

Social Policy in Cold Climate

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THE LONDON SCHOOL  
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POLITICAL SCIENCE

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

A background image of several fanned-out five-pound banknotes, with the text overlaid on them.

HEALTH  
POVERTY  
WELFARE  
EARLY YEARS  
NEIGHBOURHOOD RENEWAL  
EDUCATION

Ruth Lupton, with John Hills, Kitty Stewart and Polly Vizard



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

**Ruth Lupton**  
**with John Hills, Kitty Stewart and Polly Vizard**

## Preface

This is the summary report of a series of working papers which form the first stage of a programme of research, *Social Policy in a Cold Climate*, designed to examine the effects of the major economic and political changes in the UK since 2007, particularly their impact on the distribution of wealth, poverty, income inequality and spatial difference. The full programme of analysis will include policies and spending decisions from the last period of the Labour government (2007-2010), including the beginning of the financial crisis, as well as those made by the Coalition government since May 2010. The programme is funded by the Joseph Rowntree Foundation and the Nuffield Foundation, with London-specific analysis funded by the Trust for London. The views expressed are those of the authors and not necessarily those of the funders.

The research is taking place from October 2011 to May 2015. More detail and other papers in the series will be found at: [http://sticerd.lse.ac.uk/case/new/research/Social\\_Policy\\_in\\_a\\_Cold\\_Climate.asp](http://sticerd.lse.ac.uk/case/new/research/Social_Policy_in_a_Cold_Climate.asp)

In our first set of papers, including this, we look back at the policies of the Labour government from 1997 to 2010, charting their approach and assessing their impact on the distribution of outcomes and on poverty and inequality particularly. This provides a baseline for analysing and understanding the changes that are now taking place under the Coalition government. All these papers approach this by following a chain from ultimate policy aims, through specific policy objectives, to public spending and other policies, to outcomes. This provides a device for the systematic analysis and comparison of activity and impact in different social policy areas. A short supplementary paper defining the terms used in the framework and exploring its uses and limitations is available at <http://sticerd.lse.ac.uk/dps/case/spcc/RN001.pdf>

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## Summary

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.

## Chapter 1: Introduction

### Social Policy in A Cold Climate

There is no doubt that as we write in 2013 social policy is operating in a 'cold climate'. The repercussions of the global financial crisis and recession have left the UK with a current budget deficit and public sector net debt higher than at any time since 1975<sup>1</sup>, as well as low forecast economic growth. At the same time, pressures on the public purse seem set to increase, as the numbers of very elderly people continues its long term upward trend, and a new baby boom creates additional demand for early years education and care and for primary school places in the short term.<sup>2</sup> Yet two thirds of the population polled in the British Election Study in 2009/10 favoured either the status quo in terms of tax and spend (56 per cent), or cutting taxes and spending less (10 per cent).<sup>3</sup>

In this context, the current government is committed to a reduction in the size of the deficit and also to a reduction in the size of the state, ending the days of big government and redistributing power away from Westminster and Whitehall, breaking up state monopolies where they exist and encouraging responsibility and fairness in the welfare system (Cabinet Office 2010). Its agenda for government comprises not only reduced public spending but a restructuring of the welfare state incorporating a reduction in the size and functions of government at all levels, less central social policy direction, a shift to private and/or voluntary provision of public goods, and less generous welfare benefits, including greater conditionality.

It is currently far too early to tell what impact these changes will have: in particular whether the Coalition can deliver on its promise of a fairer society with greater opportunities for social mobility, at the same time as spending less. While some spending cuts and policy reforms have already been implemented, others are only just coming on stream, notably the major overhaul of the benefits system with the introduction of Universal Credit in 2013. Others are scheduled for the next parliament. Below-inflation benefit increases and continuing reductions in local authority spending will likely produce longer term effects.

In our final report, in early 2015 we will be making an assessment of these impacts based on the evidence to date. However any such assessment needs a baseline. Where was the Coalition starting from? What did it inherit from Labour both in terms of the state of the country and the capacity of the welfare state? Were social and economic outcomes improving and were inequalities widening or narrowing? What did the previous set of policies - a larger and centralised welfare state - achieve?

<sup>1</sup> Institute for Fiscal Studies  
Debt and Borrowing  
Spreadsheet  
<http://www.ifs.org.uk/fiscalFacts/fiscalAggregates>.

<sup>2</sup>Office for National  
Statistics 2010-based  
subnational population  
projections.

<sup>3</sup>Author's analysis using  
British Election Study, face  
to face post-election  
questionnaire.



This report aims to provide that baseline. It sets out an objective record of Labour's activity and impact between 1997 and 2010, based on five detailed studies looking at different aspects of social policy and social and economic outcomes: *Labours Record on Cash Transfers, Poverty, Inequality and the Life Cycle* (Hills 2013) on *Health* (Vizard and Obolenskaya 2013), on the *Under-Fives* (Stewart 2013), on *Education* (Lupton and Obolenskaya 2013) and on *Neighbourhood Renewal* (Lupton, Fenton, and Fitzgerald 2013).

We ask:

- What did the Labour governments of Tony Blair and Gordon Brown aim to do?
- What did they spend to achieve these objectives?
- What did the money produce?
- How did economic and social outcomes change overall and in particular how did the distribution of social outcomes change, widening or narrowing gaps between and within social groups?

We hope that this report and accompanying papers will provide a solid basis for policy formation and debate. For a broad public audience, they provide an accurate record of what was actually intended, done and spent in the Labour years: a substantive and detailed account to aid interpretation of the claims and counter-claims made by politicians and commentators on all sides. For researchers, including ourselves as we move on to the next phase of this programme, they provide a comprehensive set of time-series data upon which to subsequently assess the record of the Coalition.

### **Some Important Preliminaries: What the Report Does and Does Not Do**

When we last looked at Labour's social policy achievements, up to 2007 (Hills, Sefton and Stewart 2009) the world was very different, enjoying a sustained period of economic growth in which most countries were increasing their social spending both in real terms and as a proportion of national income. Since then, the collapse of banks worldwide has plunged most leading industrial nations into what is commonly now known as "the Great Recession" (Jenkins et al. 2012) and caused their governments to undertake drastic measures first to stabilise the banking system and then to cut back spending in order to pay down historically high levels of debt in a context of low or no predicted growth.

In the UK, this situation has caused more than usually heated debate about the social policy record of the previous government. Commentators now ask not only whether Labour pursued the right policies, implemented them efficiently and made a difference to socially desired outcomes – the

questions we might normally ask - but whether it caused the UK's currently high structural budget deficit and national debt by 'excessive' or 'irresponsible' spending, and indeed whether what was achieved in socio-economic terms was sufficient, now that we can see its cost in a wider and longer fiscal context. Some people will want to engage another set of arguments about whether Labour's promotion of credit-fuelled economic growth 'caused' the bank crisis in the UK, or at least did too little to insulate the UK from its effects, and what part increased social spending played in that growth strategy. Furthermore, given that the possibilities for public spending in the short and medium term appear heavily constrained, bigger debates are being opened up about whether public spending achieves anything anyway, or whether governments could achieve their social goals through better performance management, innovation, focusing more sharply on 'what works', privatisation or stimulating individual and/or community responsibility.

In this light, while recognising the importance of all these debates, it is important to be clear about the boundaries of this specific piece of work. What we attempt to do here is:

- Put down an accurate record of what was actually done over the entire thirteen year period: a reference guide to policies, spending and output, including historical and international comparisons where available.
- Evaluate Labour's policies and spending in terms of their impact on social and economic outcomes.

What we do not do is:

- Assess Labour's overall macro-economic policy or comment on its role in the evolution of the world financial crisis that unfolded in 2007/08.
- Engage in detailed analysis of Labour's management of the public finances – its general taxation and borrowing policies for example.
- Debate the direction of social policy now, given the different scenario the country faces.

In other words we concentrate on social policies, evaluating them in the context of the possibilities and constraints open to the government at the time. We will take the same approach to the Coalition's social policy record in 2015.

Other intentions, boundaries and limitations should also be transparent: First we take it as read that a more equal distribution both of opportunities and outcomes is an implicit goal of social policy, and therefore evaluate the government in these terms as well as in relation to its more specific objectives.

Second, when looking at the government's explicit objectives, we focus on declared objectives as indicated by manifestos, policy documents and speeches. Policies are contested within parties, and governments rarely take office with agreed programmes that remain unwavering and unchallenged throughout. However we need to summarise policy objectives relatively simplistically in order to have something to evaluate against. People wanting an account of the politics and policy-making of the Labour period should refer to other texts (e.g. Rawnsley 2001; 2010)

Third, we do not cover all areas of social policy<sup>4</sup>. We focus on those that absorb most public spending – social security (including pensions and policies to reduce child poverty), health and education, as well as a relatively new spending area that Labour made a priority – children under five – and a smaller spending one, neighbourhood renewal, which specifically addresses the question of spatial inequality and concentrated poverty.

Fourth, we focus primarily on England, because in most of the areas we look at, policy is devolved to the constituent nations of the UK. Resources do not permit full four-country comparative studies, so we focus on Labour in England, which covers 80 per cent of the UK population. Key policy differences between England, Scotland, Wales and Northern Ireland that emerged over the decade since devolution are highlighted.<sup>5</sup> Funding from the Trust for London enables us to report separately elsewhere (Lupton et al. 2013) on the position of London.

Fifth, this document is itself a summary. It draws from much more detailed papers on the specific policy papers, including illustrative examples but by no means providing complete coverage. Readers interested in further facts, figures and analysis are strongly recommended to refer to the more detailed papers themselves.

<sup>4</sup>Employment policy and higher education are covered to some extent here and will be treated more fully in the next round of the research, when housing will also be included.

<sup>5</sup>A specific paper comparing neighbourhood renewal policies in the four nations from 1997 to 2012 is also forthcoming. In the next phase of the research we hope to extend cross-country comparisons as the four countries of the UK are now all governed by different parties.

## Chapter 2: What Labour Inherited and Aimed to Do

### Labour's Inheritance

From the current standpoint, with concerns about faltering economic recovery and high levels of national debt dominating political debate, the scale of the social policy challenge that Labour took on in 1997 is easily forgotten. That situation was documented in detail by Stewart, Sefton and Hills (2009) and we draw on their account here, without repeating references to their original sources.

During the 1980s and early 1990s, industrial restructuring, global competition and technological and social change had placed low-income households and communities at particular risk. High long-term and youth unemployment, increasing earnings inequality and an increasing polarisation between households with two earners and those with none created the conditions for long term labour market disengagement, child poverty and social exclusion, and for acute social problems in the industrial neighbourhoods of Scotland, Wales, Northern Ireland and the North and Midlands of England as jobs and population declined. In the face of this restructuring, benefits had been made less generous with the aim of reducing welfare dependency, while taxes on top incomes were cut in order to reward high earners and there was an increasing reliance on indirect taxes, which by their nature hit the poorest hardest. Spending restraint led to low public investment in the physical stock (social housing, schools, hospitals, health centres and community buildings), and in the public workforce. In relative terms, public sector pay was allowed to fall significantly, with nurses, teachers and manual workers hardest hit, contributing to low morale, staff shortages and high rates of staff turnover. At the same time, a partial privatisation of delivery of state services had begun, with quasi-markets in health and education, and actual privatisation in many local government services, leading a reduction in the numbers of front line workers and arguably to a degree of fragmentation as multiple providers delivered services in the same local authority areas.

By 1997, public spending as a percentage of national income (Gross Domestic Product or GDP), at 39.5 per cent, was at a historic low, at levels not consistently seen since the mid 1960s (Chote et al. 2010a). It was also low by international standards. The UK stood as the 14<sup>th</sup> lowest spender out of the EU 15 countries<sup>6</sup> and 22<sup>nd</sup> of 28 OECD countries.<sup>7</sup> Rankings do not tell the whole story here as the disparities between countries were wide. The bottom of the EU 15 countries, Ireland, was fully 24 percentage points of GDP below the top, Sweden. The UK was 20.7 points below.

Cuts to public spending had contributed to balancing government current income and expenditure and reducing debt. Public sector net debt, which was falling anyway, almost halved during Mrs Thatcher's administration, to

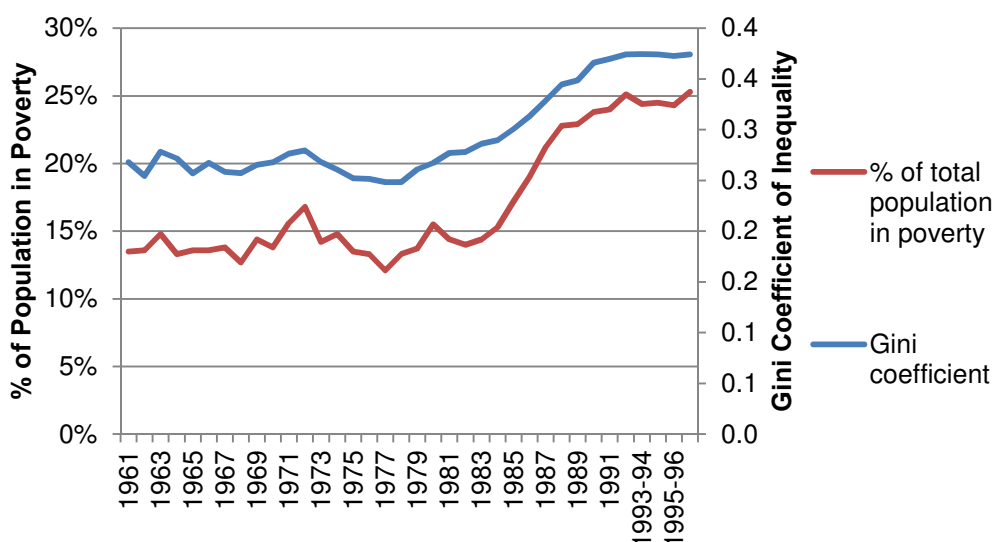
<sup>6</sup> Sweden, Denmark, Finland, France, Austria, Belgium, Italy, Germany, Netherlands, Greece, Portugal, Spain, Luxembourg, the UK and Ireland.

<sup>7</sup> The above plus Hungary, Slovakia, Norway, Poland, Canada, Czech Republic, New Zealand, Iceland, Australia, Japan, Switzerland, the US and South Korea.

26 per cent of GDP in 1990-91. The UK current structural budget deficit had fallen to one per cent of GDP by 1988-89. However, low investment and large-scale privatisations had also ended the rise in the value of public sector assets, while liabilities rose (Hills 2005).

