



94 White Lion Street, London N1 9PF

telephone: 020 7837 7979

fax: 020 7837 6414

email: staff@cpag.org.uk

website: www.cpag.org.uk

Rt Hon Alistair Darling MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London
SW1A 2HQ

04 November 2008

Re: Pre-Budget Report

Dear Chancellor

This note sets out some of the key challenges for the 2010 and 2020 targets on child poverty recommending a reassessed and reinvigorated approach within the context of both recent policy and the economic situation.

Social policy needs to support parents to stay in paid work and support them in their own decisions about moving towards employment, but it also needs to acknowledge that many parents cannot work and that it is appropriate for the welfare state to support those who have parental or caring responsibilities without reference to the jobs market. Now is not the time to retrench on child poverty and the economic situation should not be seen as a constraint to anti-poverty policy; meeting the needs of families now and stimulating the economy by doing so is a vital part of the solution.

We urge you to make clear in your actions that the financial crisis faced by those at the bottom is central to the Government's package of investment for economic security. The poorest families must know that keeping them afloat is just as important as protecting banks and businesses and that their security is understood to be vital to the UK's future economic security. This must be demonstrated in the Government's rhetoric on the current economic challenges and in the Government's actions.

1). Economic situation

We commend the Government for the speed of its response to the economic situation to protect jobs. In doing so, Government has re-established the key responsibility of the state to help achieve and to guarantee stability and fairness. The UK faces both a current economic crisis and deeply entrenched inequality: the importance of intervention to protect the banking system has been to reduce the impact on jobs in the real economy; and the next step must mitigate the impact on families of the twofold impact of rising prices and labour market insecurity.

First the picture of **rising prices**, particularly around food and fuel costs, is pretty clear. Looking at changes within the RPI inflation rate, whereas the overall index went up by 5%, fuel and lighting rocketed by 39.6%, food by 11.2% and travel and transport by 10.1%.¹ Poorer families with no slack in their budgets inevitably have to prioritise spending on these necessities so are harder hit by price rises. The first victims of high inflation are poorer families, compromising recent gains in lower child poverty and material hardship.

Secondly, **labour market insecurity**. The last ten years have seen steady growth which created a strong labour market, and this lies at the heart of the Government's strategy on child poverty. Moves into work, supported by the new deals, tax credits and childcare policy, have reduced the numbers of children living in households without work and have reduced poverty (especially in lone parent families). But in-work poverty remains high, particularly among the most disadvantaged groups. National and global uncertainty shows how the rules have now changed. Although the UK has a high employment rate (74.4%), compared to other developed economies, economic uncertainty is generating significant changes in the labour market:²

- Falling employment - down 122,000 people in the quarter to August 2008;
- Rising unemployment - up 164,000 over the last quarter (to 1.79 million), and a claimant count close to 1 million (939,900 people in September 2008, up 31,800 in a single month);
- Falling vacancies - there are now 608,000, one vacancy for every three unemployed people.

Of course the Government should do everything possible to protect jobs in the real economy at a difficult time. We support the Government's determination to continue to invest in public services in tough times. CPAG appreciates the costly package of support for the financial sector was not driven by a desire to protect an affluent cadre of risk takers but to protect society from the impact of their excess and it is now important to ensure that the poorest people are fully protected.

2). Reassessing the 'welfare reform' agenda

The Department for Work and Pensions (DWP) has announced wide-ranging plans to change the benefits system, to increase levels of benefit conditionality and to increase the flexibility of employment services. CPAG supports policy which empowers parents to access employment by reducing barriers and increasing services and support. However we oppose the imposition of significantly increased conditions suggested by DWP in *No one written off*. CPAG has articulated clear objections to this policy in response to the green paper³ and on earlier proposals; we are very concerned that the recent green paper takes the use of conditionality much further. We are not the only commentators to be concerned, the expert Social Security Advisory Committee describes the current proposals as *a major departure from the principles of Beveridge that have*

¹ Figures are for the year to September. See *Consumer price indices September 2008*, National Statistics, October 2008

² *Labour Market Statistics October 2008*, National Statistics, October 2008

³ See our response to the recent Department for Work and Pensions green paper, *No-one written off* available at www.cpag.org.uk

*underpinned UK social protection for almost 60 years.*⁴ Even if Government continues to believe the direction of travel is correct, the recent economic crisis necessitates a rethink:

- Continued and rising **labour demand** is a core assumption of 'welfare reform' policy. Proposals outlined in the green paper assume a rising tide of labour demand which, linked with the imposition of stronger conditions, will lift more boats. That logic hardly stacks up in any circumstances- a vessel that is not sea worthy still sinks in a rising tide - but the current economic storms demolish it. Falling labour demand, rising competition for jobs and the likelihood that Jobcentre Plus and other employment services will focus attention on the easiest to place are all likely to leave more vulnerable groups (such as lone parents and disabled adults) even further from the labour market.
- Greater **contestability** in employment services introduces the risk of providers going bust and a lack of liquidity may prevent the quick roll out of capacity. The timetable for the current programme of reform does not reflect the one outlined by David Freud⁵ who suggested, in proposals that assumed economic stability and rising employment, that his suggestions be rolled out over a six to eight year period. We urge the DWP need to re-evaluate this programme, and slow down changes that may have a major impact on the poorest groups particularly at a time of economic recession. The Treasury risks being left to carry the costs of private sector failure, and accountability in the current model is far from clear.
- CPAG has great concerns about **sanctions policy**: reducing poor families' incomes through benefit sanctions worsens poverty and imposes additional time consuming bureaucracy for Jobcentre Plus. It makes little sense to expect valuable personal advisers to spend time chasing claimants and applying sanctions when this would be better spent helping people into work. Jobcentre Plus is under serious and increasing pressure: although Government has provided some new resources to Jobcentre Plus (2,000 more staff to help with a sharply rising claimant count), it has not halted the 'efficiency' staff cuts programme. Applying more sanctions now will be unjust, ineffective and a waste of hard pressed bureaucratic resources.
- Plans to get more parents into work are predicated on decent, affordable **childcare** being available and though there have been improvements in support for families moving into work, the necessary level of provision is simply not yet in place. As the Social Security Advisory Committee has said *for parents of younger children, this regime is untried and its chances of success rest heavily on support services that have yet to be delivered in the quantity and variety that will be needed.*⁶

CPAG recognises that DWP is already in the process of implementing some of the changes it has planned (for instance the Employment and Support Allowance and moving the first tranche of lone parents from entitlement to Income Support to Jobseekers Allowance). Given that both were intended to stimulate moves into employment, the timing could not be worse. We urge Government to take a pragmatic and lenient view on the imposition of benefit sanctions at this stage, and to clearly and publicly evaluate the impacts of conditionality policies on employment chances, destinations and on poverty before going further.

Weakened labour market demand, coupled with a desire to invest in society and stimulate growth, suggests that more should be done at this stage to develop the work first approach for different circumstances. An economic downturn is an opportunity to invest in human capital through education and training. Britain has a poor skills profile, leaving us with both a less productive

⁴ Social Security Advisory Committee, No one written off: reforming welfare to reward responsibility – the response of the Social Security Advisory Committee, October 2008, www.ssac.org.uk, paragraph 10.4

⁵ D Freud, 'Reducing dependency, increasing opportunity: options for the future of welfare to work, an independent report to the Department for Work and Pensions, Department for Work and Pensions, 2007

⁶ *The Social Security (Lone Parents and Miscellaneous Amendments) Regulations 2008, Report by the Social Security Advisory Committee* (October 2008), TSO, Cm 7480 para 6.5

economy and leaving many people particularly weak within the UK labour market. Once the storm clouds begin to lift, the best way to secure an economic take off which simultaneously can extend opportunities to those at a distance to the labour market is to step up investment in skills now.

3). The targets to halve and eradicate child poverty

On the Government's key measure (living in a household with an income less than 60% of contemporary median before housing costs⁷ are accounted for) child poverty has fallen from a baseline of 3.4 million in 1998/99 to 2.9 million in 2006/07. The target for 2010/11 is 1.7 million. Recent increases in income poverty (from 2004/05 to 2006/07) have been deeply disappointing. Although we accept that spending in and after April 2008 will improve the position (perhaps by 500,000 children lifted out of income poverty), the gap remains large. The size of the gap before the target is reached should not cause Government to back off: investment in families yields results quickly in reducing hardship and poverty. Redoubling efforts to get much closer to this target is not only vital for ending child poverty, but is the quickest and surest way to achieve your stated priority to *put money back into the economy*.⁸

The Government has expressed a desire to stimulate the economy, generate jobs and to place money in the pockets of families. The best and most cost effective way to provide this fiscal stimulus is to redistribute towards poorer families now.⁹ Bringing forward spending on capital projects is important but will not bear fruit for some time. Increasing family incomes through the benefits or tax credits system could generate an immediate boost to the economy benefiting families, businesses and communities across the UK.

