditions offered a more persuasive explanation of poverty than fecklessness or moral frailty. An argument fought passionately by the Webbs against majority opposition was finally having its day.

It is worth recalling that Beveridge's characterisation of the “five giants” – want, disease, ignorance, squalor and idleness – had both a rhetorical and an analytical purpose. Rhetorically, the grand language of thundering denunciation was designed to enthuse as well as persuade. But analytically, the five giants were all related and the journey towards a better society required that they all be slain:

- **Want** had to be tackled through a new approach to guaranteeing secure incomes for all – what Beveridge described as social security.
- **Disease** had to be dealt with through a comprehensive national health service.
- **Ignorance** would only disappear once a new approach to education policy had been adopted.

- **Squalor** would only be vanquished by huge improvements in the quality of housing, as well as by an enlightened approach to urban planning.
- **Idleness** would only end once all governments committed themselves to the policy of full employment – the subject of the white paper *Employment Policy* published in 1944.³³

Full employment and social security

The relationship between full employment and social insurance was central to the Beveridge plan. Except for the universality of family allowances, the provision of healthcare free at the point of need and some limited means testing for national assistance, Beveridge was committed to the insurance principle, to mutuality and to what we might now describe as “something for something”. The need for a partnership between the state and the individual was inherent in the scheme. As Beveridge put it himself:

*The state should offer security for service and contribution. The state in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum it should leave room and encouragement for each individual to provide more than the minimum for himself and his family.*³⁴

In other words, the labour market was at the heart of the post-1945 welfare state. People had to be in work to make the contributions that would fund unemployment insurance and pay the taxes to support the National Health Service. But it was unlikely that employment would prove attractive if wages were low and benefits were means-tested – in other words, there would be powerful incentives in the system to adopt a life on benefits. This was where other institutions became important: collective bargaining, wage floors and similar instruments to set decent levels of pay. One can view Beveridge’s approach as a suite of mutually reinforcing policies and institutions, with macro-economic policy (demand management, full employment) cutting with the grain of social policy and vice versa.

Getting people into work and keeping them there was consequently central to any poverty-reduction programme. It is clear in Beveridge’s report, however, that full employment was assumed to depend on a sole male breadwinner in each household – a model that has been overtaken by the increased participation of women in the labour market, ending the assumption that work is a male, full-time activity.

³³ *Employment Policy*, Cmd 6527 (1944)

³⁴ Timmins, Nick *The Five Giants: A Biography of the Welfare State*, pp.23-24 Harper Collins (1995)

At this point we should record that the notion of full employment has always carried with it an element of ambiguity. The 1944 white paper referred to a "high and sustainable level of employment". Hugh Gaitskell, as Chancellor of the Exchequer, suggested that it meant a level of unemployment that was no higher than 3% of the labour force at the seasonal peak. Beveridge, on the other hand, suggested that a 3% average rate was more appropriate. Economic historians, meanwhile, look to 1955, when unemployment was officially only 1%. In reality, unemployment (measured by the number of people actively seeking work) remained below 3% until the 1960s.

More recently, policy makers have been comfortable with an unemployment rate of around 5%, arguing that this constitutes full employment in a modern economy. And the 1997-2010 Labour government devoted just as much attention to the *employment* rate, aiming to get 80% of the potential labour force into jobs by 2010 – a target that was already hard to achieve and was essentially abandoned as a result of the global economic and financial crisis.

Universalism, means testing and the level of benefits

This brings us to one of the perennial challenges for all welfare systems: the balance to be struck between universalism, social insurance, means testing and the generosity of benefits. Beveridge recognised that, while insurance-based benefits should provide social security for the majority, some households would still need additional support through the system known as national assistance. Benefit levels became controversial at the point the Labour government began to consider how to implement the report, with some tension between Beveridge's desire for relatively high insurance-based benefits on the one hand and concerns about contribution levels, affordability and incentives on the other.

The critical question confronting policy makers was how to define the appropriate level of benefits. What did "want" mean? Inevitably, ministers were required to make a choice between preventing hunger and homelessness (at a minimum) on the one hand and ensuring that all households could access the resources needed for full social participation on the other. Was want to be eliminated by offering benefits at a "subsistence" level or was something more required?

Beveridge's approach seems to be characterised by some ambiguities – a national minimum should be provided but it should not stifle "incentive, opportunity, responsibility". The scheme presented in 1942 included relatively generous insurance-based benefits *and* generous family allowances to reduce the reliance on means testing.

Of course, Beveridge had to deal with the world as he found it and debates about "absolute" or "relative" poverty may have seemed largely academic in the face of undeniable social ills. None the less, the distinction between the avoidance of starvation and full social participation had been a point at issue since the 18th century: Adam Smith referred to the income required to ensure that "a man can appear in public without shame", suggesting that all poverty is relative and that more than the prevention of starvation should be the goal of policy. We shall see that this theme reappears when poverty is "rediscovered" in the 1960s.

The ambiguities in Beveridge's report were, to some extent, reflected in the redesign of the (means-tested) national assistance regime. The household means test that had caused such anger and anxiety in the 1930s was abandoned in 1942 for an individual means test.³⁵ Indeed, the National Assistance Act itself had the declared intention of terminating the existing Poor Law, thus consummating the aspirations of the Minority Report. But there was a problem inherent in the Labour government's modified implementation of the Beveridge scheme. Timmins summarises the implications as follows:

[M]any more people than had ever been intended were to fall back on to the safety net of means tested benefits, because retirement, unemployment and other insurance benefits were pitched too low and did not provide separately for housing costs (one of the problems Beveridge had wrestled with and failed to crack).³⁶

As a result, the insurance principle was already compromised to some extent by the continuation of (means-tested) national assistance. Of course, a degree of means testing was inevitable simply because the universal insurance benefits, even if set at Beveridge's preferred levels, could never take account of *all* household types or special needs. This is true today, with policy makers still wrestling with where to draw the line between universalism, social insurance and targeting. Or, to pose the challenge in more straightforward terms: just how much means testing are we willing to tolerate?

This dilemma has been an unavoidable challenge to policy makers since the foundation of the welfare state. The system could cope *relatively* well during a period of full employment, falling poverty rates and effective labour-market institutions. But in a period of rising inequality and entrenched worklessness of the kind we have witnessed over the last three decades, it is much harder to defend the mutuality of the insurance principle if so many people are reliant on means-tested benefits. Choices made in the

35 *Ibid*; p.135

36 *Ibid*; p.136

late 1940s about contributory benefit levels and national assistance have their echo today in concerns about the "undeserving" poor exploiting the welfare state and in the more populist tabloid obsession with "welfare scroungers".

The post-war settlement

The achievement of the post-war Labour government is undeniable. A welfare state was constructed in conditions of great adversity and a new political consensus was forged. Once re-elected in 1951, the Conservative Party left most of Labour's reforms untouched. Butskellism was an accurate characterisation of a political consensus that endured for 20 years. And yet, while Beveridge's principles became part of the conventional wisdom, some of the implications, primarily financial, proved problematic for all political parties. How were the resources needed to support the universal elements of the scheme to be raised? What level of contributions was necessary to support insurance-based benefits at a decent level?

To begin with, contributions were kept low so as not to penalise lower-income earners at the same time as the higher public expenditure required to achieve decent benefit levels was resisted by the Treasury. In other words, "decent" insurance-based benefits would, at these contribution levels, demand some support from general taxation. It was not entirely surprising, therefore, that means testing remained an essential part of the post-war system, not least because this seemed to offer governments a useful instrument both to control costs and to focus resources on those with specific needs.

The stubborn contradictions designed into the scheme post-Beveridge would emerge with disturbing frequency. Indeed, as we shall see, the balance to be struck between universal, insurance-based and means-tested benefits perplexed the Wilson government in the 1960s and the Heath government that followed.

Yet despite these difficulties, it is probably fair to say that both parties believed that the job of relieving extreme poverty was largely complete. Family allowances, unemployment benefit, national assistance, the NHS and Butler's education act were all believed, with some justification, to have either slain the five giants or at least cut them down to size.³⁷

This view explains why the revisionist wing of the Labour Party turned increasingly to

³⁷ The Labour Party was dissatisfied with the education elements of the settlement, believing that the distinction between grammar schools and secondary moderns entrenched educational disadvantage and fixed life chances at the age of 11. Comprehensive education was increasingly seen as the policy instrument to widen opportunity, reduce inequality and make more rapid progress towards social democratic objectives.

the problem of income inequality and reform of the education system as the next steps on the road to a social democratic Britain.³⁸ Indeed, suggestions that poverty remained a real problem were often seen as undermining Labour's case – what, after all, had the 1945–51 governments achieved if not the elimination of the pre-war evils? Exposure of the realities of poverty offered a discomfiting critique of Labour in power, which made the "rediscovery" of child and family poverty in the late 1960s such a problematic and totemic issue for Labour and anti-poverty campaigners.

The Wilson and Heath governments, 1964–74

From 1964 to 1979 Labour was in government for 13 years. In the early Wilson period poverty rates fell, but they began to rise again after the devaluation crisis in 1967, leading to a very critical evaluation of Labour's record by the Fabian Society.³⁹ None the less, by the standards of what was to happen in the 1980s, this could be seen as a period of modest success. The situation was not much worse in 1970 than it had been in 1964 (see figure 3, page 53 below).

Nor is it right to say that no efforts were made to resolve the tensions designed into the welfare state at the outset between universalism, insurance and means testing. For example, an ambitious proposal included in the Labour Party's 1964 general election manifesto committed the government to an "income guarantee", initially for pensioners but ultimately to be extended to other claimants, including those in low-paid work. This was, in embryo, the first serious effort to integrate the tax and benefit systems. Every citizen would have an annual assessment of their income, either to calculate the amount of tax they should pay or to determine what they should receive from the state to bring their incomes up to the "income guarantee". Unfortunately, the manifesto commitment was never implemented and fell victim to the economic squalls of the mid-1960s. What did emerge, however, was the scheme that came to be known as supplementary benefit.

In practice this seemed, initially at least, to be a significant step forward from national assistance. Supplementary benefit was simpler, more straightforward to claim and administer, and subject to clear nationally determined rules – unlike payments through national assistance, which were subject to a high level of administrative discretion and hence of inconsistency in implementation. Over time, this simplicity turned into increasing complexity, as the accumulation of precedent-setting decisions led to the formulation of new rules.

38 Crosland, C A R *The Future of Socialism*, Jonathan Cape (1957)

39 Townsend, Peter and Bosanquet, Nicholas *Labour and Inequality*, Fabian Society (1972)

Edward Heath's government made another attempt at a general simplification by proposing a tax credits system that would exclude those on supplementary benefit but include families with children, many pensioners and possibly single parents.⁴⁰ Once again, this scheme never got beyond the planning stage in Whitehall, falling with the Conservative government in the first general election of 1974, although the Heath government did introduce another means-tested benefit, family income supplement, to improve the incomes of families where at least one adult was working. Indeed, FIS was promoted as an explicit alternative to an increase in family allowances, as proposed by Peter Townsend and the Child Poverty Action Group. In that particular battle between means testing and universalism, means testing was victorious.

Governments were obviously aware that the post-war settlement was under pressure, but ambitious commitments or revolutionary schemes were, in the face of economic difficulties, often reduced to tinkering at the margins: the income guarantee became supplementary benefit; Heath's tax credit scheme left no legacy except child benefit (introduced by the 1974–79 Labour government). It would be wrong, however, to condemn all these initiatives as ineffective. After all, poverty was on a general downward trajectory throughout the period and the distribution of income was more equal over the 30 years after 1945 than at any time since. This is not to decry the efforts of those who sought to expose the realities of poverty in the 1960s and 1970s. It is simply that, by the standards of what followed, the period from 1945 to the mid-1970s is one of very considerable social policy achievement.

Critiques from left and right

There can be no doubt, however, that this is the period when sceptical voices were raised at both ends of the political spectrum. From the left, Peter Townsend, Richard Titmuss and Brian Abel-Smith produced findings that showed the insurance-based safety net was by no means comprehensive; that the second-tier means-tested safety net was failing to deliver adequate incomes for the poorest; and that Labour's egalitarian ambitions in particular were being disappointed.

It is at this point in British debates that the notion of relative poverty becomes salient. As Abel-Smith pointed out in the late 1950s, if subsistence is defined as a level just above that required for adequate health and nutrition, then allowing the incomes of people in poverty to remain at this level will inevitably lead to "increasing inequality and class distinction". In other words, if the nation is becoming more prosperous, then those living in poverty should not be excluded (through low benefits) from sharing in

⁴⁰ Timmins, Nick *The Five Giants: A Biography of the Welfare State*, Harper Collins (1995)

the nation's rising prosperity.

In 1965 Abel-Smith and Townsend published *The Poor and the Poorest*, an account of their analysis of family expenditure data from 1954 and 1960. Contrary to the slightly complacent view that poverty had largely disappeared, they found that 14% of the population were living in poverty and that this included 2.5 million children. Of these children, half a million lived in households where at least one adult was in work but which were earning less than they would have received if no adult were working and they were reliant on benefits. The immediate result was a renewed anti-poverty campaign led by the recently founded Child Poverty Action Group. Reducing poverty was now firmly back on the agenda as a political priority for the left.

On the right at around the same time a rather different line of argument began to emerge. The simplest way to express this concern is as follows: why work at all if benefits offer higher incomes than low-paid work? Initially at least, during the Heath government, the political response was to let the level of benefits fall further in relative terms. But there was a wider anxiety about the impact the welfare state was having on individual initiative, reflecting the belief among some Conservatives that citizens who could afford to do so should make provision for themselves.

This rather potent ideological cocktail began to appear much more palatable to aspirational skilled workers who might hitherto have supported the welfare state, not least because many of them found that they were paying income tax for the first time. How these political dynamics influenced policy in the 1970s and 1980s is discussed further below.

Reforming the institutions of pre-distribution?

It was not simply the government's welfare record that was subject to criticism. Indeed, during Labour's period in office there was a rising tide of concern about the effectiveness of the instruments of pre-distribution. For example, there was a widespread belief that the industrial relations system was becoming dysfunctional, that trade unions were agents of inflation, and that there were too many industrial disputes. Similarly, both left and right accepted that the UK had a productivity problem, which could best be resolved by the removal of trade union restrictive practices and an increase in business investment in research and development. It is in this context that Harold Wilson, for example, made his much-quoted reference to the "white heat of the technological revolution" and his attack on *all* vested interests.⁴¹

41 Sandbrook, Dominic *White Heat: A History of Britain in the Swinging Sixties*, Little Brown (2006)

Attempts to reform the collective-bargaining system under both Labour and Conservative governments (*In Place of Strife* and the Industrial Relations Act of 1971) foundered on the rocks of trade union opposition and trade union indifference. These developments shaped the attitude of the Thatcher and Major governments both to the process of trade union "reform" (manifested as state intervention in trade union affairs and increasing constraints on industrial action) and to the role of trade unions in the labour market.

One can also detect some trade union concern about the effectiveness of statutory wage floors. Wages councils (the successors of wages boards) were seen as increasingly ineffective.⁴² In most cases the independent members sided with the employer representatives to keep rates low. Inspection and enforcement were under-resourced. And, while the supposed objective of every wages council was, in Lord Wedderburn's words, "to commit suicide" and be replaced by effective collective bargaining, little progress was made in unionising these sectors.⁴³

Three policy responses were proposed by the unions. The first was the introduction of a national minimum wage (although some unions were opposed to this measure; see Fisher and Dix 1974). The second, implemented by the Labour government in the 1975 Employment Protection Act, was to establish a process for the conversion of wages councils into statutory joint industrial councils (with no independent members) as a precursor to full collective bargaining. The third, again implemented in Schedule 11 of the EPA, allowed for collective agreements to be extended to non-signatory employers, in cases where it could be demonstrated that the collectively bargained rate (or the going rate for a particular locality) was not being observed. All the EPA provisions were repealed in the 1980 Employment Act, the first piece of labour legislation introduced by the Thatcher government.

We should also note that low pay was gendered in the 1970s just as it is today, with far more women being paid low wages than men. To a degree this is a consequence of part-time work, where a wage penalty remains – a woman working part-time earns on average 22% less than a woman working full-time;⁴⁴ it is also explained by the fact that women take time out of the labour market to care for their children. The immediate policy response from the 1964-70 Labour government was the Equal Pay Act (1970), which guaranteed women equal pay for "like work" if a comparable

42 Wages councils were independent tripartite bodies set up to establish minimum wages and other employment conditions in industries such as clothing and agriculture. They had their origins in the 1909 Trades Boards Act.

43 Wedderburn, K W (Lord) *The Worker and the Law*, Sweet and Maxwell (1986)

44 Manning, Alan and Petrongolo, Barbara *The Part-Time Pay Penalty*, CEP (2004)

man could be found in the same workplace. This was followed by the Sex Discrimination Act of 1975, which established an equal opportunities commission that supported cases before employment tribunals. The equal pay arrangements were modified as a result of EU law in the 1983 equal value regulations, which guaranteed equal pay for work of equal value. The persistence of the gender pay gap today, which remains at just under 20% for all employees, demonstrates the weaknesses not only of the legislation itself but of a purely legislative route to gender pay equality.

What is most striking, perhaps, is that all these measures (even the Equal Pay Act) implicitly assumed that collective bargaining was the most effective route to the establishment of pay and conditions in an industry. No doubt some Conservatives would attribute this to the overbearing nature of 1970s trade unionism, but another reading is that government believed that the parties concerned should establish standards which could then be extended to recalcitrant or "black sheep" employers.

By the end of the 1970s it was clear that employer support for these institutions had been eroded. Indeed, it is not too fanciful to argue that each of these elements of the post-war settlement was being questioned by both the left and the right. Remember, too, that some of these measures had a much older pedigree, with the first fair wages resolution being adopted in 1891 and the wages boards introduced in 1909.

Despite the criticism from right and left and the associated industrial relations turmoil, it is important to note that Labour's record of reducing poverty from 1974 to 1977 was rather good. In part this was a consequence of reduced real incomes in the top half of the distribution, but it might also be attributed to the impact of incomes policy, which had a positive effect on the earnings of the lowest-paid (although this account was widely rejected at the time by thinkers on the left⁴⁵). Labour also introduced new benefits for disabled people and for carers, which had some impact on the level of poverty.

Yet despite these advances, while poverty may have declined in the early to mid-1970s, the trend appeared to be reversed from 1978 onwards. The squeeze on middle-class living standards generated an adverse political reaction for Labour, and Margaret Thatcher was able to win the economic and social policy arguments. According to the Conservative Party, incomes policy had obviously failed, trade unions were too powerful, markets were over-regulated; taxes were too high, nationalised industries were feather-bedded, and an overgenerous social welfare system discouraged enterprise

45 See Chris Pond in Bosanquet, Nick and Townsend, Peter (eds) *Labour and Equality*, Fabian Society (1980)

and created state dependency.⁴⁶ The stage was set for the emergence of "Thatcherism".

Varieties of capitalism and the robustness of the welfare state

At this point it is worth noting that different countries have developed different forms of welfare state which are, in part, related to their economic models. As Peter Hall and David Soskice have observed, there is more than one variety of capitalism.⁴⁷ They draw a distinction between liberal market economies like the US and the UK and co-ordinated market economies like France, Germany and the Nordic countries. Gösta Esping-Andersen makes a similar argument in his discussion of the "three worlds of welfare capitalism", with his typology of liberal, corporatist and social democratic regimes – with the UK as a curious hybrid, sitting somewhere between the liberal and social democratic regimes.⁴⁸

Yet despite these differences, the achievement of social progress – less poverty and inequality – was a common experience across developed countries until the late 1970s. Of course the extent of poverty varied considerably, but the income distribution was much narrower than hitherto and poverty levels witnessed a common downward trend. British social democrats in the 1950s may have looked to the Nordic countries, and indeed the US, for egalitarian inspiration,⁴⁹ but they had a strong legacy of achievement from the 1945–51 period (for many, not just in the UK, Britain was leading the way).

