Commentary

Poverty and the Labour Party

The Labour Party has often been wracked by disputes over ideological differences, but there has always been an internal consensus among the various factional players that a minimal aim of Labour in government is to reduce poverty. Gaitskellite, Bevanite, Blairite, Brownite, Corbynite: all agreed that Labour had a distinctive distributional mission that sought to use the state to improve the position of the worst off. The Conservatives, by contrast, have always included factions who doubt that the state ought to, or can, reduce poverty. Beneath this veneer of Labour agreement, though, lurks a more divisive question: how can governments most effectively tackle poverty? Keir Starmer and his colleagues agree that poverty reduction is an important policy priority, but so far have argued that it would be better for the state to help the poor into well-paid employment rather than leaving them reliant on public largesse. A cynical observer might suspect this is putting a brave face on fiscal constraints that are thought to prohibit further social spending. But this public legitimation of the government's stance on poverty does accurately capture a neglected revisionist trend within Labour's policy discourse over the last fifteen years. Much of this Labour rethinking was well-intentioned, but it has had the unintended consequence of stranding the party's anti-poverty prescriptions and messaging in an ideological morass.

New Labour entered government in 1997 committed to bearing down on the remarkably high poverty rates presided over by the Conservatives by widening access to well-paid, high-skilled work. Distancing themselves from what was regarded as 'old' Labour assumptions about boosting the universalist Beveridgean welfare state, Tony Blair and Gordon Brown initially posed as fearless advocates of social investment in skills and education rather than ameliorative cash transfers. Yet it soon became clear that this did not exhaust their anti-poverty strategy. Blair announced the ambition to 'eradicate' child poverty in 1999, a commitment that was operationalised in a series of stretching targets that defined poverty in relative terms. But where previous Labour governments had relied on collective bargaining to make work pay, the Blair government's real departure from previous Labour orthodoxy was to use in-work benefits, chiefly tax credits, to redistribute income to low earners (alongside a new national minimum wage, initially set at a low level).[1] This was a consequential and effective policy innovation that initially occasioned little public discussion, but according to one calculation helped reduce child poverty from 3 million in 1998 to 1.6 million in 2010.[2] Curiously, some within Labour came to feel rather ambivalent about this signal social achievement.

Tax credits are the classic exemplar of New Labour's overall governing philosophy, which sought to combine a liberal market economy with well-funded public services and increased transfer spending. As New Labour's time in office headed towards its denouement, the trade-offs involved in this social compromise became increasingly apparent. On the one hand, tax credits, higher child benefit and other areas of social spending provided New Labour with an undeniable progressive policy accomplishment, namely significantly reducing child poverty and arresting further rises in income inequality. On the other hand, the increasing expense of these programmes raised the question of whether it was feasible to reduce poverty any further using this method. Perhaps, some commentators began to wonder, more of the heavy distributional lifting ought to be done before the tax-benefit system kicked in by generating higher market incomes among lower

[1] P. Sloman, *Transfer State*, Oxford University Press, 2019, pp. 177–202.

[2] A. Corlett, et al., *The Living Standards Audit 2018*, Resolution Foundation, 2018, pp. 67–69.

earners, via measures such as a much higher minimum wage, stronger collective bargaining and an intensified reskilling of the workforce? There had always been low-level murmuring among economists that in-work benefits such as tax credits might have the perverse effect of subsidising unskilled work and thus encouraging the growth of more low-wage, casualised employment. This idea slowly seeped into political debate. One early intervention in 2004 by then-Labour MP John Denham anticipated much of the critique that would follow. Denham observed that while New Labour had set out to reform both the state and the market, in practice it had largely left the latter alone: 'rather than attempt to extend elements of social justice into the private sector economy we have preferred to run social justice and the market as parallel activities, relying on the free-market economy to provide the wealth from which the social justice can be created.' Or, as Denham more bluntly phrased it: 'we hear less of the high wage, high skill economy and rather more of the working family tax credit.'[3]

