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Labour's Social Policy Record: Policy, Spending and Outcomes 1997-2010

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This is the first major report in a wider programme assessing the impact of the recession, government policy reforms and public spending on poverty and inequality in the UK. Later work will assess the Coalition's social policy record, in the very different economic and fiscal climate of 2010-2014. As a baseline, this paper looks at what Labour did, at what cost, and with what impact on people's lives.

- Labour set out **an ambitious agenda** to raise outcomes overall, narrow socio-economic gaps and modernise public services.
- Public spending went up by 60 per cent and from 39.5 to 47.4 per cent of GDP. This was a large rise but the UK started from a low point. Until the crisis hit after 2008, spending levels were unexceptional by historic UK and international standards.
- **The extra spending went mainly on services.** Health and education both increased as a proportion of all public spending. There were new hospitals, schools, equipment and ICT, 48,000 extra FTE equivalent teachers, 3500 new children's centres, more doctors and nurses, and many new programmes aimed at neighbourhood renewal.
- Nearly all the extra cash Labour spent on benefits went on **children and pensioners**. Benefits for working age people unrelated to having children fell as a proportion of GDP.
- **Access and quality in public services improved.** Waiting times for health services fell. Pupil-teacher ratios improved. Young children had greater access to early years education. Poor neighbourhoods had better facilities and less crime and vacant housing.
- **Outcomes improved and gaps closed** on virtually all the socio-economic indicators Labour targeted, such as poverty for children and pensioners and school attainment. **However gaps remained large.** In health some indicators improved although efforts to tackle health inequalities had mixed results.
- On some key things Labour did not explicitly target, there was no progress. Poverty for working age people without children rose. There was **no real change in levels of income inequality**. Wage inequalities grew and disparities in regional economic performance persisted.

In a more favourable climate than the current one, Labour spent a lot and achieved a lot. However there was a long way still to go in relation to its original ambitious vision. We will report in a similar way in 2015 on the Coalition's aims, policies and spending in response to the challenges it faced, and on the outcomes achieved.

What were Labour's aims and goals?

When Labour came to power in 1997, poverty and inequality were both very high. Only the US and Italy out of fifteen leading nations had a higher percentage of children living in relatively poor households in the mid-1990s, and only the US of ten leading nations had higher inequality. Socio-economic inequalities in other measurable outcomes, such as life expectancy, infant mortality, and smoking were showing no improvement, and the phenomenon of 'social exclusion' was increasingly recognised. Spatial inequalities appeared to be widening, both at a regional and local level.

Thanks to the 1990s recession, Labour also inherited a large deficit and high public sector debt, but this was reducing. At 39.5 per cent, public spending as a percentage of national income (GDP), was at a historic low. It was also low by international standards, with the UK standing as 14th out of 15 in the EU. Yet circumstances were favourable for tackling poverty, inequality and social exclusion. In 1997, 65 per cent of respondents in the British Election Study were in favour of increasing taxes and spending more. After 1997, GDP grew steadily for the next 10 years.

Labour set out ambitious aims to raise overall outcomes and close socio-economic gaps. Whole new areas of coordinated central government activity were introduced – in relation to the early years, social exclusion and neighbourhood renewal. However, no explicit pledges were made about reducing inequality and Labour declared itself relaxed about the incomes of the super rich.

Table 1: Labour's Aims

Policy Area	Aims
Poverty and Inequality	To end child poverty forever (over a 20-year period, and by half by 2010). To end pensioner poverty.
The Under Fives	To ensure a more equal starting point for all young children - "An inclusive society, where everyone has an equal chance to achieve their full potential" and "to make sure that all children are given the best chance in life."
Health	To improve overall population health outcomes and reduce health inequalities
Education	To raise achievements overall and reduce inequalities "To give everyone the chance to realise their full potential and build an inclusive and fair society and a competitive economy"
Deprived Neighbourhoods	No-one should be seriously disadvantaged by where they live (in 10 to 20 years)

Another goal was to "modernise" the welfare state. Labour set out a vision for public management that combined some of the previous government's approaches, such as league tables, with new emphases on partnership and a valuing of public service. It argued that this was "pragmatic not dogmatic" and that "what counts is what works".

