

the state of the nation report

economic dependency

December 2006

About the Social Justice Policy Group

The Social Justice Policy Group has been commissioned by the Rt Hon David Cameron MP, Leader of Her Majesty's Opposition, to make policy recommendations to the Conservative Party on issues of social justice.

The Policy Group is being chaired by the Rt Hon Iain Duncan Smith MP, former leader of the Conservative Party and Chairman of the Centre for Social Justice, and its Deputy Chairman is Debbie Scott, Chief Executive of Tomorrow's People. The Centre for Social Justice is hosting its Secretariat.

The Social Justice Policy Group will study:

- Phase 1: The nature and extent of social breakdown and poverty in Britain today
- Phase 2: The causes of poverty
- Phase 3: Policy solutions to the social breakdown and exclusion

This Report covers phases one and two. The full Report is due to be completed next year and policy recommendations will be made to the Conservative Party in June 2007.

“PATHWAYS TO POVERTY”

The group will look at a number of different factors which contribute to poverty and have identified five key “paths to poverty”:

- family breakdown
- educational failure
- worklessness and economic dependence
- addictions
- indebtedness

The Social Justice Policy Group will also study a final aspect of the new Conservative poverty-fighting agenda – increasing the role of the voluntary sector in providing local, effective and lasting solutions. These six areas will all be covered by Working Groups.

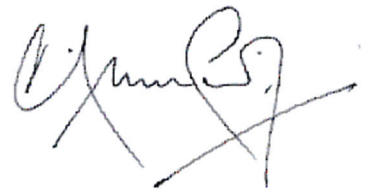
Foreword by Iain Duncan Smith

In modern times, poverty has been a difficult issue for the Conservative Party to deal with. However, as this Report makes clear, it is too important an issue to be left to the Labour Party. All forms of poverty – absolute and relative – must be dealt with. Unless all parts of society are connected, then we risk social dislocation and exclusion for millions of people.

The government's approach all too often leaves people behind and fails to address root causes. In particular, relying on means tested tax credits to achieve key objectives is looking increasingly unsustainable.

The causes of poverty are complex and inter-related and this report needs to be read in conjunction with the Reports detailing the nature and extent family breakdown, educational failure, addictions and debt. Government must begin to tackle these social and economic drivers of poverty and unless they do so, there will be no sustainable solution.

My thanks to Greg Clark MP, Peter Franklin and the committee, for contending with the issues and for all their work on this report.

A handwritten signature in black ink, appearing to read 'Iain Duncan Smith', with a large, sweeping flourish extending from the end of the signature.

Rt Hon Iain Duncan Smith MP

First principles: Poverty is relative and social exclusion matters

Sir Winston Churchill was able to sum up the mission of the Conservative Party, at least in the field of social policy, through two images: a ladder – “we are for the ladder, let all try their best to climb”¹ – and a net – “below which none shall fall”². However, while rescuing people from the abyss of hunger and homeless may have been an adequate – even stretching – ambition for social policy in the twentieth century, it is wholly inadequate for Conservatives in the twenty-first century.

THE TROUBLE WITH NETS

The trouble with nets – even safety nets – is that people get tangled up in them. According to Government statistics, someone who has spent five years in low income has no more than a 10% chance of escape the next year.³ Furthermore, low income persists over the generations – especially in a Britain where social mobility has actually diminished over the last five decades.⁴ People can too easily become enmeshed in the very structures that were put in place to stop them falling into destitution. As a result, they can languish for years – even generations – below even the bottom rung of the ladder.

In the twenty-first century it is not sufficient for Conservatives to want to catch people who fall. We have a positive duty to help stop them from falling from the ladder of opportunity in the first place, to help people climb upwards on that ladder, and, if they do fall into poverty not to palliate it but to help them escape from it.

In the twenty-first century we need not so much a safety net as a tow-rope out of poverty.

The traditional Conservative vision of welfare as a safety net also encompasses another outdated Tory nostrum – that poverty is absolute, not relative. Churchill’s safety net is at the bottom: holding people at subsistence level, just above the abyss of hunger and homelessness. According to this approach, the ladder and the net are separate images. If those left behind – caught up in the net – lose sight of those scaling dizzy heights, then this isn’t seen as an obvious concern for policy makers.

In an age when absolute poverty a real danger for millions of people, the safety net represented an enormous advance. But in our own age, our ambitions should be

higher. As individuals we should all have the chance to move forward and as a nation we should move forward with a sense of cohesion. Thus it is the social commentator Polly Toynbee, rather than Sir Winston Churchill, who supplies imagery that is more appropriate for Conservative social policy in the twenty first century. She pictures our society as a caravan crossing the desert, one that needs to keep together for the common good:

“When the front and back are stretched so far apart, at what point can they no longer be said to be travelling together at all, breaking the community between them?”⁵

Thus while dynamic, entrepreneurial individuals will always take the lead, we need to take care that no one falls so far behind that they cease to be part of the whole.

THE END OF THE LINE FOR POVERTY?

At the close of the Victorian era, the social reformer Seebohm Rowntree attempted a scientific definition of poverty. His “primary poverty line” was based on the retail cost of “the minimum necessities for the maintenance of merely physical efficiency.”⁶ This was an early definition of absolute poverty. Other absolute definitions often allow for much more than mere survival rations, but all share the same characteristic of being fixed at a particular point in time, and are adjusted only for inflation.

However, because modern societies generally get richer over time, all income groups have a tendency to rise above absolute poverty levels fixed in previous decades. For this reason most commentators now favour a relative definition of poverty that takes into account rising living standards in society as whole. In Peter Townsend’s classic 1979 definition, poverty should only be defined in terms of what he called relative deprivation:

“Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong.”⁷

1 BBC radio broadcast, 8 October 1951

2 *This is the road*, Conservative Party manifesto, 1950

3 Department of Work and Pensions, *Households below average income 2003/04*, 30 March 2005, table 7.15.1

4 Jo Blanden et al., *Intergenerational mobility in Europe and North America*, 25 April 2005

5 Polly Toynbee, *Hard work: Life in Low pay Britain*, Bloomsbury, 2003, pages 2-3

6 John Hills, *Inequality and the state*, Oxford University Press, 2004, page 39 / Seebohm Rowntree, *Poverty: A study of town life*, 1901

7 Peter Townsend, *Poverty in the United Kingdom*, 1979, page 31

Some participants in the debate, such the Child Poverty Action Group, go so far as to argue that “all approaches to definition must be relative to society, time, place and observer. Thus there can be no absolute definitions: they are all relative.”⁸

Certainly, there is now an overwhelming consensus among poverty experts and campaigners in favour of the relative approach. In fact, this was already the case in 1989, when John Moore, then Secretary of State for Social Security, struck a very different note.

In one of the most controversial speeches of the era, he argued that poverty was largely a thing of the past. Its provocative title was *The end of the line for poverty*, so chosen to make the point that, if measured on an absolute basis, poverty had all but disappeared from 1980s Britain. He appeared to reject the entire notion that poverty should be measured relative to the rising living standards of the overall population. Relative poverty, he said, was “in reality simply inequality.” Moore even argued that the purpose of those who took a relative view of poverty was to “call western capitalism a failure.”⁹

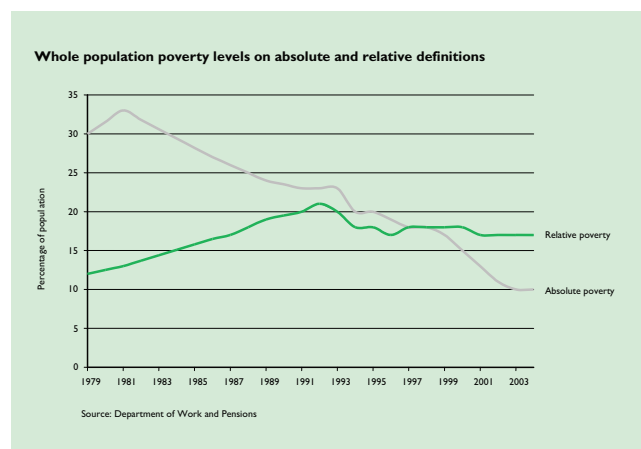
THE LEGACY OF THE EIGHTIES

The competing views of poverty provide radically different accounts of what happened in 1980s, as can be seen in the chart below.¹⁰ This compares two measures of poverty – one relative (i.e. the proportion of people living in a household with an income of less than 60% of the contemporary median) and one absolute (i.e. the proportion of people living in household with an income less than 60% of 1996/97 median household income).