At the same time, levels of both poverty and inequality had also risen to levels unprecedented in post-war history. Figure 1 shows the step change upwards in both that started in the mid-1970s and accelerated during the 1980s. Unlike every other post-war decade, in which the benefits of economic growth had been shared across economic groups, the gains of the 1980s disproportionately benefited the rich at the expense of the poor (Hills 2004). The scale of the change in the 1980s was such that even after some stabilisation during the 1990s, the proportion in poverty (expressed in relative terms as 60 per cent of the median income) remained almost twice as high in 1996/7 as it had been at the start of the 1960s. Inequality (measured by the conventional Gini coefficient) was also at record levels. By international standards, the UK performed very badly on both measures. Its increase in inequality during the 1990s was the highest of ten comparable industrialised nations with available data<sup>8</sup>, and left it more unequal than any of these countries except (by a small margin) the US. A comparison of child poverty in 15 Organisation for Economic Co-operation and Development (OECD) countries placed the UK third from bottom, with only the US and Italy having a higher percentage of children living in relatively poor households in the mid-1990s (UNICEF 2000).

**Figure 1: Trends in Poverty and Inequality 1961-1996/7**



Source: IFS Poverty and Inequality Spreadsheet, Calculations based on Family Expenditure Survey up to and including 1992 and Family Resources Survey thereafter. Poverty figures are calculated after housing costs, with poverty defined as household income less than 60 per cent of contemporary national median. Gini Coefficient relates to GB throughout. Poverty figures are for GB up to and including 2001/02 and for UK thereafter.

<sup>8</sup>Sweden, Norway, Germany, the Netherlands, Australia, Canada, France, the US, Switzerland and Spain (see Hills et al 2009). Subsequent OECD data, including twenty-four countries from the mid 1980s to mid 1990s, confirms this picture of high inequality growth – the UK was sixth out of twenty-four (cited in Hills et al 2010)

Socio-economic inequalities in other outcomes remained persistent, in those areas that we can measure – life expectancy, infant mortality, and smoking. The phenomenon of ‘social exclusion’ – the co-occurrence of multiple problems such as low educational attainment, poor employment prospects, poor mental and physical health, poor housing and neighbourhood environments and increased risk of crime (both participation and victimisation) – was increasingly recognised in the late 1990s. Spatial inequalities appeared to be widening, both on a regional level as London and the South East gained from economic restructuring and industrial regions suffered, and at a local level as problems spiralled in low income communities.

By the time Labour was elected, a majority of the British electorate was in favour of increasing public spending and of more redistribution towards poorer members of society. In 1997, 65 per cent of respondents in the British Election Study were in favour of either increasing taxes and spending more (31 per cent) or increasing taxes and spending a lot more (34 per cent). In the British Social Attitudes Survey in 1996, fully 90 per cent wanted more spending on health, 82 per cent on education, 76 per cent on old age pensions, and even one-third on unemployment benefits (Sefton 2009). This despite the fact that the recession of the early nineties had reversed the UK's healthy financial position, leaving debt at 42.1 per cent of GDP and a structural deficit of 2.2 per cent of GDP (worse than at any time since 1975) by the time Labour took office. In fact, the new government characterised its financial inheritance as “a large structural deficit, low net investment, rising public debt and falling public sector net worth” (HM Treasury 1999, p7.)

What the incoming government did have in its favour, however, as well as strong public support for increased social spending and a huge electoral majority, was a strong underlying economic situation with relatively fast growth, relatively low inflation and falling unemployment, as well as a firm set of tax and spending plans put in place by the Conservatives to restore the balance of the economy (Chote et al. 2010b). It inherited historically and internationally low public spending and unprecedented poverty and inequality, but a favourable set of conditions to do something about it.

## Labours Aims and Goals

Labour articulated two sets of social policy goals in response to this situation. One related to outcomes – what the state’s social spending should be aiming to achieve; the other related to delivery – how the public sector should be run.

In relation to outcomes, the government set out both to raise population-wide outcomes and to close socio-economic gaps. Table 1 shows these high-level statements, as they were made in the 1997 Labour election manifesto and/or in the early Public Service Agreements (PSAs) that were introduced in the 1998 Spending Review, and/or in other key announcements in Labour’s first term.

**Table 1: Labour’s Outcome Goals**

<b>Policy Area</b>	<b>Aims</b>
<b>Poverty and Inequality</b>	To end child poverty forever (over a 20-year period). To reduce it by a by a quarter by 2004, and by half by 2010. To end pensioner poverty.
<b>The Under Fives</b>	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”; “to make sure that all children are given the best chance in life.”
<b>Health</b>	To improve overall population health outcomes. To reduce health inequalities
<b>Education</b>	To raise achievements overall and to reduce inequalities “To give everyone the chance to realise their full potential and build an inclusive and fair society and a competitive economy”
<b>Deprived Neighbourhoods and Spatial Inequalities</b>	That no-one should be seriously disadvantaged by where they live (within 10-20 years)

Source: 1997 Labour Manifesto and key speeches and policy documents 1997-2001

The most striking thing that emerges from this table is the scale of Labour’s social justice ambitions. Although many people would have liked the government to go even further, some of these were extremely challenging goals – for example to reduce child poverty by a half, and so thoroughly address neighbourhood inequalities than within a decade or two years no-one should be seriously disadvantaged by where they lived. Early policy

formation was marked by the creation of whole new areas of coordinated central government activity in the emphasis put on the under fives, social exclusion and the poorest neighbourhoods (Hills, Sefton, and Stewart 2009; Eisenstadt 2011). The intention was to do things that were radically different and to achieve a step-change in levels of socio-economic inequalities, not merely to make incremental progress.

That this was to be achieved at the same time as making substantial general social and economic progress and gaining ground on other countries made it all the more challenging. In one respect, these objectives can work in tandem. Direct interventions to benefit the most disadvantaged in society can drive an improvement in a country's overall performance, and may reduce also inequalities between people at the bottom and the middle of the distribution. However, inequalities may also increase during times of economic growth and expansion of universal services. This partly because some outcomes (most notably poverty) are measured in relative terms. Rising median incomes in a period of growth mean that measures aimed at the poorest households have to work hard to keep them in the same relative position.<sup>9</sup> More substantively, as living standards generally rise and services improve or expand, it is often those who are best placed to take advantage who tend to benefit most. For example, it was middle class children who benefited most from the rapid expansion of higher education in the 1980s and 1990s, and from the Conservative government's Assisted Places Scheme (Edwards and Whitty 1997). New guidance and research on good nutrition and healthy behaviours is more likely to be absorbed and put into practice by educated people with high disposable income, leading to greater gains in life expectancy, than it is by people who are poorly educated and on constrained budgets, as the 1998 Acheson report into health inequalities demonstrated (Acheson 1998).

Early on, Labour said little about income inequality overall, as opposed to improving the living standards of the poorest or creating greater equality of opportunity. The word 'redistribution' was studiously avoided until well into its second term. The government also seemed particularly unconcerned with the position of the very rich. Indeed famously Tony Blair said in a *Newsnight* television interview that:

*"The issue isn't in fact whether the very richest person ends up becoming richer. The issue is whether the poorest person is given the chance that they don't otherwise have ... the justice for me is concentrating on lifting incomes of those that don't have a decent income. It's not a burning ambition of mine to make sure that David Beckham earns less money."*<sup>10</sup>

The 1997 Manifesto made an explicit pledge not to raise top rates of income tax. However the language did begin to change with the 2006 Equality Act putting a duty on the newly established Equality and Human Rights

<sup>9</sup> By the same token, in a recession, relative poverty can reduce because median incomes fall and those at the bottom of the income distribution who are supported by welfare payments find themselves in a slightly better position relatively.

<sup>10</sup>Quoted in Bromley (2003) p74.



Commission to monitor inequality outcomes in a triennial report. The first clause of the 2010 Equality Act allowed a power to put a duty on all public authorities to consider socio-economic inequality in all the important decisions and actions they took – although this was not subsequently implemented. In 2008 the government also established an independent National Equality Panel to review the evidence on economic inequalities.

Alongside these outcome goals, Labour also had a second set of ambitions, relating to democracy and public management. One element of this was its commitment to devolution, with referenda on devolved powers taking place in Scotland and Wales in the autumn of 1997 and Northern Ireland in 1998. Until 2007, Labour was the majority party in Scotland and Wales, although governing in coalition for most of the time. The Northern Ireland Assembly was suspended for much of the period between its inauguration in 2000 and 2007. Arguably it is not until 2010 (and particularly since 2011 with the election of a SNP majority in Scotland) that we would expect to see major policy differences across the UK, with different parties in power in each country. Nevertheless some differences did emerge during Labour's rule in England, and we point these out in the next section. Labour also proposed the creation of regional assemblies and regional development agencies,

Another element was Labour's commitment to public service reform. In England, the Labour 1999 White Paper, *'Modernising Government'* set out a ten-year reform programme to achieve modern, high quality, efficient and responsive public services (Cabinet Office 1999). Much of the Conservative New Public Management (NPM) project was retained: a focus on results; targets and performance indicators, league tables, costing and market testing activities to obtain value for money; the purchaser/provider split; and the idea of the service user as customer or chooser. However Labour put more emphasis on creating structures for long term improvement. It particularly emphasised continuous improvement within organisations (through self-assessment, inspection, benchmarking, the development of better leadership and the valuing of public service) and a 'joined-up' approach, with policy coherence across government and a strong emphasis on partnership rather than single agency 'silos' for planning and delivery. "Information Age government" was also a key theme.

Labour presented this reform agenda as non-ideological - "pragmatic rather than dogmatic" - and thus entirely compatible with, and indeed a central component of, the delivery of its social justice agenda. "What counts", the Labour 1997 Manifesto stated, is "what works" (Labour Party 1997). However, it clearly reflected an implicit ideology of governance - about the appropriate size and functions of the state; responsibilities of different tiers of government; structures for democracy and representation, for example.

This neither was nor is universally shared, as illustrated by the different paths taken by the devolved administrations over the same period, and the

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Coalition in England at present. Moreover, “what works” is itself a contested approach, because it tends to privilege short term measurable outcomes and the ‘interventions’ that deliver these. ‘Ends’ are emphasised over ‘means’. Many people argue that ‘means’ are just as critical to social justice as short-term ‘ends’. Indeed the wrong choice of means may achieve desired short-term outcomes (i.e it may “work”) but in the long run be detrimental to the kind of society ultimately desired, because it redefines the objectives of and underlying relationships within public services in ways which make the achievement of desired social outcomes more rather than less difficult (Ball, 2003a, Sandel 2012).

To assess Labour’s record adequately, therefore, we need to consider not only what was achieved over the lifetime of the administration in terms of outcomes, but what changed in the organisation and delivery of public services, with the potential to affect outcomes in the lifetime of future parliaments.

## Chapter 3: What Labour Did

### An Overview

In the papers that underpin this report, we set out in detail the actual policies pursued in each policy area, showing how policy agendas evolved over time, and the key ways in which divergences developed between England and the devolved nations. Table 2 gives a very brief summary – an overview of what Labour did - in England. Here we group these under five key types of approach. First, the emphasis on work as the way out of poverty. Second, cash transfers which aimed to reduce poverty directly by putting more money in the pockets of the poor. Third, the expansion of public services generally. Fourth, the targeting of extra policies and resources towards disadvantaged areas. Fifth, reforms of service delivery, designed to improve public sector performance generally and particularly in the poorest areas where it was weakest. At the end, we look across policy areas to analyse cumulative effects.

### From Welfare to Work : Employment as the Route out of Poverty

Labour's emphasis on work as the best way out of policy was a dominant theme – shaping what was done not just in employment policy but in the area of welfare benefits.

Many of the government's policies were directed at the supply side of the Labour market (addressing deficits in skills and employability, matching people to jobs, and making it harder to claim out-of-work benefits). One of its first acts was to initiate 'New Deal' welfare-to-work programmes for the young unemployed, lone parents, long-term unemployed, and partners of the unemployed. Employment Action Zones were initiated in high unemployment areas, kicking off a series of area-based initiatives aimed at reducing 'worklessness'. These culminated in the Working Neighbourhoods Fund in 2007, which replaced a much broader Neighbourhood Renewal Fund and required local strategic partnerships to focus neighbourhood-level interventions much more strongly on getting people into employment. In Scotland, the New Deals were supplemented with programmes for ex-offenders, substance abusers and lone parents with complex needs, and in Wales with extra help for claimants of Incapacity Benefit.

There was a particular focus on getting parents into work (see Stewart 2013 for a fuller account). As well as the New Deal for Lone Parents, Labour introduced a National Childcare Strategy to improve the availability and affordability of childcare. This included funding for a Neighbourhood Nurseries initiative and also demand-side funding through a childcare element of Working Tax Credit: working families on lower incomes could claim back up to 80 per cent of the cost of a registered childcare place. An

## **Table 2: Labour's Key Policies**

### **Cash Transfers and Poverty**

- National Minimum Wage
- Welfare-to- Work programmes (New Deals)
- Tax Credits (linked to earnings, loaded towards families)
- Increases in Child Benefit
- Investments in childcare
- Increase in Income Support for pensioners and extra benefits e.g. winter fuel payments,
- More generous second state pension for low earners.
- Abolition of mortgage tax relief and Married Couples Tax Allowance. Rise in National Insurance contributions
- Reduction in basic income tax rate, and increase in top tax rate (latter only from 2010/11)

### **The Under Fives**

- Child Benefit, Tax Credits (as above)
- Extension of free part-time nursery education to all three and four year olds
- National childcare strategy
- Sure Start – integrated health, early education, play and parental support
- Extension of parental leave and pay
- Introduction of an Early Years Curriculum

### **Health**

- More capacity - (extra beds, staff, buildings, activities).
- New NHS buildings programme.
- National frameworks for quality standards.
- Structural reorganisation: establishment of Primary Care Trusts/Foundation Trusts/Strategic Health Authorities. Payment by results. Patient Choice.
- More emphasis on public health: e.g smoking ban, more screening

### **Education**

- Increase in school workforce: extra teachers and support staff
- New school buildings programme
- National strategies to improve quality and consistency of teaching
- Performance management: targets and school closures
- Curriculum change: introduction of more vocational options at GCSE
- Structural reform: specialist schools, Academies, Trust Schools, extended schools
- Wider agenda for childhood: Every Child Matters
- Guaranteed post-16 learning place and Educational Maintenance Allowance
- Reform of higher education funding – variable fees, financed by income-contingent loans

### **Deprived Neighbourhoods and Spatial Inequalities**

- National Strategy for Neighbourhood Renewal
- Housing Market Renewal and Decent Homes programme
- New Deal for Communities
- Targeted programmes across other spending areas eg Spearhead areas in health, Excellence in Cities in education, Sure Start

In-Work Credit provided a £40 a week bonus to lone parents in their first year back in work.

There was perhaps less intervention on the demand side (tackling wage levels and structures within firms and the drift to short-term and part-time contracts as firms sought to drive down labour costs and maximise flexibility). One obvious exception to this was the introduction in 1998 of a National Minimum Wage (NMW) for the first time in the UK. Labour also introduced 'family friendly' policies: major changes to parental leave and pay, and rights to request flexible and part-time working, partly to support child development, but partly to make it easier for mothers to remain attached to the labour market after having children (Lewis 2009; Stewart 2013).