In the post-1979 period this shared experience began to disappear. So, for example, it is easy to observe the increase in poverty rates in the UK and an increase in the percentage of national income being received by the top 10% of the income distribution (see figure 1).

A similar phenomenon can be observed in the US, where the period from the advent of the New Deal in 1933 to the late 1970s is often described as "the great compression". Poverty rates fell; the share of national income consumed by the top 10% of the income distribution was on a consistent downward trend and reached a low point that endured from the immediate post-war period to the election of Ronald Reagan in 1980 (see figure 2). These results were achieved through a combination of intervention to shape labour-market institutions (trade unions, effective wage floors); a more progressive tax system; and the redistributive measures adopted under Lyndon B Johnson's Great Society programme (which included the War on

46 Thatcher was speaking out against an incomes policy in 1976 when as Tory leader she told the National Federation of Self-Employed: "I do not intend to have a statutory incomes policy again."

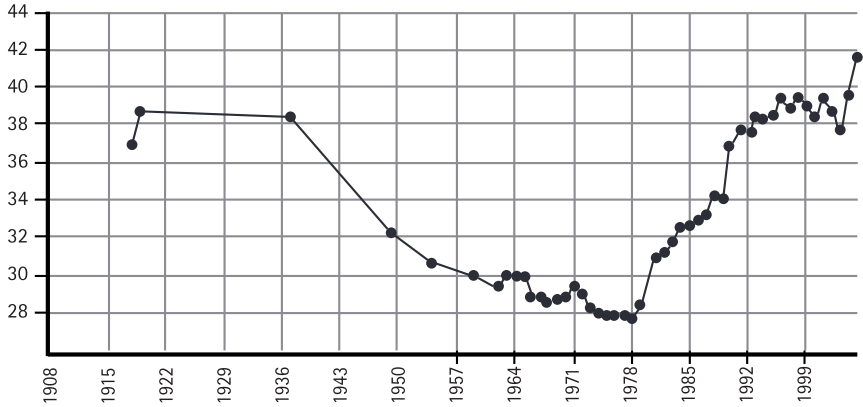
47 Hall, Peter and Soskice, David *Varieties of Capitalism: The institutional foundations of comparative advantage*, OUP (2001)

48 Esping-Andersen, Gösta *The Three Worlds of Welfare Capitalism*, Princeton (1989)

49 See Crosland, C A R *The Future of Socialism*, Jonathan Cape (1957)

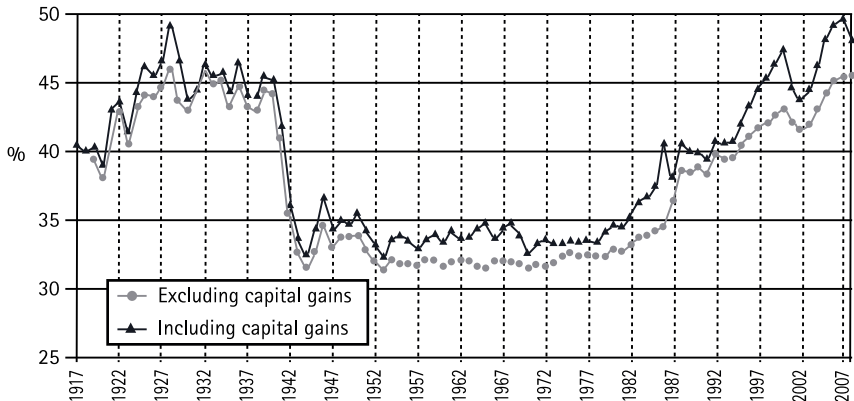
Poverty programme under the Office of Economic Opportunity). The UK's similar trajectory can be explained by the presence of analogous (though not identical) policies and institutions.

Figure 1: Income share of the top 10% in the UK, 1908-2005



Source: The World Top Incomes Database

Figure 2: Income share of the top 10% in the US, 1917-2007



Source: Piketty, Thomas and Saez, Emmanuel "Income Inequality in the United States 1913-98", *The Quarterly Journal of Economics* 114(1) (2003)

Notes: Income is defined as market income (and excludes government transfers)

In 2008, top decile includes all families with annual income above \$109,000.

One might also argue that the experience of war was important in shaping post-war expectations in both countries. The sense of shared endeavour engendered by the experience of adversity may have imposed some self-restraint on the behaviour of the richest, while the presence of trade unions in many workplaces would have ensured that the emergence of excessive rewards at the top would have been subject to a strong challenge by organised labour. Moreover, the commitment to full employment changed the balance of power between labour and capital decisively in labour's favour, although the absence of strong social partnership institutions in both the US and the UK meant that these arrangements were subject to continual challenge by those initially on the fringes but later in the mainstream of the political right.⁵⁰ And as trade unions found to their cost, this lack of institutional embeddedness made it much easier for centre-right governments in Anglo-Saxon countries to dismantle the post-war labour-market settlement. In continental Europe these structures endured, even though their effectiveness may have been compromised by industrial restructuring and technological change (an issue that is explored later, when we compare poverty rates across the OECD).

Nevertheless, the period after 1979 in both the UK and the US was characterised by a "great divergence" of a kind not witnessed elsewhere. Just how and why poverty and inequality began to rise again is the issue to which we now turn.

Key points

- Poverty was dramatically reduced in this period as a result of a more holistic and joined-up approach to preventing poverty. The introduction of a new system of social security, full employment, the creation of the NHS, a new approach to education, investment in housing – all helped to tackle Beveridge's five giants of want, idleness, disease, ignorance and squalor.
- The post-war settlement was based upon mutually reinforcing policies. Full employment (which increased the incomes of those previously unemployed) and strong labour-market institutions (which ensured more decent levels of pay) meant demand for social security was kept in check and the cost was affordable. Work and labour-market institutions were therefore critical to the success of economic and social policy.

⁵⁰ See, for example, Hayek, Friedrich von *The Constitution of Liberty*, Routledge Classics edition (2006)

- There was a tension between setting relatively high insurance-based benefits and concerns about contribution levels, affordability and incentives. Many people were to fall back on means-tested benefits because insurance benefits were too low. The system worked well enough during a time of full employment and effective labour-market institutions, but support for the principle of mutuality was much harder to sustain when an increasing percentage of claimants were reliant on means-tested benefits.

Chapter 6

The New Right and transforming welfare, 1979-97

The New Right and transforming welfare, 1979–97

Triggered by the severe economic turmoil of the 1970s, a new political philosophy, championed by Margaret Thatcher and the "New Right", moved to centre-stage. Deeming comprehensive welfare provision both unaffordable and undesirable, Thatcherism pushed forward a programme of welfare and labour-market reform. Tax cuts widened the income gap between the rich and the rest, while real terms cuts in benefits of all kinds increased inequality and brought particular hardship to those in poverty. Ironically, however, persistently high unemployment brought higher welfare costs, and despite the rhetoric, the government's attempts to shrink the state were largely fruitless.

The political critiques that emerged in the 1960s moved into the policy arena more fully as the 1970s progressed. At the time this was due to dissatisfaction on the left with the pace of change and concern that, despite the large investments in social welfare, poverty and inequality were proving stubbornly resistant to government intervention. However, the dominant critique came from the right, where a form of market fundamentalism was emerging. In essence, Friedrich Hayek, Milton Friedman and their British acolytes, including Margaret Thatcher, argued that the welfare system not only failed to achieve its declared objectives but imposed unsustainable costs, created dependency and inhibited entrepreneurship.

The rise of the New Right

For three decades after 1945, these arguments were seen as eccentric at best, but they gained greater purchase on policy debates following the two oil price shocks, the fiscal crisis of 1976 and the UK government's application for a loan from the International Monetary Fund. A squeeze on public spending was instituted by James Callaghan's Labour government, and Margaret Thatcher, once elected, applied a contractionary fiscal policy at the same time as the currency appreciated. The upshot of this was that the recession of the early 1980s intensified and unemployment was pushed up to what, hitherto, would have been regarded as an economically and socially intolerable level.

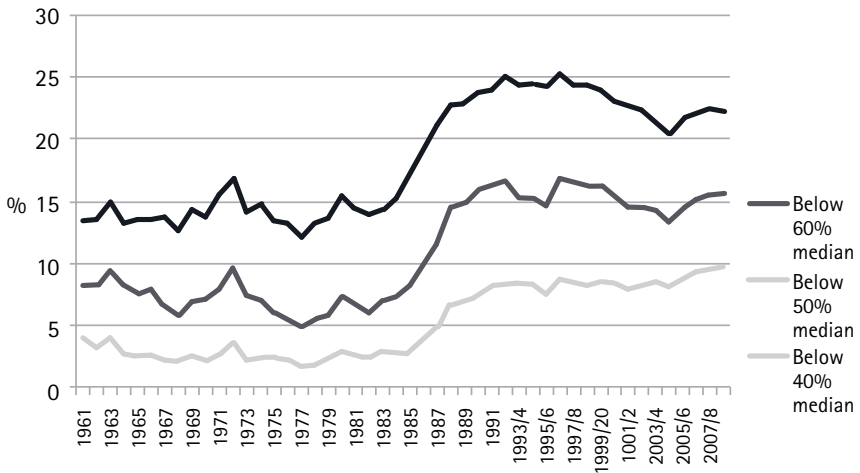
Looking at poverty indicators, we can see in retrospect that the gentle but significant progress towards greater equality began to halt and then reverse in the late 1970s – in other words, at the point at which the UK began to implement the public expenditure cuts demanded by the IMF. This is not to dismiss the rapid acceleration of inequality during the 1980s but simply to note that the trend did not begin in 1979 – there was a small but detectable rise in poverty and inequality from 1977 onwards (see figures 3, 4 and 5). In many ways, the report of the Royal Commission on the Distribution of

Income and Wealth in 1978 serves as a bookend, with Beveridge's report, to the post-war efforts to combat poverty.

Transformation at home and work

The period also witnessed a profound social transformation. The make-up of households was changing, as were people's life expectations. Many households had two earners now that women had entered the labour market in large numbers. This changed assumptions about the average wage within a household. At the same time, family break-up was also increasing, with the number of single-parent households almost doubling during the 1980s, not least as a consequence of high unemployment, industrial restructuring and poverty, all of which imposed sometimes intolerable pressures on families.

Figure 3: Individuals living in households below given poverty thresholds, 1961 to 2008/9



Source: IFS.

Note: This graph records poverty levels *after* housing costs have been taken into account.

The division between skilled and unskilled labour was also becoming more apparent. White-collar occupations expanded as the demand for unskilled labour fell. Wage inequality increased as Britain's manufacturing capacity declined. The collapse of traditional industry such as coal mining and ship building exacerbated the regional economic divide. Demographic change aggravated such problems still further. Life

expectancy increased and the costs of providing pensions and social care rose correspondingly.

Despite protestations to the contrary, it was clear that the Conservative government had abandoned the commitment to full employment that had characterised post-war economic policy. This led to a huge increase in the number of households living in poverty. At the same time, reductions in marginal rates of taxation for the highest earners helped to fuel the rise in income inequality.

Dismantling the institutions of pre-distribution

The resurgent Conservative Party was committed to a programme of labour-market deregulation. Much of the focus was on changes to the law on industrial action, but more important in this context was the revocation of the fair wages resolution in 1983 and subsequent attacks on the scope of the wages councils. While it would be wrong to attribute all of the increase in inequality and poverty in the 1980s to the decline (or abolition) of the institutions of pre-distribution, there can be no doubt that institutional change (alongside rising unemployment and deindustrialisation) was a significant contributory factor.

It is clear that these phenomena were a consequence of conscious policy choices. For example, in 1981 the Thatcher government denounced the International Labour Organisation convention on labour clauses in public contracts, which states that public contracts should include provisions that ensure that conditions such as wages and working hours in public contracts are at least equal to those that apply to work of the same nature within the relevant trade or industry (ILO Convention no 94); this decision led to the rescission of the fair wages resolution in 1983. The signal to employers could not have been clearer. Government no longer wanted to establish a wage floor in public contracting, opening the way for a race to the bottom in wages and conditions, and collective bargaining was no longer seen as a collective good for employers and workers.

An initial assault on the wages councils took place in 1986, with their jurisdiction restricted to fixing a single rate of pay and workers under 21 made exempt from the regulations. Some 25 wages councils, covering 2.6 million workers, were finally abolished in 1993, leaving the UK with no minimum wage protection of any kind for the first time in just over a century (the only wages board left was the Agricultural Wages Board, which is scheduled to be abolished in 2011). The abolition of wages councils was a huge policy error, not remedied until the Labour government introduced the national minimum wage in 1999.

This deliberate assault on the instruments of pre-distribution needs to be understood for the future policy agenda, not least because progressive governments in both the UK (1997-2010) and the US (1992-2000) were comfortable up to a point using the tax and benefits system to secure changes in income distribution but were reluctant to re-empower trade unions or (in the UK) use public procurement to institute effective wage floors.

Trickle-down and the (non-shrinking) shrinking state

The 1980s saw two clear trends related to rising levels of poverty and inequality. Both were linked to reductions in public spending and the government's objective of reducing the size of the state. The first was the desire to cut taxes and rely on "trickle-down" economic theory to stimulate growth. The second was to reduce the welfare bill by limiting payments both in their value and in the number of recipients.

However, the latter objective proved especially difficult to achieve in the face of persistently high unemployment, which averaged around 10% during the 1980s (compared with less than 3% from the 1940s to 1960s). This led to a decision that the overall value of universal benefits needed to be kept in check, with greater use of means testing or income supplements for those in most acute need.

Yet while the rhetoric had a distinctively reactionary flavour, the reality of policy implementation was rather different. There may have been a revolutionary reconstruction of the labour market, which explains much of the rise in poverty and inequality over the period. But a very cautious approach to the "reform" of the welfare state was adopted, and by the end of the period of Conservative government public spending as a share of GDP had scarcely fallen at all.

None the less, there could be no doubt that the Conservatives were ideologically committed to ending what they described as "dependence" and reducing the level of spending on social security. This stance had two apparently clear implications. First, those who could afford to do so should make their own provision by insuring against the risks of unemployment and ill health. Second, a clear distinction had to be drawn between the deserving and the undeserving poor. The deserving poor were entitled to targeted help, while the undeserving should be encouraged (some would say coerced) to return to work and subjected to benefit sanctions if they refused to comply.

The reality proved to be rather different, not least because of the persistently high level of unemployment during most of the period. But by allowing the relative value of universal benefits to fall and allowing the same to happen to insurance-based benefits

(while simultaneously tightening qualifying conditions), the government simply forced more people to make use of the means-tested elements of the system. For example, the transformation of unemployment benefit into jobseeker's allowance in 1996 and the cut in entitlement from 12 to 6 months reduced eligibility by around 100,000, forcing those affected to claim a range of means-tested benefits.

Similarly, some initiatives that were heralded as radical departures from the post-war consensus often proved to be nothing of the kind. Norman Fowler's apparently comprehensive review of social security in 1984 produced what Timmins⁵¹ describes as a series of "relative molehills", albeit that some of them were "cleverly designed". The biggest changes concerned pensions policy, where incentives were offered for people to opt out of the state earnings related pension scheme (SERPS), and in the means-tested parts of the system. Supplementary benefit was replaced by income support, family credit was substituted for family income supplement, and the social fund (which was cash-limited) took the place of the additional payments available under the previous supplementary benefit regime. While there was an element of simplification here, the overall effect was to make the welfare state somewhat less generous and a little more coercive, with devastating effects for those at the margins.

Later efforts to reduce the availability of benefits to the young unemployed (under the age of 25) led to an increase in youth homelessness – the notorious Cardboard City at Waterloo was one conspicuous result. A cut to housing benefit in 1988 had to be rapidly withdrawn following a storm of public protest. Shrinking welfare spending proved to be the nemesis of more than one secretary of state for health and social security.

It is also during this period that we see the noticeable decline of council housing as an instrument of social progress. A combination of a private housing boom, the sale of many council homes without restoring local authority stocks, and a government which regarded social housing as little more than a necessary evil ensured that, far from being a viable alternative for the many, public housing became the option of last resort for people in poverty, accompanied by stigma and popular disregard.⁵²

The collapse in social house building was therefore largely responsible for the residualisation of social housing. This in turn created more multiple deprivation and greater social exclusion and impacted negatively on life chances. These features, which

51 Timmins, Nick *The Five Giants: A Biography of the Welfare State*, Harper Collins (1995)

52 Hanley, Lynsey *Estates*, Granta Books (2007)

exacerbated poverty, were not present in the immediate post-war period.⁵³ Mapping of deprivation and housing by the Joseph Rowntree Foundation, for example, shows that there are major differences in the spatial distribution of poverty and its relationship with housing tenure in different cities. Concentration of deprivation is a critical factor, but the analysis shows that the association between social housing and poverty is mainly determined by income or economic factors.

Income inequality

The 1980s also saw the most rapid expansion of the gap between those at the top and bottom of the income scale. Indeed, the UK still has one of the highest levels of income inequality in the OECD. For the first 20 years of the period from 1961 to 2008, the Gini coefficient was fairly stable,⁵⁴ falling in the 1970s under Labour's incomes policies (and because high inflation reduced real incomes for the middle-class) but then rising slowly at first, followed by a rapid increase in the late 1980s (see figure 5).

While this is interesting, it tells us less than we need to know about the dynamics of inequality. So who has seen their incomes rise and who has fallen behind? The 90:10 and 50:10 ratios, comparing the richest 10% with the poorest 10% and the middle of the distribution with the bottom, show that this is mainly a story of rising incomes in the top half of the distribution. Going further, we can say that this is a story of the top 10%, a conclusion reinforced by our earlier observations about the great compression and great divergence in both the US and the UK (see figures 1 and 2). Indeed, in the US it is really a story about the top 0.1%, who have captured almost all of the income gains from rising productivity over the last 15 years.⁵⁵

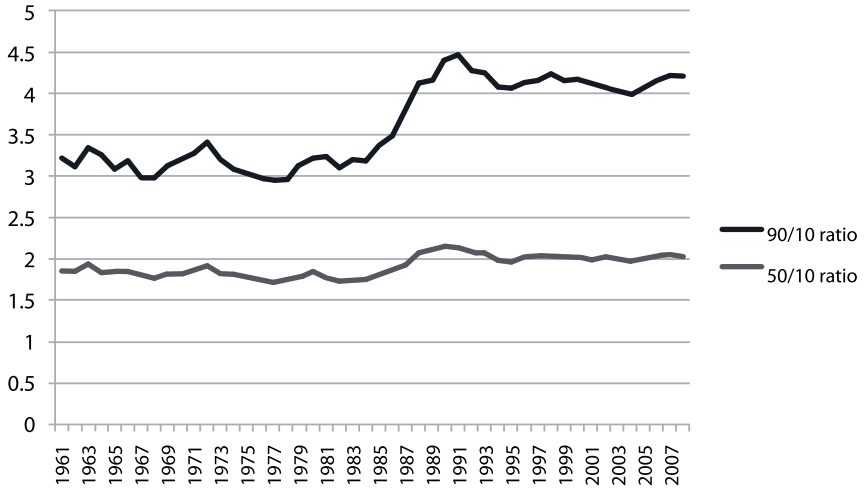
This trend towards greater income inequality and higher levels of poverty is by no means a universal experience, as we shall see when we come to explore international comparisons in more detail. It is quite wrong, therefore, to attribute the UK and US pattern largely either to the impact of globalisation (there is no race to the bottom) or to the wage premium supposedly available to skilled workers. In other words, there is ample scope for domestic policy choice and good grounds for optimism that progress can be made.

53 Feinstein, Leon et al *Public Value of Social Housing: A longitudinal analysis of the relationship between housing and life chances*, The Smith Institute (2008)

54 The Gini coefficient is a technical measure of income distribution on a scale from 0 to 1: if one person held all the income, then the Gini coefficient would be 1; if everybody had equal incomes, it would be 0.