From this comparison one can see that absolute poverty rates fell during the Conservative years, though not generally as fast as under New Labour. Relative poverty rates, however, grew rapidly during the 1980s. The growth of child poverty on the relative measure was particularly alarming, with a rate of 12% in 1979 rising to 27% by 1992.¹¹

Whether one wants to call it poverty or not, this huge increase in income inequality has been rightly described as “one of the biggest social changes in Britain since the Second World War.”¹² In failing to properly acknowledge this, the Government of the day contributed to an atmosphere of anger and mistrust in which far too little atten-

tion was given to understanding the root causes of this phenomenon. However, sloganeering will not help us find solutions to the high levels of inequality that still persist.



Professor John Hills of the London School of Economics, provides a fair account of the underlying factors.¹³ He identifies four in particular:

- The “deep economic recession in the early 1980s” and the associated “rise in unemployment and economic inactivity.”
- The weakening position of unskilled workers in the labour market.
- Changes in society – in particular, the huge rise in lone parent families.
- The ageing of the population and rising numbers of pensioners.

Elsewhere, Hills notes that the rise of the two-earner household has also pushed up the relative poverty rate, which is, of course, measured at the level of the household rather than the individual – meaning that it is influenced by the greater contrast that exists between no-earner and two-earner households than between no-earner and one-earner households. Given that relative poverty is measured relative to the middle rather than the top of the income scale, the rise of the two-earner household had a particular impact during the 1980s – when employment rates among women in middle-income households caught up with those in higher-income households.¹⁴

In large part beyond the control of the state, the extraordinary confluence of these factors programmed

8 Child Poverty Action Group, *Poverty: the facts*, 2001, page 20

9 John Moore, *The End of the Line for Poverty*, Conservative Political Centre, 11 May 1989

10 Data source: Department for Work and Pensions, *Households below average income 2003/04*, tables H1 and H5

11 *Ibid.*, table H2

12 John Hills, *Inequality and the state*, Oxford University Press, 2004, page 1

13 John Hills in *One hundred years of poverty and policy*, Joseph Rowntree Foundation, 2004, page 95

14 John Hills, *Inequality and the state*, Oxford University Press, 2004, pages 86-87

rising poverty and inequality into the system. And while it would be wrong to deny that mistakes were made in response to this challenge, it would also be wrong to deny that they were made during a time of economic crisis – the successful resolution of which bequeathed a far more favourable set of circumstances to the current government.

WHAT SHOULD CONSERVATIVES THINK NOW?

The past should not disqualify or dissuade the Conservative Party from making a full contribution to future fight against poverty. However, it is clear that the legacy of 1980s still colours public perceptions. Recently, a media storm ensued when Oliver Letwin spoke openly about redistribution:

“Of course, inequality matters. Of course, it should be an aim to narrow the gap between rich and poor. It is more than a matter of safety nets... We do distribute money and we should redistribute money.”¹⁵

According to the *Daily Telegraph*, Letwin had “signalled a dramatic break with the past by saying that his party should support the redistribution principle.”¹⁶ The fact that the Conservative Party spent most twentieth century redistributing vast sums of money from rich to poor would seem to have been overlooked.

Far from breaking with the past, Conservatives such as Oliver Letwin,¹⁷ David Willetts¹⁸ and Iain Duncan Smith,¹⁹ have used speeches to reconnect the Conservative Party with its One Nation tradition – as well as with the reality of poverty in Britain today:

“We live in a world where poverty challenges our moral conscience and our security. It is a staggering thought that over the next twelve months, over ten million children around the world will die as a result of malnutrition. War, disease, terrorism and many forms of hardship and danger will feed on each other – claiming the lives of still more millions. And of those who do not die, the majority live in conditions that would be intolerable to anyone in this country. Against that background, there are those who say that poverty in Britain simply does not exist. But it does... poverty is real today.”²⁰

In the absence of significant levels of absolute poverty, one cannot accept that poverty is a real phenomenon in contemporary Britain unless one is defining it in relative terms. So what Letwin, Willetts and Duncan Smith all said implicitly, we should now say explicitly: Poverty must be defined in relation to changing social norms. We should reject completely the notion that poverty can be defined in absolute terms alone.

SOCIAL EXCLUSION MATTERS

Relative poverty matters because it separates the poor from the mainstream of society. Thus in accepting the idea of relative poverty, Conservatives must also accept another concept that is traditionally associated with the Left: that of social exclusion. The latter is a relatively recent term, popularised by New Labour during its first term. However, the underlying concept is much older than that and can be traced back through the Conservative Party’s One Nation tradition to Benjamin Disraeli, and before that to Adam Smith who brilliantly defined both relative poverty and social exclusion in the following passage from his *Wealth of Nations*:

“By necessities I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can fall into without extreme bad conduct.”²¹

Smith’s language may seem old fashioned, but it alerts us to the fact that a “disgraceful degree of poverty” is still possible even in the midst of our twenty-first century wealth. That it still persists after nine years of New Labour should also wake us up to fact that the present Government does not have all the answers. Finding these answers is not only the task of the Social Justice Policy Group, but the first responsibility of the next Conservative Government.

15 Oliver Letwin quoted in *The Daily Telegraph*, 'Letwin: We will redistribute wealth', 23 December 2005

16 *Ibid.*

17 Oliver Letwin, *Three nations*, 9 March 2003

18 David Willetts, *The reality of poverty*, January 2002

19 Iain Duncan Smith, *Labour think they have a monopoly on compassion*, 15 September 2003

20 *Ibid.*

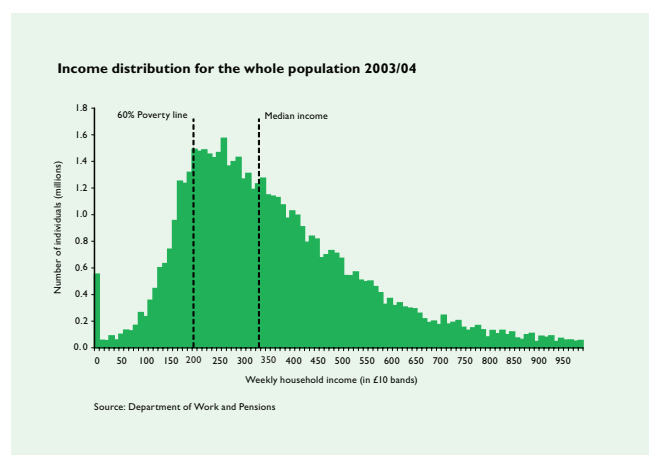
21 Adam Smith, *The wealth of nations*, Chapter II, Article IV, 1776

The poorest left behind: Labour's record on poverty

The current Government claims to have made great progress against poverty. On the face of it poverty rates have fallen since 1997. However, the simplistic way in which the figures are calculated conceals a much darker picture. Our detailed analysis shows that New Labour's success is based on moving families from just below the poverty line to just above it. For the people left behind, poverty is deeper than ever.