At the same time, being out of work got tougher, as Job Seekers Allowance was linked to prices not earnings, meaning that its relative value decreased during the period of real earnings growth 1997-2003, and as the conditions for receipt of working age social security benefits were gradually toughened. Lone parents were required to seek work when their children were five, rather than sixteen as formerly. In 2008, new claimants for Incapacity Benefit or Income Support (on the basis of incapacity to work) were moved onto a new benefit, the Employment and Support Allowance, which introduced a 'work capability assessment'.

Regional Development Agencies were established to promote economic development. This was a substantial break from traditional regional policy – it pushed more responsibility from central government to the regions, emphasised indigenous development rather than inward investment, and presented the role of government as supporting markets rather than intervening directly through large scale infrastructure projects and government job relocation (Fothergill 2005). However, the RDAs in the poorer regions did get more funding and there was an explicit target that the gap in growth rates should decline. Several programmes were initiated to stimulate employment in low-employment areas, including a Local Enterprise Growth Initiative (LEGI) and the larger-scale Urban Regeneration Companies (URCs).

## Cash Transfers

As Hills (2013) points out, Labour was keen to emphasise that it saw employment, education, skills and health as more fundamental to its poverty reduction strategy than cash benefits. However, benefits and tax credits were an integral part of the approach. Efforts were targeted at families with children and at pensioners, not at working age families with no children. Labour adopted a 'progressive universalist' approach i.e. many households benefited but the poorest benefited most.

The main reforms affecting children came in two stages in Labour's first two terms. In 1999, the rate of Child Benefit was increased for the first child in each family, the existing Family Credit was replaced by a more generous Working Families Tax Credit (WFTC), and there were more generous allowances for younger children in Income Support for workless families. In 2003, this system was reformed again, becoming part of the income tax system. WFTC was split into a new Child Tax Credit (CTC), which also incorporated the old Income Support child allowances, and a new Working Tax Credit went to low paid workers regardless of whether they had children. Importantly these benefits were uprated in line with earnings, not just prices. Although CTC included a 'family element' (replacing married couples' income tax allowance), for which some 90% of families were eligible, the per-child element was highly progressive, targeting most support to those at the bottom of the distribution, including those not in work at all or working part-time on low wages.

While almost all households with children benefited from Labour's tax-benefit changes, the position of families with younger children was privileged in several ways. Most importantly, CTC treated all dependent children under 18 alike, where previously rates had been lower for children under 11, and this led to a significant boost in the relative incomes of younger families during Labour's first term (Gregg, Waldfogel, and Washbrook 2006). In addition, the family element of CTC was doubled during a child's first year, while a one-off Sure Start Maternity Grant payment of £500 was introduced for mothers on low incomes. From April 2009, Child Benefit was extended to pregnant women in the third trimester. Adding these and other smaller benefits together, spending in cash benefits to support children under five increased by approximately £1,600 per head (in 2009/10 prices), averaged over all children, more than double what it was in 1997 (Stewart 2013).

Pensioners<sup>11</sup> were the other main group targeted<sup>11</sup>. Again, the reforms for existing pensioners came in two stages. Following a Green Paper in 1998, Income Support for pensioners was separated off to become the 'Minimum Income Guarantee', with its value increased in real terms and then linked to earnings. This means-tested support was further reformed in 2003, with the minimum becoming the 'guarantee credit' of Pension Credit. This included an additional means-tested element for those with incomes just above the minimum, the 'savings credit' - designed to reduce the number of pensioners facing a 100 per cent withdrawal rate on small amounts of retirement income. The basic pension was not increased, but a number of new concessions were introduced, all on a universal basis, including Winter Fuel Payments, free TV licences for the oldest pensioners, and concessionary or free bus travel.

There were also reforms to general taxation to make it more progressive, although many of Labour's critics on the left would have preferred to see these go much further. Two major income tax allowances – for mortgage

<sup>11</sup>We concentrate here on changes that would have affected the cash incomes of current pensioners. However, it is worth noting that Labour also reformed the structure of the pension system to affect the incomes of future pensioners. The 2007 and 2008 Pensions Acts returned the basic pension to earnings-linked indexation, widened rights to it and introduced 'automatic enrolment', with minimum contributions from employers and employees. They also announced future increases in pension age. These reforms may well be one of Labour's biggest legacies to the tax and benefit system.

interest and for married couples – were finally abolished (with parts of the latter absorbed into the tax credit system and with pensioner couples protected), and the main rate of National Insurance Contributions was increased in 2003 with the proceeds advertised as being earmarked for increased spending on the NHS. Direct taxes were reduced to some extent for those on low incomes. An initial move had been to reduce the starting rate of income tax to 10 per cent, with much made of its positive effects on the low-paid, but this ‘10p band’ was removed in 2008 at the same time as the main rate was cut to 20 per cent. The combination of the two left some low earners who were not entitled to (or did not receive) tax credits as losers, even after an emergency increase in the general level of tax allowances the following Autumn (Hills 2013).

### Expanded Public Services

A third major element of policy was the expansion of activity and resources in the public sector: both the better resourcing of existing services and the addition of new ones. Much of this happened from 2001 onwards. Given the size of the deficit it inherited, Labour stuck to Conservative spending commitments in its initial two years, meanwhile piloting initiatives and developing strategy. The big increase in activity came in the second term.

In **health**, Labour initiated a major programme of investment and reform including a new NHS buildings programme, and extra nurses and doctors. Efforts were concentrated on cancer, heart disease and stroke, and on the reduction of waiting times for appointments and treatment (Vizard and Obolenskaya 2013).

There was a major expansion of **early education** (Stewart 2013). From 1998 all four-year olds were given the right to 12.5 hours per week free early education for 33 weeks of the year. This was extended to three-year olds in 2004. By 2010 free provision had been extended to 15 hours per week for 38 weeks per year. By 2010, 98 per cent of all four-year olds and 92 per cent of eligible three-year olds received at least some free early education although a significant proportion of the extra money funded places for children who were already attending a pre-school educational setting. But the high take-up rates suggest that the policy was more successful than childcare subsidies in drawing children from disadvantaged backgrounds into early education. In 2010, it was estimated that 76 per cent of three-year olds from the most disadvantaged households and 95 per cent of four-year olds were making use of the free places provided. Childcare was also expanded. The number of centre-based childcare places had increased by a third over the period 1997 to 2008. However, the number of registered childminders declined somewhat, in part to do with widening alternative employment opportunities for women, including in schools and centre-based provision. By 2010, 59 per cent of children aged 0-2 were receiving some form of non-parental care, and 39 per cent were attending formal (paid) care. This

compares with 25 per cent receiving formal care in 1997. However, the most disadvantaged families made relatively little use of formal care (15 per cent).

Sure Start probably represents the biggest change in early years provision – an entirely new programme of integrated health care, parental support, childcare, play and early education – delivered first through 250 local programmes but eventually rolled out to 3,500 Sure Start Children’s Centres, many of them purpose-built buildings.

The compulsory **education** system received 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. A new school buildings programme, Building Schools for the Future (BSF), designed to replace or upgrade the entire stock of secondary school buildings within 15 years, was launched in 2004. By 2010, over 150 new schools had been completed with over 450 more well underway. The Academies programme, initially with private sponsors contributing to capital costs, also contributed to the provision of around two hundred new schools in some of the country’s poorest neighbourhoods. ICT in schools was progressively upgraded, with interactive whiteboards and networked computers becoming a feature of many classrooms and teachers being given laptops in order to access and use curriculum materials via the internet. As all schools were encouraged to become extended schools, there was a major expansion of pre- and after- school activities, ranging from breakfast clubs to homework clubs, sports, arts and music (Lupton and Obolenskaya 2013).

Much more detail of these policies and others is given in our detailed papers. The sheer volume of new policy programmes makes counting all the extra provision almost impossible. Probably the best overview comes from the Office for National Statistics, which produces estimates of the volume of inputs into public services: divided into labour inputs; goods and services such as medicines, supplies and the costs of maintaining premises; and capital services.<sup>12</sup> These are cost estimates (numbers of inputs multiplied by unit prices). The numbers are shown in the form of an index, with 1997 set at 100.

ONS’s calculations show that 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 by 179 points. Capital consumption grew by 32 points between 1997 and 2004 before declining between 2004 and 2010, with a four percentage point fall over the period as a whole. The main driver of the growth in goods and services was non-pay costs in hospitals and community health services: drugs and other clinical supplies and equipment and running costs of premises. Growth in the volume of qualified nursing and related staff contributed most to the growth in labour inputs, but there was also

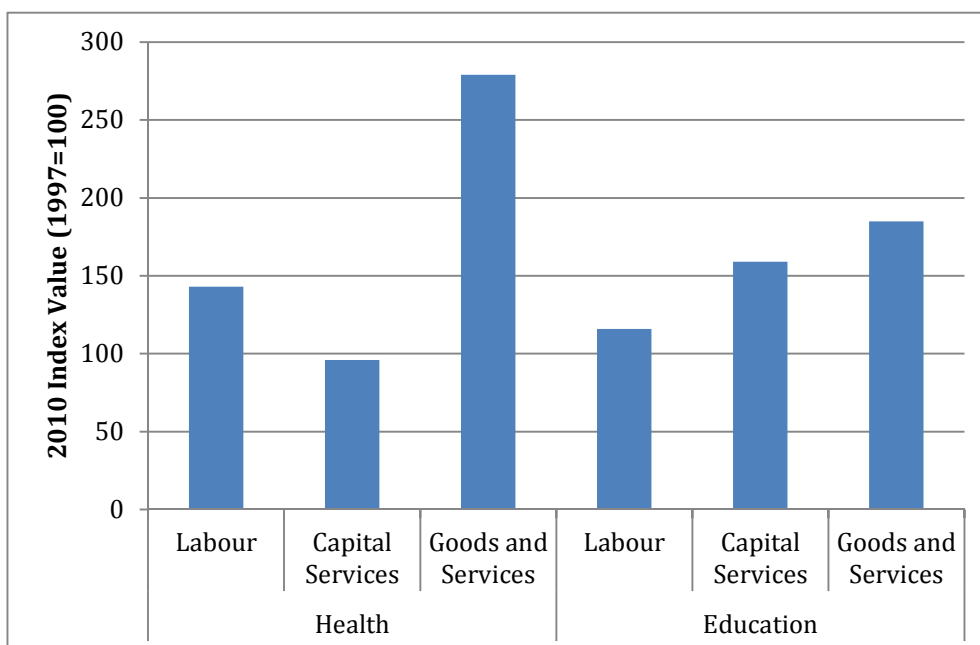
<sup>12</sup>Capital services or capital consumption reflects the amount of capital used each year and is made up of depreciation and other capital charges.



significant growth in the numbers of consultants and registrars and other qualified health professionals.

In education, input growth was lower but still up by over a third (35 percentage points). Labour inputs grew by 16 points, capital services by 59 points and goods and services by 85 points, although note that labour makes up by far the biggest share of education expenditure.

**Figure 2: Estimated Change in Volume of Public Services Inputs 1997-2010**



Sources: Author's calculations using Massey, F. (2012 a and b)

These extra inputs translated into similarly substantial increases in outputs. The relationship of outputs to inputs was up by 6.2 per cent in health and 4.5 per cent in education over the Labour period (ONS 2013), a scale of change that ONS characterises as broadly constant. In health, indirect (expenditure based) estimates of volume growth suggest that there was a major increase in service provided even when NHS specific wage costs and inflation are taken into account. According to official ONS (direct) estimates, the volume of publicly financed healthcare output grew by 87.7 percentage points between 1997 and 2010. The biggest growth in output was in GP prescribing activities (up 205 percentage points. There was a 57.5 percentage point increase in hospital inpatient, day case and outpatient episodes, and but GP and practice nurse consultations, and publicly funded dental and sight tests also increased in number (43 percentage points), all more so than the overall population and the overall elderly population (taking this as an indicator of health need).

Waiting lists and waiting times improved dramatically. The number of inpatients waiting for treatment for more than 13 weeks in England peaked at approximately 0.7 million in 1998 but had fallen to half a million by 2001. By December 2008, 93 per cent of hospitalised and 97 per cent of home-based patients were referred to treatment within 18 weeks. The number of GPs increased, from around 60 per 100,000 in 1997 to over 75 in 2010. The GP patient experience survey figures for 2007 suggest that 86 per cent of patients had seen their GP within 48 hours, a figure that fell in 2009/10 to 80 per cent.

In education, the main quantifiable impact of the extra investment in school staffing was a big reduction in staffing ratios. The average primary school pupil in 1997 experienced a teacher to pupil ratio of 1:23 and an average class size of 27.7. By 2010 these numbers had fallen to 1:21 and 26.4, respectively. The decline in the secondary sector was smaller, because the number of pupils was rising at the same time as the number of teachers, and class sizes were smaller to begin with. Nevertheless, teacher to pupil ratios fell from 1:17 to 1:16 and the average class size in secondary schools fell from 21.7 in 1998 to 20.5 in 2010. Changes in adult to pupil ratios fell even more, because of the large increase in numbers of support staff. In primary, they fell from 1:18 to 1:11, and in secondary from 1:15 to 1:10. What was happening away from the average is also of interest. Qualitative evaluation indicates that the most disadvantaged or lowest attaining pupils started to receive more small group and one-to-one tuition, as well as additional help from other support staff (such as mentoring, counselling and behaviour support and family liaison), although these changes appear impossible to quantify at a system level.

**Table 3: Pupil:Teacher and Pupil:Adult Ratios in Primary and Secondary Schools**

	1997	2002	2007	2010
<b>Primary schools</b>				
Pupil Teacher Ratio	23.4	22.5	21.8	21.3
Pupil Adult Ratio	17.9	14.6	12.4	11.4
<b>Secondary schools</b>				
Pupil Teacher Ratio	16.7	16.9	16.5	15.7
Pupil Adult Ratio	14.5	13.3	11.4	10.4

Source: DCSF/DFE School Workforce in England Statistics

### Targeting of Disadvantaged Areas

Alongside general expansion, Labour pursued a distinctive strategy of targeting additional funding and services towards the poorest local

authorities and neighbourhoods. Some of this was 'catch-up', with the goal of equalising services and bringing conditions in all neighbourhood up to a minimum standard. Poor services and conditions, it was argued, made it worse to be on a low income, and "*people on low incomes should not have to suffer conditions and services that are failing and so different from what the rest of the population receives*"(SEU 2001, p8). Partly it was an attempt to provide extra services to the most disadvantaged individuals in order to close long-standing gaps in outcomes.

The most visible articulation of this approach was the National Strategy for Neighbourhood Renewal (NSNR), introduced in 2001, which introduced a new way of addressing the problems of low income neighbourhoods and of reducing spatial inequalities. Whereas previous governments, both Labour and Conservative, had relied mainly on additional short-term programmes (such as the Urban Programme, City Challenge and the Single Regeneration Budget), Labour attempted to build redistribution of effort into the mainstream activity of central and local government. NSNR set 'floor targets' that no area should fall below, and committed all spending departments to programmes that would reduce spatial disparities. The floor targets were initially described as "the social equivalent of the minimum wage"<sup>1</sup>, emphasising the point about levelling up for places as well as people.