4). Paying for it

Though taxes are not adequately progressive and the poorest families pay a higher proportion of their incomes in tax than richer families,¹⁰ most of the tax cut proposals on the table would worsen, not improve this position. We urge the Government to resist an across the board tax cut on three key grounds: tax cuts are typically regressive (worth more to wealthier groups who pay more tax); they are less cost effective than benefit and tax credit spending (poorer families spend a higher proportion of their incomes, so targeted increases in their incomes is a powerful tool to increase spending - this would not be true of a general tax cut); and thirdly, tax cuts are hard to overturn in the future and restrict the pool of future resources.

CPAG understands the Government's difficulty in finding resources in straitened times, but British society is a rich one and existing tax privileges are often regressive. The TUC have highlighted tax loopholes being exploited for tax avoidance to the tune of £25 billion every year.¹¹ In addition to redressing those anomalies, there are a series of revenue raising measures Government could choose to take to provide the necessary additional resources needed for tackling child poverty.

- Halt plans around **inheritance tax**. In the autumn 2007 pre budget statement Government proposed changes to inheritance tax to reduce the extent to which IHT was charged on estates

⁷ CPAG believes after housing cost data gives a better indication of disposable incomes, and hence living standards.

⁸ Chancellor of the Exchequer, Mais lecture, 29 October 2008

⁹ See for example D Elmendorf and J Furman, *If, When, How: A Primer on Fiscal Stimulus*, The Brookings Institution, 2008. Elmendorf and Furman compare different ways of getting money into the economy, comparing tax cuts and spending on infrastructure and benefits. Putting cash into peoples pockets through benefits spending comes out most cost effective at stimulating the economy (and acts fast), infrastructure spending is next with tax cuts being (by far) the least cost effective method.

¹⁰ See F Jones, 'The effects of taxes and benefits on household incomes, 2006/07', *Economic & Labour market review*, National Statistics, 2008

¹¹ See R Murphy, 'The missing billions', Trade Union Congress, 2008

passing between couples, thereby increasing the threshold for couples to pass on their wealth on the death of the second partner to a tax free sum of £600,000. The same document also proposed increasing the threshold to £350,000 per individual. This reform disproportionately benefits richer households,¹² the change is costing £1 billion rising to 1.4 billion by 2010/11¹³ – if the UK needs to raise resources, this is one area where savings could be made.

- Limit **pension tax relief** to basic rate relief. Currently private pension savings are tax free, and though this policy clearly makes sense to help people build up private pensions, the gain for higher tax payers is disproportionate. Pension relief costs around £17.5 billion per year in forgone tax,¹⁴ 55% of this benefit goes to upper rate tax payers (and a further 5% would have incurred upper rate tax without the relief),¹⁵ suggesting somewhere around £10.5 billion per year spending goes to those on or close to upper rate tax. This is tax welfare for the rich. If spending savings need to be made to invest elsewhere, a more equitable distribution would be to provide tax relief at the basic level.
- Introduce a **50% tax rate for earnings over £100,000**. Putting a further step in Income Tax could raise about £7.9 billion pounds per year.¹⁶ The average tax payer has pre-tax income of about £24,800, so a small increase for the 1% or so earning four times as much¹⁷ would be a fair way of ensuring any increased burden falls on those with the broadest shoulders –those who have done best out of the economic boom.
- Recent profits reported by fuel companies have in part been fed by the high fuel payments currently placing families in hardship. We are seeing a major increase in both public concern about meeting fuel bills and media interest in the plight of the growing ranks of fuel poor. Most recently BP recorded three month profits of £6.4 billion. As a touchstone fairness issue, fuel poverty is ready to ignite. A **one-off targeted windfall tax** would recognise that energy companies have gained massively by high prices. Amounts which might be generated by such a tax depend on the model but one recent proposal suggests £6 billion¹⁸ revenue. A windfall tax may not be a long term solution but would recognise the exceptional nature of the times and, if invested in family incomes, would recognise the hardship being caused to families now by rocketing fuel prices.