A MOVING TARGET

More than any of its predecessors,¹ the current Labour Government has made a point of making big statements on the subject of poverty. None come bigger than Tony Blair's promise to "end child poverty forever"² or Gordon Brown's promise to "end pensioner poverty in our country."³ In the case of child poverty, the promise is backed up by a target, described in the *Guardian* as "the most impossible, and stupidly defined, target ever constructed in Whitehall."⁴ The underlying definition of poverty that applies to this particular target is also used to calculate the number of people officially classed as being poor and hence the poverty rate. Despite the complicated reality of poverty, these headline targets and statistics revolve around a single poverty line – one which splits the country into simple categories of poor and not-poor. This is illustrated in the following chart:



The chart shows the income distribution for the whole population in 2003/04. In the middle of the distribution is the median income, with half the population earning more and half earning less. The poverty line in any one year is defined as 60% of this median income. Thus instead of being fixed, the poverty line rises or falls with average incomes. To fulfil its promises, the Government has to hit a moving target, as Ministers admit: "We have got a major job ahead, especially since as income rises, the bar or threshold of poverty rises."⁵

THE THRESHOLD EFFECT

However, the real problem with the Government's approach isn't the "rising bar", which is an inevitable part of any attempt to reduce relative income poverty. Rather, the problem is the distorting effect of a strategy that revolves around a simplistic poverty threshold.

As the House of Commons Library makes clear, the 60% line is an "arbitrary cut-off point",⁶ but conveniently for the Government it falls at the highest point in the income distribution – as can be seen in the chart above. For instance, in 2003/04 there were 1.3 million individuals on a weekly income of between £190 and £200 who were classified as being in poverty as opposed to 1.5 million individuals on weekly incomes of just £10 more who were not. Thus by targeting those whose incomes fall just below the threshold, the Government can make apparently dramatic reductions in the numbers of people in poverty.

Many experts are concerned that this 'threshold effect' can warp government priorities:

*"When decreases in the poverty rate are used as the criterion for social policy, administrators who want to demonstrate 'success' will always be tempted by the option of 'creaming' the poverty population. By redistributing benefits or services away from the very poorest (who are so far below the poverty line they are likely to stay poor anyhow) to those just below the poverty line (who have the greatest chance of being moved over the line) administrators can improve the poverty rate, even while deepening the deprivation of the worst off – which is surely not a socially desirable outcome."*⁷

1 Peter Kenway, *Eradicating poverty: a target for the Labour movement*, Fabian Society, March 2003

2 Tony Blair, Beveridge Lecture, Toynbee Hall, London, 18 March 1999, reproduced in Walker, R., *Ending Child Poverty: Popular Welfare for the 21st Century?*, Policy Press, 1999

3 Gordon Brown, speech to Labour Party conference, 30 September 2002

4 *The Guardian*, 'Moral crusader', 23 August 2006

5 John Hutton, *The Guardian*, 'Moral crusader', 23 August 2006

6 House of Commons Library, Research Paper 04/23, *Poverty: measures and targets*, 4 March 2004, page 61

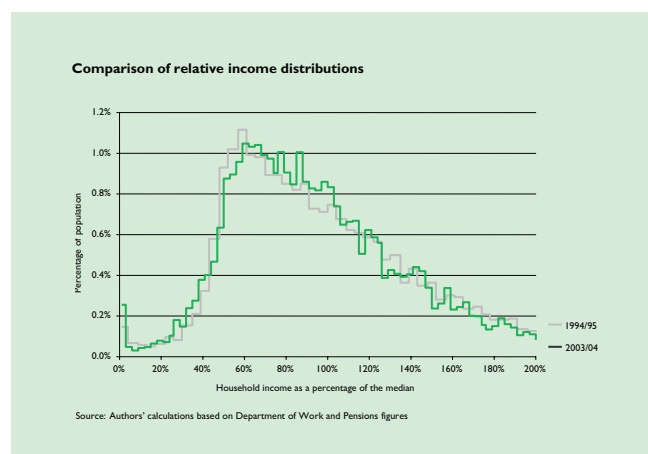
7 Lars Osberg, *Trends in poverty: The UK in perspective - how rates mislead and intensity matters*, Institute for Social and Economic Research, 2002

Is this something that has happened under New Labour? This is hard to tell because the Government does not publish the necessary statistics – as noted by Save the Children UK:

“The current official poverty measure – 60 per cent of median household income – enables us to see how many children are living below the poverty threshold, but it does not show the depth of poverty. If the government is not measuring severe poverty, it cannot target its policies to those most in need and risks the poorest children slipping through the net.”⁸

NEW FIGURES REVEAL GROWTH IN SEVERE POVERTY

To get at the truth we have used a Written Parliamentary Question⁹ to obtain unpublished Government statistics on household incomes at all points on the scale – not just the 60% poverty line.¹⁰ These statistics have allowed us to compare income distributions across a ten year period starting in the mid-1990s. An example is shown in the chart below which compares income distributions for families with children in 1994/95 and 2003/04.¹¹



What is apparent is that, in the portion of the income distribution located around the official poverty threshold (60% median household income), the distribution has been shifted forward just enough to put the peak marginally above the threshold instead of just below it. These are the families that the Government claims to have “lifted

out of poverty”. It is another story at the bottom of the scale, where there are more families, not fewer, with incomes of 40% or less of the median. Based on this distribution, we calculate that, among families with children, there were a quarter of million *more* people below this 40% line of severe poverty in 2003/04 than there were in 1994/95. If we include households without children the total is more than three-quarters of a million people. To look at it another way, if the poverty threshold were set at 40% instead of 60%, the headline rate of poverty would be getting worse under New Labour not better.

In 2003, a report from Save the Children UK found that up to a million children were living in severe poverty. A follow up report in 2005 found that “there has been little or no improvement in the percentage of children living in severe poverty in Britain.”¹² This reflects the findings of the Institute for Fiscal Studies, which observed that “the shape of the income distribution is such that as children bunched close to the poverty line have been moved over it, the average distance to the line of those remaining will have increased.”¹³

OTHER POVERTY ISSUES

The depth of poverty is not the only problem. Save the Children also emphasises another area in which an incomplete picture of poverty distorts policy. This is the persistence of poverty, which Save the Children defines as “living below the poverty line for three or more years during a five year period.”¹⁴ Research undertaken for Save the Children by Loughborough University’s Centre for Research in Social Policy found that persistent poverty is the “critical factor in household social exclusion”.¹⁵

The principal government target on poverty takes no account of persistence. It is a static indicator, in that it only reflects the situation at a particular point in time and says nothing about the way in which individuals experience poverty over a number of years. However, there are persistence statistics based on the British Household Panel Survey which, at a time when ministers were elsewhere making excessive claims of progress against poverty (see below), showed “little change since 1991-1994”¹⁶ according to the

8 Save the Children, *The Government's Invisible Million: Britain's poorest children*, December 2005

9 Margaret Hodge, *House of Commons Hansard debates*, column 733W, 27 March 2006

10 Note that this data has not been published, but has been deposited in the House of Commons Library by the Department for Work and Pensions

11 Note that DWP figures for the number of people in each £10 band of income have been recalculated to show the proportion of the population at different percentages of the median income for the year in question. This allows the income distribution for different years to be shown and compared on the same chart.