A Neighbourhood Renewal Unit (NRU) was established at the centre of government to coordinate this. Local authorities in the poorest parts of the country were required to form Local Strategic Partnerships with other organisations and to develop neighbourhood renewal strategies. These were backed initially by a Neighbourhood Renewal Fund (NRF) but were also supposed to explore how regular funding could be 'bent' towards areas of greatest need on an ongoing basis. A major investment was made in neighbourhood-level statistics and Indices of Multiple Deprivation so that deprivation could be identified and progress monitored.

This approach, combined with a number of specific, tightly targeted, area regeneration programmes (particularly the New Deal for Communities regeneration programme, targeted at just 39 of the poorest neighbourhoods in England), and some specific initiatives run by the NRU such as neighbourhood management and warden programmes, meant that a large volume of new activity was stimulated in the poorest neighbourhoods in addition to the expansion referred to above.

Some of the inputs came in the form of new programmes from major spending departments. The initial 250 Sure Start local programmes, for example, were targeted towards the areas of highest child deprivation. The initial expansion of childcare established Neighbourhood Nurseries with government funding in the poorest areas, while start-up loans were given in other areas. There were Employment Action Zones and later a Working Neighbourhoods Fund (replacing the Neighbourhood Renewal Fund) to fund

<sup>13</sup> NRU website (Accessed 9th March 2012)  
<http://webarchive.nationalarchives.gov.uk/20060530091128/http://neighbourhood.gov.uk/page.asp?id=585>

local supply-side employment initiatives. In health, targets were set to reduce differentials in health outcomes between the 70 'Spearhead areas' (the authorities with the worst health outcomes and deprivation) and the England average.

In education, an Excellence in Cities scheme was set up, covering about one third of secondary schools, followed by London Challenge (later City Challenge, extending to Greater Manchester and the Black Country). The new Academy schools were initially introduced to replace 'failing' schools in poor areas. Building Schools for the Future was targeted not to the most dilapidated school buildings but the most deprived neighbourhoods. 'Aim Higher' was set up to stimulate university entries from traditionally low participation households and areas. In housing, the Decent Homes programme was established to bring all social housing (much of it in the poorest areas) up to a decent standard by 2010, and from 2002 a controversial Housing Market Renewal programme was set up to restore sustainable housing markets in areas in the North and Midlands with large swathes of low value and/or empty housing.

On a smaller scale, there was a wide range of smaller grants and initiatives: for 'Cleaner, Safer Greener communities, parks improvement, a street robbery initiative, and a Safer Stronger Communities Fund, many of which were incorporated, after 2007, into a single Area-Based Grant. The Neighbourhood Renewal Fund itself produced myriad local interventions. Local authorities could spend the money how they saw fit so there was no standard package. About a third of the money went on housing, environment and community safety initiatives, 18-20 per cent on education (including pupil and teacher support and volunteer involvement), 15-16 per cent on health, 11-13 per cent on worklessness, and the rest on cross cutting activities including community capacity building. Examples included employment advice and training programmes, youth programmes, support to local voluntary organisations, credit unions, provision of small business units and advice, street wardens, neighbourhood policing teams and burglary reduction projects.

The net result was that more money, in total, was directed to more deprived local authorities for service provision. Lupton, Fenton and Fitzgerald (2013), show that in 1998/9 the most deprived fifth of local authorities got about two thirds more funding per head than the richest fifth of local authorities (68 per cent for unitary authorities, including London Boroughs and Metropolitan Districts, and 62 per cent for districts). In 2008/9 the most deprived unitary authorities got 73 per cent more. For districts the increase was more pronounced, with the most deprived fifth of authorities getting 83 per cent more funding than the least deprived fifth. Putting this into real terms (in 2008/9 prices), the most deprived unitary authorities (which provide education and social services, the two biggest spending areas for local councils) got on average £460 per resident more than the least deprived at

the start, increasing to £758. The most deprived districts got £40 more, increasing to £65. Most of the increase had occurred by 2005. Vizard and Obolenskaya (2013) show how changes to the funding formula for Primary Care Trusts (PCTs) put more loading on disadvantage. However, the changes were designed to phase in over time. By 2010/11, over half of PCTs were still receiving more than their target allocations. Richmond, Westminster, and Kensington and Chelsea topped that list. The PCTs that were most below their target allocation were Bassetlaw PCT, Barnsley PCT and Lincolnshire Teaching PCT. From the equity perspective, a key issue facing Labour at the end of its period in Government was that many of the PCTs receiving less than their target resource allocation were designated 'Spearhead areas' i.e. exactly those areas where the need to close gaps in health outcomes had been specifically identified.

## Public Sector Reform

A fifth approach was public service reform: Labour's modernising agenda to which we earlier referred. Underpinning policies of expansion and targeting, there were substantial changes in the design of the welfare state and the ways in which services were planned, delivered and monitored.

Perhaps the most distinctive feature of this was the performance management machinery Labour established. The top tier of this was Public Service Agreements (PSAs) which were initiated at the 1998 Comprehensive Spending Review to set out departmental aims, objectives, targets and delivery mechanisms – a form of contract with the Treasury showing what would be done with the money allocated. PSA targets (for example to increase attainment in schools) as well as other targets attaching to specific programmes, were passed down the system to lower level bodies, reconfiguring the central/local relationship. For local authorities, a set of 90 Best Value Performance Indicators (BVPIs) were put in place, monitored by the Audit Commission. From 2007, the number of PSA targets was reduced and BVPIs were abolished. Instead local strategic partnerships signed Local Area Agreements (LAAs) with government, committing themselves to delivery against targets on a selection of 198 National Indicators (NIs).


This development, which was accompanied by the un-ringfenced Area-Based Grant, signalled the development of Labour social policy from strong central direction to greater local autonomy. Many things that were initiated as centrally directed and financed programmes were now 'mainstreamed' as part of local activity. LAAs were intended to enable joined-up local planning in response to local needs. A loosening of the central reins was also evident in some other areas, such as the school curriculum. Nevertheless, local discretion was limited by Labour's tight accountability frameworks – not just targets, league tables, and the National Indicator set but strengthened inspection and audit frameworks in the form of Ofsted (extended to cover all early education and childcare), the Care Quality Commission and the Audit

Commission. Early Labour documents emphasised the importance of 'bottom-up' policy, with local people having a key role in design and delivery, for example as elected representatives on New Deal for Communities boards. The stated intention was 'double devolution' – to local authorities and then again to the sub local authority level. However, in some areas there was evidence of the opposite tendency. For example, Sure Start was originally established in the form of 'local programmes'. When it was rolled out it was in the shape of Sure Start children's centres run by local authorities.

Efforts to improve quality in public delivery involved 'workforce remodelling', central guidance and support on good practice, and new incentive structures. Salaries were increased relative to the private sector in order to attract good graduates and an element of performance –related pay was introduced for teachers. Roles were redefined and the number of people in para-professional and support roles was greatly increased. A new graduate-level qualification was introduced in early years education (the Early Years Professional or EYP) and other qualifications were encouraged. Half those working in childcare (excluding childminders) held at least an Level 3 NVQ qualification by 2008, compared to 29 per cent a decade earlier. To try to ensure high quality early years provision in all settings, an Early Years Foundation Stage Curriculum was introduced.

In education the 'National Strategies' established and disseminated guidance on curriculum and pedagogy and all schools were allocated a 'School Improvement Partner'. A new professional qualification for headteachers (NPQH) was introduced. In health, the Cancer Plan in 2000 was the first of a series evidence-based national frameworks designed to drive up quality and embed best practice in health. Measures to strengthen clinical governance included a new duty on service providers to monitor and improve the quality of care, whilst treatment cost-ineffectiveness was addressed through the creation of the National Institute for Health and Clinical Excellence (NICE). 'Payment by results' was introduced as part of the commissioning mechanism between Primary Care Trusts and specialist providers.

Greater cross-government planning and policy was a key ambition, exemplified perhaps most clearly by the early cross-government Social Exclusion Unit, Sure Start and the National Neighbourhood Renewal Strategy, with its cross-government 'floor targets'. New mechanisms for multi-agency strategic planning were initiated, including the Regional Development Agencies with their regional economic strategies but more often through 'partnerships' of various kinds at local level: the new Local Strategic Partnerships, Joint Strategic Needs Assessments for health, social care and well-being and Crime and Disorder Reduction Partnerships. Multi-agency working at the ground level was also strongly emphasised, with aims including better information sharing, task-sharing, and clear lines of management and responsibility for individual welfare when many agencies were involved. Significant examples were local neighbourhood managers,



Sure Start teams, and the 'team around the child' for the protection of vulnerable children that was instituted as part of the Every Child Matters (ECM) approach.

There was a major shift from the 'old Labour' approach of monopoly state provision. Diversity of provision was encouraged, not just from the private sector but from voluntary and community providers and even individual philanthropists. Notably the large increase in childcare places was enabled via childcare subsidies through the Working Tax Credit, which stimulated growth in the private and voluntary sector, as well as via supply side funding to disadvantaged areas first through a Neighbourhood Nurseries initiative and then through Sure Start children's centres. Businesses, universities and faith groups were among those sponsoring new Academy schools. Facilitating service users to exercise choice between providers was a key goal. Choice was already an entitlement in education. The 2005 Schools White Paper proposed a wider range of schools, with parents in poor areas supported by 'choice advisors' and the piloting of free school transport to make choice of schools a more realistic option. In health, according to official ONS estimates, the volume of healthcare publicly financed goods and services that were provided by private firms *outside* the NHS increased by a factor of five during Labour's period in office (although goods and services provided from *within* the NHS made up the majority of the new provision). Extending patient choice was a key element of the reform programme, with patients being able to choose (eventually) any provider meeting NHS standards, and the right choice being incorporated into the new NHS constitution. Choice policies brought with them a wider range of performance metrics - including performance ratings for NHS Trusts providing acute services.

An increased role for private finance in public capital projects was another hallmark of the Labour administration, which took on and expanded the Private Finance Initiative (PFI) that it had criticised in opposition. PFI was the main mechanism for building new hospitals and contributed about half the investment in Building Schools for the Future. From the mid 2000s, private redevelopment of social housing estates into higher density mixed tenure developments became the main tool for neighbourhood renewal – a strategy which left many schemes stalled when the financial crash put an end to much new house building. Greater use of private finance – this time in the form of increased charges to users – was also a major development in higher education with the introduction of tuition fees.

Finally, there was a large expansion in the use of information and communications technology both in operational service delivery (online services, interactive whiteboards in schools, linked patient records in the NHS) and in planning and monitoring. Significant investments were made in administrative data collection, for example the National Pupil Database, Neighbourhood Statistics and the Indices of Multiple Deprivation and in

survey data (such as patient surveys, the Citizenship and Place surveys) to monitor progress towards outcomes. By the time Labour left office, these tools were routinely used at all levels of governance.

Significant elements of Labour's reform agenda were rejected in Scotland, Wales and Northern Ireland. Perhaps the biggest difference was the rejection of market reforms and privatisation. In Scotland, the NHS Reform (Scotland) Act (2004) dissolved NHS trusts and transferred their responsibilities to Local Health Boards. Similar reforms were subsequently undertaken in Wales in 2009. The use of Independent Sector Treatment Centres was gradually withdrawn in both Wales and Scotland and the use of PFIs was ruled out in Wales towards the end of the period. None of the devolved nations adopted Academy schools or actively promoted a 'choice and diversity' policy in education. English systems of performance management, which were partly needed to serve market systems but also reflected particular central/local relations, and Treasury/department relations, were also not adopted. The PSAs were an English phenomenon and all of the other countries moved away from school league tables and did not adopt the English system of performance ratings in health. Partnerships and collaboration between government and local organisations were emphasised, rather than accountability in return for funding. However, this approach was not entirely absent. In Scotland, for example, Community Planning Partnerships were required to negotiate three year Regeneration Outcome Agreements (ROAs) which showed how they were using central government funds in conjunction with their own resources to achieve agreed regeneration outcomes. A final difference was that England passed more of the cost of services onto users in some significant areas. Prescription charges were abolished for over 60s in England, but altogether in Wales (from 2007) and Northern Ireland (from 2010). Scotland followed suit in 2011. In 2008, Scotland also restored free higher education for Scottish students, removing its previous 'graduate endowment scheme' (similar to Labour's income-contingent loan scheme in England).

## Cumulative Effects on Service Provision

Reporting on individual services in isolation overlooks the fact that many of Labour's reforms would have affected the same people. Table 4 attempts to capture a cumulative effect of programmes on service provision, in many different service areas, by considering the situation for fictional people of different ages in 2010 compared with fictional counterparts in 1997.

We make no claim that this table is a complete account of how things changed under Labour. It reports on services not on incomes, benefits, employment or earnings. Some service changes that would affected people of all ages (for example the increase in GP numbers) are not included here, for the sake of avoiding repetition. Changes in areas we have not covered in our work, such as transport, policing, housing or social care, are also



**Table 4: Summary of Differences in Access to and Quality of Services for People in 2010 compared with 1997**

<b>Situation in 2010, compared to 1997</b>	
<b>A child aged under 5</b>	<ul style="list-style-type: none"> <li>- More likely to have mother at home for longer in first year</li> <li>- More likely to attend formal childcare setting before age 3</li> <li>- More likely to access early education from age 3</li> <li>- Access to better quality childcare and early education, structured around a play-based curriculum and with more chance of contact with a trained graduate professional.</li> <li>- Access to more local play sessions, art and singing groups and toy libraries, especially if in a disadvantaged area.</li> <li>- More likely to have well supported mother with easier access to networks of other parents and to more formal advice and information.</li> </ul>
<b>A child age 11</b>	<ul style="list-style-type: none"> <li>- Would have attended a better funded school with higher staff to pupil ratios, better paid, staff, and more ICT</li> <li>- Less likely to attend a very low performing school</li> <li>- Experienced increased pressure to meet national attainment targets but also, by the end of the period, to enjoy a wider curriculum that incorporated mental and physical well-being, participation and enjoyment as goals, alongside educational achievement.</li> </ul>
<b>A school leaver aged 16-18</b>	<ul style="list-style-type: none"> <li>- Would have attended a better funded school with higher staff to pupil ratios, better paid, trained and supported staff, more ICT, an area of specialism, and extended services from 8am to 6pm</li> <li>- More likely to have attended a newly built or refurbished school</li> <li>- Less likely to attend a very low performing school</li> <li>- Experience more pressure to meet national attainment targets but also, from the mid 2000s, had access to a wider range of curriculum options and work-based learning</li> <li>- More likely to have had careers' advice and support services for young people (via Connexions).</li> <li>- More likely to have had a learning place after 16 and to access financial support via the Educational Maintenance Allowance if needed, but no less likely to be NEET (not in education, employment or training)</li> <li>- Slightly more likely to go on to higher education</li> </ul>
<b>A working age adult</b>	<ul style="list-style-type: none"> <li>- If employed, entitled to a National Minimum Wage</li> <li>- If unemployed, more likely to be in an active labour market programme receiving help getting back to work, but also with tighter conditionality.</li> <li>- Entitled to longer parental leave, more maternity pay, and to childcare subsidies, and has right to request flexible and part-time working.</li> <li>- If a low-paid worker, better future pension rights, and can receive more generous top-ups to pay through tax credits, especially if has children</li> </ul>
<b>An adult age over 65</b>	<ul style="list-style-type: none"> <li>- Additional concessions: Winter Fuel Payments; free TV licences for the oldest pensioners, and free bus travel.</li> <li>- Possible additional 'Savings Credit' payment</li> <li>- Free prescriptions</li> </ul>

missing. Some changes to the way things were done such as upgrading of buildings, staff training, support and pay, are more visible than others, and have been included, while others like investments in data and the involvement of private sector providers, has been harder to capture.