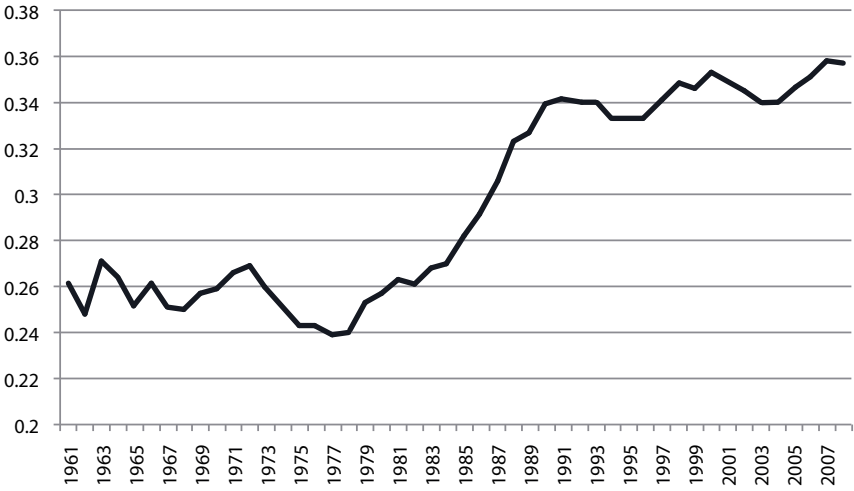
55 Dew-Becker, Ian and Gordon, Robert "Where did the productivity growth go? Inflation dynamics and the distribution of income", paper presented to the Brookings Panel on Economic Activity (2005); Hacker, Jacob and Pierson, Paul S *Winner Take All Politics*, Simon and Schuster (2010)

Figure 4: The widening of the income distribution, 1961-2008



Source: IFS

Figure 5: Income inequality measured by the Gini coefficient, 1961-2008



Source: IFS

How might we assess the Conservative years in power? In one sense, a revolution had taken place in labour-market policy: institutions that had been taken for granted had either disappeared from the scene (wages councils, the fair wages resolution) or were significantly weakened (trade unions generally). But efforts to “shrink the state” and to reduce what some Conservatives described as “dependence” had largely failed. Spending on health and social security had risen during the period of Conservative administration, largely as a consequence of demographic change and the growth in high and persistent unemployment. From a right-wing standpoint this can hardly be seen as a record of success.

Key points

- The 1980s gave rise to a new free-market orthodoxy, which saw government jettison its commitment to full employment and cut welfare spending. However, much of the structure of the welfare state remained untouched – albeit underfunded. The policy focus was on reducing benefit costs, which continued to rise as unemployment increased.
- Efforts to alleviate poverty were seriously undermined by a programme of labour-market deregulation. This included the revocation of the fair wages resolution and abolishing wages councils. Collective bargaining was no longer seen as a collective good for employers or workers, opening the way for a race to the bottom in wages.
- In order to keep the welfare bill in check, there was greater use of means testing and a tightening of qualifying conditions. The relative value of universal benefits was allowed to fall, inevitably making those in receipt of benefits more vulnerable to poverty.
- The period saw a large and rapid rise in poverty and inequality. The biggest gains were made by the top 10% of earners (who enjoyed lower rates of marginal taxation). This picture was not replicated in other countries, suggesting that it was a result of domestic policy choices rather than the impact of globalisation or changes in the demand for skilled workers.

Chapter 7

New Labour, child poverty and welfare reform, 1997-2010

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The New Labour years, beginning with the adoption of ambitious child poverty targets, implementation of the national minimum wage and a new tax credits system, were notable as a decade of sustained growth and sharp rises in public spending. Unemployment fell back close to the low levels of the 1970s, but in-work poverty and worklessness increased. There was a halt to the pre-1997 surge in poverty rates, with child and pensioner poverty falling. However, income inequality continued to rise. The period ended with the deepest recession of the post-war period and a change of government.

Labour's approach after 1997, and in particular after 1999, was motivated by very different ambitions. Its goals were to reform public services, to recapitalise the public sector (by investing in schools and hospitals), to reduce the gaps in regional prosperity (by encouraging faster growth in the less prosperous regions), and to launch a new assault on poverty. There was also an evolution in the government's thinking about the relationship between social exclusion and child poverty. In the two years after 1997 the government talked almost exclusively about social exclusion, but in his 1999 Beveridge lecture Tony Blair committed the government to "end child poverty in a generation". This was a significant shift in both tone and political priorities, with New Labour recognising that the reduction of child poverty was an essential social democratic objective. It was also a markedly ambitious goal given Britain's starting point in 1999.

Most interesting here, perhaps, is that Labour had little to say about income inequality. In an interview before the 2005 election, Tony Blair as prime minister stated quite plainly that he had little interest in what David Beckham earned and asserted that the real test of social policy success was whether those in poverty were better off in absolute terms, not whether income inequality had narrowed. Indeed, Labour saw the tax revenues generated by the City and top earners in financial services as essential to fund the increases in public spending.

These "growth dividends" helped Labour to achieve a significant level of poverty reduction between 1997 and 2004. But questions of income inequality only began to feature formally on the government's agenda towards the end of Labour's period in office with the publication in early 2010 of the reports of the National Equality Panel and the Marmot review of health inequalities.

Child poverty and early intervention

Nonetheless, the child poverty focus led to significant increases in spending on child

and family benefits. Child benefit rose and was augmented by the child tax credit. Along with other changes, this led to an increase in benefits for those with children of about 50% by 2003. And for children under the age of 11 in households receiving income support, benefits nearly doubled in real terms.

Tax credits were a major focus of Labour's assault on poverty. For the government, the tax credit system, modelled on the way in which Bill Clinton (building on a Republican initiative) had changed policy in the US in the mid-1990s, had several attractions. Advocates argued that it reduced the stigma of being in receipt of benefits; this had significant political advantages and was a way of deflecting the accusation that welfare was simply a government hand-out to "scroungers". By using tax credits, Labour was able significantly to increase financial transfers to lower-income families, primarily to those with children.

The increase in spending on families was partly achieved at the expense of the Beveridge model of social insurance. Means testing and targeting remained indispensable policy tools and pressure from both sides of the political spectrum worked against social insurance. This was based upon a shared political desire, even if for contradictory motives, to focus upon need. For the political right, the objective of constraining budgets by targeting resources sat neatly alongside the ideological belief that those who could afford to do so should provide for themselves: means testing went hand in hand with self-reliance and a desire to shrink the state. Labour ministers, on the other hand, seemed to believe that means testing meant that the limited resources available in an *expanding* welfare state would be targeted on those households in the greatest need. Of course, more radical critics advocated a more inclusive form of social insurance, in which more than just contributions related to work were valued, or a citizens' income that would provide every household with the resources needed for full social participation.

The national minimum wage

Another apparently important anti-poverty weapon in the government's arsenal was the national minimum wage. While this was heralded as a huge departure from the previous government's policy, we should remember that the UK had only experienced a short period (from 1993 to 1997, following the abolition of wages councils) when there was no statutory wage-fixing machinery in place. The minimum wage, having been highly contested in the 1992 general election, now appears to be supported by a political consensus, with the Conservative Party accepting that a decent wage floor is a permanent part of the labour-market landscape (although one wonders whether this support will continue in the future).

As the Low Pay Commission has demonstrated,⁵⁶ the minimum wage has, in general, benefited households just above the bottom of the income distribution (most beneficiaries have been in the second decile and above, although this is largely a consequence of the fact that the poorest are either pensioners or the unemployed). It is also important to note that the minimum wage has virtually eliminated gender pay inequality at the lower end of the wage distribution and that the majority of beneficiaries (around 70%) are women.⁵⁷ Moreover, the minimum wage has supported the tax credits system by preventing employers from pushing wages down to levels where the state has to pick up a larger welfare bill, as happened during the 1993-97 period.

None the less, it was clear from the outset that for many families the minimum wage, together with child benefit, would provide less than was needed to achieve full participation in society. Tax credits were therefore an essential instrument of redistribution and a bulwark against any further growth of either poverty or inequality. Yet while "work first" may remain a sensible policy, the overall impact in the period from 1999 to 2007 was to shift a sizeable minority of households from workless to in-work poverty, as the Institute for Public Policy Research documented in some detail before the beginning of the recession.⁵⁸

Figure 6: The extent of working poverty during the boom, 1996/7 to 2005/6

	Poor		Not poor	
	1996/7	2005/6	1996/7	2005/6
Working	2.0m	2.5m	12.1m	13.8m
Workless	2.2m	1.8m	0.9m	0.9m
Total	4.3m	4.3m	13.0m	14.7

Source: Cooke and Lawton, *Working out of Poverty* (2008). Households below average income, 2005/6.

A Fabian Society pamphlet of 1906 offered the more ambitious prospectus that a statutory minimum wage should be set at a level:

sufficient to enable our workers to be maintained in healthy existence. Therefore, the wage should be calculated on what the worker requires for physical health and

56 See, for example, Low Pay Commission *National Minimum Wage*, Low Pay Commission report 2010, TSO (2010)

57 Coats, David *The National Minimum Wage: Retrospect and Prospect*, The Work Foundation (2007)

58 Cooke, Graeme and Lawton, Kaye *Working Out of Poverty*, IPPR (2008)

*efficiency, and not on what the trade will bear.*⁵⁹

Moreover, it was suggested that, while the level of the minimum should be fixed nationally, this should be defined in terms of *real* wages and not money wages – “that is to say such a wage as, worked out in its cash equivalent will equalize all local variations in cost of living”.

The proposal bears a much stronger resemblance to the “living wages” promoted by organisations such as London Citizens than to the minimum wage as implemented by the Labour government.⁶⁰ On the other hand, economic theory has moved on since the Webbs, and there is a strong argument to suggest that the minimum wage is currently fixed just below the level where it would begin to have a significant (negative) impact on employment.⁶¹ Equally, the notion of a living wage has been subjected to some criticism from a feminist perspective, on the grounds that it carries with it more than a whiff of the “single-breadwinner household” and takes no account of family size.⁶² On balance, the living wage may be moderately helpful in making the case for a wage floor higher than the minimum wage in certain sectors, but it will still leave some families reliant on means-tested benefits unless child benefit, for example, is raised to a much higher level.

As we have already observed, high child allowances to reduce reliance on means testing were inherent in Beveridge’s plan for the welfare state. So far as future policy is concerned, one might argue that there is a strong case both for a wider range of institutions to set minimum wages (the minimum wage, living wage arrangements, labour standards in public contracts) and for higher (universal) benefits to support working families.

Public services and regional initiatives

Labour saw investment in high-quality public services for all as an important instrument of poverty reduction. From 1999 onwards there were large increases in both capital investment and annual expenditure on health and education, with a focus on services in more deprived areas. This was accompanied by some more targeted initiatives such as Sure Start, Excellence in Cities and the New Deal for Communities. The share of

59 Fabian Society *The Case for a Legal Minimum Wage*, Fabian Tract No 128 (1906)

60 The Living Wage Campaign was launched by London Citizens in 2001. It calls for “every worker to earn enough to provide their family with the essentials of life”. The campaign claims to have lifted 10,000 families out of poverty. In London the “living wage” is £8.30 an hour; outside London it is £7.20.

61 Card, David and Krueger, Alan *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton (1995); Coats, David *The National Minimum Wage: Retrospect and Prospect*, The Work Foundation (2007)

62 Bennett, Fran and Lister, Ruth *The “Living Wage”: The Right Answer to Low Pay?*, Fabian Society (2008)

spending on core public services increased to its highest levels in this period. According to Treasury figures, NHS and education spending more than doubled in real terms over the period from 1997 to 2010.

Labour also recognised the importance of place and the relationship between poverty and neighbourhoods. The Neighbourhood Renewal Strategy was a major initiative aimed at regenerating the most deprived wards. Like most earlier area-based initiatives, its focus was on "closing gaps", in fields such as crime, health, education and worklessness, between deprived places and the rest of the country. According to the Department for Communities and Local Government, the 39 New Deal for Communities partnerships which formed the centrepiece of the strategy spent nearly £2 billion on 6,900 projects or interventions over the period from 1999 to 2008. An independent evaluation of the programme concluded that it delivered "considerable positive change; and in many respects these neighbourhoods have been transformed".⁶³

Labour in power – the results

What assessment might we make of Labour's record in office? Certainly the situation did not deteriorate, but progress was slower and more modest than many of Labour's supporters might have hoped. Indeed, by the time of the change of government, poverty against the 60% of median income benchmark was about where it had been in the late 1980s, a decade during which there had been significant increases in poverty and inequality. Nevertheless, the Institute for Fiscal Studies has convincingly demonstrated that the situation would have been considerably worse if the pre-1997 policies had continued.⁶⁴ Bearing that finding in mind, it is important to recognise the strength of Labour's achievement, at the same time as we record a moderate sense of disappointment that the government was unable to deliver admittedly ambitious poverty-reduction targets.

Income inequality

On all measures of income inequality, the situation worsened somewhat under Labour – although the most significant increases took place under Conservative governments in the 1980s and 1990s. This was largely because the richest in society were seeing really significant increases in their incomes, even though there was also some improvement in the absolute position of the poorest (according to the Institute for Fiscal Studies, the real incomes of top earners grew 6.6% a year on average between 1997 and 2002).

63 Department for Communities and Local Government *The NDC Experience: A final assessment* (2010)

64 Adam, Stuart and Browne, James *Redistribution, Work Incentives and 30 Years of UK Tax and Benefit Reform*, IFS working paper 10/24 (2010)

The *Financial Times* commented in 2008 that “the very rich have grown richer at double the pace of most Britons under Labour and their incomes may have accelerated even further on the back of a rising stock market”. This explains why the Gini coefficient reached its highest-ever level since 1961 under Labour, before falling slightly shortly before the 2010 election (see figure 5 above).

Child poverty

The child poverty target adopted in 1999 looked ambitious at the time, although not unachievable. Yet as the Institute for Fiscal Studies has demonstrated, some initially impressive results were followed by slower progress (see figure 7). The 2010 target was missed by a wide margin: 26% of children lived in households with incomes below 60% of the median in 1999-2000; according to the Office for National Statistics, this had fallen to 20% by 2009-10. Inevitably, this failure caused some disappointment, but during Labour’s last year child poverty had fallen to its lowest level since the mid-1980s – and this against a backdrop of recession. It is also worth noting that lone-parent employment rose under Labour, which the Institute for Fiscal Studies claims contributed to the fall in child poverty. According to Kate Bell and Jason Strelitz:

[P]rogress was made. Coalition claims that poverty rose under Labour are wide of the mark; 900,000 children were lifted out of relative poverty, and 2 million children escaped absolute poverty, a fixed benchmark not reflecting changing living standards across the population.⁶⁵

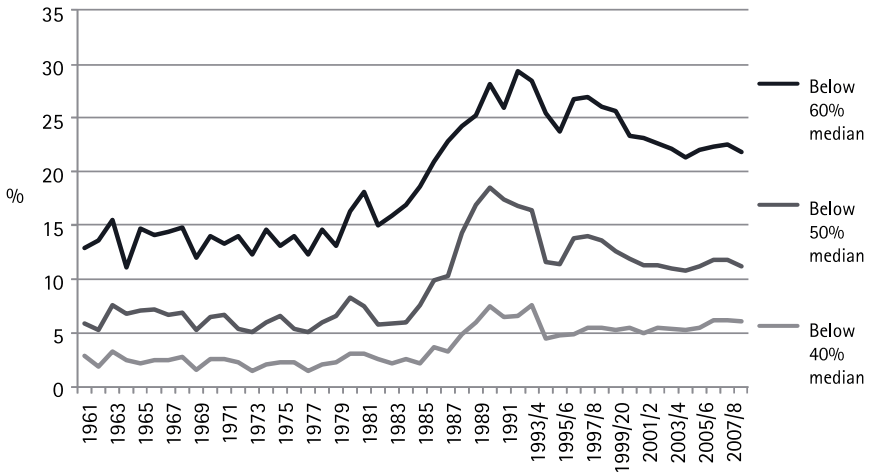
The limits of redistribution

However, these results illustrate the difficulty of relying on a strategy focused mostly on tax credits and partly on the national minimum wage. This is not to argue against the redistributive effect of tax credits – quite the contrary: when the government began to step back from the aggressive use of tax credits in 2004-5, poverty levels began to rise again.⁶⁶ But the policy conclusion must be that more could and should have been done to raise the incomes available on the open labour market, alongside the more conventional redistributive strategy. Simply expressed, redistribution is *essential* but can only be a partial solution to the poverty problem. Government needs a wider range of instruments at its disposal to reduce reliance on low-pay, low-productivity business models; to raise skill levels at the bottom of the labour market; and to ensure that these skills are fully utilised. In other words, if Labour had been more willing to reshape the factors influencing the initial distribution of market incomes, then more progress might have been made.

⁶⁵ Bell, Kate and Strelitz, Jason *Decent Childhoods: Reframing the fight to end child poverty*, Webb Memorial Trust (2011)

⁶⁶ Hills, John et al *Report of the National Equality Panel* (2010)

Figure 7: Child poverty – children living in households below given poverty thresholds, 1961 to 2008/9



Source: IFS.

Note: The measure here is poverty before housing costs simply because this was the method for calculating the government’s child poverty target adopted in 1999.

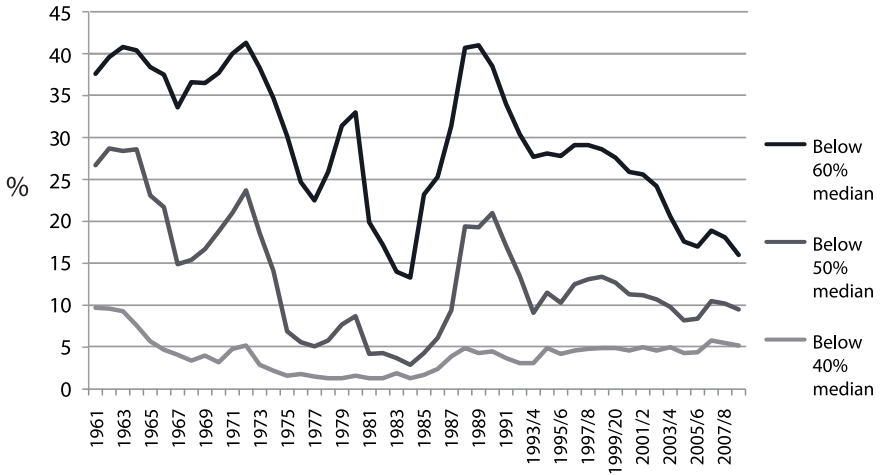
Pensioner poverty

The record on pensioner poverty is much better, with the percentage of households living on low incomes falling to levels last witnessed in the early 1980s. Once again, the usual pattern of the earlier period can be observed: falling poverty rates through the 1960s and 1970s, then a significant rise in the 1980s. But, in contrast to the data analysed earlier, there were consistent falls in pensioner poverty from the early 1990s onwards. It would be wrong to attribute the progress made in the latter period entirely to the policies of the 1997-2010 governments. Indeed, the percentage of pensioners in households on very low incomes (less than 40% of the median) changed very little over this period. On this measure Labour managed to prevent any deterioration at the bottom of the distribution but made little progress in cutting pensioner poverty further.

The fall in the percentage of pensioner households below 50% and 60% of the median is perhaps better explained by the relative historical success of the private occupational pensions system. A higher percentage of pensioners today enjoy quite generous final-salary pensions which are index-linked and should maintain their value over time.

Unfortunately, this benign situation is unlikely to endure simply because the scope and generosity of private-sector final-salary pensions have been gradually eroded: very few workers under the age of 40 in the private sector have access to final-salary pensions.

Figure 8: Pensioner poverty – pensioners living in households with incomes below given poverty thresholds, 1961 to 2008/9



Source: IFS

In the future pensioners will have to rely on pension pots that are tied to asset prices and annuity rates (so-called defined-contribution schemes), where both employer and employee contributions are likely to have been lower over the course of a working life. Put simply, it may appear that the problem of pensioner poverty has been solved, but this is only a temporary phenomenon. The trend towards higher pensioner incomes will be reversed despite the commitment of both Labour and Conservative parties to restore the link between the basic state pension and increases in average earnings.