12 Laura Adelman et al., *Britain's poorest children: Severe and persistent poverty and social exclusion*, Save the Children, 2003

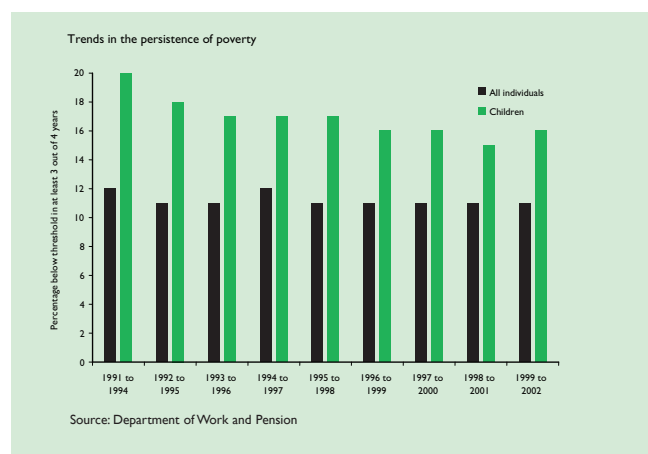
13 Mike Brewer et al., *What really happened to child poverty in the UK under Labour's first term?*, Institute for Fiscal Studies, *The Economic Journal*, 113, 2003, page 249

14 Save the Children press release, 5 December 2005

15 Monica Magadi and Sue Middleton, *Britain's poorest children revisited: Evidence from the BHPS (1994-2002)*, 2005, page xv

16 Department of Work and Pensions, *Households below average income 2003/04*, page 122, and table 7.6, page 140

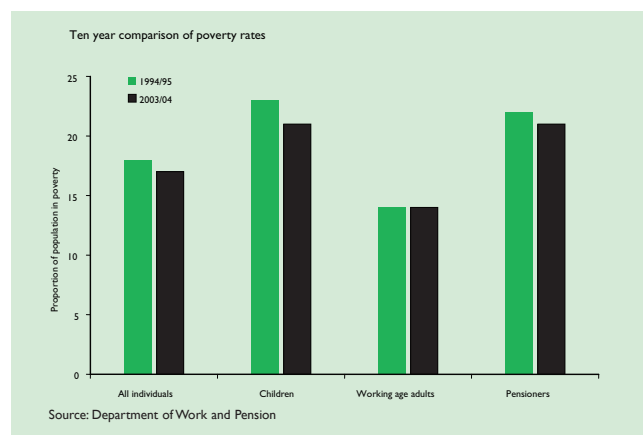
Department of Work and Pensions. This can be seen in the chart below.



The BHPS data should start showing some improvements in persistence when it is released for more recent years. But it will not tell us whether this is due to those just below the poverty line being pushed just above it - or whether those stuck in the deepest poverty are being helped. Save the Children UK, comments on the weaknesses of the current system:

“It appears that within the context of target-driven policies such as the reduction of child poverty by one-quarter by 2004, most improvements had been among those who were easiest to help, that is those children who were closest to the poverty line and, therefore, arguably easiest to raise above it. Humanitarian concerns would suggest that policy had failed, since the group of children who were experiencing the most severe poverty had been left behind.”¹⁷

EXAGGERATING PROGRESS



The 1994/95 to 2003/04 period covered in the chart¹⁸ represents the first full decade of available data from the Family Resources Survey, on which all the main poverty statistics are based. It is instructive to see just how little poverty rates have shifted. The biggest improvement is in child poverty, with a two percentage point fall in the poverty rate over the ten year period.

The choice of comparison years can be dismissed as a matter of presentation, but on poverty New Labour is guilty not just of spin, but of outright deception. For instance, in its 2001 manifesto, Labour claimed that “one million children [had been] lifted out of poverty” since 1997.¹⁹ As the poverty expert Peter Kenway noted in a paper for the Fabian Society, “compared with the way in which progress towards the official poverty targets is measured, this was a gross exaggeration.”²⁰ What the spin doctors had done was to use a measure of *absolute* poverty, rather than the Government’s own standard measure of *relative* poverty. As such, they were resorting to much the same method as used by Margaret Thatcher’s social security minister John Moore, when he claimed that poverty had disappeared from Britain altogether.²¹

Despite being caught out, senior New Labour figures, such as Gordon Brown,²² have continued to make misleading claims about lifting a million children out of poverty. By 2005, Ministers were inflating the figures to “over 2 million children as well as nearly 2 million pensioners.”²³ Then there was the equally misleading claim that “we are broadly on course to meet our target to reduce child poverty by a quarter as a first step towards

17 Monica Magadi and Sue Middleton, *Britain’s poorest children revisited: Evidence from the BHPS (1994-2002)*, 2005, page 115

18 Department of Work and Pensions, *Households below average income 2003/04*, tables H1 to H4

19 Labour Party, *Ambitions for Britain: Labour’s manifesto 2001*, page 29

20 Peter Kenway, *Eradicating poverty: a target for the Labour movement*, Fabian Society, March 2003

21 John Moore, *The End of the Line for Poverty*, Conservative Political Centre, 11 May 1989

22 Gordon Brown, *Prosperity and justice for all*, speech to Labour Party annual conference, 27 September 2004

23 David Blunkett in *Opportunity for all: A summary of the Seventh Annual Report 2005*, Department of Work and Pensions, page 1

our historic pledge to end child poverty by 2020.”²⁴ It took a new Secretary of State for Work and Pensions, John Hutton, to finally tell the truth: “It is very clear to us now that we are going to have to do so much better if we are going to get back on the right trajectory.”²⁵

The DWP’s official figure for child poverty reduction²⁶ is compared with various Labour claims in the following table:

“One million children lifted out of poverty”

Labour Party manifesto 2001, page 29

“We have lifted one million children...out of poverty”

Gordon Brown, 27 September 2004

“We have now lifted over 2 million children... out of abject poverty”

David Blunkett, October 2005

“Since 1998/99 there are 700,000 fewer children in poverty”

DWP press release, 17 October 2006

LEFT BEHIND

John Hutton’s admission was followed by another significant statement: “Anyway, it is better to aspire than throw the towel in.”²⁷ This is an admirable sentiment. But if the elimination of poverty is a New Labour aspiration then why not include everyone within it? There is a defined pledge to end child poverty, an undefined pledge to end pensioner poverty, but nothing for working age adults without children – even though this group contains many of the most vulnerable people in society including severely disabled, mentally ill and homeless people. Jonathan Bradshaw notes that poverty rates in this group have “not been improving since Labour came to power... it is particularly striking in the face of (at time of writing) record employment levels and low unemployment rates.”²⁸

Bradshaw believes that this matter “deserves increasing attention” – but this is not something the New Labour narrative is designed to do. Though nobody’s deliberate intention, the current approach to poverty is one that leaves people behind. Even within targeted groups, the plight of those in the deepest and most persistent poverty is overlooked.

24 *Ibid.*

25 John Hutton, *The Guardian*, ‘Moral crusader’, 23 August 2006

26 Department of Work and Pensions, Hutton: ‘*Second earners key to tackling child poverty*’, press release, 17 October 2006

27 John Hutton, *The Guardian*, ‘Moral crusader’, 23 August 2006

28 Jonathan Bradshaw, *Understanding and overcoming poverty*, keynote address given to the Joseph Rowntree Foundation Centenary Conference, 13 December 2004, page 4

The tax credit economy: Labour's work agenda isn't working

The Government claims that progress made on poverty is “as a result of our reforms to make work pay.”¹ The truth is that only a part of the reduction in child poverty can be attributed directly to work - and dependency on in-work benefits has grown. With unemployment now rising, the poor have not been able to escape dependency on the state and are too often trapped in low-paid, low-prospect jobs subsidised through the tax credits system. On Left and Right, politicians and poverty experts are waking up to the ‘tax credit economy’ and the insidious form of social exclusion it represents.