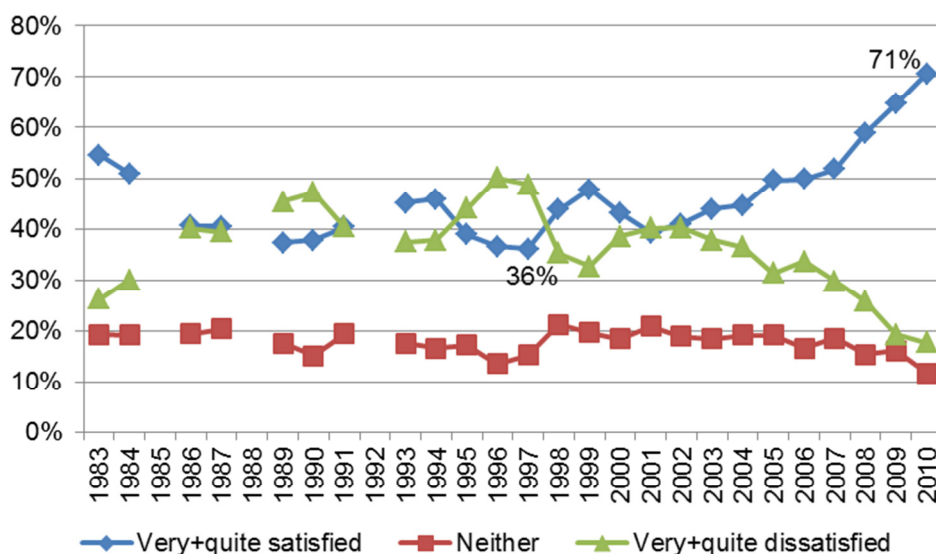
The table focuses on the experience of the average person, and therefore does not pick up the effect of targeting towards disadvantaged areas and individuals, nor the fact that some people would have seen less progress in service access and quality in the areas where they lived. These details, and the detailed quantification of the changes, can be found in the specific papers that underpin this overview. However the table does give an indication of the ways in which increased spending on services, including the creation of new services, would have impacted in multiple ways on the same individuals. It suggests a positive story of better experiences.

Hard evidence of people's perceptions of what got better or worse is hard to come by. Such as there is also tells a positive story. Data from the British Social Attitudes Survey point to a trend of sustained increases in overall satisfaction with the NHS during Labour's period in power. The run up to the 1997 General Election was characterised by low and declining levels of satisfaction (with satisfaction levels running at less than 40 per cent). The trend of declining satisfaction reversed after Labour came to power in 1997, although satisfaction levels fell back between 1999 and 2001. After 2001, with resources and capacity expanding and waiting lists and times falling, satisfaction with the NHS began to rise again, with 70 per cent of respondents indicating that they were quite or very satisfied with the way that the NHS was run in 2010. Patient experience scores remained high and stable.

The British Social Attitudes Survey is less useful for education, since only a section of the population uses schools and few would have had two children experiencing the same phases of schooling thirteen years apart. Overall, between 1998 and 2008, there was an increase from 20 per cent to 25 per cent of people saying they had 'a great deal of confidence' in schools/the education system. This was achieved at the expense of people having 'some confidence', while the numbers with no confidence remained the same.

Inspection data give another indication of quality, although due to a change in the Ofsted inspection framework from 2005/6 it is impossible to compare the numbers of schools deemed 'failing' after this date with those before. Moreover Ofsted changed its approach in 2009/10, inspecting more frequently those schools deemed to be at risk than those deemed to be doing well. Unsurprisingly, a higher proportion of schools inspected were deemed inadequate. The period from 2005/6 to 2008/9 (before the new framework) saw a halving of the percentage of secondary schools deemed

**Figure 3: Overall satisfaction with National Health Service, 1983 to 2010**



Source: British Social Attitudes Information System.

Notes: Question wording: How satisfied or dissatisfied would you say you are with the way in which the National Health Service runs nowadays?

inadequate, from 13 per cent to 6 per cent, and a doubling of the proportion deemed outstanding, from 10 per cent to 22 per cent (Francis 2011). The proportion of childcare providers judged 'good' or 'outstanding' in Ofsted inspections grew from 56 per cent in 2007-8 to 68 per cent in 2009-10. There was also some evidence in early years that higher qualifications made a difference. The Graduate Leader Fund evaluation found that gaining a graduate leader with EYPS made a significant difference to the quality of provision for pre-school children (aged 2.5 to 5), although there was no effect on younger children.

The combined positive effect of Labour's multiple, small scale and locally varying initiatives on the experience of living in a deprived neighbourhood was widely reported in surveys, evaluations and case studies. The NSNR evaluation reported that many residents considered that the streets were cleaner, that parks and open spaces had improved and that environmental conditions were better (Amion Consulting 2010). The NDC evaluation reported statistically significant evidence of greater improvement than in comparable areas on indicators such as perceptions of the environment, being a victim of crime, and satisfaction with the area (Batty et al. 2010). The Sure Start evaluation reported reductions in burglary, vehicle crime and exclusions from school, and increases in creche and day care provision (Eisenstadt 2011). The number of domestic burglaries per ten thousand households fell by about half in deprived areas, 80 in 2001 to 46 in 2009. The relative risk of burglary fell, for household living in deprived areas compared with elsewhere. The gap in the rates at which litter and vandalism

were reported, between people in the most deprived areas and others, also fell.

However, although more services were provided and they were targeted towards people in greatest need, gaps in access to services were not totally erased. Richer people continued to be able to buy access to private nurseries, schools and hospitals, something which Labour made no direct attempt to curtail. Socio-economic gaps remained in access to state services. For example, in 2010, 76 per cent of three-year olds from the most disadvantaged households were accessing free early education, compared with 92 per cent overall. The most disadvantaged families also made relatively little use of formal care (15 per cent compared with 39 per cent overall). A 2009 report by Ofsted on twenty Children's Centres concluded that none felt they were truly successful in engaging the most vulnerable families (ref). Women with higher pay continued to take longer maternity leave than women in lower-paid jobs, even though the gap narrowed. Children from better-off families continued to gain access to university in disproportionate numbers.

Also quality differences remained. There were still fewer general practitioners per head in poorer areas than richer ones. Nurseries and schools in poorer areas were less likely to be graded outstanding than those in richer areas, although on the other hand children in disadvantaged areas were much more likely to access the free entitlement in a setting with a graduate. Neighbourhood satisfaction improved for everyone, and the gap between those in poor areas and others narrowed for a time during the early 2000s, but there was no real difference again by the end of the period.

The effects of Labour's management reforms on quality and access is mixed. In the early years, the policy of expanding early education and childcare through a demand-side subsidy rather than directly through state provision meant that most of the new places were in the private and voluntary sector where staff qualifications were lower than in the state sector. Evidence from other countries and the 'EPPE study' in the UK demonstrates a positive effect of more qualified staff on children's learning (Sylva et al. 2004)

In health, research by Propper et al (2008) suggests that the English policy of targets backed by publication of waiting time data and sanctions for poor performance (characterised by the authors as "command and control") lowered the proportion of people waiting for elective treatment relative to Scotland, which did not adopt the same approach. Burgess et al. (2010) showed that league tables accounted for an extra 1.92 GCSE grades per student per year for English pupils compared with those in Wales where league tables were abolished in 2001. Since targets in education were about raising the level of lower attainers, an equity effect can also be implied. However, a large body of educational research suggests that gains in grades from Labour's performativity regime (and that of its Conservative

predecessors) were costly, leading to the disengagement of some of the lowest attaining pupils, the prioritisation of pupils at grade boundaries, loss of curriculum breath and 'teaching to the test' (see West 2010 for a useful overview of the arguments and evidence). The English government responded to these concerns to a very limited extent, for example a retreat from testing at age 14 and the adoption of greater curriculum flexibility (see Lupton and Obolenskaya for a fuller discussion).

There is also research evidence on markets and competition more broadly, as distinct from the specific issue of performance management through targets and performance tables discussed in the preceding paragraph. Research on competition in health (e.g. Cooper et al. 2011, Gaynor et al 2011, Bloom et al. 2011) tends to suggest a positive effect of choice and competition on patient outcomes, although other studies have suggested that publication of data (a 'reputation effect') is more important than competition (Bevan and Fasolo 2011), while others (Pollock et al. 2012) find that other factors such as improvements in primary care and other treatments were the key drivers of quality improvement. Vizard and Obolenskaya (2013) cover these debates in more detail.

Allen and Burgess (2010) have reviewed the evidence on school competition in England. They find no consistent positive effect of competition – that is schools 'raising their game' in order to attract pupils from other neighbouring schools – although studies in the US and Sweden have found such effects. On the other hand, claims that school intakes have been socio-economically polarised by increasing competition are not well supported by statistical evidence either. A number of studies (eg Ball 2003b, Harris 2010) have shown that middle class parents are more likely to exercise choice towards high attaining schools, and that high-performing schools tend to become more middle class (Bradley and Taylor). However, taken together, studies looking at the period 1989-95 (Gorard et al 2003), 1994 -1999 (Goldstein and Noden (2003) and 2006-9 (Chen and Gorard) seem to indicate mainly that school segregation increased during times of economic growth rather than showing any particular policy effect. Thus Labour's commitment to choice and diversity in education is not clearly demonstrated to be either beneficial or harmful.

In summary, there was a big increase in service inputs and outputs under Labour, leading to more services, easier access, higher staffing ratios and less waiting. Buildings and equipment were modernised. Targeting towards poorer areas improved equity in provision. The public were more satisfied. There is some evidence that services were 'better' as a result of Labour's management and market reforms but this is also disputed.

## Chapter 4: The Costs of Expansion and Reform

### Overall Public Spending

Much has been made in recent political debate about Labour's public spending and its impact on the country's finances, irrespective of the impact on outcomes and quality. The cost of the policies and programmes described here, and other government expenditure, was very substantial. Total public spending rose from £449 billion in 1996/7 to £725 billion in 2009/10<sup>14</sup>, a rise of 60 per cent. During the same period, national income (Gross Domestic Product or GDP) increased from 1,138 million to 1,530 million, 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.

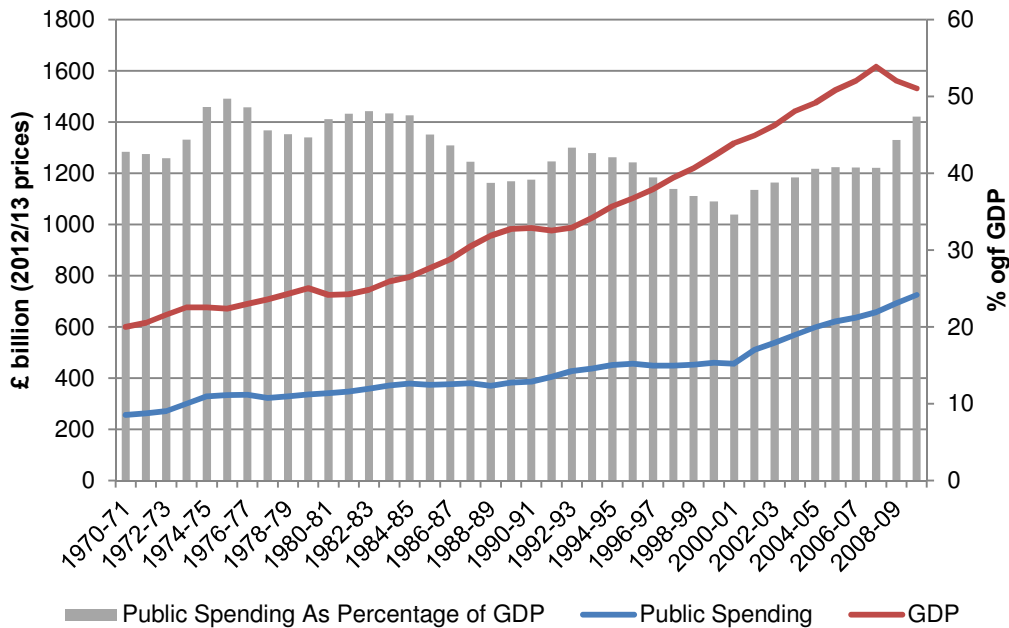
Trends before and after the financial crisis are important to understand. Spending as a percentage of GDP fell during Labour's first term as the government stuck to its predecessor's spending plans (Figure 4). It then rose rapidly from 2001 to 2005 before flattening out to 2007/8. At this point, total public spending looked unremarkable by historical UK standards. A steady downward trend starting in the early 1980s had been reversed, but spending was still only at the level of the late 1980s and lower than it had been for most of the late 1960s, 1970s and 1980s.

In Labour's last two years, spending increased dramatically as a percentage of GDP, from 40.7 to 47.4 per cent of GDP. As Hills (2011), among others, has pointed out, this was due to the sudden fall in GDP not to a sudden increase in real terms spending. According to the plans drawn up in the 2007 Spending Review, GDP was predicted to grow by a further seven per cent in real terms and spending to increase slightly more slowly than that. What actually happened was that GDP fell in real terms. Spending on the major service areas (health and education) continued, however, at levels similar to what was planned, while the effect of the recession on unemployment and household incomes was to push social security and tax credit spending up by 13 per cent in real terms (to 2010/11). Thus spending continued to rise while GDP fell. As a result spending as a proportion of GDP rose very rapidly (Figure 4).

Looking over Labour's whole term, including these last two remarkable years, the overall increase in spending (as a percentage of GDP) was very high by international standards. In order to enable international comparisons, the OECD measure of 'total general government outlay' is used here. This is a broader measure than total managed expenditure and a much wider one than expenditure on services, so changes in the UK's international position are greater than those we report (later) for individual services. These data are also reported on a calendar year not a financial year basis.