Policy makers of the next generation will therefore have to contend with an “under-pensioned” population unless decisive action is taken now.⁶⁷ Of course the re-indexation of the basic state pension is a good start, as is the introduction in 2012 of the national employment savings trust (NEST – the new compulsory savings scheme for those

⁶⁷ Reeves, Rachel (ed) *We Can't Carry On Like This! Policy solutions for the under-pensioned*, Smith Institute (2011)

without any other supplementary pension). But the contribution levels to NEST are low (just as low as most private-sector defined-contribution schemes), and these must rise if most citizens are to be guaranteed decent retirement incomes in the future.

Drivers of poverty and inequality

We have already observed that the real story of growing income inequality over New Labour's period in office is about what has been happening at the top of the distribution. While the 90:10 ratio increased significantly, there was no real change in the relationship between those in the middle of the distribution and the bottom 10% (see figure 4).

What was missing throughout this period was any challenge to the excessive rewards available to those who were already more than affluent – a situation reflected in Peter Mandelson's observation that he was intensely relaxed about people becoming filthy rich as long as they paid their taxes. Of course this was designed to send a signal that New Labour understood what Tony Blair continues to call "aspiration". But a swift glance at the share of national income taken by the top 1% and the top 0.1% shows the huge gains made in recent years by those who were already enjoying very high incomes (see figures 10 and 11).

It is clear that income inequality in a society has a negative impact on health, life expectancy and life chances and that egalitarian societies do significantly better on each of these measures.⁶⁸ We have also seen that poverty rates were lower throughout the period of the UK's "great compression" – a time when the tax system was more progressive (or at least the rich generally paid higher taxes), trade unions were stronger, and wage floors were often more robust, whether established by collective bargaining or instruments such as the fair wages resolution. (This should not, however, obscure the weaknesses of the wages councils system, which was far from universal, or the failure to establish a wage floor in sectors where collective bargaining was weak and no wages councils were present).

Yet on each of these aspects of pre-distribution New Labour was largely hostile to any significant departure from the post-Thatcher settlement. Of course there were major differences: the minimum wage; the recasting of the Employment Service as Jobcentre Plus; the introduction of active labour-market programmes such as the New Deal; new rights at work for trade unions and individuals. But New Labour never made the

68 Marmot, Michael *Status Syndrome*, Bloomsbury (2004); Marmot, Michael *Fair Society, Healthy Lives: The Marmot Review*, TSO (2010); Wilkinson, Richard and Pickett, Kate *The Spirit Level*, Allen Lane (2009)

case that trade unions should be stronger with any real enthusiasm. The government's stance was studiously neutral. If employers wanted to recognise trade unions, then all well and good, but there was no sense that a more general extension of collective bargaining or rebuilding trade union membership would be a good thing or would contribute significantly to the government's anti-poverty objectives. Tony Blair continued to proclaim that, even after New Labour's reforms, the UK would continue to have one of the most flexible (meaning least regulated) labour markets in the OECD – an observation that remains true today, despite the persistent complaints from employers about regulation and red tape.⁶⁹

Trade union membership, which had declined rapidly under the Conservative governments, stabilised under Labour but did no more than that (see figure 9). There was no resurgence of enthusiasm for trade unionism, no increase in collective bargaining coverage and no change in the balance of power between capital and labour. This is reflected in the historically low number of days lost to industrial action over this period and what seemed to be an inexorable rise in the number of employment tribunal applications.⁷⁰ The evidence suggests that the trend towards de-collectivisation has also failed to produce gains in productivity. According to the Centre for Economic Performance, "workplaces that abandoned bargaining reported less impressive productivity gains than other workplaces."⁷¹

Nor was there any real challenge to corporate power. One might almost say that Labour strained every sinew (eventually in vain) to maintain the political neutrality of the Confederation of British Industry. Initially at least, a major programme of company-law reform seemed in prospect, and the Company Law Review, established in 1998, began to explore the applicability to the UK of different corporate governance models (including continental European stakeholder models). Yet all that emerged at the end of the process were some modest changes to directors' duties. The effort to secure more transparency in corporate reporting – through the publication of a narrative account of the approach to people management and other "stakeholder" issues – was torn up by the then chancellor at the CBI conference in 2005.

In addition, Labour set its face against greater transparency in executive pay, resisting the idea of publishing details of pay packages, the ratio of top pay to bottom pay

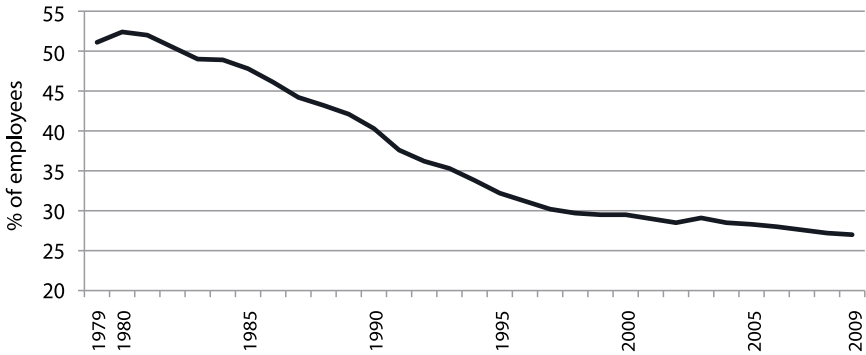
69 Coats, David *Time to Cut the Gordian Knot: The case for consensus and reform of the UK's employment relations system*, The Smith Institute (2010)

70 *Ibid*

71 Charlwood, Andy *The de-collectivisation of pay setting in Britain 1990–1998: Incidence, determinants and impact* CEP Discussion Paper 705 (2005)

in an organisation, the distribution of pay across a company, and the number of workers in receipt of the minimum wage. (One area where the government did legislate was to require a shareholder vote on the report of a company's remuneration committee.)

Figure 9: Union density, 1979-2009 (% of employees)

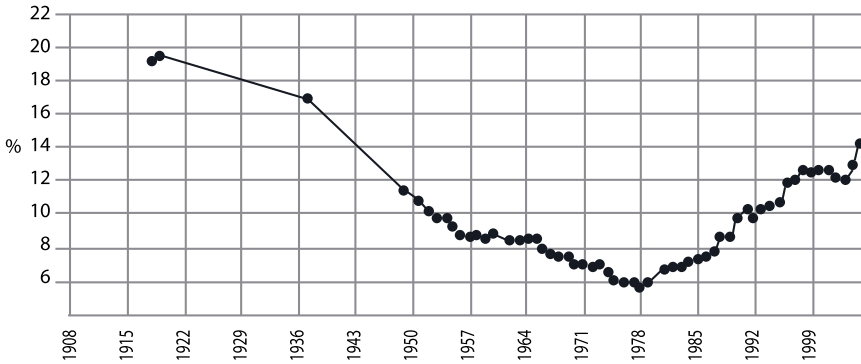


Source: Labour Force Survey

The record is better, although mixed, on matters of public procurement. Nothing close to the fair wages resolution was adopted and there was no attempt made to re-ratify the International Labour Organisation convention on labour clauses in public contracts. But some standards were established in local government, the civil service and the NHS to prevent the emergence of a two-tier workforce (where staff transferred from the public sector retained their terms and conditions while new staff were employed on less generous terms and lower rates of pay). More recently, some public authorities, most notably the Greater London Authority under Ken Livingstone, adopted a wage floor which would be applied to all contractors providing services to that authority.

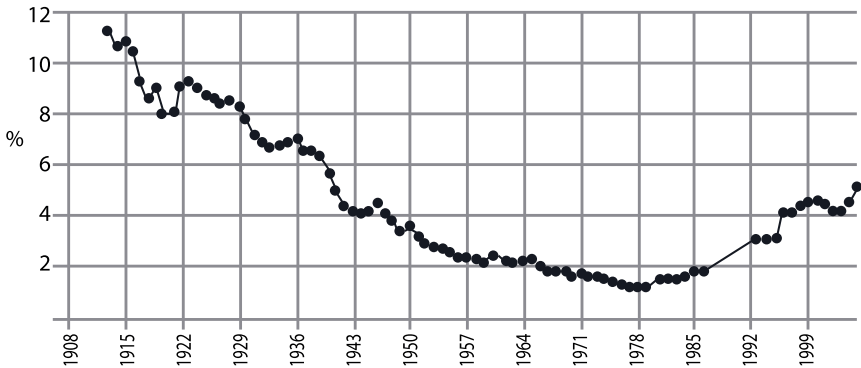
Despite their supposed support for the notion of the "living wage", Conservative ministers have already revoked the two-tier codes for both central and local government contracting. It remains to be seen whether this will lead to a race to the bottom of terms and conditions, although the signal to employers, as with the abolition of the fair wages resolution in 1983, could not be clearer.

Figure 10: Income share of the top 1% in the UK, 1908–2005



Source: The World Top Incomes Database

Figure 11: Income share of the top 0.1% in the UK, 1908–2005



Source: The World Top Incomes Database

Globalisation, skills and inequality

A pro-Labour critic of this account might argue that it does less than justice to that government's efforts, not least because "skill-biased technical change" (SBTC) was driving the polarisation of the wage structure. Central to this analysis is the view that the UK labour market has been characterised by a rising demand for skilled workers; that this demand has pushed up wages for the highly skilled; and that there has been a "hollowing out" of the middle of the earnings distribution and a growth of low-paid

employment (generally in private services) at the bottom of the distribution.⁷²

Yet the story is not quite as simple as that. To begin with, the introduction of the national minimum wage has limited the effect of polarisation, not least because the minimum wage has been rising faster than average earnings for most of its existence and so has led to a relative improvement in the position of the low-paid. Moreover, a wider review of international experience suggests that SBTC can account for some, but by no means all, of the rise in income inequality over the last three decades.⁷³

In Germany, for example, changes in the composition of the workforce explain only half of the rise in inequality in the top half of the distribution and around 15% of the rise in inequality in the bottom half.⁷⁴ By contrast, the erosion of trade union membership and collective bargaining explains 28% of the rise in inequality at the bottom of the wage distribution but only 11% at the top. Expressed simply, it is clear in the German case that a weakening of the institutions of pre-distribution is a significant explanatory factor. A similar conclusion might be drawn in the US, where the retreat of trade unionism and relatively weak wage floors are offered as more compelling explanations of rising inequality than rising demand for highly skilled workers.⁷⁵ There is no doubt that SBTC can make the redistributive task harder, but conscious choices about the use of other policies and in particular the support offered to a range of labour-market institutions play a greater role.

There are three further points of relevance to this part of the discussion.

- First, there is an emerging body of evidence in the UK to suggest that since 2005 the earnings of those in the middle of the distribution have been squeezed. We have already seen that a large share of productivity gains have flowed to those already enjoying high incomes, which means by definition that smaller slices of the national cake are available to those on middle and lower incomes.⁷⁶ Moreover,

72 Machin in Gregg, Paul and Wadsworth, Jonathan *The Labour Market in Winter: The State of Working Britain*, OUP (2011)

73 Jackson and O'Farrell in Coats, David (ed) *Exiting from the Crisis: Towards a model of more equitable and sustainable growth*, ETUI (2011); Hacker, Jacob and Pierson, Paul S *Winner Take All Politics*, Simon and Schuster (2010)

74 Dustmann, Christian et al *Inequality, Education and Comparative Political Economy*, Anglo-German Foundation (2009)

75 Piketty, Thomas and Saez, Emmanuel "Income Inequality in the United States 1913-98", *The Quarterly Journal of Economics* 114(1) (2003)

76 Whittaker, Matthew and Savage, Lee *Missing Out: Why Ordinary Workers are Experiencing Growth Without Gain*, Resolution Foundation (2011); Plunkett, James *Growth Without Gain? The faltering living standards of people on low-to-middle incomes*, Resolution Foundation (2011)

pay levels for many workers have been either stagnant or falling in real terms since 2005 at the same time as households have sought to cope with high levels of debt, rising living costs and (in some cases) a reduction in tax credits. While the recent UK research has paid little attention to the role of trade unions and other labour-market institutions, international research suggests that these are very important factors which can explain why income inequality rose both within and between sectors.

- Second, while the "squeezed middle" phenomenon may in part be a *consequence* of the global economic and financial crisis, there is a strong argument that rising income inequality may have been a significant (though not the only) *cause* of the crisis. An IMF paper published in 2010 argues that high income inequality leads to high levels of ultimately unsustainable borrowing, since this is the only way that people can maintain their living standards; this in turn leads to financial sector instability, with boom turning to bust.⁷⁷ The financial sector plays the role of a transmission belt, recycling the rising incomes of the rich (who are looking for high rates of return on their investments) to those in poverty in the form of loans. A crisis materialises when a slowdown in the economy produces a rising level of debt default and the exotic financial derivatives used to hedge risk prove to be little more than worthless. The consequence then is bank failures and a global recession.

If policy makers wish to avoid a repetition of these events, they should look to improve the bargaining power and the incomes of those from the middle to the bottom of the distribution. This is not to deny that other measures are necessary, too – more stringent financial market regulation, corporate governance reforms, financial transaction taxes – but the IMF's modelling offers more weight to the argument that the initial distribution of market incomes matters for reasons of economic stability as well as of equity. And this initial distribution can be modified by labour-market institutions alongside other policies affecting the balance of power between labour and capital. Put very simply: trade unions can prove to be very useful institutions in stabilising what would otherwise be a very unstable economy.

- Third, as international comparisons show, there are no general trends towards high levels of poverty and inequality across the OECD countries (see the next

⁷⁷ Kumhof, Michael and Ranciere, Romain *Inequality, Leverage and Crisis*, IMF working paper 10/268 (2010); Rajan, Raghuram G *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton (2010)

chapter for a fuller discussion of this). Experiences have been as different as one could imagine. Furthermore, recent studies have suggested that there is a relationship between openness to international trade and the size of the state – and by implication the effectiveness of the welfare state.⁷⁸ In other words, those countries most open to trade recognise that the necessary consequence will be a higher level of “creative destruction” across their economies. This in turn demands a more effective safety net; investment in active labour-market programmes to allow workers to adapt to what would otherwise be an intolerable level of disruptive change; and effective redistributive instruments to ensure that all workers share in a nation's rising prosperity.

New Labour was never entirely enthusiastic about this argument, believing that the best way to respond to globalisation was through trade openness, strong competition policy, a high level of labour-market flexibility and investment in human capital. We are living with the consequences of those policy decisions today, but the experiences in the Netherlands and the Nordic social democracies demonstrate that domestic political choice plays a rather more important role in shaping economic and social outcomes than mere exposure to the supposedly chill winds of globalisation.

Assessment of New Labour

Labour was happy to use the tax and benefits system, within limits, to achieve redistributive goals in order to lift those on low incomes out of poverty; but it was exceptionally nervous about any interventions of the kind that Hacker describes as pre-distribution and refused to address the problem of excessive rewards at the top.⁷⁹ Perhaps Labour's period in government demonstrates that the state cannot do all the heavy lifting on its own. There must be institutions in the labour market that can influence the initial distribution of income, leaving the state to undertake a “tidying up” exercise in order to reduce poverty and equalise incomes in what would already be a more equal distribution.

Whether Labour in the future has either the desire or the capacity to engage with these issues is an open question. But what we can be certain about is that the state, acting alone, will never be able to restore the great compression of the post-war period when so much social progress was made. New Labour's slightly disappointing performance may in part be a consequence of intellectual and political timidity, but it also

78 Rodrik, Dani *The Globalisation Paradox*, OUP (2011)

79 Hacker, Jacob *The Institutional Foundations of Middle Class Democracy*, Policy Network (2011)

represents a failure to learn from the genuine successes of the post-war period, when both social policy and labour-market policy were oriented to the same goals and when the government had the support of other actors (including the trade unions for most of that period) in the pursuit of more egalitarian outcomes.

The reality today, of course, is that trade unions are much weaker both in the UK and across the OECD, and it may be that new labour-market institutions must be designed for new times. Perhaps the growing support for living wage campaigns points the way – although, as explained earlier, we should be aware of their limitations. Above all, the priority must be to use all the measures available to give people a voice at work and achieve a more appropriate balance of power between capital and labour.

This assessment of New Labour's record shows how much progress has been made since the publication of the Minority Report. There can be little doubt that the Webbs would have been pleased and surprised by the rise in life expectancy and by the decline in pensioner poverty. They would have been even more surprised, perhaps, by the explosion in poverty (especially child poverty) in the 1980s and by the conscious decisions of governments that led to these undesirable social outcomes. Indeed, they might have found it perplexing that the progressive zeitgeist of the best part of a century had seemed to run its course by the middle of the 1970s, with some on the political right celebrating rising inequality and defending the effectiveness of trickle-down economics.

The Webbs would not have quailed, however, in the face of New Labour's "rights and responsibilities" rhetoric: they would have been comfortable with the idea of conditionality in the benefits system for those out of work (remember their comments about the need for penal sanctions to reform the lazy and feckless); and they might even have found the Labour government's condemnatory rhetoric a little too mild. The Webbs might have been surprised, however, by New Labour's reservations about articulating a wider anti-poverty narrative – one that included low-income childless households without work as well as children and pensioners – and by the intellectual nervousness associated with any discussion of rebuilding the institutions of pre-distribution.

Key points

- New Labour reinvigorated the commitment to a strong welfare state. There were significant transfers through child and family benefits, most notably tax credits.

Child and pensioner poverty was reduced, showing the impact redistributive policies have in lowering the incidence of poverty. Unemployment fell sharply as the economy recovered and renewed growth helped boost prosperity across the regions.

- The national minimum wage principally helped those above the second decile of income distribution. However, the expansion of employment led to a rising percentage of poor households in work, despite the positive impact of the minimum wage.
- New Labour's poverty-reduction strategy was heavily focused on transfers through the benefit system. Rates of poverty declined for most of the period, reaching mid-1980s levels by 2010. On income inequality the situation worsened a little, with most productivity gains going to the top 1%. However, if the policy mix had not changed in 1997, the situation would have been markedly worse.
- Unwillingness to countenance a wider range of labour-market interventions almost certainly made it harder to achieve the government's anti-poverty objectives. Labour would have been more effective in reducing levels of poverty if measures had been taken to reform the institutions of pre-distribution to improve pre-tax incomes.

Chapter 8

International comparisons of poverty and inequality

International comparisons of poverty and inequality

At this point it is useful to compare and contrast the UK's record with experience elsewhere. What are the similarities and differences across the developed world, and what can we learn? Much of this section draws on data compiled by the Organisation for Economic Co-operation and Development (OECD) and explores various measures of poverty and inequality, including the persistence of poverty and the extent of social mobility. This latter point is especially important because some politicians have begun to use social mobility as a substitute for the pursuit of more conventional egalitarian objectives.

Poverty and inequality in the UK since 1945

It is clear that in the *post-war period* in the UK poverty rates fell significantly. The income distribution was more egalitarian than in either the pre-war era or the post-80s period. And, to the extent that we know anything about social mobility in the UK, it seems that there was more movement between classes in the period from 1945 to the mid-1970s than there has been subsequently.⁸⁰ Perhaps we can also conclude that the institutions of pre-distribution, discussed above, played a particularly important role. Moreover, the fact that full employment was achieved for most of this period may have shifted the balance of power between capital and labour, helping to constrain excess at the top and (through effective trade union bargaining) ensuring that workers saw productivity increases reflected in their earnings.

The *period from 1979 to 1997* saw a deliberate unravelling of the achievements of the preceding decades:

- post-war labour-market institutions were dismantled;
- the commitment to full employment was abandoned;
- there was a gradual fall in the relative value of out-of-work benefits (ostensibly to make unemployment an unattractive option);
- higher rewards for so-called entrepreneurs and risk takers were actively encouraged.