LABOUR'S WORK AGENDA

The current Government has always insisted that “work is the best route out of poverty”.² It is a message that has featured consistently in New Labour rhetoric all the way back to their 1997 general election manifesto: “The best way to tackle poverty is to help people into jobs - real jobs.”

This ‘work agenda’ rests on a double foundation:

Firstly, there is the fact that for individuals and their dependents employment is a defence against poverty (as officially defined). Statistics show that of households where all adults are in work just 5% are below the poverty line, but where there are no working adults the risk of poverty increases nearly ten-fold to 49%.³

As well as a means of providing the income necessary to lift households above the poverty line, Labour's work agenda is also promoted as a response to the wider social impacts of worklessness. This is reflected in the language of Government publications, for instance in the following extract from a DWP progress report:

“People had been written off and condemned to a life dependent on benefits. Families suffered inter-generational poverty, with little expectation of work; and communities had become breeding grounds for despair and low aspiration. The Government has made tackling this legacy a top priority. By raising aspirations and breaking cycles of deprivation, we have made a difference.”⁴

As can be seen, Labour's work agenda blends traditionally left-wing themes of social exclusion with traditionally

right-wing themes of benefit dependency and the ‘dependency culture’. This is no accident. New Labour strategists were, and are, sensitive to the decline in public support for more spending on benefits and for greater income redistribution – a decline, moreover, which has occurred “among those identifying with Labour, not among Conservative identifiers.”⁵

Labour's work agenda is skilful politics, but has it been effective? To come to a conclusion we need ask what impact it has made on poverty rates, benefit dependency and social exclusion – and, of course, what impact it has had on worklessness itself:

PROGRESS ON UNEMPLOYMENT STALLS

When first formulated, Labour's work agenda was well positioned to take advantage of a rising trend in employment. However, as David Green and Ben Cackett have documented, this trend was bequeathed by the previous Major Government, and has subsequently come to virtual stop under Labour:

“Patterns of economic growth, falling unemployment and rising employment, all of which started in the early 1990s, and were inherited by New Labour in 1997, continued in Labour's first term. In its second term, however, progress has been much harder to come by and of particular concern, inactivity rates among working age men, especially those claiming long term sickness, have continued to rise.”⁶

Of particular concern is the lack of progress on the most ingrained forms of worklessness. There has, for instance, been little improvement in the rate of youth unemployment since 2000, and indeed a marked deterioration since the start of New Labour's third term.⁷ Since 1997 there has been little improvement in the number of working age people on long-term out-of-work benefits.⁸ Employment rates among lone parents had been improving, but have slowed markedly since 2005.⁹ Britain still leads the rest of the European Union in the proportion of children living in workless families, a total in which lone parent families

1 Tony Blair and John Hutton in the foreword to *Making a difference*, *ibid.*, page 2

2 Department of Work and Pensions, *Making a difference: Tackling poverty - a progress report*, March 2006, page 19

3 Department of Work and Pensions, *Households Below Average Income 2003/04*, table 5.7

4 Department of Work and Pensions, *Making a difference: Tackling poverty - a progress report*, March 2006, page 4

5 John Hills, *Inequality and the state*, Oxford University Press, 2004, page 202

6 Ben Cackett and David Green, *Work and benefit dependency since 1997*, Civitas, 2005, page 3

7 National Statistics, *Unemployment by age and duration*: http://www.statistics.gov.uk/downloads/theme_labour/LMS_FR_HS/WebTable09.xls

8 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion 2006*, page 37

9 National Statistics, *Work and worklessness among households*, table 4, January 2006 and July 2006

are increasingly dominant.¹⁰ Some researchers warn that it will be increasingly difficult to get workless lone parents into work, because those left behind “are increasingly less skilled and concentrated in rented housing, a group for whom work incentives remain weak. This suggests it will be hard to achieve further gains of the same magnitude.”¹¹

It is worrying that experts sympathetic to the Government anti-poverty strategy appear to have diminishing confidence in the success of the current approach:

“...worklessness is still high, and it is unlikely that the Government will achieve the employment targets it has set for lone parents and people with disabilities. This will mean that ‘welfare for those who can’t’ policies must play a more important part in the future strategy than they have in the past.”¹²

That was a comment made at the end of 2004, since then the fall in unemployment hasn’t just stalled, but gone into reverse and now stands higher than at any point since the millennium.

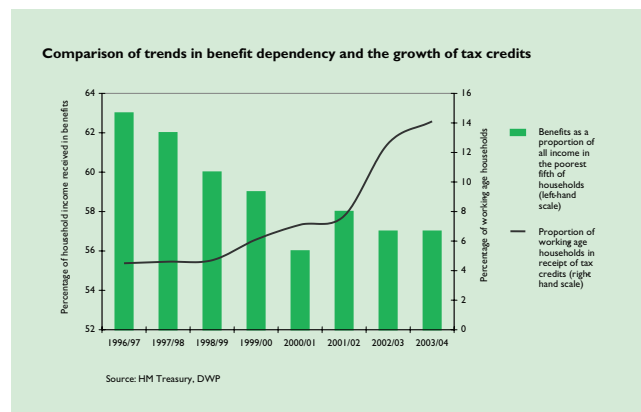
THE RISE OF IN-WORK DEPENDENCY

Given the employment trends that took place previous to and in the early years of the New Labour period, one would expect to see a greater proportion of the income of poorest households coming from earned income rather than benefits. This is indeed what the Government’s figures show.¹³ It should be noted, however, that most of this improvement took place during New Labour’s first term and the figures have been fairly static since (see chart below).

In any case, it is not as if this improvement in income source equality is ending the dependency of the poor on benefits. Rather, dependency on out-of-work benefits has been replaced by dependency on tax credits. The proportion of working-age households in receipt of tax credits has more than tripled since New Labour came to power (see chart below).¹⁴

How can the rise of in-work dependency be reconciled with the improvement in earned income inequality? First

of all, it should be noted that while most of the improvement in earned income inequality took place during New Labour’s first term, most of the increase in tax credits has taken place subsequently – as if in compensation for the lack of further progress. This is shown in the following chart:



Then there is the fact that of the reduction in unemployment among the poorest fifth of households from 1996/97 to 2004/05 much is due to movement into forms of worklessness other than unemployment¹⁵ Aside from this, part-time work makes much the same contribution as full-time work.

Poverty experts note that “in-work child poverty remains high partly because many parents returning to work have moved into jobs with short hours and low pay.”¹⁶

Therefore, despite Government claims, progress on reducing poverty has been as much to do with benefits as work. According to the Institute for Fiscal Studies and the Joseph Rowntree Foundation only 120,000 of the 700,000 fall in child poverty can be attributed directly to falls in worklessness¹⁷

THE TAX CREDIT ECONOMY

The failure of the New Labour’s work agenda isn’t just about the inadequate financial impact of new employment to income levels. It is also about low-prospect jobs, a world of work that fails to reconnect people to the main-

10 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion* 2006, tables 10a and 10b, page 45

11 Paul Gregg and Susan Harkness, 'Welfare reform and the employment of lone parents' in Dickens, R., Gregg, P. and Wadsworth, J., (eds), *The Labour Market Under Labour: State of Working Britain* 2003, Palgrave, page 114

12 Jonathan Bradshaw, *Understanding and overcoming poverty*, keynote address given to the Joseph Rowntree Foundation Centenary Conference, 13 December 2004, page 17

13 Figures deposited in House of Commons Library in response to a Written Parliamentary Question (*House of Commons Hansard debates*, 28 March 2006, column 936W)

14 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion* 2005, page 32

15 Department of Work and Pensions, *Household Below Average Income 2004/05*, Table D4

16 Donald Hirsch, *What will it take to end child poverty? Firing on all cylinders*, Joseph Rowntree Foundation, 2006, page 45

17 *Ibid.*, page 41

stream culture of aspiration and opportunity from which they have been excluded:

Speaking in 2003, Oliver Letwin warned of a new form of work-based social exclusion:

*“[There is] one nation in which work is what you do to earn a living, another nation in which work is what you do to get benefits. One nation in which low pay may be how you start off, another nation in which low pay is how you’ll finish up. A free nation and a dependency nation.”*¹⁸

Letwin’s speech was based on early critiques of New Labour’s strategy, notably those from his colleague David Willetts and the Labour MP Frank Field. The latter is no longer a lone voice; in the last few years a number of prominent Labour MPs and other Government supporters have voiced their concerns.