What did Labour do?

Labour promoted work as the best route out of poverty. It introduced 'New Deals' for the unemployed offering advice and support with returning to work. Claiming benefits while out of work was made tougher. A National Minimum Wage was introduced, as were family friendly policies such as longer maternity leave.

It made cash transfers in the form of benefits and tax credits to address poverty directly. These were aimed mainly at children and pensioners.

- Families with children, especially younger children, benefited from the new Child and Working Tax Credits, more generous Child Benefits and a Sure Start Maternity Grant. The per child value of cash benefits to support children under five nearly doubled between 1997 and 2010.
- Pensioners saw the introduction of guaranteed minimum income, increased in real terms and then linked to earnings. Labour did not increase the basic pension but made the second state pension more generous for lower earners and introduced extra universal concessions, such as Winter Fuel Payments, and concessionary or free bus travel.

Labour significantly expanded the size of the public sector, extending the services that could be provided and increasing staffing ratios, as well as investing in new buildings, ICT and equipment.

- In **health**, the overall volume of inputs rose by 86 percentage points over the period, with labour inputs up 43 points, and goods and services 179 points. The main increase was in non-pay costs in hospitals and community health services, but there were also big staffing increases.
- In **education**, input growth was lower but still up by over a third (35.5 per cent). Labour inputs grew by 16 percentage points, capital services by 59 points and goods and services by 85 points. There were 48,000 extra FTE equivalent teachers (11.9 per cent) and the number of support staff more than doubled, with over 133,000 extra teaching assistants and 96,000 extra other support staff. Over 160 schools were rebuilt or refurbished under 'Building Schools for the Future', with another 450 well under way.
- In the **early years**, all three and four year olds were given an entitlement to fifteen hours per week free early education for 38 weeks of the year. Childcare was also expanded. 3,500 new Sure Start Children's Centres were set up.
- **Disadvantaged areas** were targeted. The National Strategy for Neighbourhood Renewal (NSNR) introduced a new way of addressing the problems of low income neighbourhoods - directing more mainstream funds according to need, rather relying on special time limited programmes. More funding was distributed to poorer local authorities, leading to much new local activity: neighbourhood management, policing teams and wardens, new nurseries, schools, health centres and play areas.

Underpinning all these approaches was the reform of public management and service delivery. Labour built on some of the previous government's approaches: choice and diversity of provision; targets and performance indicators. It extended the use of private finance (PFI) to build schools and hospitals and tuition fees were introduced in higher education. Many of these reforms were rejected in Scotland, Wales and Northern Ireland. Labour also increased public sector pay, and remodelled the workforce, creating more support roles. Multi-agency working and strategic partnerships were brought in in many areas. There was much wider use of ICT, data and evidence.

How much did Labour spend, and on what?

Total public spending rose from £449 billion in 1996/7 to £725 billion in 2009/10, a rise of 60 per cent. During the same period, GDP increased from £1,138 billion to £1,530 billion, a rise of 30 per cent. As a result, public spending as a proportion of GDP rose, from 39.5 per cent to 47.4 per cent. This was a large rise by international standards, but starting from a low base.