5). Five steps for the pre-budget statement

In conclusion, Child Poverty Action Group would support you in taking the following urgent steps to develop recent policy and provide a true economic and social rescue package:

1. Government should do all it can to protect employees from unemployment, but it will need to further **build capacity in Jobcentre Plus** to help it manage a rapidly growing caseload. We suggest you postpone the efficiency savings programme during the downturn. At the same time as stopping planned cuts, we urge you to ensure that Jobcentre Plus and contracted employment services do not react to rising caseloads by simply parking those with higher barriers to employment. If parents wish to access support, Jobcentre Plus should provide it to them.

¹² Inheritance tax affects only a minority of typically very affluent families. Calcified social mobility means that well off parents tend to have well off children; not to tax large inheritances not only worsens social mobility (by exacerbating wealth inequality) but it provides a large chunk of unearned and untaxed income to a small group of typically more affluent households.

¹³ Autumn 2007 *Pre-budget statement*, table b4

¹⁴ See table A3.1 from the 2008 budget report

¹⁵ See *Hansard* record 24 October 2005, Column 51-52W

¹⁶ See *Hansard record*, 16 May 2008, Column 1848W

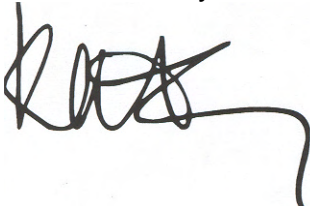
¹⁷ M Brewer, L Sibieta, L Wren-Lewis, *Racing Away? Income inequality and the evolution of high incomes*, Institute for Fiscal Studies, 2008. This IFS report suggests perhaps 1% of tax payers report incomes of higher than £100,000.

¹⁸ From the Compass think tank, see <http://www.compassonline.org.uk/news/item.asp?n=3309>

2. **Invest more heavily in skills training** for those who remain distant from the labour market. The risk of an economic downturn is that the training and support needs of those who face the greatest barriers to employment will be displaced by the needs of more recent claimants who may be closer to the labour market. If vulnerable groups are merely parked during the economic down turn, they will face the same or higher barriers to the labour market when the economic situation improves. A better approach now would be to step up the education and training opportunities available and to ensure the tax and benefit system better support these.
3. **Revise welfare reform plans.** Welfare Reform plans are predicated on a stable economy and rising employment. A rethink is urgently needed about which elements of the plans should be postponed or scrapped. Increasing benefit conditions at a time of rising unemployment will reduce incomes in families and may worsen hardship whilst not increasing job entries and will impose additional bureaucratic burdens on an increasingly pressured Jobcentre Plus. CPAG does not believe the Government should go further in applying greater conditions until it can demonstrate adequate rights to support are in place (including affordable childcare and specialist health care support). Plans to abolish Income Support and move carers to Jobseekers Allowance are inappropriate and should not proceed. Society has accepted that carers and parents are already in work, albeit unpaid, and it is inappropriate and demeaning to imply they should be seeking employment.
4. Expectations on employers within the 'welfare reform' agenda have been weak, yet some groups clearly continue to face entrenched discrimination, lower pay, poorer work conditions and higher barriers to work. Government has pursued an employment focused agenda based around increasing responsibilities on claimants to work. Government needs to **work with and demand much more of employers** to ensure that responsibilities to work are matched by a right to a job.
5. **Get back on track for the 2010 target to halve child poverty.** Urgent action is needed to sustain credibility in child poverty policy and to help reach the 2010 target as the foundation to reach further towards 2020. CPAG and other campaigners recognise that progress was made in budget 2008 which narrowed the gap. Redistributing towards families, either through the cost-effective child tax credit or the widely popular child benefit is a powerful tool to move towards 2010 whilst stimulating the economy by putting money directly into family pockets.

The urgency of making greater progress in tackling poverty brought more than 130 organisations and 10,000 people out in Trafalgar Square on 4th October under the banner of the campaign to end child poverty urging you to 'keep the promise' to halve child poverty by 2010. The timescale is tight, but the task is achievable. Compared to the costs of keeping the banks afloat it is by far the most affordable part of the nation's economic rescue package and we urge you to take the concrete steps needed in the Pre-Budget Report.

Yours sincerely



Kate Green OBE
Chief Executive