These include John Denham, a former minister and now chairman of the home affairs select committee, did not mince his words in a recent speech to the Fabian Society:

*“New Labour’s big blind spot may be that plenty of jobs do not automatically mean plenty of opportunities... If you are working in the tax credit economy, how do you move forward? The modern economy is creating a layer of jobs which offer little in the way of income, and little training, personal development or longer-term security.”*¹⁹

Earlier this year, another senior Labour MP, the former cabinet minister Alan Milburn, warned the House of Commons that the Chancellor’s tax credits were not dealing with the root causes of poverty:

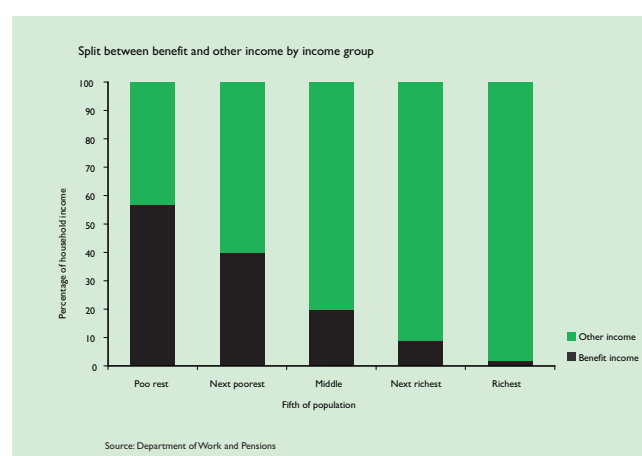
*“...as Amartya Sen, winner of the Nobel prize for economics, has noted, social inequality is best tackled and mobility best advanced if we tackle the root causes, not the symptoms. That must mean moving beyond simply correcting low wages and family poverty after the event, towards policies that spread opportunity and help people to realise their own aspirations for progress.”*²⁰

After nine years of Labour Government more people are dependent on benefits than ever; more of them may be *in* work, but often they can expect very little *from* work; all of which has dire consequences for social exclusion.

Income source inequality very clearly divides the poor from the mainstream of society. This can be seen in the chart below, which shows the split between benefit and non-benefit income for different income groups from the poorest to the richest.²¹

From this we can see that the richest three fifths of the population are overwhelmingly self-sufficient, with benefits accounting for no more than a fifth of household income (predominantly universal benefits such as the basic state pension and child benefit). However, for the poorest fifth, welfare accounts for over half of all household income. The transition between these ‘two nations’ takes place across the next poorest fifth. This divide would be even starker if the terms of reference were limited to working age households.

Unlike the official poverty line, there is nothing arbitrary about the dependency divide. Furthermore, there is evidence for a strong link between dependency and other forms of social exclusion. For instance, Government research to establish the *individual* contributions of different factors to social exclusion found that income source was more important than either income level or home ownership.²² In other words each pound of earned income appeared to make a bigger difference to social inclusion than each pound of benefit income.



Further powerful evidence is provided by Bradshaw and Finch’s study of three different measures of poverty. This found that around a third of those individuals identified as poor on each measure of poverty came from households with no workers, but for those identified as poor on *all three* measures the workless household proportion went up to over 60%. By contrast, just 6% of those *not*

18 Oliver Letwin, *Three nations*, 9 March 2003

19 John Denham, *Making work work*, speech to the Fabian Society, 17 May 2004

20 Alan Milburn, *House of Commons Hansard debates*, 28 March 2006, column 710

21 Department of Work and Pensions, *Income Sources as a Proportion of Total Household Income by Quintile, 2003/04*

22 Department of Work and Pensions, Research report No 219, *The dynamics of deprivation: the relationship between income and material deprivation over time*, 2004, table 6.6, page 72

identified as poor on *any* measure came from workless households.²³ Some more recent research into poverty that persists across the lifecycle found that “many of the negative effects of teenage poverty are a consequence of other characteristics of disadvantage, such as low parental education, *unemployment* and poor neighbourhoods, rather than poverty [i.e. relative low income] itself.”²⁴

MISSING THE POINT ON SOCIAL EXCLUSION

We in Britain are all dependent on a society that sustains the free market and the creation of wealth. We all have the right to participate in that wealth-creating process and to enjoy the wealth we create. We also have a responsibility to our fellow citizens who struggle to exercise this right. While the state can, through the benefits system, replace some of the income lost by people not in work, this cannot compensate for everything else that is lost – in particular, the personal dignity of earning a living and the work-centred relationships that fully bind individuals and families into the mainstream of society.

We have already seen how the Government’s approach is failing to capture several key aspects of social exclusion. Specifically, they:

- Overlook vulnerable individuals outside of the targeted population groups
- Take too little account of the severity and persistence of poverty

In-work benefits and the avoidance of unemployment traps represent a vastly better policy orientation than unemployment traps created by the restriction of benefits to those out of work: but they are no substitute for real efforts to enable the poor to escape from poverty by increasing their capacity to earn to the point where, like the rest of the working-age population, the principle source of their income is the value they add through participation in wealth creation. This is the sustainable route to ending the social exclusion and deprivation that is the true penalty of poverty.

²³ Jonathan Bradshaw and Naomi Finch, *Overlaps in dimensions of poverty*, Journal of social policy, 32, 4, 2003, table 4, page 520

²⁴ Joseph Rowntree Foundation, *The persistence of poverty across generations*, 'Findings' paper, April 2006, page 1, our emphasis

The need for new hope: Labour is losing the fight against poverty

Tony Blair once described the fight against poverty as a historic aim, one which “will take a generation” to achieve. However, after nine years of New Labour government the time has come to take stock. Increasingly, the evidence is that New Labour’s anti-poverty strategy is running into a dead-end of dependency and means-testing. If the fight against poverty is to be won then we need a new way forward.

THE POOR ARE STILL WITH US

If one looks from the start of the main series of poverty figures in 1994/95 and asks what changed over the course of a decade, the answer is “not enough”.

- The improvement in income-based poverty rates, which began in the early 1990s, has continued, but at a very modest pace.¹
- In the case of the working age adults without children there has been no improvement at all.²
- The improvements that have been made among families with children have mostly been achieved by moving households from just under an arbitrary poverty line to just over it.³
- The number of people in severe poverty has increased.⁴
- There has been very little improvement in the persistence of poverty.⁵

The most recent year, though a relatively good one, still fell significantly short of the Government’s interim child poverty target for 2004/05.