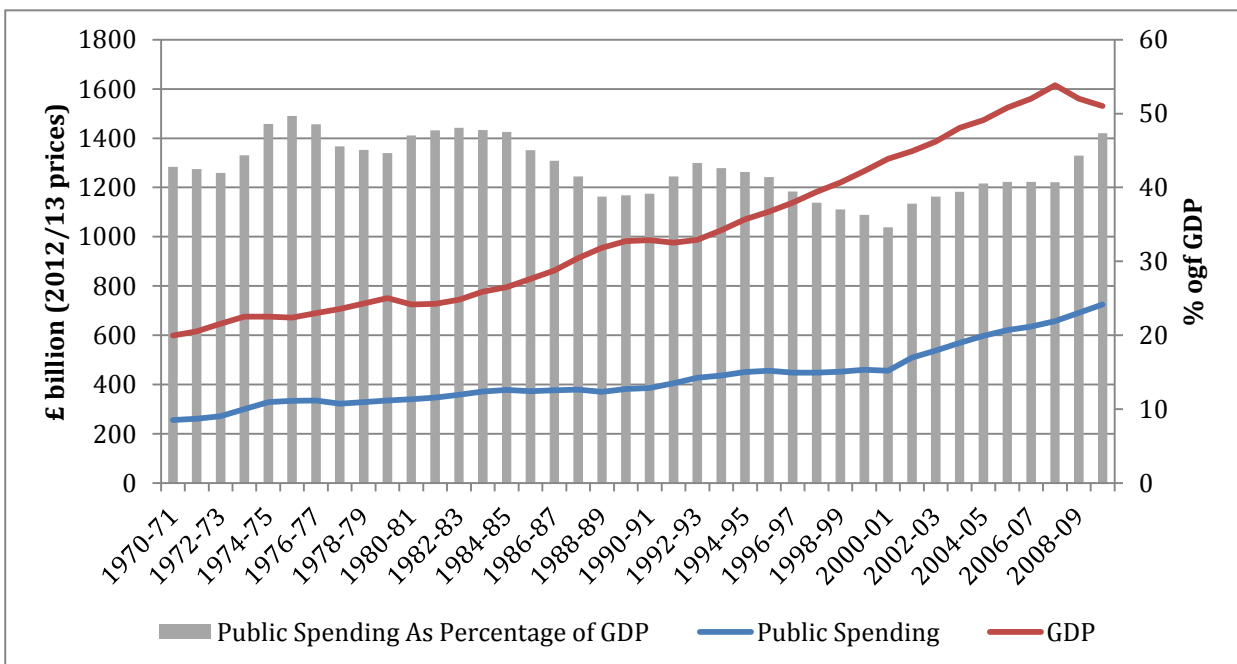
Health and education both increased as a proportion of all public spending (health from 14 to 18 per cent, and education from 12 to 13 per cent). Social security spending decreased as a proportion of overall expenditure, from 33 per cent in the last year of Conservative government to 28 per cent in Labour's last year.

Half of the increase in cash transfers (including tax credits) was accounted for by benefits for pensioners. Nearly all of the rest went on spending aimed at children. As a result, spending on children and on pensioners rose as a percentage of GDP, while other working age benefits were a slightly smaller share.

Spending as a percentage of GDP fell during Labour's first term. It then rose rapidly from 2001 to 2005 before flattening out to 2007/8 (Figure 1). At this point, total public spending looked unremarkable by historical UK and international standards. Taxes did not rise as a proportion of GDP from 2000/01 to 2007/8, causing a rise in the budget deficit and public sector net debt. Both, however, were lower in 2007/8 than when Labour took office, suggesting that Labour's spending had not caused a crisis in the country's finances.

The unexpected fall in GDP after the financial crash, combined with continuing spending on health and education and an increase in social security spending, caused spending as a percentage of GDP to rise rapidly. The current budget deficit and public sector net debt also rose to historically high levels.

Figure 1: Trends in National Income (GDP) and Public Spending, 1970/71 to 2009/10



Source: Institute for Fiscal Studies

What was achieved?

Overall, Labour was successful in improving outcomes and closing gaps

Outcomes improved and gaps closed on virtually all the socio-economic indicators Labour targeted. Table 2 shows trends against 59 'Opportunity for All' indicators adopted by the government in 1999 – indicators of poverty, employment, health and social care, housing and education. The overall picture was very positive, with 48 of the 59 indicators improving over the whole period, and just six deteriorating. The trend since the mid-2000s was less good, picking up the effects of the recession.