<sup>14</sup>Source: IFS Public Spending Under Labour spreadsheet. Shown in 2012/13 prices. For comparability with the other papers in this series, a [version of this spreadsheet in 2009/10 prices](#) accompanies this report on our website. The data relate to Total Managed Expenditure (TME), which describes all forms of expenditure made by central government, local authorities and public enterprises, including debt interest as well as services.

**Figure 4: Trends in National Income (GDP) and Public Spending, 1970/71 to 2009/10**



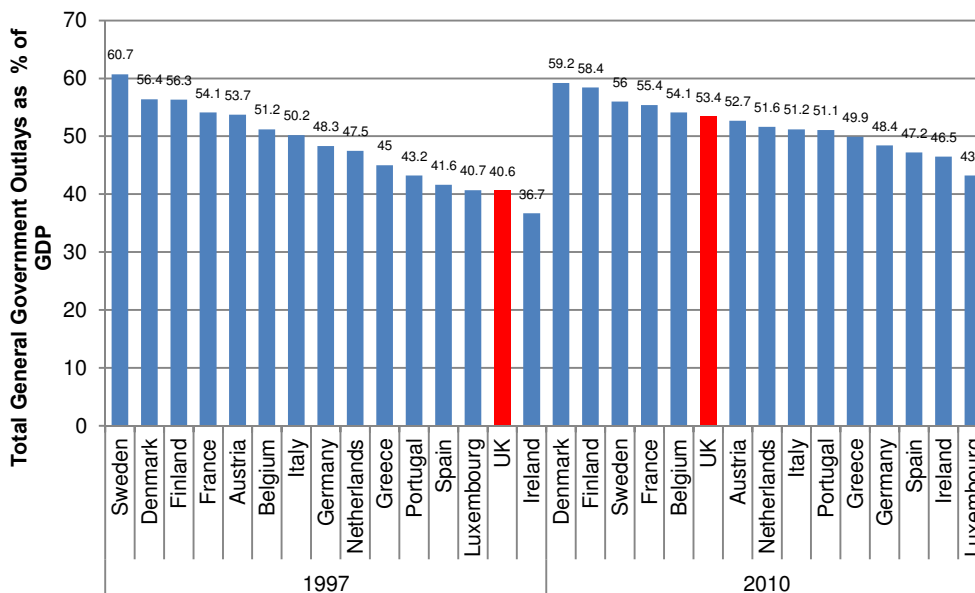
Source: IFS Public Spending Under Labour (2010). Public Spending is defined as Total Managed Expenditure

On this basis, the increase in the UK's spending was the highest of any OECD country and the EU 15.<sup>15</sup> It pushed the UK up the international spending rankings, to 6<sup>th</sup> both of the EU 15 and the OECD 28 (Figure 5).

Again, as in 1997, the rankings tell only part of the story. There were two general patterns between 1997 and 2010. One was for the lower spending EU15 countries like the UK to move up the distribution, while other countries like Hungary, Slovakia, Norway and Canada moved down. The other was a reduction in the disparities between countries. By the end of the period, the bottom spending of the EU15 was only 16 percentage points adrift of the top (or 12.7 if an outlier, Luxembourg, is excluded) compared with 24 percentage points at the start. Although the UK moved up the rankings, therefore, it was moving up a more cramped distribution. Its spending, which had looked exceptionally low in 1997 now looked high but unexceptionally so.

<sup>15</sup> Source: ibid

**Figure 5: UK Public Spending by Comparison with other EU 15**



Source: IFS Public Spending Under Labour (2010). From OECD Economic Outlook 86 (2009) Annex Table A

Public Spending is defined as Total General Government Outlay

### Spending on Different Areas of the Welfare State

The figure for overall public spending includes many items of public expenditure that we do not cover in this report – defence, transport, the justice system and so on. However, these areas of spending are small relative to health, education and social security. To understand the implications of Labour’s social policy programme in more detail, we now focus specifically on these areas.

During Labour’s term in office, health was the main beneficiary of extra cash. Spending on health more than doubled in real terms, with education up 78 per cent and social security 38 per cent. As a result, expenditure on health and education as a percentage of GDP were substantially higher even before the crash than in 1996/7. Social security spending, on the other hand, was lower before the recession took effect (Table 5).



**Table 5: Public Spending in Relation to GDP, 1997/8 to 2009/10**

	Spending as percentage of GDP		
	1996/7	2007/8	2009/10
Health	5.3	7.1	8.3
Education	4.7	5.5	6.2
Social Security	13.0	11.0	13.3
All Public Spending	39.5	40.7	47.4

Source: IFS Public Spending Under Labour spreadsheet.

Note: Social Security spending in 1996/7 will include parts of social care funded at the time through Income Support but now paid for under other budgets.

Looking right to the end of the Labour period, health and education both increased as a proportion of all public spending, and social security spending declined (health from 14 to 18 per cent, and education from 12 to 13 per cent). Social security, although increasing in absolute spend, actually 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, because of the rise in spending on health and education. This emphasises the point made earlier that, although Labour's reforms to the social security system were by no means insignificant, the main distinguishing feature of its term in office was its extra spending on services.

Within the social security budget, half of the increase was accounted for by benefits for pensioners. Nearly all of the rest went on spending aimed at children, mainly Child Benefit, Child Tax Credit and Working Tax Credit for families with children (and their earlier equivalents) – and other transfers for the working age population (which includes items such as the adult parts of Income Support or Jobseeker's Allowance, including for parents). Other working age benefits and tax credits rose much more slowly. 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 of GDP in 2009/10 – even in the wake of the economic crisis – than they had been in 1996/7.

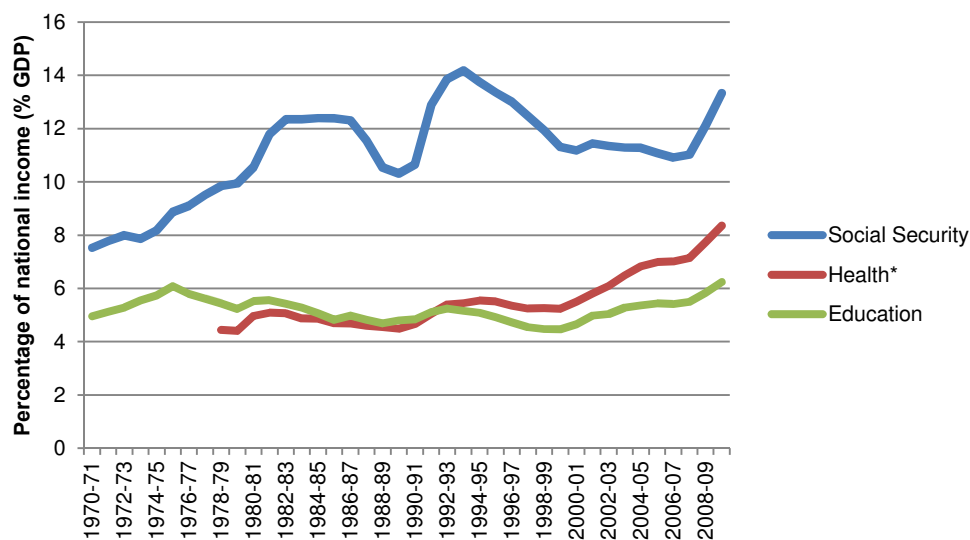
Looking at these data in historical and international perspective helps to put them in context. Figure 6 shows spending in the UK on social security, health and education back to the 1970s, as a percentage of GDP. Labour's investment in health is clear here – health spending was higher than at any point since a consistent time series of that data began in the late 1970s. The rise in education spending took it back to the level of the early 1970s. Spending in these areas reversed the decline of the 1980s and 1990s. However, before the effect of the crash, social security spending was about the same as it had been for most of the period since the early 1980s.

**Table 6: Public Spending on Cash Benefits in Relation to GDP, 1996/7 to 2009/10 (Great Britain)**

	Spending as percentage of GDP		
	1996/7	2007/8	2009/10
Benefits aimed at Children	1.5	2.2	2.8
Benefits aimed at pensioners	5.4	5.7	6.7
Other working age benefits	3.9	2.7	3.4

Source: Hills (2013) based on DWP and HMRC figures giving consistent time series on current definitions. Figures exclude Income Support payments for residential care in 1997-8 and also exclude Council Tax Benefit.

**Figure 6: Spending on Health, Education and Social Security in Historical Perspective**



Source: IFS Public Spending Under Labour spreadsheet

The UK's extra spending on these particular areas moved it up the international league tables, but by no means made it look exceptional by international comparison. We compare 1997 with 2009, for three sets of countries: the OECD (for which the number of countries with comparable data varies from 27 to 30), the EU15 and the four big Western European nations (France, Germany, Italy and the UK), looking at spending as a percentage of GDP.

- For social security, the UK initially ranked very low, 20<sup>th</sup> in the OECD, bottom of the EU 15 and of the 'big four'. In 2009 it had hardly moved up, to 17<sup>th</sup> in the OECD, 14<sup>th</sup> of the EU15 and still bottom of the big four.

- For education, the UK was also a low spender at the start (19<sup>th</sup> of OECD, 10<sup>th</sup> of EU15 and 3<sup>rd</sup> of the big four). Despite a big increase in spending it moved up only to 14<sup>th</sup> in the OECD, remaining 10<sup>th</sup> in the EU15, but 2<sup>nd</sup> of the big four.
- There was more movement in health. The big rises in health spending in the UK moved it from a relatively low to a relatively high position in the OECD rankings (21<sup>st</sup> to 9<sup>th</sup>) and from 13<sup>th</sup> to 8<sup>th</sup> in the EU15, although only from 4<sup>th</sup> to 3<sup>rd</sup> of the big four.
- Family policy was the only area in which the UK seemed, by the end of the period, to be a relatively high spender – 4<sup>th</sup> in the OECD (from 13<sup>th</sup>), 3<sup>rd</sup> in the EU15 (from 8<sup>th</sup>) and 1<sup>st</sup> among the big four.

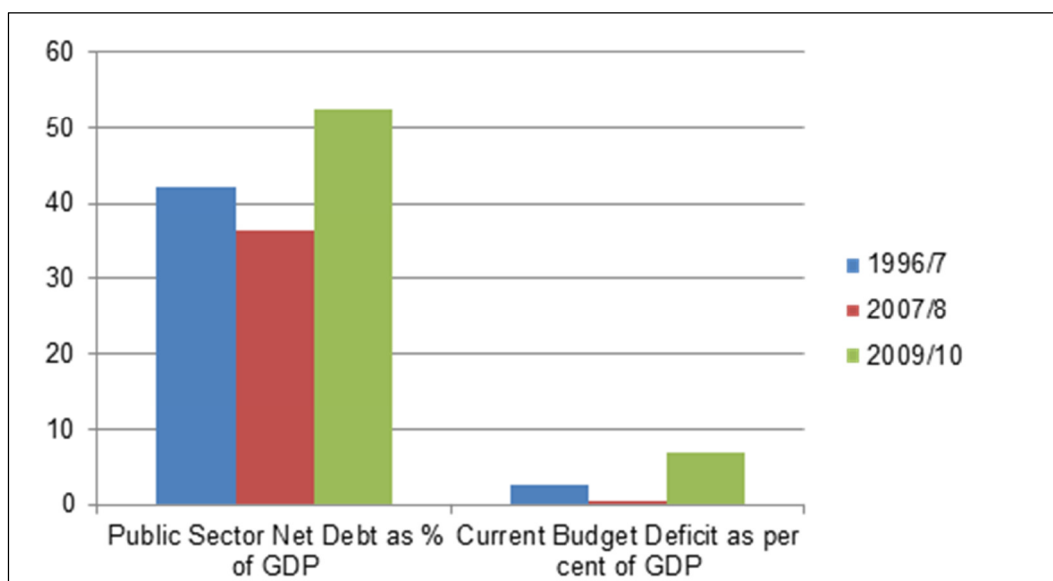
## Financing Public Spending

Labour's overall management of the public finances is not the main subject of this paper. However we offer a brief account in order to help the reader put the discussion of social policy spending and its outcomes in the context of current debates about whether levels of public spending were higher than the country could afford and thus contributed to the high current budget deficit and high public sector net debt that the Coalition inherited.

As we have noted, the main increases in social policy spending occurred during Labour's second term, so the country was running at its new higher level of public spending when the crash came. At this stage, the deficit on the UK's current budget was 0.5 per cent of GDP, lower than when Labour came to power (2.2 per cent). The public sector net debt, at 36.4 per cent of GDP was also lower than when Labour came to power in 1997 (42.1 per cent) (Figure 7).

These data showing slightly improved levels of deficit and debt despite high spending need to be considered alongside the data presented in the previous section which shows that spending levels before the crash were not exceptional by historic UK standards nor by the standards of other countries. There is no evidence that increases in spending on health, education and other services caused a crisis in the public finances preceding the global financial crisis and recession of 2007/8.

**Figure 7: Levels of Public Sector Debt and Current Budget Deficit**




Taxes are another important part of the pre-crash story. Chote et al. (2010b) show that from 1997 to 2001 income from taxes exceeded spending as a proportion of GDP, enabling the government to bring the current budget into surplus and reduce public sector net debt. However, the fall in the stock market in 2000 and 2001 led to an unexpected fall in tax payments by financial sector firms and their employees. Significant tax raising measures in the 2001 and 2005 spending reviews were also offset by other factors such as the weak performance of the stock market.

Thus during the period from 2000/01 to 2007/08, government revenues showed no increase as a proportion of GDP, while spending consistently grew. Chote et al. argue that the government was excessively optimistic in its fiscal projections, which led it to reject further tax raising measures. In other words, it could have done more to match extra expenditure with extra income during a period of economic growth, which would have put the country in a stronger position when the crash came.

We then come to what happened after 2007. Between 2007/8 and 2009/10, the current budget deficit went up from 0.5 per cent to 7 per cent of GDP. Public sector net debt went up from 36.4 per cent of GDP to 52.4 per cent (Figure 7). This figure includes the cost of fiscal stimulus measures but it does not include the cost of buying out the banks. We exclude this in order to provide a more consistent time series (since the banks will eventually be returned to private ownership). Including the cost of the bank bail-out, public sector net debt was at 153.4 per cent in 2009/10.

At this stage both deficit and debt (even excluding banks) were exceptionally high by historic standards – the deficit higher than at any point since the 1960s and the debt higher than at any point since 1975. Both typically rise in a recession - it was the early 1990s recession that caused Labour to inherit



historically high debt and deficit. The 2008 recession was exceptionally bad – some argue worse even than the 1930s.

Politicians and economists debate both the short-term contribution to deficit and debt and the long term impact of Labour's decision to continue with its proposed spending on services after 2007, compared with what would have happened under an alternative strategy of cutting spending as soon as recession hit. They also debate the optimal balance between increased taxes and decreased spending in order to balance the finances now and in the future. These are debates beyond the scope of this paper. What the evidence points to in respect of social policy is that the levels of spending Labour engaged in to finance its social policy programme did not look exceptional or unsustainable in normal times, although they increasingly outstripped income from taxation. The financial crash and recession changed that, shifting the ground upon which decisions on social policy spending must now be made.