⁸⁰ Note, however, that most of what we know about social mobility is derived from the National Child Development cohort study. All we can really conclude is that children growing up in the 1960s and entering the labour market in the 1970s were more likely to change their social position than those growing up in the 1970s and entering the labour market in the 1980s. It may simply tell us that a full-employment economy creates more opportunity. To blame the Labour government for declining social mobility is simply wrong. A proper evaluation of Sure Start, the childcare strategy, and other initiatives is only possible when the children experiencing these programmes have grown to adulthood and an informed assessment of whether their social position has changed can be made.

Policy under the Labour government in the *period between 1997 and 2010* accepted some elements of the Thatcher settlement, including:

- relatively low top rates of income tax (until the advent of the global financial and economic crisis);
- a weakened trade union movement (despite Labour's introduction of additional rights for both trade unions and individuals);
- an enhanced role for the financial services sector (principally the City of London).

But, contrary to the arguments advanced by some left-wing critics, this was not a neo-liberal, or more accurately a market-fundamentalist, government. So, for example, the implementation and uprating of the national minimum wage meant that low-paid workers benefited from a rising wage floor from 1999 to about 2006; and the new employment rights inevitably made the labour market somewhat less flexible, although at no cost to employment.

Yet the critique from the left was not entirely without substance. It correctly pointed out that New Labour (along with many other social democratic parties in Europe) had too much faith in markets; had no critique of the capitalism that it inherited from the Conservatives; and was, as we have seen, too much in thrall to corporate power.

None the less, it would be wrong to say that there was no concern at all about poverty. Otherwise, the child poverty target would have been inexplicable, as would the spending on Sure Start, the New Deal, tax credits and the regeneration of deprived areas. What we can say with confidence, however, is either that Labour did not spend enough (and we shall see that there are countries that spent more); or that it did as much as was possible – in the British context, with its low tolerance of higher levels of taxation – using the instruments of state redistribution alone. Alternatively, we might argue that Labour in government accepted the broad philosophical foundations of Conservative economic policy (an enthusiasm for markets, light-touch regulation and a narrow definition of labour-market flexibility) at the same time as it sought to pursue a progressive social policy.

The story here is essentially national, suggesting that a more determined political narrative could have driven a more ambitious policy agenda: if Labour had been more willing to take on vested interests and had explained with clarity and conviction what more it wanted to do, then it would have been able to do more.

Yet, as we have already seen, some commentators, looking beyond the supposed British aversion to taxes, argued that global forces were making it much harder for Labour to achieve desirable social policy objectives. From this standpoint, the integration of markets, the premium available to those with higher-level skills and the entry of new countries into the global system (putting downward pressure on the wages of the unskilled) all conspired to create an environment where progressive goals seemed elusive.

We have already noted that the “skill-biased technical change” hypothesis offers only a partial explanation of recent developments, but what of these other factors?

- Is globalisation a constraint on redistribution?
- Is income inequality in developed countries the price we have to pay for higher global prosperity?
- Just how much room for manoeuvre is available to national governments?

International experience is helpful in this context because it allows us to identify where the UK can (or cannot) make independent policy choices. Moreover, we will be able to determine whether globalisation, as some have argued, is little more than a rhetorical trope designed to keep progressive policy options off the agenda.⁸¹

The Gini coefficient

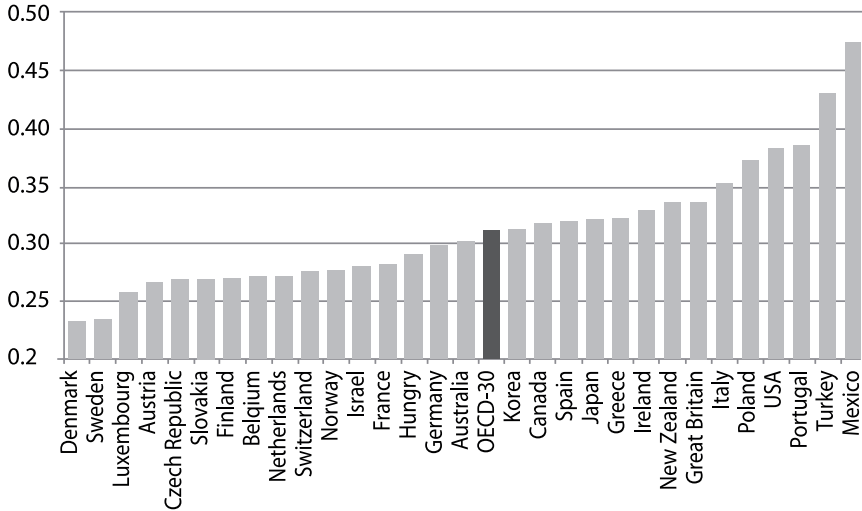
The Gini coefficient is a useful place to start. Of course, this is not a measure of poverty, but it does give a sense of social distance – it is an important indicator of social solidarity, of whether, under conditions of adversity, “we are all in this together”.

A cursory glance at this measure suggests that the UK is not performing *too* badly. The UK’s Gini coefficient may be above the OECD average but the distribution of income is less unequal than in Italy, Poland, the US, Portugal, Turkey and Mexico.

This interpretation is rather misleading, however. After all, the average is pulled up significantly by those countries at the extreme right of the chart. Many European countries do significantly better than the UK, including the Nordics, Austria, Belgium and the Netherlands. Both Germany and France are a little more unequal than those countries, but below the OECD average. If northern European countries (including France) are taken as the most relevant comparators, then the UK looks very unequal indeed, just not as unequal as those countries with extreme inequality.

81 Doogan, Kevin *New Capitalism?*, Polity (2009)

Figure 12: Gini coefficients of income inequality in OECD countries, mid-2000s



Source: OECD income distribution questionnaire

Note: Countries are ranked, from left to right, in increasing order of Gini coefficient. The income concept used is that of disposable household income in cash, adjusted for household size with an elasticity of 0.5.

A snapshot like this tells you very little about the dynamics of the income distribution, and we need to know whether these countries are getting more or less unequal over time. According to the OECD, the Gini coefficient rose almost everywhere between 1975 and 2005.⁸² France, where the Gini coefficient fell, and the Netherlands, where it was broadly stable, are the two exceptions. It is also important to note that the measure here is of income inequality after taxes and transfers. As Gösta Esping-Andersen has pointed out, when measured against market incomes, the Gini coefficient rose rapidly in Denmark, Norway and Sweden throughout the 1980s to the mid-1990s, but the effectiveness of the welfare state ensured that there was a very muted impact on income inequality once taxes and transfers had been taken into account.⁸³ There is some evidence to suggest that this phenomenon has continued in the more recent period.

Given that France and the Netherlands saw a *fall* in market-income inequality during the 1980s and 1990s, one cannot conclude that economic forces (which may well be

82 OECD *Growing Unequal* (2008)

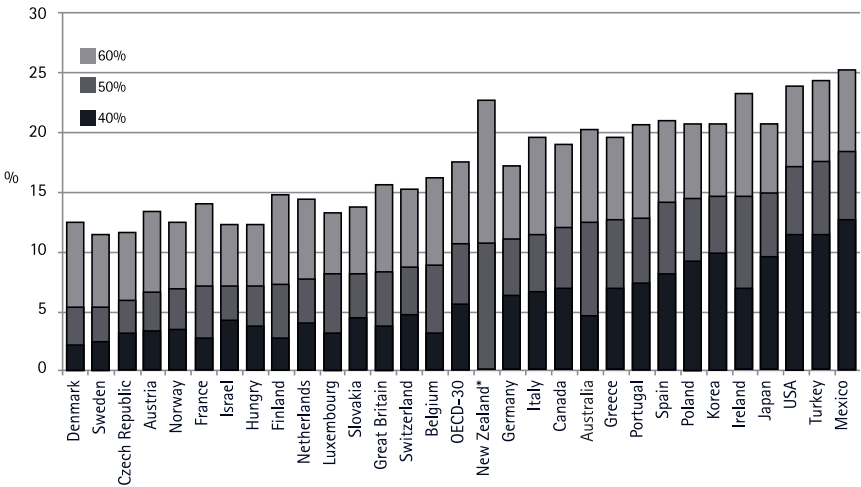
83 Esping-Andersen in Giddens, Anthony and Diamond, Patrick (eds) *The New Egalitarianism*, Polity (2005)

global) have the same effects in all countries. In other words, countries can choose to manage the impact of economic transitions in different ways. There is no generalised trend towards greater inequality; and even where market incomes are becoming more unequal, intelligent state intervention can counteract the phenomenon quite effectively, certainly so far as adults of working age are concerned.⁸⁴

Poverty rates

It is also possible to compare the UK's position in an OECD poverty league table, which includes data on households with incomes below 60, 50 and 40% of the median (see figure 12). Once again, this is just a snapshot from the mid-2000s and does not allow direct comparison with the trends we have previously identified in the UK. None the less, it shows that in this case the UK is below the OECD average, with lower poverty rates than the US, Germany and Italy for example, and much higher rates of poverty than Denmark, Sweden and Norway.

Figure 13: Relative poverty rates for different income thresholds, mid-2000s



Source: Computations from OECD income distribution questionnaire.

Note: The graph shows relative poverty rates at 40, 50 and 60% of median income thresholds. Poverty rates are defined as the share of individuals with equivalised disposable income less than 40, 50 and 60% of the median for the entire population. Countries are ranked, from left to right, in increasing order of income poverty rates at the 50% median threshold. The income concept used is that of household disposable income adjusted for household size.

* Poverty rates based on a 40% threshold are not available for New Zealand.

84 Ibid

Poverty in the Netherlands and France is also below the level in the UK. One needs to be careful, however, if only because the percentage of households on very low incomes in the UK (less than 40% of the median) is not far out of line with countries that do better overall. It is once the 60% threshold is used that the UK's performance begins to look disappointing.

We should note, too, that it is not only the Nordic countries that have low poverty rates. The Czech Republic, Hungary and Slovakia all appear to achieve relatively good results; and Germany, with what is often seen to be an advanced welfare state, does relatively badly in comparison.

Explaining these results is by no means straightforward. It is not simply a matter of highly taxed Nordic social democracies outperforming everyone else. For, although Denmark and Sweden do have exceptionally low poverty rates, some other countries seem to do just as well.

There are three further important points to be made here.

- First, the data captures none of the effects of the global economic and financial crisis. So we cannot make a judgement about the resilience of different systems under pressure.
- Second, some of the Central European countries have much lower incomes per head, as well as a more compressed income distribution, than the UK, which may be a legacy of the communist period. It remains an open question whether these countries can maintain relatively egalitarian outcomes as incomes rise, and it is likely that the impact of the global economic and financial crisis will have the effect of depressing incomes at the bottom. It would be premature, therefore, to identify them as exemplars from which higher-income countries can learn.
- Third, the OECD undertook their assessment at the moment of the Labour government's highest achievement, before poverty began to rise again after 2005. There can be little doubt, therefore, that the situation in the UK today is worse than one might conclude from a careful reading of the OECD's analysis.

Child poverty

Perhaps the same can be said of child poverty, where the OECD's analysis again gives a more positive account than is perhaps justified (see figure 14). We should also note that the OECD's data takes 50% of the median as the benchmark for measuring

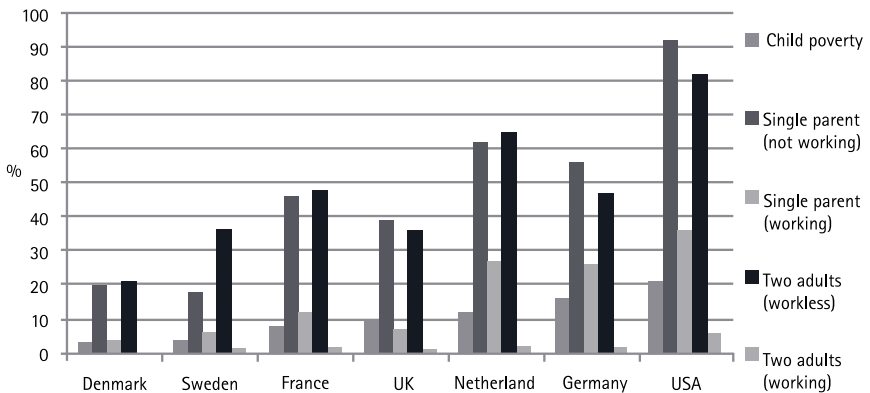
poverty, consequently producing a lower figure than the Institute for Fiscal Studies (see figure 7).

Even using 50% of the median as the measure, the OECD seems to underestimate the extent of child poverty in the UK. This is almost certainly because a different dataset is being used. So, while the OECD's headline analysis is moderately useful for comparative purposes, it is of little assistance in assessing the real extent of child poverty in the UK.

A deeper analysis of the data reveals some interesting complexities and confirms that single-parenthood and worklessness are indicators of child poverty in many countries. So, while just 3% of Danish children live in poor households, 20% of the children of workless single parents are poor, as are 21% of the children of two-parent workless households (the comparable figures for the UK are 39% and 36%).⁸⁵

Work seems to have an impact on reducing the incidence of poverty in some countries but not in others. For example, just 4% of children in working single-parent households in Denmark are poor, while in the UK the figure is 7%. In stark contrast, the figures for the US suggest that work is not necessarily an effective instrument for the avoidance of child poverty unless both parents (or two adults) in the household are working: 36% of children in working single-parent households are poor.

Figure 14: Child poverty rates by employment status and household characteristics



Source: OECD income distribution questionnaire (OECD *Growing Unequal* 2008)

Note: The graph shows the percentage of children living in households with incomes below 50% of the median.

85 See table 5.2 in OECD *Growing Unequal* (2008)

Some interesting patterns emerge here, not least that the UK's performance is better than one might expect from the sceptical assessments of some commentators. This relative success may be attributable to the Labour government's commitments to the reduction of child poverty and to make work pay. So far as lone parents in the UK are concerned, work is almost as effective a route out of poverty for their children as one finds in either Sweden or Denmark, on the OECD's measure at least.

Also worth noting is that work seems to be much less effective as an instrument to reduce child poverty for single parents in the Netherlands, Germany and the US. "Work first" may be an admirable principle, but it is clear that it is not enough in itself. Making work pay and making work sustainable, so that lone parents do not find themselves in a revolving door from low-quality, low-paid work to unemployment and back again, are essential ingredients in the policy mix.

Finally, we might observe that having two working parents is the best guarantee that children will not be living in poverty. The US performs slightly worse than any other country in this respect, with 6% of children with two working parents living in poor households. This does not, however, undermine the central message that getting people back to work – and therefore securing a rapid return to full employment – is a prerequisite for the effective reduction of child poverty. This is true even if, as we have seen, there is still a strong case for a range of measures to achieve a higher wage floor at the bottom of the labour market in order to reduce reliance on tax credits and other means-tested benefits.

The persistence of poverty

We would worry a little less, perhaps, if poverty were a purely transient condition from which it was relatively easy to escape – although that would be no reason, of course, to abandon anti-poverty policies completely. In the UK it is clear that those at the greatest risk of poverty are the old, children and young people, women (following the break-up of a household), the workless, people with disabilities, and those from particular minority ethnic communities – in the UK context, those from Pakistani and Bangladeshi backgrounds.⁸⁶

Careful analysis of the data shows that single-adult households, whether with or without children, are more exposed to poverty risks than people living in couples. And an important factor in determining the risk of chronic poverty is the employment status of household members. According to the OECD, people belonging to workless

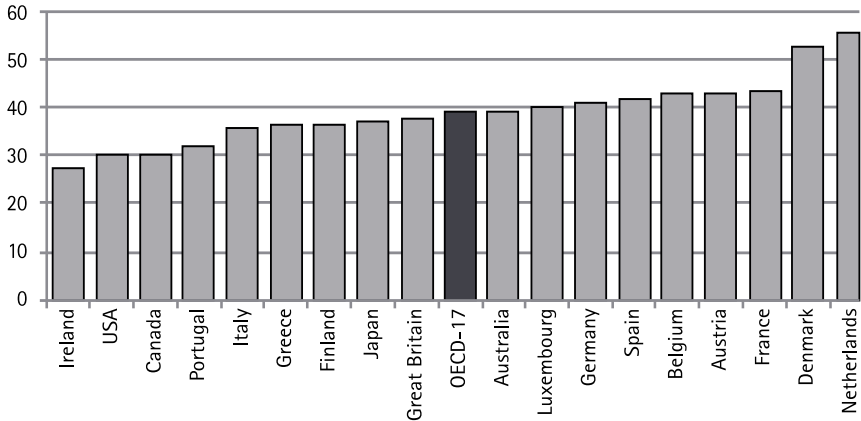
86 Hills, John et al *Report of the National Equality Panel* (2010)

households have a risk of persistent poverty that is five times higher than that of the whole population.⁸⁷

One approach to measuring the persistence of poverty is to assess just how easy it is to fall into and escape from poverty (see figure 15). We can see that the citizens of Greece, Spain and Australia are most likely to become poor in any one year; the residents of Germany and Luxembourg the least likely. For those who are already poor, the highest percentages escaping poverty in any one year are to be found in the Netherlands and Denmark. This is an interesting finding given our earlier discussion of child poverty, in which the Netherlands performed worse than the UK. Yet, as the data on entry and exit demonstrates, relatively, it is easier to escape poverty in the Netherlands; and, as the OECD points out, the UK has a much more serious problem of persistent child poverty than Denmark, for example.⁸⁸

Figure 15: Entry into and exit from income poverty, early 2000s

A: Exit rate - percentage of those in poverty who exit it (poverty based on a threshold set at 50% of the median)

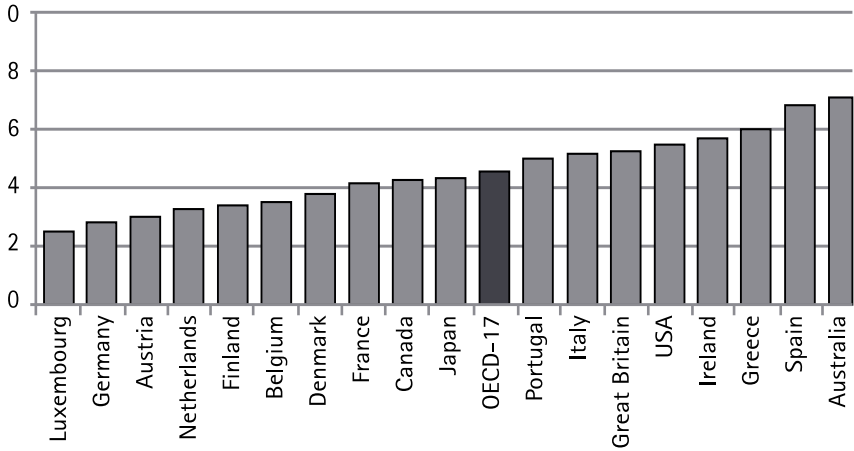


Source: OECD 2008

87 OECD *Growing Unequal* (2008)

88 *Ibid*

B: Entry rate - percentage of the entire population who enter poverty (poverty based on a threshold set at 50% of the median)



Source: Source: OECD 2008

Getting people back to work

A consistent theme of the Labour period in office was the desire to increase the employment rate to 80% – a commitment that has apparently been adopted by the Coalition too. For the purposes of international comparison, it is worthwhile examining just how much is spent on active labour-market programmes as a percentage of GDP and identifying where the spending goes.