Table 2: Trends in Socio-Economic Indicators

	“Opportunity for All” Indicators	
	Trend from 1997/8 to 2010	Trend since last measured (2005-7)
Improving	48	25
Steady	4	9
Mixed	1	4
Deteriorating	6	12
Not available		9
TOTAL	59	59

In health, there were improvements on some indicators: overall life expectancy continued its long term tendency to increase, infant mortality fell and gaps closed, and there were big reductions in mortality from circulatory disease and cancer. Satisfaction with the NHS improved dramatically, from 40 per cent saying they were satisfied in 1997 to 70 per cent in 2010.

For young children, employment rates among lone parents improved. Fewer women drank or smoked during pregnancy and more mothers breastfed for longer, particularly among lower socio-economic groups. Low birthweight and infant mortality fell, and results in the Foundation Stage Profile improved after 2008, and socio-economic narrowed on all these indicators.

For older children and young people, results in national tests at 11 and 16 showed substantial improvements and hardly anyone was leaving school with no qualifications by 2010. Socio-economic gaps closed on all indicators – gradually at age 11 and more dramatically at age 16. Greater proportions stayed on at school after 16 and went to higher education, and socio-economic gaps in HE access closed slightly despite concerns to the contrary.

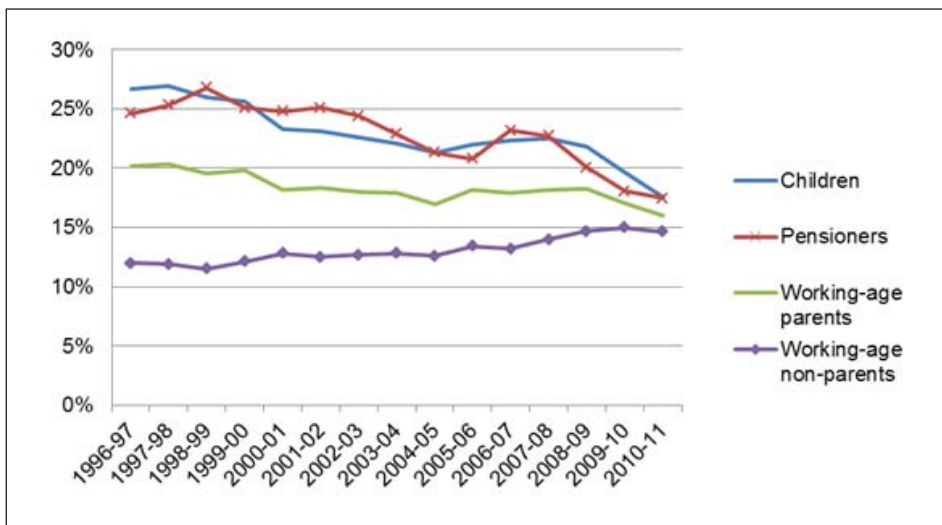
The evidence tends to show that outcomes improved more under Labour than they had been doing, although the exact influence of policy compared with economic, technological and social change cannot be accurately weighed. In some cases, such results at the Foundation Stage and GCSE, there were step-changes in the late 2000s which may indicate policy effects. Evaluation results in many areas also tend to show that where money was spent, it had an effect.

Some things did not get better. For example, in health, there were increases in the life expectancy gap between the areas with the worst health and deprivation and the England average. Obesity continued to increase. At GCSE, the socio-economic gap closed only very slightly at the level of five GCSEs including English and maths. The gap in educational outcomes between looked after children and their peers widened on some measures.

Poverty went down for the groups Labour targeted: children and pensioners

Overall levels of poverty measured as the proportion of households with incomes less than 60 per cent of the national median, went down, even before the financial crash¹. Children and pensioners were the main beneficiaries. Child poverty fell from 27 per cent in 1996-7 to 17.5 per cent in 2010/11 (before housing costs) and pensioner poverty by a quarter, from 24.6 to 17.5 per cent. The effect of this was that the risks of poverty converged over the life cycle (Figure 2). In terms of overall incomes, there was a modest redistribution to households at the lower end of the income scale.