## Chapter 6: Effects on Social and Economic Outcomes

### Assessing the government's record

We now turn to the question of what effect Labour's spending and its programmes of reform and renewal had on social and economic outcomes, and in particular on the gaps between richer and poorer households. More was spent and many extra services were delivered, but what effect did these have? The approach we take to this question is as follows:

First, we look at trends in outcomes over the period, without trying to make a link with any specific policies or interventions. Was life better, across a number of indicators, and were social gaps smaller, in 2010 than in 1997? What was the situation before and after the financial crash and recession?

We then subject these trends in outcomes to two more rigorous tests, as follows:

- Were outcomes better than they would have been or was this just a continuation of what went before? As part of this we consider the evidence of any connections between the policies enacted and the outcomes achieved, or not achieved.
- Do the outcomes achieved represent value for money?: a question naturally being asked given current constraints on public spending. As part of this we consider how outcomes look in international perspective.

### Were outcomes better at the end than the beginning?

The overall picture is that most outcomes were better in 2010 than 1997, and that socio-economic gaps had closed, although there were important exceptions.

Two sets of indicators provide an overview of the situation. One is the Opportunity for All (OFA) indicators - a set of 59 measures adopted by the government in 1999, to hold departments to account on their progress on reducing poverty and social exclusion. They were last officially reported on in 2007 – we have updated them to 2010 to give coverage of the whole period. The other set is the “Monitoring Poverty and Social Exclusion” (MOPSE) indicators independently designed and commissioned by the Joseph Rowntree Foundation.<sup>16</sup>

Both sets of indicators show a positive picture but one much more than the other. We show the full picture in Appendix 1 and summarise it in Table 7.

<sup>16</sup>On entering office, the Coalition government adopted another set of indicators, of social mobility. This is a smaller set, concentrating mainly on gaps in socio-economic outcomes in the early years and education, and in most cases the data does not permit us to analyse these retrospectively over the Labour period. These can, however, be monitored going forward

The OFA indicators show resounding progress over the Labour period as a whole. 48 of the 59 indicators improved from the 1997/98 to 2010. Only six declined: the overall employment rate; the employment rate among the lowest qualified; the proportion of people contributing to a non-state pension, the gap in life expectancy at birth between the poorest areas and others; the gap between the educational attainments of looked-after children and others; and child obesity. The MOPSE indicators show a more mixed picture. More than half (26 out of 50) improved. Fourteen (less than a third) deteriorated. Data on five others was not consistently available.

Both sets of indicators show the effects of the economic downturn. Looking since 2007 (in the OFA case) or 2005 in the MOPSE case, there is a much less positive picture. Twelve of the 59 OFA indicators and 20 of the MOPSE indicators declined over that period.

**Table 7: Indicators of Change in Poverty and Social Exclusion**

	“Opportunity for All” indicators		“Monitoring Poverty and Social Exclusion” indicators		
	Trend from baseline to 2010 <sup>1</sup>	Since last <i>Opportunity for All</i> (2007) <sup>2</sup> to 2010	Long-term trend (10 years or so)	Medium-term trend (5 years or so)	
Improving	48	25	26		13
Steady	4	9	5		12
Mixed	1	4			
Deteriorating	6	12	14		20
Not available		9	5		5
<b>TOTAL</b>	<b>59</b>	<b>59</b>	<b>50</b>		<b>50</b>

Sources: Authors’ update of Department for Work and Pensions Opportunity for All 2007 Update; New Policy Institute, Monitoring Poverty and Social Exclusion Indicators.

Notes:

1. Baseline year is usually 1997 or 1998. For some indicators based on specific Labour’s initiatives or data that were not collected before Labour came to power, the baseline is later.
2. Labour published its last government’s annual report on poverty and social exclusion in 2007 (*Opportunity for All*). Because data often become available with a year or two time lag, indicators reported in 2007 often capture change only up to 2005/06. The table refers to change occurring since the last year data were reported for in *Opportunity for All*.

There are two reasons why these sets of indicators show different things. One reason is that the OFA (government) indicators included a number of measures of behavioural change (for example smoking) and of service performance (for example the numbers of re-registrations on the child protection register) that Labour was trying to influence in order to impact on long term poverty and social exclusion, but which were not included in the independent set (MOPSE). The other is that MOPSE includes measures of in-work poverty and of living standards that are absent from the OFA set. These include pay inequalities and low pay and self-reported material deprivation.

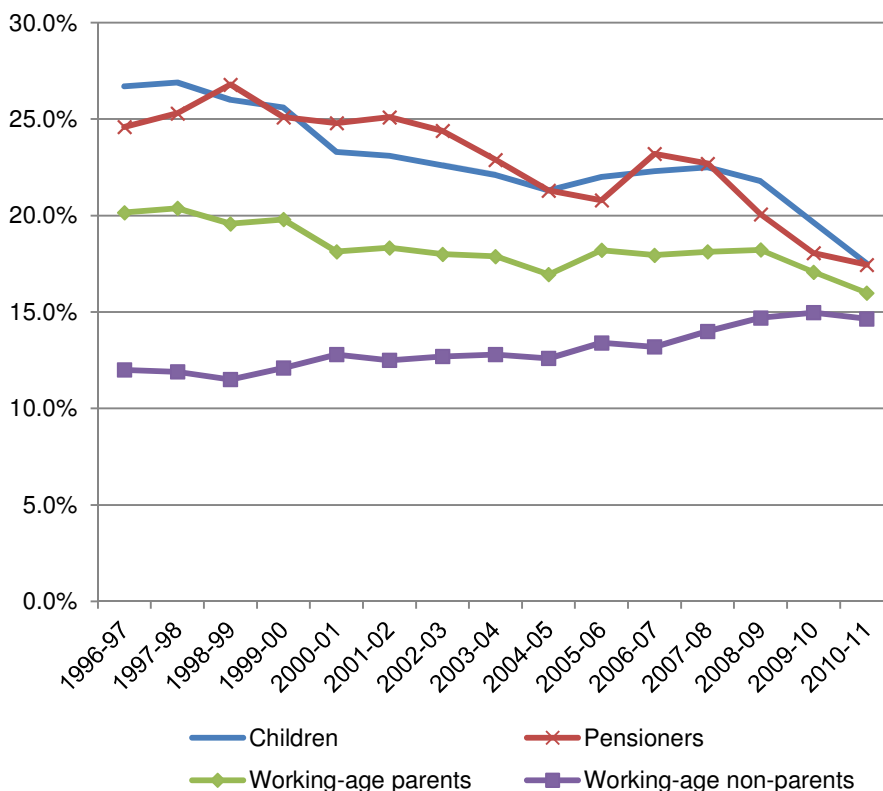
The detailed papers upon which this report is based also show that outcomes improved for the things that Labour was trying to influence: population health and health inequalities, a better and more equal start in life for children, education standards overall and smaller socio-economic gaps, reductions in child and pensioner poverty and conditions and opportunities in the poorest neighbourhoods. A large majority of outcomes in these areas improved.

- In **health**, overall life expectancy rose, infant mortality fell and gaps closed, and there were considerable reductions in mortality from circulatory disease and cancer (Vizard and Obolenskaya 2013)
- For **young children**, employment rates among lone parents improved, fewer women drank or smoked during pregnancy, particularly among lower socio-economic groups and more mothers breastfed for longer. Low birthweight fell and infant mortality fell, results in the Foundation Stage Profile improved after 2008 and socio-economic gaps in all these measures narrowed (Stewart 2013)
- 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. (Lupton and Obolenskaya 2013)
- In the **poorest neighbourhoods**, rates on all major indicators of problems – worklessness, burglary, neighbourhood environmental problems, vacant housing – all fell and gaps closed between the poorest neighbourhoods and others (Lupton, Fenton, and Fitzgerald 2013)



- Overall levels of **poverty** measured as the proportion of households with incomes less than 60% of the national median, went down, even before the crash<sup>17</sup>. 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 8). In terms of overall incomes, there was a modest redistribution to households at the lower end of the income scale (Hills 2013).

**Figure 8: 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

This is not to say that everything got better. For example, in health, there were increases in the life expectancy gap between the areas with the worst health and deprivation ('spearhead' areas) and the England average. Obesity continued its medium term tendency to increase. At the higher threshold of five higher grade GCSEs including English and maths, the gap between pupils on Free School Meals and others closed only very slightly - FSM pupils improved, but non FSM pupils improved just as fast. The gap in educational outcomes between looked after children and their peers

<sup>17</sup> 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.

widened. However, the overall picture of progress on the kinds of outcomes that Labour could influence by its policies on public services is very clear.

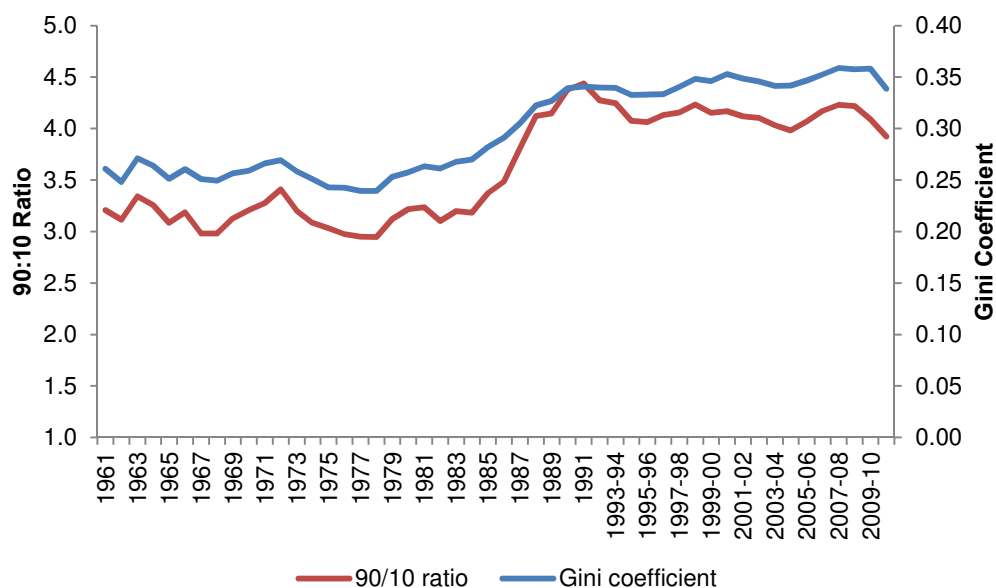
On the other hand, some economic indicators are not so positive. Relative poverty *rose* for working age adults without children, from 12.0 to 14.6 per cent (as Figure 8 shows).

Material deprivation may also have risen slightly, although the evidence on this is not yet as full as one would hope. Data from the now discontinued Families and Children Survey (FACS) suggested that material deprivation may have reached a low point around 2005, but then risen. The survey shows the proportions of people lacking items because they could not afford them. For nearly all of the items, there were falls between 2001 and 2005 (at the same time that income poverty was falling on both a relative and absolute basis for children and their parents). However, for several of the items, including a holiday away from home and a night out once a month, deprivation began to rise again between 2005 and 2008 (when income poverty was roughly constant on both bases). A new study of poverty and social exclusion published in 2013 (Gordon et al. 2012), based on the ability to afford the necessities of life during 2012, appeared to show substantial increases in material deprivation since previous surveys in 1983 and 1999, although this does not tell us what changed in the Labour period, rather than before or after.

There was also no real change in income inequality overall. While 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, what happened under the Labour government depends on the measure used. Comparing incomes near the top with those near the bottom, income inequality fluctuated around a roughly constant level 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. Growing incomes at the very top of the distribution were an important reason for the difference between these two measures. The results also depend on the exact start and end years chosen. The fairest summary is probably that income inequality was broadly constant over the period as a whole (Figure 9).

**Figure 9: Trends in Income Inequality 1961-2010/11**



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

Gregg and Wadsworth (2011), among others, point to the continuing importance of labour market structures in determining both inequality and poverty. Employment rates rose until 2008, as a result both of economic growth and labour market policies. The National Minimum Wage propped up the incomes of those on the lowest wages from its inception, and subsequently seems to have had an effect on increasing wages up to the 20<sup>th</sup> percentile of the earnings distribution, thus reducing inequalities in the bottom half of the earnings distribution.

Tax Credits were also an important part of ensuring that work was a route out of poverty. Dickens (2011) shows that there would be another million children in poverty without Tax Credits. However, this in itself illustrates the continuing problem of low wages, or small numbers of hours or both. Half of poor children are now in ‘working poor’ households, with wages or hours being insufficient to raise them over the poverty line.

Meanwhile, wage inequality continued to increase under Labour, especially among men, as the top ten per cent of the distribution continued to pull away from the rest (Machin 2013). And although the government had set a target for the convergence of economic growth rates between English regions, the Greater South East region continued to grow more quickly than other regions, increasing its share of the country’s economic output.

### Were Outcomes Better than they Would Otherwise Have Been?

One argument that could be made about these trends is that they merely reflect what was happening anyway, driven by social, economic and

technological change and by previous government policies. Primary and secondary school results, for example, were on an upward trend already. Child obesity was already rising.

Anyone trying to address this question is hampered by a lack of long term trend data. One of the legacies of the Labour government was a much stronger evidence base, meaning that most trends can be monitored from the late 1990s but not before. For most indicators, establishing these kinds of patterns across the board is simply impossible. Those that are available tend to show a break from the previous period. Poverty for pensioners, and proportions of children in workless households, for example, were on the up before 1997. Other indicators were improving in the 1990s, such as infant mortality and smoking, although socio-economic gaps were not reducing.

In some cases, we see an interesting step change towards the end of the Labour's period in office and even through recession. For example, there appeared to be a rapid fall in infant mortality among lower socio-economic groups from 2008 to 2010 and a rapid improvement both in GCSE performance and performance in the Early Years Foundation Stage, as well as closing of socio-economic gaps on these indicators. "Continuing trend" explanations in these cases do not seem plausible. It seems more likely that these step changes were the cumulative effect of policy interventions and capacity building in earlier years, or the effect of particular policies enacted in these years.

This leads us to another way of looking at this question which is to consider whether there was any evidence of a link between the policies enacted and the trends in outcomes. The most robust evidence is for income poverty, where there have been a number of attempts to model what might have happened had different policies been pursued. These compare the outcomes of Labour's actual policies compared with the outcomes of the pre-existing tax and benefits system updated in various different ways, in line with prices, in line with earnings or in line with per capita GDP.

