



# The **POVERTY** **INDUSTRY** **TRAP**

**KRISTIAN NIEMIETZ** scrutinises a Child Poverty Action Group report – and finds it constrained by traditional ‘poverty industry’ thinking...

**‘Ending child poverty by 2020: Progress made and lessons learned’ is an evaluation of the anti-poverty policy record of the last 15 years or so. The main emphasis is on the measures enacted to meet the targets set out in the Child Poverty Act and their impact on poverty rates.**

Regardless of whether or not one agrees with the authors’ conclusions, the report offers an informative account of contemporary British social policies, providing an overview and assessment of the most important developments. The report is published by the Child Poverty Action Group (CPAG) but is written by sixteen external authors, which ensures a relatively broad perspective. But, while not all chapters stick to the preferred narrative of what could loosely be called the ‘poverty industry’, most of them do so.

**The general narrative**

This narrative suggests that, in 1997, the incoming Labour government inherited catastrophically high levels of child poverty, the legacy of 18 years of ‘neo-liberal’ politics. They decided to remedy this situation by adopting an ambitious agenda of increased social transfer spending and expanded social programmes. This expansion led to substantial improvements while it lasted but, by 2004, the government began to run out of steam. The expansion in social transfer spending slowed down and, as a result, so did progress in poverty alleviation. From 2010 onwards, the coalition government abandoned what little remained of its predecessor’s progressive impetus, and changed into reverse gear. The brutal ‘austerity’ agenda that has since been pursued risks undoing much of the progress that has been made since the late 1990s.

The phenomenon of in-work poverty is also repeatedly highlighted. Chapter 6 argues that the increase in the employment rate of single parents contributed to the reduction in child poverty, but not nearly as much as the increase in transfer spending. This is taken as ‘evidence’ that an anti-poverty agenda must, first and

**Judge, L. (ed.) (2012): *Ending child poverty by 2020: Progress made and lessons learned*, London: Child Poverty Action Group (CPAG)**

**Among other things, the report argues:**

- Social policy under Labour was initially heading in the right direction, but the increase in social spending was slowed down far too soon.
- Nevertheless, the reduction in relative child poverty that the government achieved was quite impressive. It could have been better still if Labour had gone further in its welfare expansion.
- Austerity now threatens to undermine this progress.
- Increases in employment do not account for the major share of the decrease in poverty that has been achieved. This shows that the contribution that higher work levels can make is limited. The safest way to combat poverty is to raise benefits, not work levels.

**The report’s main policy implications are:**

- Social policy should return to the welfare expansion approach of Labour’s early years in government, but this time it should be pursued with much more stamina.
- Raising work levels among welfare recipients is helpful but not essential. The main focus has to be on benefits.

foremost, be an agenda of raising income transfers. Raising work levels may have a role to play, but since the British economy produces too many low-paid jobs, it is not a crucially important ingredient.

**Policy implications**

The report’s policy implications involve resuming the policies of Labour’s early years, but this time keeping up the firepower for much longer. Benefits must be increased at a rate that exceeds the growth in median incomes for many years in a row. When combating poverty, too much effort should not be wasted in trying to get people into work, which is an unreliable route out of poverty. Raising benefits is much more important than raising work levels.

**Strengths**

The report succeeds in rebutting some of the more superficial critiques of Labour’s record. For example, it is not true that Labour’s transfer policy merely lifted families from just below to just above the relative poverty line – the ‘poverty plus a pound’ argument. Rather, there has been a general narrowing of the lower half of the income distribution, not just around one particular point.

**Weaknesses**

On the more substantive points, the report contains a number of major weaknesses. To begin with the simplest one, the actual evolution of the relative poverty rate for children over the period described does not quite fit the narrative which the report spins. The report makes much of the comparison of child poverty rates between 1998 and 2010, during which period relative child poverty fell by almost nine percentage points.

However, at the onset of the recession, the record looked much less impressive. More than half of the decrease has only occurred since then (*see Table 1*), and this is not a coincidence.

Recessions affect different parts of the income distribution differently. Incomes in the middle of the distribution tend to follow the business cycle more closely than incomes at the lower end, because the former consist mostly of earned income, and the latter mostly of state transfers. This is why recessions frequently lead to falling relative poverty rates. Median incomes fall faster than low incomes, and drag the poverty line down with them. The report alludes to this mechanism, but it does not relate it to the actual numbers. Considerably more than half the reduction in relative child poverty has come about since the recession, largely as a result of median incomes falling towards the income levels of the poor.

