

Reviews

Britain's War on Poverty

Jane Waldfogel

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Reviewed by Gregg McClymont

Britain's War on Poverty is an authoritative chronicle of Labour's achievements in attempting to end child poverty by 2020. The book is a salutary reminder of the depth of commitment shown by the previous government to an enormously ambitious goal. Reading Waldfogel now, after the financial crisis and the emergence of the Coalition government, presents us with an opportunity to draw lessons from Labour's record.

The author, an American academic, has a clear perspective on the issues, at once disinterested and engaged. Her focus lies with policy rather than politics. She wants to demonstrate to an American audience that sustained, well-resourced and nationally co-ordinated drives to reduce poverty are still possible in Anglo-Saxon democracies. She offers a concise and exhaustively referenced account of Labour's welfare, taxation and child services agenda. This is complemented by invaluable summaries of current evidence on the impact of government policies, which succeeded both in reducing aggregate levels of child poverty and improving child outcomes on a range of qualitative measures.

Labour's strategy was fourfold: make work pay through the minimum wage and working tax credits; introduce new cash benefits aimed specifically at children; invest in early years through Sure Start and free child care; and invest in schools.

Contrary to received wisdom, Labour's approach was very different to that of the Clinton administration. Like the American Democrats in the 1990s, Labour placed parental employment at the heart of their strategy. Government ministers modelled the Working Tax Credit on the American Earned Income Tax Credit. But Labour rejected the coercive provisions of Clinton's Personal Responsibility and Work Opportunity Reconciliation Act (1996), which reduced each individual's entitlement to benefits to no more than five years over their lifetime.

The Child Tax Credit was another important British innovation. Politically, it made sense, since young children were more difficult for the right to stereotype than the long-term unemployed. But it was also sound public policy. Evidence from cohort studies had conclusively demonstrated the lifelong impact of child poverty and its deleterious effects on social mobility. A near-universal cash benefit, delivered regardless of the parents' work status, amounted to a powerful weapon in the war on child poverty. In America, the Earned Income Tax Credit tended to be spent by hard-pressed working parents on travel and clothing for themselves. In Britain, the Child Tax Credit tended to be spent by parents on goods and services for their children. The effectiveness with which additional

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benefits were focused on improved child welfare was one of the main reasons for Labour's success.

This success was considerable. Labour halved child poverty within five years of taking office. Waldfogel comes to this conclusion by using an absolute measure of poverty, under which children living in households under a fixed income are defined as in poverty. This is the measure commonly used in America. Waldfogel intimates that Labour fashioned a rod for its own back by insisting on a tough measure of relative poverty – 60 per cent of median income in any given year – to evaluate their reforms against. Certainly, stagnation in relation to this moving target since 2005 is the source of the disingenuous Tory-Liberal claim that child poverty increased under the previous government. Both relative and absolute poverty have increased since 2005, but are substantially down since 1997. Two million fewer children live in households in absolute poverty than in 1997, while 500,000 fewer live in households in relative poverty. The Institute for Fiscal Studies has estimated that in the absence of Labour's reforms relative child poverty would have increased by two million since 1997, as a result of rising median income. Labour's commitment to the relative poverty target suggests that the claim that Labour in office abandoned egalitarian objectives can be exaggerated; the last government's concern with relative poverty illustrates that narrowing income inequality played a role in government policy, if not always in ministers' public statements.

Particularly as David Cameron has refused to be 'lectured' by Labour on poverty, it is gratifying to see Waldfogel implicitly debunk much of the Coalition's misleading rhetoric about the supposed failure of the last government's policies. But Labour's success was also political. It convinced the Conservative Party that it was necessary to address poverty and inequality, at least rhetorically. By subscribing to this new consensus, the Coalition has placed itself in a difficult political position. *Britain's War on Poverty* demonstrates the extent to which government action and public spending are essential to an effective anti-poverty drive. Cuts to services and benefits, coupled with an economic policy that is prepared to tolerate high levels of unemployment, are unlikely to lead to outcomes consonant with the Coalition's rhetoric. Waldfogel amuses when she quotes from a speech made by current Liberal Democrat Pensions minister Steve Webb. During the debate on the Child Poverty Act of 2009, he argued that 'to hear Conservatives suggest that they even care about this subject, and that it would be some sort of priority, is frankly unbelievable' (p. 150). She was writing, of course, before the Coalition came to power.