Figure 2: Poverty Rates of Different Groups 1996/7 to 2010/11



Source: Hills (2013). 2010/11 is used as the end point for this indicator since the benefit rates set by Labour in its last year in office would have been the main driver of changes in the following year

But on key things the government did not target, there was no improvement

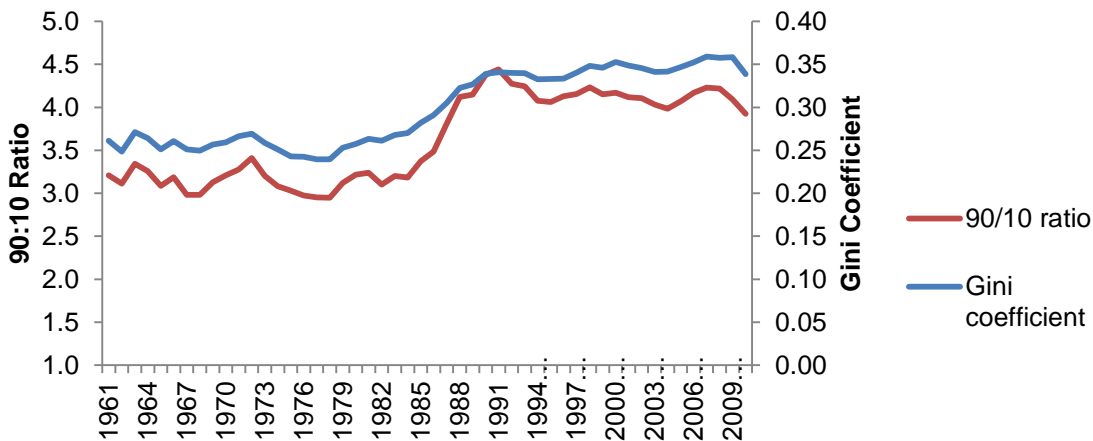
Relative poverty rose for working age adults without children, from 12.0 to 14.6 per cent. Labour's reliance on promoting work and making work pay was not enough to succeed in bringing poverty down for this group.

Data from the Families and Children Survey (FACS) suggests that material deprivation may have reached a low point around 2005, but then risen a little (until 2008 when the survey finished).

There was no real change in income inequality overall. Inequality had increased at all points in the income distribution in the 1980s, and across the Conservative period from 1979 to 1996-97 taken as a whole. The picture under Labour was more mixed. Comparing incomes near the top with those near the bottom (the 90:10 ratio) income inequality was roughly constant between 1996-97 and 2010-11, but with a fall in the final two years taking it below the inherited level. By contrast, the 'Gini coefficient' measure, affected by incomes right at the top and bottom, was higher in 2009-10 than in 1996-97, although a sharp fall in 2010-11 took it back to its starting point. The fairest summary is probably that income inequality was broadly constant over the period as a whole (Figure 3).

¹ The effect of the financial crisis and recession was to reduce relative poverty, as median incomes fell and the incomes of the poorest continued to be supported by benefits.

Figure 3: Trends in Income Inequality (before housing costs, GB), 1961 to 2010/11



Source: Institute for Fiscal Studies: Inequality and Poverty spreadsheet, 2012

The UK still has large socio-economic inequalities

Although gaps between socio-economic groups were reduced on most indicators, they remained large – perhaps not surprising given that overall income inequality did not shift.

In education, for example, the gap in attainment of five higher grade GCSEs between pupils on Free School Meals and others was still 20.3 percentage points in 2010. Analysis by academic John Jerrim comparing social inequality in England compared with other countries confirms that by 2009 England did not have particularly high inequality among low attainers, and there had been improvement over time. However, it had high socio-economic inequality among high attainers and this had not improved. Deep health inequalities also persisted.

On overall relative income poverty, there was no change in the UK's relatively high international ranking, although on child poverty the UK's ranking improved from bottom of 15 EU countries in 1997 to seventh of fourteen in 2011 (with no data available for Ireland), which would seem to suggest a direct impact of targeted spending. It remained behind only the US and Portugal of the OECD countries in the rankings of income inequality.