More importantly, it is the report’s central narrative about social

	1998	2007	2010
Relative child poverty: Rate	26.1%	22.5%	17.5%
Relative child poverty: Headcount	3.4m	2.9m	2.3m

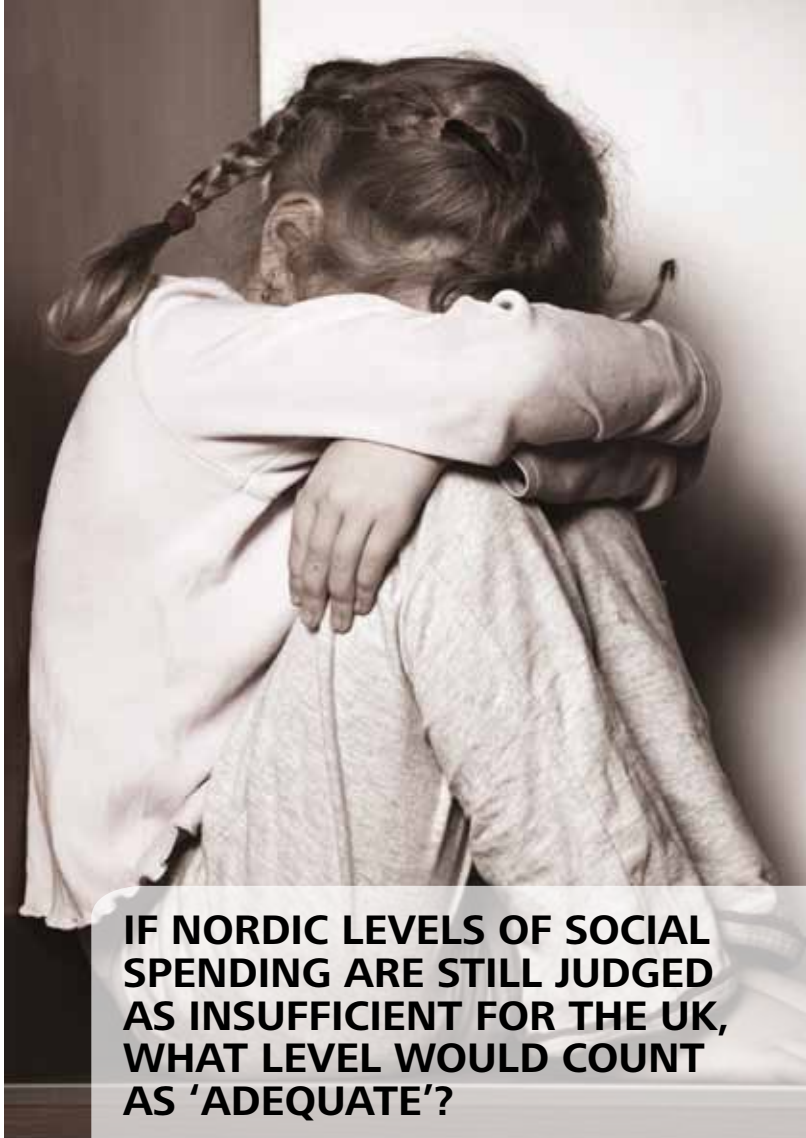
**Table 1: Relative child poverty in 1998, 2007 and 2010**

expenditure which is somewhat misleading. It underplays the increase in social spending that took place before the recession, while exaggerating the impact of ‘austerity’ since then. By 2007, social expenditure in the UK had risen to Scandinavian levels. Yet the CPAG report portrays this as no more than a good start. The so-called ‘austerity’ agenda, meanwhile, will do no more than return public spending – including welfare spending – to its immediate pre-recession level. Yet the report portrays this as the demolition of New Labour’s social policy legacy. Thus, the report fails to grasp the extent to which the poverty industry’s traditional demands have already been fulfilled. If Nordic levels of social spending are still judged as insufficient for the UK, what level would count as ‘adequate’?

The report also cautions against relying too much on paid work as a route out of poverty. Chapter 6 argues that, even though the employment rate of single parents increased by more than ten percentage points, this development contributed much less to the decline in poverty amongst that group than the increase in transfer spending.

Quite so. But the reason for this is simply that most of these new entrants into the labour market work for little more than 16 hours per week, the minimum number of working hours required to qualify for Working Tax Credit (WTC) payments. The Labour government did manage to encourage some economically inactive parents to access part-time employment. The logical next step would be to encourage them to increase their working hours. The potential here is still huge, especially among single parent households. About half of all children in such households live with a parent who does not work at all, and another quarter live with a parent who works part-time, usually around 16 hours (see table 2).

This situation differs radically from that observed in Sweden and Denmark, where almost all single parents work, and the majority of



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them work full-time. The poverty industry has long argued for Nordic levels of social expenditure. The complement to this is surely Nordic levels of labour market integration among groups with elevated poverty risks, rather than dismissing work as a route out of poverty.

Finally, as with most of the poverty industry’s publications, the greatest weakness is not in what is included but in what is excluded. The report

depicts the living standards of low-earners as determined through the interplay of various transfer instruments and social programmes. Other influences are either confined to the margins, or not considered at all. The period covered in the report also witnessed an explosion in house prices and rent levels, as well as steep increases in energy and childcare costs, and other costs of basic essentials. Yet none of these facts get a mention in the report. Yes, it is broader than a CPAG in-house publication would have been. But ultimately, it retains the poverty industry’s narrow fixation on benefits and government programmes, at the expense of everything else.

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	Number of children
Parent not in work	1.4m
Parent in part-time employment	0.8m
Parent in full-time employment	0.8m
<b>Total</b>	<b>3.0m</b>

**Table 2: Children in single-parent households by parental work status**