Labour's record, then, was a good one. It undeniably improved the lives of countless poorer British families. But our approach had its limitations. Policies that were effective in combating absolute poverty were less effective in relation to the social democratic goal of reduced *relative* poverty. This is because reform of the economy, to address the reasons why it had consistently produced rising levels of both relative and absolute poverty since the late 1970s, was not on the agenda. Waldfogel notes that

British policies were focused on raising the incomes of those at the bottom; they were not focused on raising taxes on the rich or constraining the labor market, which continues to favour more-educated and higher-income workers. (p. 119)

The lesson from Labour's record is clear. Rebuilding social democracy in Britain demands a more comprehensive approach to the problem of poverty. Alongside a continued

commitment to carefully considered reforms to the welfare state, we need a broader and more radical approach to political economy if the 2020 target for ending child poverty is still to be achieved.

Waldfoegel does not offer explanations for why poverty rose during the 1980s and 1990s. Her book is focused on the mechanics of corrective action, rather than the political and economic roots of the problem. The financial crisis has thrown these into sharp relief. The long boom of the past two decades was characterised by high profits and proportionately low wages for the majority. Adam Smith understood that the parsimonious firm-owner should share profits with his workers by increasing wages, thereby ensuring the continued circulation of capital that guaranteed his own success in the long term. But instead, shareholder dividends and disproportionate payments to top-level management were prioritised. Particularly at the middle and the bottom, real incomes had begun to stagnate long before the crisis hit. High levels of private debt, borrowed against collateral afforded by inflated house prices, was the logical corollary, since this was necessary to maintain the consumer demand that drove growth across the economy. This is a stark contrast with the most sustained and equitable period of economic growth in the history of Britain and the West – the ‘golden age’ from 1945-73 – when real incomes grew across the board, and inequality reached historic lows.

The reasons for this were ultimately political. Organised labour was a powerful presence in most major economies; its decline is a significant and understated reason for the stagnating wages and rising personal indebtedness that ultimately led to the current economic crisis. The absence of political organisation denies ordinary people the opportunity to defend their relative position in the labour market, even in periods of economic growth. Weak trade unions are incapable of fulfilling a vital function in the wider economy: ensuring that there is a proper balance between profits and wages, to maintain consumer demand while keeping indebtedness low. They are also incapable of fulfilling an important political role. If there are no representative interest groups for low-paid and median earners, the result is a distorted democracy: in America, this has been labelled ‘winner takes all’ politics, where political debates and government policy-making are dominated by corporations and the wealthy (Hacker and Pierson, 2010). Given the degree to which not only industrial relations legislation, but also organisational inertia and poor political leadership, have weakened British trade unions, addressing this imbalance in economic and political power should be a major objective for ‘movement politics’.

David Miliband’s comments during his leadership campaign have been promising in this respect:

For too long, the party relied too heavily on taxes and benefits to reduce inequality. We neglected private sector reform to ensure working people are properly respected and rewarded in the workplace in the first place. (Miliband, 2010)

Waldfoegel’s book provides authoritative support for his analysis. It offers ample justification for pride in Labour’s record, while showing us the limitations of an anti-poverty strategy based solely on taxes and transfers. The party will need to adopt a more ambitious approach to reforming the economy if it is to succeed in its historic mission to free Britain from poverty.

Gregg McClymont was elected Labour MP for Cumbernauld, Kilsyth and Kirkintilloch East in May.

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References

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