THE POOR LOOK LIKELY TO STAY WITH US

Not only do high levels of relative poverty persist in today’s Britain, there is also strong evidence to suggest that it is deeply ingrained in our society:

- Poverty is *ingrained generationally* with studies showing that social mobility is decreasing not increasing as time goes on.⁶
- Poverty is *ingrained geographically*, with “around half the people on low incomes [living] in the most deprived fifth of areas.”⁷ There is no sign of improvement in this regard, for instance “half of all the primary school children who are eligible for free school meals are concentrated in a fifth of the schools, a similar proportion to a decade ago.”⁸
- Poverty is *ingrained demographically*, with certain groups with a higher risk of poverty growing as proportion of the population. In particular, the continuing rise in lone parent families has put upward pressure on the poverty rate.⁹
- Poverty is *ingrained educationally*. Tony Blair famously listed his priorities as education, education, education, but “one in four 19-year-olds still fail to achieve a basic level of qualification” and “up to one in ten have no qualifications at all.”¹⁰ The Government’s own research has found that “the gap between FSM [Free School Meal] and non-FSM pupils has not narrowed and, if anything, has slightly widened.”¹¹ A report for the Prince’s Trust found “a widening gap of disadvantage and educational attainment” at GCSE level.¹²

Persisting and deepening educational disparities are particularly worrying at a time when there is “growing shift in the labour market towards skilled positions requiring academic qualifications,”¹³ a factor compounded by a turn for the worse in the unemployment and youth unemployment rates.

1 Department of Work and Pensions, *Households below average income 2003/04*, tables H1 to H4

2 *Ibid.*

3 See page 8

4 *Ibid.*

5 Department of Work and Pensions, *Households below average income 2003/04*, table 7.6, page 140

6 Jo Blanden et al., *Intergenerational mobility in Europe and North America*, Centre for Economic Performance, 25 April 2005

7 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion 2005*, page 104

8 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion 2005*, page 42

9 Donald Hirsch, *What will it take to end child poverty? Firing on all cylinders*, Joseph Rowntree Foundation, 2006, page 43

10 New Policy Institute / Joseph Rowntree Foundation, *Monitoring poverty and social exclusion 2006*, page 56

11 Department for Education and Skills, *Has the social class gap narrowed in primary schools?*, July 2005 Page 11

12 Stephen Machin et al., *Tackling the poverty of opportunity*, The Prince’s Trust, June 2005. figure 1, page 15

13 *Ibid.* page 5

CAN PROGRESS ON POVERTY BE SUSTAINED AS UNEMPLOYMENT GROWS?

A worsening unemployment situation combined with persistent long-term out-of-work dependency and growing in-work dependency presents a major challenge to the sustainability of the Government's anti-poverty strategy. Progress on the jobs front has not only dwindled, but left behind the 'hardest to help' parts of the workless population so the strategy will be increasingly dependent on benefit rather than earned income. Thus even stabilising the level of relative poverty, defined as 60% of median income, implies a major spending commitment.

By definition, stabilisation would require matching any increases in median incomes with increases in below-median incomes. If the earned and welfare components make a proportionate contribution to those with below-median incomes, then that would imply a welfare bill that rises roughly in line with the determinants of median income – which are, broadly speaking, average earnings and GDP growth. But if, as seems likely under current government policy, welfare components make a disproportionately large contribution to the matching increase, then that would imply welfare spending that increased even faster than average earnings or GDP.

However, the Government faces a much bigger challenge than the mere stabilisation of poverty levels, one which would seem too big for the benefits system to cope with. In a recent speech, John Hutton, the Secretary of State for Work and Pensions, was open about this:

*"We will always consider raising benefit levels where it is appropriate and affordable to do so. But even increasing benefits in line with average earnings will do little to help families escape poverty, if median income is increasing at roughly the same rate."*¹⁴

In order to reduce and eliminate headline poverty rates, as the Government has promised to do for families with children and pensioners, one or both of the following would need to happen:

- The earned income of the poor would have to increase much faster than average earnings.
- There would have to be a massive increase in benefit spending, most likely that on tax credits.

We already know that the first isn't happening and, given current underlying factors, is unlikely to happen. But what are the chances of the second? The left-leaning New Policy Institute is sceptical:

*"Poverty cannot be solved by tax credits alone... For a start, it is surely too expensive. Even though up-to-date figures on this most important subject are remarkable for their absence, an early Treasury estimate suggested that some £13 billion would be disbursed via child tax credits alone in 2003/04. If that is what it has taken to get child poverty down by a quarter, it is clear that the sums involved to get it down by a half (the 2010 target), never mind eliminate it, are going to be very big indeed."*¹⁵

According to research from the Joseph Rowntree Foundation, "even if Child Tax Credit were doubled relative to earnings, at [an annual] cost of £20 billion child poverty in 2020 would still be 9 per cent"¹⁶ The same research modelled a variety of benefit packages and, on the basis of some fairly optimistic assumptions on employment, put the annual cost of halving child poverty rates by 2010 at between £4.3 to £5.7 billion; the annual cost of reducing the rate to 5% between 2010 and 2020 was put at over £25 billion.¹⁷

We do not need to speculate about the Government's intentions. These have already been made clear in the Government's long-term spending plans, which assume that "most non-pension social transfers (which represent nearly a third of other spending) will rise in line with prices after 2007-08, reducing their share in GDP."¹⁸ Thus the Government plans to keep benefit increases *below*, not above, the rate of GDP growth. Without drastically improved employment opportunities for the poor, these spending plans cannot possibly deliver on Government promises to reduce the headline rate of poverty. This is the conclusion of John Hills, who, as a member of the Government appointed Turner Commission, has an informed perspective on long-term public finances:

*"Treasury forecasts... assume that the costs of rising health spending... will be partly offset by a fall in the relative value of most social security benefits through continuing to link them to prices in the long term rather than increasing them in line with other incomes. It is hard to see how this could occur without relative poverty rising."*¹⁹

14 John Hutton, What will it take to end child poverty?, speech to the Joseph Rowntree Foundation, 6 July 2006

15 Catherine Howarth and Peter Kenway, *Why worry any more about the low paid?*, New Policy Institute, October 2004, page 37

16 Donald Hirsch, What will it take to end child poverty? Firing on all cylinders, Joseph Rowntree Foundation, 2006, page 60

17 *Ibid.*, figures 12 and 13, pages 57-59

18 HM Treasury, *Long-term public finance report: an analysis of fiscal sustainability*, November 2002, page 46

19 John Hills, *Inequality and the state*, Oxford University Press, 2004, page 267

WIDENING DIFFERENTIALS

Spending constraints aren't the only threat to the sustainability of New Labour's anti-poverty strategy.

The Government has carefully targeted the bulk of its additional welfare spending on certain key groups such as households with dependent children just below the poverty line. As a result, benefits of particular importance to the poverty strategy have gone up much faster than other benefits for untargeted groups. If the link between the first class of benefits and average earnings is somehow maintained, then the divergence from the second class will continue to a point at which it becomes unsustainable. Poverty experts such as Jonathan Bradshaw believe that "differentials between different classes of claimant are already absurd" and warn that "parents are increasingly being funded by their children."²⁰

In modelling the targeted benefit increases that would be required to reduce the child poverty rate to 5% by 2020, the Joseph Rowntree Foundation calculated that...

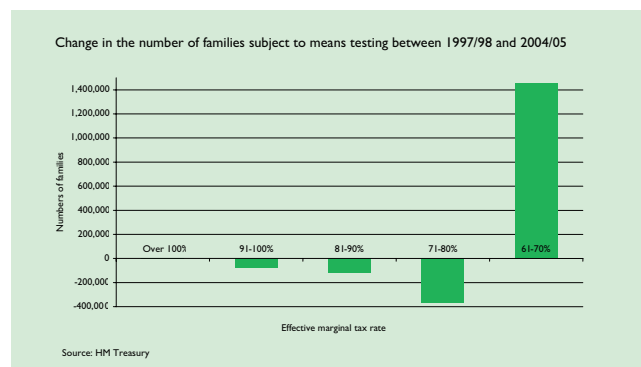
"...this would make payments to poor families with children look very generous indeed, especially in contrast to benefits for those without children that had been going up only with inflation. For example, a single woman on Jobseeker's Allowance would receive £55 a week, but if she had a baby and became a lone parent, her income would rise to nearly £200 (not including the temporary baby premium) in 2006 prices."²¹

New research has found that teenagers from disadvantaged backgrounds already see young parenthood as "a reasonably rational choice."²² The perverse and growing financial incentives implied by Government policy risk exacerbating a trend that has negative consequences for the fight against child poverty.