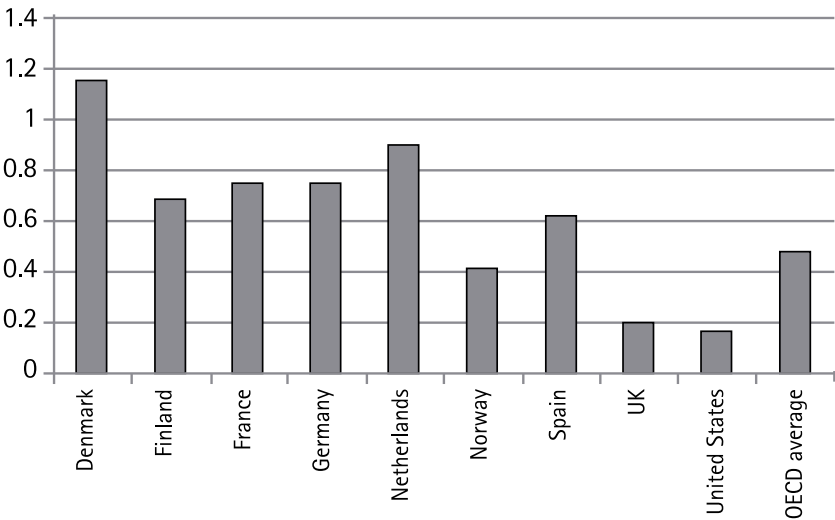
Despite the Labour government's investment in the New Deal and Jobcentre Plus, in 2008 the UK was spending a relatively small amount on active labour-market programmes (see figure 16). Furthermore, the allocation of spend in the UK was much more focused on job search (described in the data as job placement) than on building human capital through investment in training or offering people support for the period after they had successfully entered the labour market. This is not to decry New Labour's efforts in this area, but it is hard to avoid the conclusion that the government was looking to achieve a Rolls Royce outcome (a sustainable 80% employment rate) on a Ford Focus budget.

Of course it is not simply a matter of spending. Some of the countries in the sample experienced higher unemployment than the UK before the global recession, even though they were spending more (France and Spain are good examples). Obviously

other policies matter too, such as the level of labour-market flexibility and the extent to which the welfare system is configured to make work pay. None the less, there is some evidence to show that workers at the bottom of the labour market in the UK do find themselves trapped in a revolving door from low pay to no pay.⁸⁹ The implications are reasonably clear. The UK needs to:

- invest more in the human capital of the unemployed;
- continue with measures to make work pay;
- ensure that support is available during the first few months of employment, and perhaps longer for those employees with special needs;
- improve the quality of work at the bottom of the labour market;
- focus on the sustainability of jobs, instead of looking only to get people back into work.

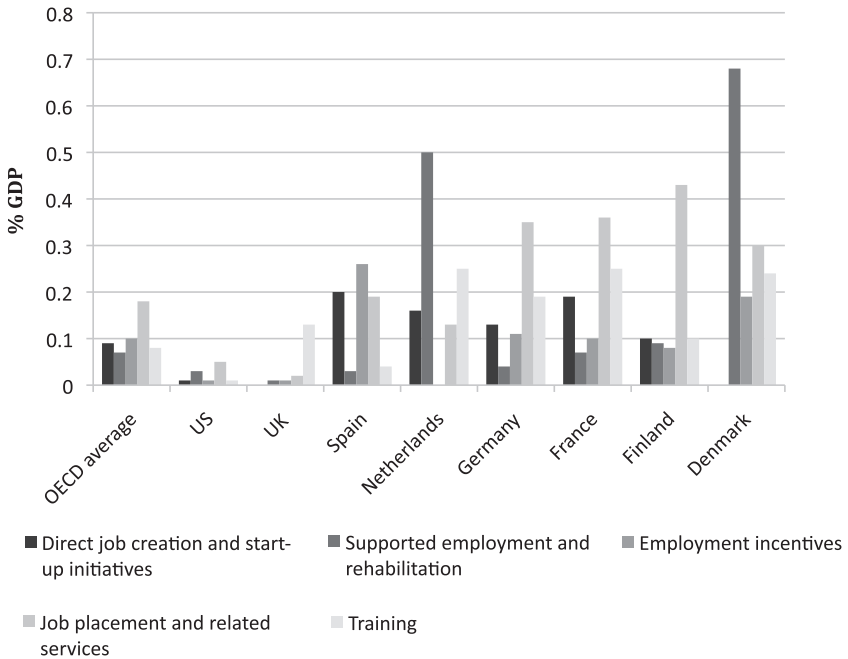
Figure 16: UK spend on active labour-market programmes as a percentage of GDP, 2008



Source: OECD

⁸⁹ Research conducted by the Department for Work and Pensions showed that between 2003 and 2006 some 54% of those commencing a new Jobseeker's Allowance claim were repeat claimants, the vast majority because they could not find "suitable" work ("Repeat Jobseeker's Allowance Spells", DWP research paper 394, 2006).

Figure 17: Allocation of spend on active labour-market programmes in selected OECD countries, 2009



Source: OECD

Assessment of international experience

It would be easy to conclude that the comparative analysis of different countries' experiences is interesting but no more than that. This sceptical argument proceeds from the belief that there are so many national idiosyncrasies, so many factors influenced by history, tradition, institutions and earlier policy choices, that the ability of one country to learn from another is close to zero.

It would be absurd to deny, of course, that one cannot simply take a policy wholesale from one setting and expect it to work in a very different context, but it is still possible to evaluate policy outcomes, attempt to understand the causal linkages and draw some generalisable findings. At European level this is often described as the "open method of co-ordination", essentially a system of peer review that allows countries to make progress without needing to start afresh if another member state has some valuable

experience to share. And one could argue that the OECD has, from its inception, operated a system of peer review. So, for example, there is a strong case for saying that the UK's tax credit system owed a great deal to the earned income tax credit in the United States; that the New Deal was influenced (although not strongly enough) by the Danish approach to active labour-market policy; and that most OECD countries want to understand how and why the Finnish education system delivers such good results. To rule out the possibility of learning from others is a recipe for frustration and probably poor policy implementation, as UK policy makers repeat the mistakes of others.

What then might we conclude from our brief review of experience elsewhere? There are at least six significant points to be made.

- First, there are no common forces at work forcing a convergence of trends in poverty and income distribution. This can be seen by the wide range of Gini coefficients found in OECD countries and by the fact that poverty and inequality have followed different trajectories in different places. Certainly, there are many countries where income inequality (measured in terms of market incomes) has grown. However, the Nordic countries achieved an effective equalisation through the tax and benefits system to counteract these effects, and in France and the Netherlands there was no increase in inequality in any event.
- Second, those countries with the narrowest distribution of incomes – less inequality – are also likely to have less poverty and higher levels of social mobility. To that extent the Nordics do appear to have found a golden mean where social justice and economic efficiency are successfully combined.
- Third, those countries with less poverty and income inequality than the UK generally have (with the exception of a small number of countries in Central Europe) much stronger welfare states and much stronger labour-market institutions. So, for example, trade union membership and collective bargaining coverage are much higher across the Nordic countries than in the UK. Moreover, the strength of labour-market institutions appears to reduce the incidence of low-quality work⁹⁰ and helps to make work more rewarding and sustainable at the bottom of the labour market.
- Fourth, getting people back into work does seem to be an effective policy for

⁹⁰ Paugam and Zhou in Gallie, Duncan (ed) *Employment Regimes and the Quality of Work*, OUP (2007)

poverty reduction. This is particularly the case in households with children where both parents work. And even in single-parent households work is the most effective route out of poverty.

- Fifth, it must be understood how the tax and benefits system relate to the initial distribution of incomes from work – in other words, how trade unions, corporate governance arrangements, the setting of labour standards and other instruments of pre-distribution relate to one another and how their effects can be maximised.
- Sixth, the analysis presented here may flatter the UK's performance because most of the analytical work was done at the high-water mark of Labour's achievement, when both the Gini coefficient and poverty were on a downward trajectory. The Coalition's policies and the deteriorating economic situation may cause both to move in the opposite direction over the coming years.

The OECD describes two rather different policy mixes which are assumed to have different levels of effectiveness.⁹¹ The *work strategy* takes getting the unemployed back into work as the most effective weapon in the battle against poverty. It is a principle that is broadly accepted in the Anglo-Saxon countries, where work is often seen as the best form of welfare. The *redistribution strategy* is much more about income transfers irrespective of labour-market status. It is described as a feature of continental European systems, where out-of-work benefits tend to be higher and in some cases activation policies weaker.

The policy conclusion, however, is not that the UK should abandon "work first" in favour of redistribution or that those countries with high levels of income transfers should focus exclusively on work. What is needed is a hybrid model that recognises the complexity and messiness that already exists across the OECD. So, for example, the Labour government may have been comfortable with the idea that work first was the cardinal principle of welfare reform; but this was reinforced by extensive redistribution through the tax credits system and the provision of services (Sure Start, for example) that were designed to equalise life chances for the most disadvantaged.

Similarly, while redistribution is pursued in the Nordic countries on a more ambitious scale than in the UK, there can be little doubt that the operation of the unemployment benefit/job search system is just as dedicated as its counterpart in the UK to getting

91 OECD *Growing Unequal* (2008)

the unemployed back to work. Indeed, it is more effective in getting people into sustainable jobs.⁹²

Put simply, the OECD is drawing too sharp a distinction between work and redistribution. All systems appear to include an element of both, but they may strike the balance between these policy approaches rather differently. Moreover, although the OECD does not investigate the question in great detail, the presence of rather different institutions of pre-distribution sets the context for other policies. Enabling policy makers to learn from each other in order to develop the optimal policy mix for their country is a highly desirable goal.

⁹² Ben-Galim, Dalia et al *More than a Foot in the Door: Job sustainability and advancement in London and the UK*, IPPR (2011)

Chapter 9

Growth, unemployment and poverty

Growth, unemployment and poverty

The long period of Labour government was characterised by consistent, uninterrupted economic growth until the onset of the global financial and economic crisis (see figure 18). Employment was rising and unemployment falling (see figure 19). Indeed, one might even say that New Labour had succeeded in returning the economy to something close to full employment. In other words, the keystone of the post-war settlement appeared to be back in place.

Growth is not enough

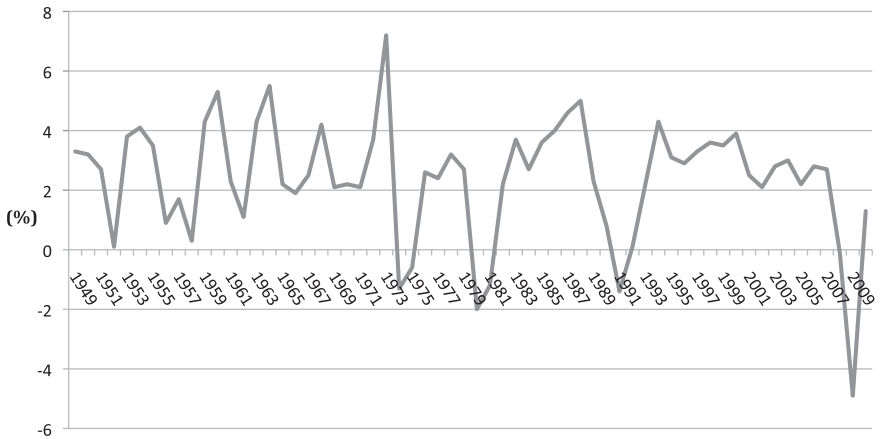
Yet at the same time something new and different appeared to be happening. Over the period of the great compression rising employment, or the maintenance of full employment, had been associated with declining rates of poverty and inequality. But despite a buoyant labour market and sustained, robust growth, New Labour's period in government witnessed an increase in in-work poverty and less progress in reducing poverty than might have been anticipated (see figure 3). In other words, economic growth and full employment could no longer be relied upon to achieve other desirable social objectives.

This finding should come as no surprise, however, since growth is not, and never has been, associated automatically with falling poverty rates and improved social outcomes, otherwise there would have been no demand to create the welfare state in the first place. After all, the Webbs produced the Minority Report in an environment where the economy had been transformed over the previous century by historically unprecedented growth rates.

As the recent experience of both the UK and the US has proved, rising prosperity, or at least rising GDP per head, can be associated with rising poverty rates and a rising Gini coefficient. Moreover, such findings emphasise the point made earlier in this discussion: while the state can make a difference, it certainly cannot do everything alone. Hence the argument that effective institutions of pre-distribution are a prerequisite for a more egalitarian and cohesive society.

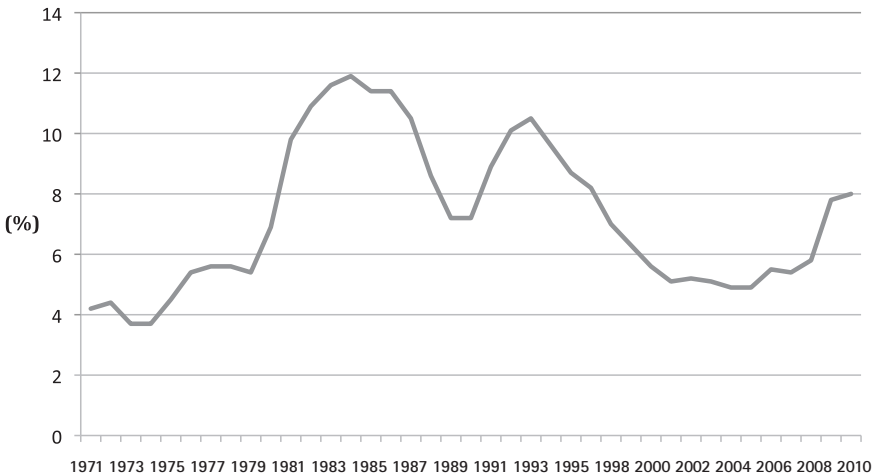
As figure 9 shows, the UK has just experienced the deepest recession of the post-war period. While it is too soon to reach a final judgment, we might anticipate that both poverty and inequality will have risen as a result, not least because wages are stagnant at the bottom of the distribution and excessive rewards remain prevalent at the top.

Figure 18: Growth in UK gross domestic product, 1949-2010



Source: Office for National Statistics

Figure 19: Unemployment, 1971-2010



Source: Office for National Statistics

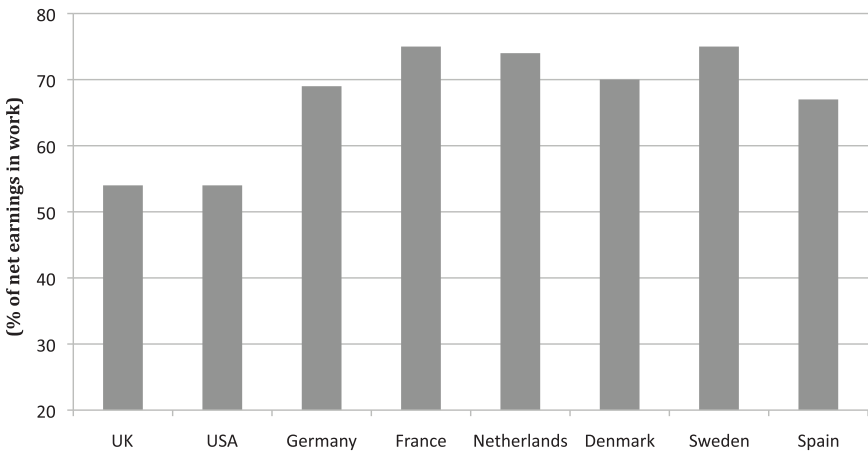
Note: ILO measure – “actively seeking work”

Erosion of unemployment benefit

One of the problems in the UK is that relative benefit rates have been falling over a prolonged period and eligibility periods have been reduced – most notably, from 12 months to 6 months for contributory jobseeker’s allowance. At the start of the 1980s unemployment benefit (now JSA) was worth 20% of average earnings; by 2004 it had declined to just 11%; and if current policies continue, it will have risen by 14% less than average earnings by 2017-18 and by 39% less in the period to 2031-32.⁹³ Inevitably, this has meant an increase in the percentage of JSA claimants in receipt of means-tested benefits.

The persistent erosion of the relative value of JSA further undermines the mutuality and reciprocity at the heart of the Beveridge model. Social insurance is seen as legitimate only if it offers real insurance against risk and real protection against the vicissitudes of worklessness. It is hard to sustain the argument that the system achieves this today.⁹⁴

Figure 20: Replacement rates of benefits in selected countries



Source: OECD

In many other countries unemployment is a much less financially catastrophic experience because the replacement rates of benefits are much higher (see figure 20).

⁹³ Cooke, Graeme *National Salary Insurance*, IPPR (2011)

⁹⁴ The Coalition’s proposed universal credit will arguably entrench means testing even more firmly by time-limiting employment support allowance for those in what is called the work-related activity group.

In these circumstances it is much easier to sustain the "something for something" argument and cement the legitimacy of the welfare state. Graeme Cooke has recently argued that the unemployed should have access to national salary insurance which will offer significantly more than the current level of JSA but will be time-limited and subject to some repayment requirements when an individual returns to work.⁹⁵ While not entirely without problems, this represents a helpful intervention in the discussion that could revive the argument for social insurance and build a new version of Beveridge fit for the conditions of the 21st century. We return to this argument in our conclusions.

Geography matters

So far our discussion has looked at the national picture, but measures such as the Gini coefficient and the 90:10 ratio tell us nothing about the geographical distribution of poverty. Put simply, the mere fact that the people living in poverty and the workless are concentrated in particular locations can itself make it difficult to improve social outcomes. Economic geography matters.

Often this is conflated with a concern about the North-South divide, an issue that has been explored by the Smith Institute in *Rebalancing the Economy: Prospects for the North*.⁹⁶ Yet while this issue is important, it is not the only way to analyse the problem. There are lots of deprived areas in London and the South of England too: inner cities; coastal towns; towns that have been dependent on one industry where that industry has disappeared; and peripheral social housing estates in the big cities.

A review by the National Audit Office of Labour's active labour-market programmes before the recession hit made the point that worklessness was heavily concentrated. So, for example:⁹⁷

- 60% of workless households were found in 40 council districts;
- 25% of the heaviest concentrations of worklessness were found in 3% of wards;
- 60% of the concentrations of worklessness were in 10% of wards.

And, despite our observation about poor areas in the South, the North-South divide is a genuine line distinguishing the more prosperous parts of the country from the less prosperous: even though some people in the South are poor, poverty is a more

⁹⁵ Ibid

⁹⁶ Ward, Michael *Rebalancing the Economy: Prospects for the North*, The Smith Institute (2011b)

⁹⁷ National Audit Office *Helping People from Workless Households into Work*, TSO (2007)

widespread condition in the North.⁹⁸ These differences are not new and have existed at least since the 1880s, when life expectancy in Liverpool (at that time the lowest in Britain) was 36 years, whereas in Bristol it was 10 years higher.

The eminent epidemiologist Michael Marmot has emphasised the importance of income inequality and social status in explaining differences in life expectancy, with unemployment a particularly important contributory factor.⁹⁹ A more recent study has shown that the difference in life expectancy between North and South, at nine years on average, is now at the highest level since 1921.¹⁰⁰ Moreover, Marmot's work for the Labour government has shown that people in poverty are much less likely than more affluent citizens to enjoy good health after the age of 50, raising questions about the likely effectiveness of a "work first" approach to poverty reduction and the fairness of a general increase in normal retirement ages.¹⁰¹

The National Audit Office's account of the barriers to work in the most disadvantaged communities may also offer some guidance on the development of policy in the future (see box). It is important to note that this evaluation was undertaken in the pre-recession period, so the difficulties encountered by the unemployed are likely to have been deepened by the experience of recession.

Barriers to employment in the most disadvantaged areas¹⁰²

- Lack of recent work experience
- Living in concentrations of worklessness
- Caring for children without access to childcare sufficient to make work a practical proposition
- Cultural and language barriers
- Limited local job opportunities
- Poor local transport
- Real or perceived discrimination by employers
- Poor job search skills
- Low motivation, aspiration or confidence
- Poor financial incentives and real or perceived financial barriers to move into work or study

98 Dorling, Danny *So You Think You Know about Britain?*, Constable (2011)

99 Marmot, Michael *Status Syndrome*, Bloomsbury (2004)

100 Thomas, Bethan, Dorling, Danny and Davey Smith, George "Inequalities in premature mortality in Britain: Observational studies from 1921-2007", *BMJ* 341, e3639 (2010)

101 Marmot, Michael *Fair Society, Healthy Lives: The Marmot Review*, TSO (2010)

102 NAO, 2007

According to recent studies of social regeneration (such as the Joseph Rowntree Foundation's "Partnership Initiatives for Communities" programme), in the period from 1999 to 2005 Labour's neighbourhood renewal programme did help to reduce the claimant count in the most deprived group of wards, but not by as much as one might have expected. Indeed, analysis carried out by the Department for Work and Pensions shows that claimant numbers fell by around 1% a year. This cut claimant numbers by some 100,000 over six years, but only slightly reduced the gap between rates of poverty and worklessness in the most and least deprived areas.