Labour market structures continued to be important in determining both poverty and inequality. Half of poor children are now in 'working poor' households, with wages or hours being insufficient to raise them over the poverty line. Wage inequality increased under Labour, and regional disparities in economic performance persisted.

Conclusion

Labour set ambitious social justice goals which changed political discourse in the UK. All major parties are now explicitly concerned with the reduction of social inequalities, although this may be framed differently, in terms of fairness and social mobility. This was not the case in 1997.

Contrary to popular belief, Labour's policies were not dominated by increased cash benefits but by reinvestment in and 'modernisation' of public services. In health, education, the early years and neighbourhood renewal, there were extra staff, more and newer and better equipped buildings, wider access, and new policy programmes and services. Socio-economic gaps in access to services decreased, although were not eliminated, and the public became more satisfied with services.

Labour's agenda was expensive. Its spending increases were high by international comparison, but from a low base. Also taxes did not rise as much as spending, causing a rise in the budget deficit and public sector net debt. Both, however, were lower in 2007/8 than when Labour took office. There is no evidence that increases in social policy spending caused a crisis in the public finances preceding the global financial crisis and recession.

Economic and social outcomes got better, and differences between social groups narrowed. Outcomes improved most for the people who were explicitly targeted by policy – families with children and pensioners. However, Labour's reliance on the labour market to improve the situation for working age people with no children did not pay off – some outcomes for this group got worse. Overall income inequality did not really change. When Labour left power, much of its ambitious vision remained unrealised.

The Coalition had, on the one hand, a better inheritance than Labour – with more equal outcomes on many measures, less poverty and expanded public services. On the other it faced a much tougher economic and fiscal climate. In 2015 we will produce a similar report on the Coalition's aims, policies, spending and outcomes over the period 2010 to 2014.

Further information

The full version of this paper is available at <http://sticerd.lse.ac.uk/dps/case/spcc/RR01.pdf>.

Papers from the first phase are available as follows:

Research Reports

RR01 Labour's Social Policy Record: Policy, Spending and Outcomes 1997-2010. Ruth Lupton, with John Hills, Kitty Stewart and Polly Vizard <http://sticerd.lse.ac.uk/dps/case/spcc/RR01.pdf>

RR02 Winners and Losers in the Crisis: The Changing Anatomy of Economic Inequality in the UK 2007-2010
John Hills, Jack Cunliffe, Ludovica Gambaro and Polina Obolenskaya <http://sticerd.lse.ac.uk/dps/case/spcc/RR02.pdf>

RR03 Prosperity, Poverty and Inequality in London 2000/01-2010/11, Ruth Lupton, Polly Vizard, Amanda Fitzgerald, Alex Fenton, Ludovica Gambaro and Jack Cunliffe <http://sticerd.lse.ac.uk/dps/case/spcc/RR03.pdf>

Working Papers

WP02: Labour's Record on Health, Polly Vizard and Polina Obolenskaya
<http://sticerd.lse.ac.uk/dps/case/spcc/WP02.pdf>.

WP03: Labour's Record on Education, Ruth Lupton <http://sticerd.lse.ac.uk/dps/case/spcc/WP03.pdf>.

WP04: Labour's Record on the Under 5s, Kitty Stewart <http://sticerd.lse.ac.uk/dps/case/spcc/WP04.pdf>.

WP05: Labour's Record on Cash Transfers, Poverty, Inequality and the Lifecycle 1997 - 2010, John Hills
<http://sticerd.lse.ac.uk/dps/case/spcc/WP05.pdf>.

WP06: Labour's Record on Neighbourhood Renewal in England, Ruth Lupton
<http://sticerd.lse.ac.uk/dps/case/spcc/WP06.pdf>.

Further working papers and supporting research notes can be found at
http://sticerd.lse.ac.uk/case/_new/research/Social_Policy_in_a_Cold_Climate.asp

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