THE SPREAD OF MEANS-TESTING

New Labour's anti-poverty strategy is also compromised by an even more serious structural weakness: its dependency on means-testing. In 1995, Tony Blair promised that a Labour Government would "remove the stigma of means testing for ever."²³ This is a promise that has been spectacularly broken. The imposition of increased

Income Tax / National Insurance Contributions combined with the withdrawal of tax credits and other benefits means that many more families are losing most of every extra pound they earn. The rate at which earned income is lost in this way is called the effective marginal tax rate (EMTR). Using Treasury data, John Hills²⁴ has quantified the extent to which New Labour has spread the extent of means-testing:



On the plus side there have been reductions in the highest EMTRs that previously affected the lowest additional earnings. However, this improvement has been outweighed by the still very high EMTRs that now affect millions of additional individuals and which extend further up the income scale. The so-called poverty trap is somewhat shallower, but it is now much wider and more difficult to ever escape from. However, the situation is even worse than the Treasury figures reveal. First of all, of the millions of people now caught up in the 61-70% EMTR band, almost all of them lose a full 70 pence out of every extra pound they earn.²⁵ This doesn't even include all the effects of the New Labour expansion of means-testing – such as the means-testing of retirement provision and the means-testing of state help with student tuition fees and maintenance costs. If these factors are included then EMTRs shoot up. To give an example, "a single earner couple with two young children and a student loan to repay would face a total EMTR of 79 per cent on annual earnings of between £13,500 and £22,500"; meanwhile "a couple with two school-age children and one at university would face a total EMTR of 87% on annual earnings of between £15,500 and £22,500."²⁶

20 Jonathan Bradshaw, *Understanding and overcoming poverty*, keynote address given to the Joseph Rowntree Foundation Centenary Conference, 13 December 2004, page 18

21 Donald Hirsch, *What will it take to end child poverty? Firing on all cylinders*, Joseph Rowntree Foundation, 2006, page 60

22 Joseph Rowntree Foundation, 'Planned' teenage pregnancy: *Views and experiences of young people from poor and disadvantaged backgrounds*, Findings, July 2006

23 Tony Blair, speech to Labour Party conference, 3 October 1995

24 John Hills, *Inequality and the State*, Oxford University Press, 2004, table 10.5, page 256

25 *Ibid.*, page 255

26 *Ibid.*, page 257

Things get yet worse once the interactions between tax credits and Housing Benefit are taken into account. A Joseph Rowntree Foundation study, a working lone parent paying a private sector rent would experience an EMTR of 90%, and would have to work “an incredible 76 hours a week at the minimum wage before she could keep more than 10p in the pound of her additional earnings.”²⁷

The senior Labour MP, Alan Milburn points out the injustice in the spread of means-testing:

*“I was brought up to believe that hard work and endeavour would be rewarded, not penalised. The tax system needs to reflect those values. On fairness grounds, it surely cannot be right for people towards the bottom of the income scale to face higher marginal taxes than those at the top.”*²⁸

The Joseph Rowntree Foundation and the Institute for Fiscal Studies have undertaken an in-depth analysis of the impact of means-testing in the tax and benefits system on work incentives. The conclusion was clear:

*“...changes to income tax, employee National Insurance contributions, council tax, tax credits and benefits alone strengthened work incentives on average under the Conservatives and have weakened them under Labour.”*²⁹

And as John Hills points out, the damage to work incentives can only increase with the level of means-testing:

*“...continuing with the strategy will either widen the number of people affected or push the effective marginal taxation rates back up again, without any offsetting reductions elsewhere.”*³⁰

Means-testing is a catch-22 for New Labour anti-poverty strategy. The more damage that means-testing does to work incentives, and thus the ability of the poor to earn themselves out of poverty, the more the strategy will have to rely on means-tested benefits.

THE END OF THE LINE FOR NEW LABOUR’S ANTI-POVERTY STRATEGY

The official definition of poverty revolves around a poverty threshold set at 60% of the median household income. Thus ending poverty on this definition means that every-

one in the poorer half of the population has to have an income of between 60% and 100% of the median. This would involve a considerable increase in income uniformity, which would be a good thing if it were achieved through increased opportunity in the jobs market or even through the formation of more stable and supportive family structures. If, however, it were mainly the result of redistribution and means-testing, then this would imply a society in which family cohesion, hard work, talent, training and skills would make much less difference to an individual’s economic prospects than they do now.

This unfairness cannot be what New Labour *intended* by its anti-poverty strategy, one which it entitled “Opportunity for all.”³¹ However, if Government targets are to be met this is what the strategy *requires* – a requirement which, in the current circumstances, can only be satisfied through ever wider and deeper means-testing. As critics on both Left and Right are beginning to realise, New Labour’s strategy has already taken us too far in this direction. It is surely reaching the end of the line.

A NEW WAY FORWARD

Earlier this year, the Conservative Party signed up to the Government’s goal of ending child poverty by 2020.³² However, with such an ambition comes a responsibility to seek the means by which it can be achieved. As Oliver Letwin said when he made the original announcement:

*“...if we continue to avoid thinking seriously... we shall reach 2020 and discover again that child poverty and multiple deprivation have been left virtually untouched in one of the richest and most stable societies on earth.”*³³

We already know that the current policy framework cannot deliver on the 2020 target; thus a new way forward must be found. This is the challenge than now lies before the Social Justice Policy Group – and though we are a long way from reaching firm conclusion, our work will be guided by the following principles:

- First of all, the headline definition of poverty is not-sufficient. We need to recognise that a single defini-

27 Martin Evans and Jill Scarborough, *Can current policy end child poverty in Britain by 2020?*, Joseph Rowntree Foundation, 2006, pages 26-27

28 Alan Milburn, *House of Commons Hansard debates*, 28 March 2006, column 710

29 Joseph Rowntree Foundation, *The poverty trade-off: work incentives and income redistribution in Britain*, Findings, September 2006

30 John Hills, *Inequality and the state*, Oxford University Press, 2004, page 258

31 Department of Social Security, *Opportunity for all: Tackling poverty and social exclusion*, September 1999

32 Oliver Letwin, ‘Why we have signed up to Labour’s anti-poverty target’, *The Guardian*, 11 April 2006

33 *Ibid.*

tion of 60% median income risks missing those in severe poverty as well as missing completely the non-financial aspects of poverty.

- Secondly, there will be no end to poverty in the UK without a jobs revolution. Our aim must be that, every working-age adult capable of *earning* a decent living for themselves and their dependents must have the opportunity to do so. Achieving the jobs revolution must be the primary goal of a Conservative anti-poverty strategy.
- Thirdly, the greater the advances made by those who get into work, the greater the focus should be on

those who have yet to do so, or those who cannot do so.

Finally, though the focus of this report and its successors has been and will be on the economic aspects of poverty, we will not forget their social context. From the homes that nurture us, to the education that prepares us for adulthood and the families through which we support those dependent upon us, the economic and social dimensions are never far apart. Success in one sphere depends on the other, and thus the work of Social Justice Policy Group should be considered as a whole.