Labour held to its target set out in 2000 to ensure that "within 20 years no-one should be seriously disadvantaged by where they live", but it had clearly underestimated the scale of the task. In the most deprived neighbourhoods the "rising tide of growth" and a number of programmes and initiatives collectively made a difference: the minimum wage; welfare to work; child and pensioner tax credits; housing intervention (like the Decent Homes and Housing Market Renewal programmes); early years initiatives (like Sure Start); and targeted neighbourhood renewal programmes. Nevertheless, levels of poverty remained stubbornly high in the most deprived wards (where one in four people of working age received benefit in 2005, compared with one in twenty in the least deprived).

As David Page concludes in his study of neighbourhood social regeneration:

*[T]he main drivers of social exclusion appear little abated since 1998; the gap between the worst wards and elsewhere seems to be narrowing, but only slowly; and the intensity of income and work deprivation in the worst wards seem still formidably high.*¹⁰³

The connection between poor people and poor places is, as David Page comments, "more marked than before ... because as the economy has recovered, people with good qualifications and skills in all regions have been able to find jobs, leaving behind a minority of people and places that have been less able to adapt to a post-industrial future". Concentrations of poverty within regions have become more localised, in part because of a more pronounced mismatch between the areas of employment growth and the geography of housing. People have moved for work, but much less so in the former industrial communities which are heavily reliant on the public sector.

It is clear that deprived communities are suffering from more than low incomes. Further-

103 Page, David *Respect and Renewal: A study of neighbourhood social regeneration*, JRF (2006)

more, as pre-recession worklessness maps demonstrate, levels of worklessness remained high in these areas during the boom – despite Labour's commitment to a pro-active regional economic policy. An obvious point to make is that simple redistribution may be a necessary precondition of progress, but it will never give low-income households in deprived areas all the capabilities they need to choose lives that they value. Work and access to a range of both public and private services are essential elements in the policy mix. This reinforces the argument that a focus on active labour-market policy, while important, is insufficient to address the problem. There is little value in investing in human capital if people cannot find jobs that enable them to fully utilise the skills they have acquired.

One of the main lessons to be drawn from Labour's efforts during the "growth years" to address the poverty of place is that the challenge of transforming the lives of people living in areas which are the most deprived and furthest from the labour market is much more complex and difficult than Whitehall and government ministers perhaps appreciated. Sustained investment over time and redistributive fiscal policies can improve inter-generational outcomes, but the process is slow and costly. There are no quick fixes to regeneration and no evidence to suggest that a more laissez-faire approach will have much effect in places where there are high concentrations of worklessness and private markets are weak.

There is a major policy choice to be made here. Should government try to move the jobs to the people or the people to the jobs? This is not a matter of trying to buck the market or refusing to accept the realities of economic geography, but it does involve shaping the conditions under which markets operate. So, for example, there is little chance of implementing a successful anti-poverty strategy if communities are isolated (despite often being close to an urban area), infrastructure is poor, childcare provision is weak, crime rates are high, and levels of educational attainment are low. National anti-poverty policies must be spatially differentiated – in other words, there must be some flexibility at the point of implementation – and they must be properly integrated into a co-ordinated approach to regeneration and growth. Anything less will ameliorate the problem but is unlikely to offer a long-term solution.

Chapter 10

Social mobility, the Coalition's policies and the Big Society

Social mobility, the Coalition's policies and the Big Society

Some politicians wish to redefine the objective of anti-poverty policy so that it is solely concerned with the ability of individuals to escape from life on a low income through progression up the social hierarchy. Higher education and access to the professions have become the focus of the discussion, with more conventional equity concerns left far behind. We do not need to rehearse all the arguments on the relationship between improving social mobility and tackling poverty, except to emphasise that those societies with the most egalitarian distributions of income also seem to have the highest levels of social mobility.

These findings were established by work sponsored by the Sutton Trust in 2005;¹⁰⁴ confirmed by further research;¹⁰⁵ and endorsed by the OECD.¹⁰⁶ This is critical research that must be reflected in the developing conversation about the relationship between poverty, inequality and social mobility.

Limitations of social mobility

Perhaps we can offer two further comments on the weakness of social mobility as a policy goal. To begin with, it does nothing to subject the pre-existing inequalities in society to inspection or criticism. It is rooted in the assumption that the objective must be to allow those with the appropriate abilities to climb the social pyramid and escape the privations of a low income. But this perspective offers nothing to those who are already poor and are (for whatever reason) unlikely to make the move into another social class at any point in their lives. Social mobility can very easily become an excuse to abandon not just any egalitarian ambition but even modest measures that might reduce the incidence of poverty.

Finally, the biggest risk with this approach is that it could lead to what Michael Young described as a meritocracy: an elite group, selected solely on the basis of intelligence, with little connection to the rest of society, pursuing its own interests and eventually facing a crisis of legitimacy, where the governed refuse to accept the superiority of the meritocratically chosen few.¹⁰⁷ And as Young also suggested, a supposedly mobile society of this kind can quickly degenerate into a rigid social hierarchy if those at the

104 Blanden, Jo, Gregg, Paul and Machin, Stephen *Intergenerational Mobility in Europe and North America: A report supported by the Sutton Trust*, CEP (2005);

105 Blanden, Jo *How Much Can We Learn from International Comparisons of Social Mobility*, Carnegie Corporation and the Sutton Trust (2009)

106 OECD *Growing Unequal* (2008)

107 Young, Michael *The Rise of the Meritocracy*, Thames and Hudson (1958)

top begin to argue that all inequalities are simply a reflection of "merit". More likely, perhaps, is that the rhetoric of social mobility becomes a smokescreen for the opposite: a society that is largely static and stratified, where birth is destiny, and where the best predictor of a child's life chances continues to be the social trajectory of her parents.

It is reasonably clear that most of the Coalition's policies are moving away from the interventions needed to achieve its declared policy objectives. Members of the Coalition government claim to be apostles of opportunity and social mobility, but almost everything we know about the direction of welfare and labour-market policy suggests that the outcome will be more inequality, not less.

The Institute for Fiscal Studies, in its extensive review of the likely outcome of recent developments, offers the following pessimistic assessment:

Several changes to the tax and benefit system [this refers to changes in Labour's last budget which the Coalition have retained] look set to hit those on high incomes particularly hard from April 2010 onwards, which will tend to reduce income inequality, all else being equal. Beyond 2010, deep cuts to benefits and tax credits are likely to act to increase inequality year after year, all else being equal.¹⁰⁸

And, as we have seen, unequal societies are not opportunity societies. They are hierarchical, stratified and potentially stagnant. This is where the Webbs came in at the beginning of the 20th century, attacking an economic structure that was unequal, plutocratic and unfair and that left many people either destitute or struggling to survive. It is premature to rush to judgment and state unequivocally that the Coalition's social mobility policy will fail, but unless further action is taken to tackle the higher levels of poverty and inequality that have developed since the 1980s – and this means continued redistribution – then the prospects of success are not especially encouraging.

The Work Programme

So far as welfare-to-work policy is concerned, the Work Programme introduced in 2010 as the replacement of the New Deal apparently demands that the main contractors delivering the scheme deliver more for less.¹⁰⁹ Moreover, the Work Programme is supposed to include much tougher sustainability objectives for providers. Yet it is not at all apparent that these can be delivered unless more attention is paid to the nature

¹⁰⁸ Jin, Wenchoo et al *Poverty and Inequality in the UK 2011*, IFS Commentary C/118, IFS (2011)

¹⁰⁹ Ben-Galim, Dalia et al *More than a Foot in the Door: Job sustainability and advancement in London and the UK*, IPPR (2011)

and quality of work on offer through entry jobs and the opportunities for development and progression that follow.

Once again, there is good evidence to show that high-quality work is sustainable work.¹¹⁰ One might argue that, because providers are operating in a market and need to achieve their targets, they will work with employers to tackle difficult challenges related to job quality. On the other hand, the government cannot be certain that providers will have the skills required to achieve this level of engagement or that, in a weak labour market, employers will have any real incentives to improve the quality of jobs on offer. The full effects of the policy change have yet to work through the system and it would be wrong to offer a definitive view now about the likely outcome. At the very least there is a powerful case for a very careful evaluation once the Work Programme has been in operation for more than a year.

Universal credit

The centrepiece of the Coalition's welfare reform programme is the introduction of the universal credit. In one sense this is an admirable attempt to cut through the thicket of benefits that have developed over time. People will only have to make one application (apart from council tax benefit), and there is an obvious intellectual and administrative neatness to the proposal. On the other hand, a simple system may find it hard to take account of the complexity of people's lives – family size, physical disability, mental illness, housing costs, level of savings.

Some commentators have suggested that the case for the universal credit is not proven; that particularly disadvantaged groups may find themselves penalised further; that the system of sanctions may be overly punitive; and that the government is seeking a major overhaul of welfare (which may demand an increase in spending) at the same time as a host of spending reductions are being implemented.¹¹¹ Moreover, despite the desire to create incentives to work, the government appears to have designed a scheme that will lead to higher marginal tax rates for around 2 million workers. A recent report from the Children's Society has suggested that the proposed benefit cap of £500 a week for a household will penalise children more than adults, adversely affect around 210,000 children, and potentially render 80,000 children homeless.¹¹²

The payment of universal credit to one partner in a couple may also create difficulties. As the Daycare Trust has pointed out, there is no provision for paying childcare support

110 Graham, Jenny et al *The Role of Work in Low Income Families With Children: A longitudinal qualitative study*, DWP (2005)

111 Child Poverty Action Group, *Welfare Reform Bill: Second Reading briefing from CPAG* (2011)

112 Children's Society, *The Distributional Impact of the Benefit Cap* (2011)

to the parent with the principal caring responsibility; and the recent cuts to the working tax credit are already forcing some women out of the labour market because they cannot afford the costs of childcare.¹¹³ According to the Child Poverty Action Group, the proposals take insufficient account of the nature of modern families and the lives of those on low incomes, and may result in greater dependence and threaten to reinforce a "single-breadwinner" model. One may therefore struggle to see how these policy changes are consistent with the Coalition's desire to reduce poverty and improve social mobility.

Furthermore, the likely upheaval associated with the universal credit is being compounded by reforms to social housing, particularly housing benefit changes which could (together with a new rent regime) push more social tenants into poverty. Households living in social housing already have much higher levels of worklessness and are more reliant on welfare.¹¹⁴ According to leaked estimates from the Department for Communities and Local Government, an extra 40,000 families will be made homeless by the welfare and housing reforms.

As ministers struggle to reduce the housing benefit bill (currently at £22 billion a year – roughly double in cash terms what it was in 2000), the pressure to curb the policy of subsidising social rents will inevitably increase. Housing charities such as Shelter are concerned that many families will be forced to use other welfare benefits to meet their basic housing costs. Tackling these issues will be extremely difficult for local authorities and housing associations, given the reduction in grant funding (and ring-fencing) for homelessness programmes.

It is not the purpose of this report to offer a detailed commentary on the planned £5.5 billion cuts in welfare spending and the advantages and disadvantages of benefit caps, housing reforms and universal credit – after all, the welfare reform legislation had not been passed by parliament at the time of writing. We noted earlier that ambitious schemes of reform often fall at the first fence because they are less "simple" than initially appeared, have proved too costly or have been blown off course by changing economic circumstances. At the very least, implementation of the universal credit will need to be carefully handled: close attention must be paid to whether there are losers among those with the lowest incomes and compensatory action taken if necessary. There are huge risks here: if the government makes major policy mistakes, the likely outcome will be an apparently simpler system that compounds the problems of inequality, poverty and worklessness.

113 Daycare Trust and Save the Children *Making Work Pay: The Childcare Trap* (2011)

114 In deprived areas, around 40% of households are on housing benefit, compared with a national average of 17%.

The Big Society

The Conservative side of the Coalition is ideologically committed to shrinking the state, although a government supporter might say that this characterisation is a little ungenerous. The central idea here seems to be that the retreat of state provision will unleash the dynamism of voluntary and community activity – the “Big Society”. As David Cameron put it in his pre-election Hugo Young lecture in 2009:

The era of big government has run its course. Poverty and inequality have got worse, despite Labour's massive expansion of the state. We need new answers now, and they will only come from a bigger society, not bigger government. That's why it's now clear to me that the Conservatives, not Labour, are best placed to fight poverty in our country.

Until the social reforms of the early 20th century, most anti-poverty initiatives were funded and delivered by philanthropists, trade unions, friendly societies and charities. Indeed, as we have seen, one of the striking features of modern Britain since the 1900s has been the way in which the state has gradually replaced philanthropy in respect of welfare and social protection. The post-war political consensus centred on a “unifying concept that, to a greater or lesser extent, the welfare of the citizen is the responsibility of the state, with a particular focus on the relief, and if possible prevention, of poverty”.¹¹⁵ The relationship between welfare and voluntarism was nevertheless constantly evolving along what might best be described as a “moving frontier”.

The voluntary and community sector continued to expand following the foundation of the welfare state and makes an important (and sometimes hidden) contribution to combating poverty, often in partnership with the public (and private) sector. The last 25 years have seen many of the larger charitable organisations delivering frontline services to poorer people; they have become more reliant on statutory funding (increasingly from local government and in the form of contracts), with their income supplemented by tax relief, such as Gift Aid and rate relief. As a result the voluntary sector has expanded in partnership with the welfare state. Its total income has more than doubled since 1990 to around £35 billion, with over a third coming from public grants and contracts. Individual and corporate giving has also risen, although donations have fallen back since the recession in 2007/8.

However, it should be remembered that only a relatively small proportion of charitable

¹¹⁵ Ward, Michael *Beatrice Webb: Her Quest for a Fairer Society*, The Smith Institute (2011)

activity is dedicated to combating poverty. According to the National Council for Voluntary Organisations, social services, housing, and employment and training organisations receive the highest proportion of public funding. The contribution of the sector to combating poverty is important, especially in deprived areas, but still relatively small. Indeed, the whole of the voluntary sector only accounts for around 2% of all expenditure on public services.

The policy debate today is concerned with the scale, cost and effectiveness of the welfare state, with the Coalition pledging to roll back the state to create a bigger role for both private and third sector organisations. However, it remains unclear to what extent efforts to combat poverty will be boosted by Big Society policies, such as the promise to train 5,000 community organisers; the proposal that community organisations should be allowed to challenge to take over local services; and plans not only to encourage private giving but also to make funding available through the new Big Society Bank and anti-poverty funds such as the Community First Fund and the BIG Fund.

The voluntary sector is certainly worried that spending cuts will undermine capacity and capability. The National Council for Voluntary Organisations estimates that the sector could lose nearly £3 billion from government over the current spending review period from 2011 to 2016. Many of the smaller charities are also concerned that levels of volunteering may decline in a period of austerity and uncertainty. A particular problem may arise from reductions in funding for community advice services, which are especially important at a time when the government is introducing major new changes to the social security system.

While all governments since the mid-1990s have actively supported the voluntary sector (through tax breaks, grant funding and the like) and trumpeted the benefits of greater choice, community empowerment and active citizenship, the Coalition is pursuing a much more vigorous and localist reform programme to open up public services – including anti-poverty services – to competition. The aim is to secure a more diverse and open market where the state is no longer seen as the “default provider” of services. According to the Open Public Services white paper (2011), these reforms will “give power to those who have been overlooked and underserved ... and put the poorest at the front of the queue”. Labour, meanwhile, argues that the Big Society is a smokescreen for spending cuts and points to polling data which shows that most people are confused about what it means.

Localism

Part of the Coalition's welfare reform agenda will focus on local contracting with the voluntary sector. According to the Department for Work and Pensions, the administration of discretionary social fund community care grants and crisis loans is complex, expensive, poorly targeted and open to abuse. The government believes these services can be more effectively designed and run locally. As such, Whitehall is devolving funds without ring-fencing. While many anti-poverty charities welcome the opportunity to strengthen their partnerships with both local government and the private sector, there are widespread concerns that the abolition of a national system of poverty payments (combined with changes to eligibility criteria, particularly for disabled and elderly people) could put more people at risk.

The scope of this study precludes a detailed analysis of the evolving relationship between the voluntary sector and the welfare state, which has taken different forms, at different times, in different sectors. It is also too soon to conclude how the government's welfare and Big Society reforms will impact on the voluntary sector and thereby affect anti-poverty policies and programmes. The reforms have only just begun and the impacts of the spending cuts are still working their way through the voluntary sector.

While it is inevitable that the voluntary sector will face more demands with fewer resources, it would be presumptuous to conclude that many of the anti-poverty charities and social enterprises cannot adapt. A paper prepared for the Cabinet Office argued that:

[T]he voluntary sector is constantly evolving and adapting to new circumstances giving rise to new forms of activism and participation. It has grown alongside an expanding state and complemented the work of the welfare services. Attempts to control and direct its activities are likely to fail and possibly to backfire, especially if sectors call on the state for further intervention. However, its vibrancy can be embraced, and its comparative advantages exploited, but not in a manner that sees it as an alternative to state provision. Indeed, its cheque-book supporters might readily switch their allegiances if this is the role envisaged for civil society.¹¹⁶

In conclusion, it is clear that much of the voluntary sector depends on grants and project budgets from public sector bodies for much of its revenue. Inviting the third sector to bid for contracts to undertake work previously performed by the employees

116 *The Big Society: Civic participation and the state in modern Britain*, Cabinet Office (2010)

of public authorities is unlikely to offer adequate compensation – not least because much of the third sector, even those who characterise themselves as social entrepreneurs, may be wary of getting involved in a thoroughgoing process of market-based competition.

Moreover, all those countries that have achieved more egalitarian outcomes than the UK have much larger states. What this means in practice is that those countries with less poverty, greater equality and more social mobility have bigger states *and* bigger societies. Measures of social trust (for example, do citizens believe that they can rely upon one another?) are much higher in the Nordic countries, with their larger states, than in the UK.¹¹⁷ It is not that the big state crowds out the activities of intermediate institutions but that the big state and the big society collaborate effectively to achieve desirable social objectives. We might legitimately ask whether the Coalition has absorbed the real lessons of the international experiences that we describe in this report.

117 Putnam, Robert *Bowling Alone*, Touchstone, Simon and Schuster (2000)

Chapter 11

Conclusion: what have we learned?

Conclusion: what have we learned?

Just what can we learn from the experience of policy implementation since the Minority Report?

With hindsight it is clear that the Webbs were swimming with the tide of opinion in 1909. It may not have seemed that way at the time, but arguments for a more developed welfare state were becoming widely accepted across Europe and (to some extent) North America. The *ancien régime* was in retreat and the First World War brought an end to an era of peace, stability and elite complacency.

Perhaps we can go further and say that the period from 1909 to 1979, with some fits and starts, was characterised by sustained economic and social progress. Certainly, in the period immediately after the Second World War until the return of crisis conditions in the 1970s, the income distribution was more compressed, poverty rates were at a historically low level, life chances were expanding for the majority of the population, and social mobility (despite the weaknesses of both the concept and the empirical evidence) seemed to be increasing. What were the particular features of anti-poverty policies since the Webbs' early work that help to explain falling poverty rates? What policy interventions have made a difference? The following six elements appear to be particularly significant.

Full employment

The first is obviously the commitment to full employment of both Labour and Conservative governments, which had the effect of ensuring that all those who wanted to work (or indeed were capable of work) could work. Of course the labour market today is very different from the world of 1945, when Beveridge and the Labour government were focused on full-time male employment. But the essential truth of this observation remains: even in a labour market with a higher level of participation by women and more part-time work, it is essential to ensure that employment opportunities are available for all those who wish to work.