Denham's was a voice in the wilderness at the high point of Gordon Brown's political powers. But after 2010 Denham's basic critique became widely ventilated as Labour regrouped in the run up to 2015. It now became fashionable to complain about tax credits as a policy that 'merely' transferred cash into the hands of poor households rather than offering high-waged meaningful employment or tackling endemic economic insecurity in the labour market. The systematic critique of the British growth model precipitated by the financial crisis encouraged this cooler reassessment of New Labour's distributional record. The ideas of Blue Labour thinkers, as well as the concept of 'predistribution' coined by the US social scientist Jacob Hacker, and promoted by Ed Miliband, pressed Labour away from the use of the benefit system to reduce poverty back to an emphasis on high wages, stronger labour market standards and enhancing the power of collective bargaining.[4] Conveniently this trend in political argument coincided with a period in which fiscal constraints were thought to narrow Labour's ability to promise new spending on anti-poverty programmes.

Unfortunately, as Deborah Mabbett trenchantly argued in *The Political Quarterly*, Labour's loss of interest in cash transfers also converged with a push by the Conservatives to undermine the redistributive potential of the tax credit system and offload responsibility for low incomes onto a higher 'living wage', which did not in fact adequately replace the cuts to in-work benefits for the poorest families.[5] Labour politicians and thinkers might like to ponder how they *de facto* provided rhetorical cover for the Conservatives to unpick the most effective poverty-fighting measure since the 1970s.

Now back in government, what does Starmer's Labour think about all this? We don't know for sure yet, but, once again facing severe fiscal pressures, the government has so far stolidly held to a line not too dissimilar to the one that evolved within Labour between 2010 and 2015. An increased minimum wage and an employment rights package intended, among other things, to boost collective bargaining are all in keeping with the post-New Labour emphasis on reshaping market incomes to boost wages. Meanwhile, the two-child benefit cap introduced by the Conservatives remains in place and cuts to sickness and disability benefits have been queued up to help meet the government's fiscal targets.

There is no doubt that the government faces an exceptionally difficult set of economic circumstances, but, plainly, further cash transfers will be needed if child poverty is to be reduced in this parliament and not in fact to increase. The quickest and most effective tool to hand would be to scrap the two-child benefit cap. Boosting low wages and improving employment rights will not be sufficient to take children out of poverty, as social reformers stretching all the way back to Eleanor Rathbone and William Beveridge have recognised. Family allowances—later, child benefit—were championed by the founders of the welfare state because working class wages could not meet the varying needs of families across the life cycle. Today, child benefit

[3]J. Denham, 'The case for a "New Labour" third term', *Renewal*, vol. 12, no. 4, 2004, p. 73.

[4]E. Goes, 'Ideas and party change: the role of predistribution in Labour's ideological renewal', *Journal of Political Ideologies*, vol. 26, no. 2, 2021, pp. 180–200.

[5]D. Mabbett, 'Social policy through the looking glass: how to make poor households poorer', *The Political Quarterly*, vol. 86, no. 4, 2015, pp. 465–467; D. Mabbett, 'One cheer for the minimum wage', *Political Quarterly* Blog, 5 April 2024.

continues to be paid for all children (until one parent earns over £60,000 per year), while means-tested benefits are paid only for a maximum of two children. The UK state is therefore already paying for large families; it is just not offering additional support to large poor families. As the Joseph Rowntree Foundation recently noted, after the introduction of the Scottish government's child payment for low-income families in 2021 (a payment for each child without a cap on the number of children it can be claimed for), the child poverty rate in Scotland (24 per cent) is now markedly lower than in England (30 per cent). The gap is predicted to widen in the next few years absent further UK government intervention.[6]

When governments are remembered after they lose office, their achievements are unforgivingly distilled into a few pithy bullet points. Does Keir Starmer really want one of his bullet points to be that he was the unusual Labour prime minister who presided over an increase in child poverty?

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[6] *UK Poverty 2025*, Joseph Rowntree Foundation, 29 January 2025, p. 54.