An unintended consequence of full employment in the post-war period was a shift in the balance of power between capital and labour, enabling trade unions both to represent their members effectively and to ensure that productivity increases were reflected in rising earnings. Of course, a critic can rightly point to trade union restrictive practices, a sectional approach to bargaining, and a wilful dismissal of the view that the public interest could be different from the interests of organised labour. But these

were characteristics that began to appear from the late 1950s onwards and only crystallised as serious problems in the later 1960s, when the British economy was under pressure and was failing to adapt to a rapidly changing world.

So the prospects of reducing poverty and inequality depend critically on the reduction of unemployment and the return to robust and sustained economic growth. Getting macro-economic policy right is a necessary but not sufficient condition for progress to be made. Redistribution is essential. The immediate difficulty, of course, is that the Coalition Government's policies are likely to prove less rather than more redistributive.

Something for something

The second central feature to emerge from our story is the development of an insurance-based welfare state, founded on the notions of mutuality and reciprocity. "Something for something" was at the heart of the Beveridge plan and helped to legitimise the welfare state in the eyes of those who might otherwise have been sceptical. None the less, we should remember that by pitching the level of insurance-based benefits too low, the 1945-51 Labour governments sowed the seeds for the growth of means testing and the return of a set of arrangements that look more like the Speenhamland System (tax credits) than a redistributive, egalitarian welfare state.

Embedded in our narrative is the belief that the principles of William Beveridge must be revived if the welfare state is to flourish in the future. This means that some tough choices must be made. For example, if "something for something" is to be a genuine offer, the level of some benefits must rise – particularly jobseeker's allowance. But that in turn may require either higher taxes or higher national insurance contributions. Graeme Cooke's proposal for national salary insurance offers much food for thought, even though more work is required on the detail. The issues of principle here are that generosity should be linked to conditionality and time limits; far from being coercive notions, these elements of the system would look familiar both to the Webbs and to Beveridge.

Means testing

Third, it should be clear from the story so far that some element of means testing is inevitable. Universal or insurance-based benefits, even if generous, will never be able to take account of all household circumstances, including family size, disability and caring responsibilities. The question is how to strike the right balance between universality, social insurance and means testing; and a key issue is whether "contribution" can be measured by something more than simply participation in the labour market, as is the case today for some of those with caring responsibilities.

The design of the universal credit represents a further significant step away from social insurance and towards means testing. We have already observed that the notion of simplicity has many attractions, but the universal credit is untested and could leave a significant minority in a worse position, particularly those living in already deprived areas who rely on social housing. Whatever the Coalition may do, these are relevant considerations for any political party seeking to form a government in the future.

Universalism

Fourth, from 1945 to 1979 the principle of universality for some benefits was generally accepted, although by the 1970s debates in both political parties had begun to focus on affordability and whether "selectivity" (what we would now call targeting) was an unavoidable policy choice. The mere fact that benefits, and especially child benefit, were universal ensured middle-class support for the welfare state. As Professor Titmuss, an adviser to successive governments on social policy, pointed out, a welfare state that only serves the needs of the poor will be a poor welfare state.

Place matters

Fifth, economic geography continues to matter and policies to tackle regional socio-economic disparities are essential. Despite the long-standing policy consensus on rebalancing the economy, the social and economic divides between and within regions remain as much an issue today as they were 50 years ago. Recent research by the Smith Institute shows that economic inequalities between (and within) the three northern regions and the South are widening. Moreover, the latest data from the Office for National Statistics suggests that the gap has widened between prosperous areas in the South East and Eastern region and areas with a high proportion of households in poverty (Wales, the North East, parts of London and other metropolitan areas, notably Leicester, Nottingham, Birmingham and Manchester). Slow growth, the weakening of regional policy and fiscal austerity are likely to exacerbate the problem. Higher rates of unemployment and worklessness and falling real incomes in the more deprived areas will inevitably push more people into poverty. "Withdrawing resources may have the effect of widening the gap between prosperous and lagging parts of the country, making a bad situation worse".¹¹⁸

Pre-distribution

And finally, before 1979 governments of all political hues understood that the institutions of pre-distribution could be just as important as the instruments of redistribution (the tax and benefits system). In this respect, our analysis suggests

118 Ward, Michael *Rebalancing the Economy: Prospects for the North*, The Smith Institute (2011)

that labour-market policy – beyond the commitment to maintain full employment – often seemed disconnected from social policy. None the less, the legitimacy of collective bargaining was generally accepted by all governments until the 1970s. Ensuring the government only did business with reputable contractors was an article of faith. And, despite the relative weakness of the system, no government suggested that fixing sectoral wage floors through wages councils should be abandoned.

If the argument presented here is broadly accepted – that the initial distribution of labour-market incomes is shaped by the activities of non-market norms and institutions – then a number of pertinent and controversial questions arise.

- How can progress be made in rebuilding the role of trade unions?
- Are trade unions still relevant institutions in today's labour market, or should policymakers look elsewhere for countervailing power that can hold employers to account?
- What role, if any, should government have in promoting collective action among workers?
- Are there other instruments that might be available to achieve a more equitable distribution of incomes?
- What role might be played in future by the minimum wage and "living wage" arrangements in public contracting?
- Can changes to corporate governance and reporting obligations (the requirement to produce a narrative account of the management of the workforce) create a different set of incentives that can change management behaviour?
- Could more extensive requirements for pay transparency – over the ratio of top to bottom pay, the distribution of pay across the organisation, the number of workers receiving the minimum wage, pay increases available to directors and workers over the previous five years – have the effect of imposing some limits on the upward spiral of executive pay?

It is not proposed that we should answer all these questions here, but they do offer some useful guidance in devising an agenda for the future. The architects of the welfare state would have been able to answer similar questions in the 1940s, and it is an indication of how much reconstruction is required that the answers seem much less obvious today.

Lessons from Thatcherism

Thatcherism, of course, represented a break with the past largely because it rejected

most of the assumptions of Beveridge and others.¹¹⁹ The post-war settlement was abandoned in general and in particular. Institutions of pre-distribution were weakened or abolished. Long-term benefits, including the basic state pension, were de-indexed from earnings, earnings-related benefits were abandoned and moved to a flat rate, and out-of-work benefit levels were allowed to fall in relative value over time, ostensibly to create incentives to work. Top rates of income tax were cut and public policy explicitly encouraged the rich to get richer. This was the heyday of trickle-down economics, the belief that some crumbs from the rich man's table would fall at the feet of those in poverty.

Liberal Conservatives would argue that Thatcherism was the price that had to be paid for failing to modernise the British economy and welfare state when the going was good. Those with a harder-edged view might argue that the state was and remains the problem. In their view Thatcherism was only a partial success and there is still work to be done. Whether Thatcherism was an effective strategy of economic modernisation is more than a moot point that cannot be considered here. But only the foolhardy could deny that the social consequences were often disastrous: some communities have yet to recover from the consequences of deindustrialisation and are still concentrations of worklessness today; poverty rates increased, with child poverty as an especially nasty side-effect, and inequality rose.

A clear conclusion can perhaps be drawn here: if policy makers want to develop effective anti-poverty strategies in the future, they should start by rejecting almost everything that was done in the 1980s. In particular, they should pay careful attention to the geographical distribution of disruptive economic changes. If the economy is being reshaped today as a consequence of rapid technological developments, global integration of supply chains and changing patterns of consumer demand, then the social policy and regeneration effort must be redoubled.

New Labour's record

Which brings us to New Labour's record and the lessons that progressives might wish to draw, not least in regard to tackling poverty and inequality. The first lesson from this study is that action by the state can make a difference. There can be little doubt, for

¹¹⁹ None the less, Thatcherism left the basic structure of the welfare state intact: there was no comprehensive assault on the NHS; the basic state pension remained (although the link to increases in average earnings was broken); and the state continued to accept the obligation to support those in poverty and the unemployed (at least to some extent). But the labour-market reforms were radical and wide-ranging: benefits became somewhat less generous; public spending was cut on those services of most value to those in poverty; and capital investment in the public sector dried up (hence New Labour's big building programmes for schools and hospitals).

example, that without the minimum wage the working poor would have been much worse off and the tax credits system would have been used even more by employers as an implicit subsidy for low pay. Moreover, as the Institute for Fiscal Studies has demonstrated, the continuation of the pre-1997 policy mix would have led to much bigger increases in poverty and inequality.

There can be no doubt, therefore, that the tax credits policy, increases in child benefit and the childcare strategy were almost entirely responsible for the reduction of child poverty – albeit that the 2010 target was not met. But – and it is a substantial caveat – New Labour's unwillingness to intervene in the labour market (beyond the minimum wage) and shape the initial distribution of market incomes made it much more difficult to achieve progressive goals. The record shows that, while the state can make a difference, the state cannot do *everything* itself. Intermediate institutions and civil society remain important both by allowing entrenched corporate power to be intelligently held to account (by trade unions, investors and NGOs) and by establishing social norms about fairness in pay distribution and what constitutes an acceptable reward for the highest earners.

Strengthening existing labour-market institutions and creating new ones could mean that the state is not burdened with the task of undertaking *all* the heavy lifting. By improving levels of pre-distribution for those at the bottom of the labour market, the state's resources would no longer have to be spread so thinly. Payments through the benefits system could therefore be more generous for those outside the labour market – those who are unable work because they are children, pensioners, carers or unwell. This is particularly important if fiscal policy is to remain tight for the foreseeable future: even if austerity policies end, it is unlikely that there will be a large growth in public spending under any government in the foreseeable future.

The trajectory of current policy and prospects for the future

During periods of slow growth it is arguably all the more important that governments get the most from anti-poverty policies. Policy interventions need to be properly resourced, cost-effective and joined-up. Unfortunately, as we have shown, this has not always been the case. Policy pressures and competing priorities have too often neutralised positive anti-poverty measures. For example, the Coalition's severe public spending cuts are likely to seriously undermine efforts by the public and voluntary sectors to expand services to low-income families. Elsewhere, benefit caps and cuts in the housing budget, together with a move towards market rents for social housing, are likely to result in more child poverty and run counter to the Coalition's Child Poverty Strategy. Cutting the funding for regeneration in deprived areas will similarly feed

through into more hardship for poorer people and a widening of the North-South divide.

Offering Big Society funding through new schemes is unlikely to make up the difference. Nor so far is there much evidence that philanthropy and corporate giving will compensate for the cuts. The danger here is that the rise in poverty pushes up the benefit bill, which in turn leads to more pressure for draconian cost-cutting. Reforming public services is part of the answer, and early intervention and other prevention-first approaches to breaking the cycle of inter-generational poverty have a key role to play. But the evidence we have gathered suggests that the hasty implementation of welfare reforms driven by a deficit reduction strategy will push more households into poverty and increase income inequality.

Is it right, then, to succumb to a rather bleak pessimism that the conjunction of the global economic and financial crisis with the current trajectory of policy in the UK will make things much worse before there is any hope of improvement? From one standpoint the answer is almost certainly yes – at least with the global economy in a fragile state and while the current orientation of policy continues. But experience in the post-war period shows us how it is possible to build a fairer society under conditions of great adversity. And recent international experience demonstrates that there is ample room for social and political choice at national level. There is a persuasive alternative approach just waiting to be developed. What is needed now is a compelling political narrative and a practical anti-poverty programme that carries the confidence of the electorate.

Evaluating anti-poverty policies

- The effectiveness of anti-poverty strategies was improved during the 1905-42 period thanks to greater involvement by the state and recognition of the structural causes of poverty. Labour-market reforms (for example, the introduction of wages boards and the extension of collective bargaining and fair wages resolutions) also helped cut poverty rates. Getting people into work and keeping them there was recognized by policy makers as central to poverty reduction.
- In the post-war period anti-poverty policies were at the heart of the creation of the welfare state. Poverty rates fell consistently as a result of a more joined-up approach, which included a comprehensive system of social security, the formation of the NHS, sustained investment in education and employment, and a proactive regional policy. However, the effectiveness of the evolving welfare system was predicated on full employment and better pay.
- The post-war welfare settlement meant that many fell back on means-tested benefits as insurance payments were too low. The system worked relatively well during periods of full employment, but support for the principle of mutuality waned when unemployment increased and more people were dependent on means-tested benefits. This illustrates the policy tension between universalism, means testing and social insurance.
- After decades of improvement, poverty and inequality began to increase in the 1980s. Reduced welfare benefits and rising unemployment pushed up all poverty rates. Labour-market deregulation (including revocation of the fair wages resolution, abolishing wages councils and constraints on collective bargaining) made the situation worse.
- New Labour was willing to use the power of the state to redistribute. There was progress (for instance, reductions in child and pensioner poverty), but at the cost of entrenching means testing more deeply in the system – principally through tax credits. If the pre-1997 policies had continued until today, both poverty and inequality would be much worse.
- However, a lack of labour-market interventions (such as higher sectoral wages floors, less reliance on low pay, support for collective bargaining and better corporate governance) during the New Labour years largely explains the failure

to significantly reduce poverty and inequality during a period of growth and falling unemployment.

- Voluntary action and the Coalition's Big Society can help combat poverty, but they are no substitute for the role of the state or the institutions of pre-distribution. The big state and the big society are mutually reinforcing.
- Despite a century of evidence on the structural causes of poverty, public opinion has remained sceptical about poverty rates and ambiguous about welfare entitlements. The notion of the "deserving" and "undeserving" poor is still prevalent and complicated by disagreements over different definitions and measurements of poverty and the link between poverty and income inequality.
- International experience shows that those countries with less poverty and income inequality than the UK generally have much stronger welfare states and more active labour-market institutions. Differences in poverty rates between OECD countries cannot be explained solely by globalisation or the demand for skilled workers – domestic policy choices are still open and investing in welfare and work can make a real difference.

The steps ahead

Our assessment of the lessons set out above suggests that the following are critical to the development of a future programme seeking to eradicate poverty:

- A renewal of the commitment to full employment
- An insurance-based welfare state, returning to the "something for something" model
- An element of means testing where necessary but kept to a minimum
- Support for the principle of universalism to underpin the legitimacy of the welfare state
- A vigorous assault on regional socio-economic disparities
- Effective labour-market institutions to equalise the initial distribution of market incomes and to challenge the fairness of rewards

Annex

Action taken to implement key recommendations of the Minority Report

Action taken to implement key recommendations of the Minority Report

Subject	The Minority Report	Subsequent action
Organisation	<p>Guardians to go; Poor Law to be broken up, to be replaced by specialist committees of councils, coordinated by a Registrar of Public Assistance. Specialist committees to be concerned with:</p> <ul style="list-style-type: none"> (i) children of school age; (ii) sick, elderly needing institutional care, etc.; (iii) mentally defective; (iv) elderly receiving pensions. 	<p>1929 Guardians abolished; responsibilities transferred to county councils and county boroughs.</p> <p>But internal organisation left to councils to determine.</p> <p>Legislation transferred <i>administrative responsibility</i> for Poor Law; any question of <i>reform</i> left to local authorities.</p>
Indoor relief	<p>Separate institutions under the specialist committees.</p>	<p>Although the General Mixed Workhouse was not abolished between 1834 and 1909, there was a growing separation, especially in the cities, between provision for different groups. This trend was continued by administrative action in the years before the First World War.</p> <p>Local authorities took over responsibility for indoor relief and existing buildings in 1929, and continued the trend to separate provision.</p> <p>Statutory basis of Poor law replaced by National Assistance Act (1948) with separate duties to provide accommodation for elderly, homeless, etc.</p> <p>As late as 1961 more than half the accommodation provided by local authorities was in former workhouses.</p>
Out-relief	<p>"Home Aliment" controlled by the Registrar of Public Assistance on the advice of the specialist committees.</p>	<p>Responsibility for outdoor relief (ODR) passed to local authorities in 1929. Large numbers of unemployed on outdoor relief in 1920s and 1930s because of slump and effective end of "Workhouse Test".</p> <p>ODR for unemployed moves to national government (Unemployment Assistance Board),</p>

		1934; this becomes Assistance Board and then (1948) National Assistance Board. All ODR to national government in 1948 – becomes national assistance, then supplementary benefit, then income support.
Children	The responsibility of the Education Committee.	<p>Between 1929 and 1948 it was up to local authorities how they discharged these responsibilities; some, such as the London County Council, transferred their inherited Poor Law residential schools to their education committees. After 1948, new statutory Children's Departments were set up to provide the full range of services – preventative as well as residential – to "deprived" children.</p> <p>Following the Seebohm Report of 1968, Children's Departments were merged into the new generic Social Services Departments. The recent reorganisation leading to the creation of integrated Children's Services Departments, grouping education with all other services for children, is closer to the Minority Report recommendation.</p>
The aged	The responsibility of the Pension Committee.	When the Minority Report was written, the first legislation introducing old age pensions had just been passed. It envisaged a role for local authorities in the administration of pensions. It therefore made sense to the Webbs to propose that the new Pensions Committees should be responsible for all issues concerning the elderly poor. In practice the local authority role did not survive long. Provision for older people therefore became a core responsibility of the Welfare Departments/ Committees established after 1948, succeeded by the Social Services Departments, and now by Adult Social Care Departments.
Medical relief	Medical services under the Health Committee, with the Registrar recovering cost where necessary and possible.	The Webbs pointed out the absurdity of maintaining two separate, rate-funded medical services. They supported the creation of a unified national service. They proposed

		<p>bringing the Poor Law medical service together with the existing public health functions of local government.</p> <p>Between 1909 and 1948 two rather different things happened: (i) In 1911 National Health Insurance was introduced, effectively creating a national system in addition to the two local ones; (ii) After 1929 the Poor Law hospitals passed with other services to local authorities. Some councils made more progress with improving provision than others.</p> <p>These two elements came together with others in the creation of the NHS in 1948. The NHS was utterly in line with the spirit of the Webbs' recommendations, though the Minority Report does point out that a universal service does not have to be a free service.</p>
<p>Employment and unemployment</p>	<p>A national authority, the Ministry of Labour, to organise the national labour market so as to prevent or minimise unemployment.</p> <p>Labour exchanges.</p> <p>Trade union unemployment insurance with state help. Training and retraining. Part-time further education for the young.</p>	<p>Labour exchanges were already in the pipeline when the Poor Law Commission reported in 1909 – their establishment was supported by the majority, the minority and the government. Beatrice Webb worked closely with Winston Churchill in their establishment.</p> <p>A Ministry of Labour was set up in 1916, though its task was to plan the wartime economy in conditions of virtual full employment rather than to prevent unemployment.</p> <p>Despite Beatrice's opposition, the National Insurance Act was passed in 1911, and the scope of national insurance extended in 1920. But the insurance scheme could not cope with the mass unemployment of the depression years, so large numbers of unemployed were driven back on to Outdoor Relief.</p> <p>ODR for the unemployed transferred to national government in 1934.</p> <p>1944 Employment white paper made</p>

		official commitment to full employment. School leaving age raised to 15 in 1944 and to 16 in 1972.
Settlement	Repeal	Repealed in 1948.

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The Smith Institute

The Smith Institute is an independent think tank which provides a high-level forum for thought leadership and debate on public policy and politics. It seeks to engage politicians, senior decision makers, practitioners, academia, opinion formers and commentators on promoting policies for a fairer society.

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The Webb Memorial Trust

The Webb Memorial Trust has pursued the intellectual legacy of Beatrice Webb (1858–1943), who, together with her husband Sydney (1859–1947), embarked on a vigorous programme of social reform. The trust was formed in 1947 with the purpose of 'the advancement of education and learning with respect to the history and problems of government and social policy'. Founding trustees included R H Tawney and Harold Laski.

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The Minority Report

In 1905 a Royal Commission was appointed to review the Poor Laws – Britain's limited, harsh, often punitive welfare system, which dated back to 1834 and in parts to 1601. Beatrice Webb was appointed a member of the Commission, and soon despaired of most of the other members.

In 1909 Beatrice produced a Minority Report, calling for the break up of the Poor Law, while the majority of the Commission's members called for more limited reforms. The Minority Report analysed the causes of poverty and unemployment as economic, rather than moral. It paved the way for the creation of the welfare state.