One recent attempt to do this is was by Sefton, Hills and Sutherland (2009). They looked at the effect of Labour's reforms up to 2008/9, comparing the position of each household in 2000/1, 2004/5 and 2008/9 under Labour's benefits and direct tax reforms, with what they would have been had the 1996/7 system remained in place but been updated in line with prices, or in line with earnings. Compared with a price-indexed base, the bottom three income groups made very big gains - 25 per cent for the poorest tenth of households and more than 10 per cent for the next two groups, and the top two groups were slightly worse off. Compared with an earnings-indexed base, the gains for the bottom income groups were more modest - 8 per cent for the bottom tenth and less than 5 per cent for the next two groups - but still positive, while the rest of the distribution emerged as losers, by up to 3 per cent for the top income group.

Adam and Browne (2010) took a similar approach, updating the analysis to include the whole of the Labour period. Their analysis also includes the impact of *indirect* tax changes, such as in VAT rates, which offset some of the progressive effects of the direct tax reforms. It is also based on the income groups households were in under the 2005 system, that is, after the bulk of the reforms, rather than before them. This places some of the large gainers from the changes higher up the distribution than in the previous analysis, while some of those who did not benefit – such as low-income working age households without children – remain at the bottom. These differences reduce the scale of the gains to lower-income groups, but the overall result is similar. The 2009-10 tax-benefit system was considerably more generous to low-income groups than a price-uprated version of the inherited system, while the difference for higher income groups was small.

These are averages for each income band. Adams and Browne also show that lone parents were 4-7 per cent and couples with children 1-5 per cent better-off (depending on whether they were earning) and single pensioners five per cent better off. By contrast single people without earnings were nine per cent worse off and couples without children five per cent *worse off* than in the unreformed system.

The overall conclusion is that compared with the Conservative policies that were in place at the time, Labour's cash transfer policies did have an effect on reducing poverty for pensioners and families with children, and on making overall incomes slightly more equal, although people of working age actually lost out.

Service areas such as health, education, the early years and neighbourhood renewal are not susceptible to modelling in the same way. Here we can look at evaluations of delivery approaches, which have been considered in the previous chapter and of individual policies.

The limitations of evaluation evidence need to be understood. Not all policies were evaluated. Where they were, typically, government's own evaluations were carried out over short periods, and concentrated therefore on short term outcomes, participant and professional assessments of the value of the policies, and issues related to implementation. Independent studies tended to be carried out after the event using secondary data and looking at a limited range of measurable outcomes. All studies faced the problem of identifying suitable comparison areas which was a particular problem in this period. Given the very large amount of new activity in so many areas of social policy and the fact that new approaches developed through particularly initiatives tended to be picked up outside pilot areas, it was always difficult, if not impossible, to find comparison areas where no policy activity was occurring. Sure Start is a good example of this. The initial policy established Sure Start local programmes in particular areas which, among other things, introduced closer team working between health visitors,

social workers and early education professionals. In some local authorities, these working practices were more widely established. Comparing children in Sure Start programmes with others may indicate only the additionality of Sure Start over and above other policies, such as maternity leave policies, the New Deal for Lone Parents, cash benefits for families, neighbourhood improvements and so on, but even this would fail to pick up one of the effects of Sure Start – its effect on wider practices. For this reason, it is important to read across whole policy areas, looking at overall trends and cumulative effects, and not to put too much weight on evaluations of single interventions.

There are some policies that clearly had the desired effect. These were cash benefits or benefits in kind, and it is no surprise that findings tend to be clearer for these kinds of policies because it is straightforward to identify people who were receiving the help and those who were not (either before or concurrently) and compare their outcomes. For example increased entitlement to paid maternity leave led to mothers spending longer at home. The length of leave taken appears to correspond tightly to the length of the paid entitlement: the median leave taken jumped from around 20 weeks in 2002 to 26 weeks in 2006 and 39 weeks in 2008. Government hopes that more women would return to work once their leave ran out were not realised: more than one in five mothers who worked before a child's birth remain at home 12-18 months later. However, the majority who resume work are now much more likely to return to the same employer, which means a lower likelihood of occupational downgrading (Stewart 2013).

Another example is the Education Maintenance Allowance. Researchers estimated that just over half of those staying on in education and receiving EMA would have been inactive (NEET) rather than in work (Dearden et al. 2005). Moreover, students with EMA were more likely to stay in their courses than similar non-EMA students, and, among those from the most deprived areas, had higher achievement rates than their peers without EMA (Aitken et al. 2007).

Other policies were evaluated mainly in positive terms although not delivering all the short term 'hard outcomes' that might have been desired. For example no significant effects were found for children's cognitive development from Sure Start local programmes nor extended schools, although in both cases professionals described the initiatives as having put children on a footing from which such outcomes should be achieved in the longer term (Belsky et al. 2007, Cummings et al 2007). The research served to emphasise that the development of children and young people is a long term process, and that those who have complex needs require complex and ongoing interventions. Focusing only on the short term may be a counter-productive strategy.

Some lessons were also learned about the kinds of professional practices that would generate outcomes in the longer term. For example, evaluation of

the Neighbourhood Renewal Fund found that it had been effective in giving local authorities and partners increased flexibility to spend and experiment across thematic areas. It had increased the visibility of neighbourhood renewal as a priority for service providers, and encouraging mainstream agencies to focus on need in the poorest areas (Amion Consulting 2010). Changes of this kind in working practices may come to be seen of one of Labour's main legacies, but it remains to see whether they became sufficiently embedded to survive without some of the funding and infrastructure that originally supported them.

A third set of evaluations seem to raise bigger questions about how money was spent. Examples of these include:

- the policy of deploying teaching assistants (TAs), which appeared to have detrimental effects on the learning of those pupils primarily allocated to them, as qualified teacher time was exchanged for unqualified TA time. However TAs were also found to improve teacher productivity and classroom management (Blatchford et al. 2009)
- The policy of funding free universal early education for children who were already attending a pre-school educational setting. Arguably more could have been gained by targeted policies than universal subsidies. On the other hand, the high take-up rates suggest that the policy was more successful than means-tested childcare subsidies in drawing children from disadvantaged backgrounds into early education (Stewart 2013).
- Some specific aspects of the New Deal for Communities programme, such as education funding, which was found by the evaluation team not to have been spent in the most effective way.

Labour's emphasis on the funding capital projects via the Private Finance Initiative has also been criticised for its high long term cost and the high burden of risk on the public sector, although evidently a more traditional model of public finance would have involved greater short term public spending, or a slower timetable of improvements.

### **Did the Outcomes Represent Value for Money?**

There are both narrow and broad approaches to this question. One narrow approach is to investigate whether specific policies were successful in meeting their objectives and (in the case of preventative services) whether the money spent on them was more or less than the money that would otherwise have been spent.

The evidence on this is sparse and we have not attempted to cull every government evaluation for value-for-money calculations. Some of these were carried out in relation to neighbourhood renewal (see Lupton, Fenton and Fitzgerald for a fuller account). The New Deal for Communities

evaluation estimated savings at between three and five times the original amounts invested. Evaluators of the National Strategy for Neighbourhood Renewal calculated that between 2001 and 2007 worklessness was reduced by some 70,000 more in funded areas than would have been the case without the intervention. The assessed savings from this of £1.6bn were five times the estimated £312m spent through NRF directly on worklessness.

Another narrow approach is to look overall at productivity – what outputs were generated for the inputs supplied. Analysis by ONS suggests no overall change in public service productivity over the period, in other words the relationship between inputs and outputs remained the same. As described earlier, productivity in health and education was shown to rise slightly, but not sufficiently for ONS to characterise it as being any more than ‘broadly constant’ (ONS 2013).

This might indicate that no more or less value was being obtained for the money spent, but as ONS itself emphasises, ‘productivity’ is not a measure of value for money because it captures nothing about the purpose of the service or its quality. For example, a socially desired health service might have longer GP consultations from better trained doctors – these factors would not be picked up in a productivity measure.

Both VFM evaluations and productivity measures are prone to rather fundamental problems if taken as indicators of the success of social policies. First the estimates are likely to be affected by time lags. This might be particularly true in child development and preventative health. As a result the full impact of increases in expenditure may only be seen in the longer term (Atkinson 2005). In addition some current spending must be seen as capacity building for future delivery. In Labour’s case, given the low levels of spending in previous decades, some spending should also be seen as restoring services to levels where they might start to generate future outcomes.

Second, the conceptual scope of VFM and productivity measures focuses on gains that are attributable to public service activity. They cannot capture the influence of ‘social determinants’ such as income or housing (Marmot and Wilkinson 2006). Third, quality adjustment in output calculations is only partial (the point made above). Fourth, many people would also argue that some spending was merited on social justice grounds regardless of whether measurable outcomes improved. For example, tackling local crime to enable elderly people to feel confident enough to leave their homes might be seen as ‘value for money’ regardless of whether those people subsequently reported being happier or living longer.

A broader approach is to ask whether changes in outcomes were as great as we might expect, in a more general sense, given that spending increases were large. This question is usually posed in one of two ways. One is to



ask whether extra public spending, in a general sense (for example total spending on schools or hospitals, rather than specific activities in schools or hospitals) generated extra outcomes. The implication, if it did not, would be that spending was wasted and that different approaches involving no extra spending might have been more fruitful.

Although Hanushek (2008) has characterised the international evidence as tending to show no clear effect of extra school spending, recent studies that have looked at Labour's school spending in England do not support that conclusion. Holmlund et al. (2010), found that school expenditure at primary level had a consistent and positive effect on test results, especially for disadvantaged pupils. Gibbons (2011) also found a large positive effect of school spending, especially in schools with large proportions of disadvantaged pupils.

Other specific evidence suggests that spending works, including some of the evaluations we cited earlier. In another example, a survey by the National Audit Office in 2009 found a clear link between the level of spending and the number of families using a children's centre (NAO 2009). Costs per user were highest in the original Sure Start Local Programme (SSLP) areas, but these were providing more outreach services for high-need families. Later Children's Centres received considerably less in both capital and current funding, and made greater use of spare capacity in health or community centres, or even operated from mobile vans, but provided a service that was very different in nature.


Another approach is to ask whether the gains in outcomes were sufficient relative to the spend incurred. This is another very difficult question to answer since it really depends on one's view of the possibilities of social policy vis-à-vis wider social and economic structures. Given no real change in inequalities of income and wealth, one view is that any gain in the outcomes of the poorest could be regarded as very good value for social policy investments. Another is that more effective social policy should be able to achieve change despite these wider structures.

International comparisons have been used as a key tool here- did the UK's extra spending push it up the international rankings compared with countries that spent less? This is a crude approach, since it takes no account of the starting point, or what the money was spent on. Countries spending money on long term investments in training or infrastructure might see fewer short term gains than countries spending money on short term strategies, like expensive life-saving drugs or cramming for examinations. Nevertheless we review the evidence here.

On social security, the UK remained a very low spender and the declines in relative poverty overall reported earlier in the paper were not enough to greatly shift its very poor ranking relative to other countries on this measure, nor on inequality. By 2008/9, the UK remained behind only the US and Portugal of the OECD countries on inequality. However, 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.

International comparisons on education are inconclusive. As we have shown, the UK's spending increase had relatively little effect on its international ranking on spending. For outcomes, comparison of the influential OECD PISA scores are only reliable between 2006 and 2009. These show no real change in the performance of English pupils over this short period, in contrast to GCSE results, which show a big increase. However, this was also not the main period of expansion in education spending, which came earlier, so direct comparisons of spending and outcomes cannot be made on the basis of these data. Performance in another international survey, Trends in International Mathematics and Science Study (TIMSS), seemed to show an improvement in scores and rankings. However, Smithers (2012) shows that changes in rank in TIMSS can largely be accounted for by changes in the sample of countries taking part, and by non-significant changes in raw scores. He concludes that there is no evidence either of improvement or decline relative to other countries over Labour's administration – a conclusion also reached by Jerrim (2012).

For health, a move up the international spending league table were not matched by improvements in rankings on outcomes. By 2010, the UK can be characterised as having a "mid" table position on international tables and remained below the best performers, comparator countries (Vizard and Obolenskaya 2013). Survival rates for stroke, heart disease and cancer remained disappointing below that in the best performing OECD countries. There was a negligible improvement in the UK's international ranking for life expectancy for men (with the UK moving from 14<sup>th</sup> to 13<sup>th</sup> position amongst 34 OECD countries) between 1997 and 2010, and a slight worsening for women, with the UK dropping from 20<sup>th</sup> to 24<sup>th</sup> position. There was also a decline in rank for infant mortality. The situation was slightly better for children. Ranked against the EU15 and the US in 1998, only the US and Greece had a higher prevalence of low birthweight than the UK; by 2009 it was also doing better than Portugal, Spain and Belgium. In contrast, however, the infant mortality rate ranking deteriorated as other countries have made faster progress. Ranked against the same 15 countries, four had a higher IMR than the UK in 1997, but by 2009 only the US was doing worse. On the other hand, closing social class gaps in low birthweight and IMR was



a particularly important part of the story of the period and for this we do not have comparisons.

## Chapter 7: Conclusion

This report has looked broadly at Labour's social policy efforts and their outcomes, using data for its entire period in office. Our conclusions are as follows.

First, Labour set out to deliver on ambitious social justice goals. The direction taken in policy between 1997 and 2010 was a radical change from what had gone before under the Conservative government. While seemingly ambivalent about overall inequality and in particular the position of the very rich, Labour made explicit commitments to tackling poverty and social exclusion, to tackling inequalities in health and educational outcomes, and to improving neighbourhood conditions and life chances for those in the poorest areas. It particularly focused on reducing poverty in the earlier and later years of life, smoothing the risks of poverty over the life cycle. The early years was effectively invented as an area for public policy intervention. Just as the Thatcher years shifted the political discourse for good on monopoly state provision and the relationships between government, firms and the trades unions, one of Labour's key legacies may have been to move all parties to a position of concern with the reduction of social inequalities, particularly in childhood, albeit differentially expressed in terms of 'fairness' and 'social mobility'.

Second, the policies it enacted to deliver this were not dominated by increased cash benefits but by reinvestment in and 'modernisation' of public services, and by an expansion of public spending on services that would bring the UK more into line with other European countries, after a period of low spending under the Conservatives. 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. Spending on cash benefits was also increased, particularly to support poverty reduction for children and pensioners, goals that were achieved. The benefits of the money spent were visible on the ground. There is specific evidence of the positive effect of more spending, although also lessons about where money could have been better spent. Evidence about whether Labour's model of market reforms and strong central performance management drove up quality is currently mixed, perhaps with more positive evidence for health than education at present.

Third, on the whole, economic and social outcomes got better, and differences between social groups narrowed. Given that a good deal of the increase in spending and the changes in working practices and delivery were aimed at education and the early years, it is more than likely that the full effects of some of these changes are yet to be seen, as children progress

through the system and into adulthood. 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 poverty for working age people with no children did not pay off. Overall income inequality also had a worsening trend until the recession, which reduced inequality because median incomes fell while bottom incomes were supported by benefits. Recent data has suggested that material deprivation may have risen in the second half of the decade, while some outcomes did not improve for certain very disadvantaged groups.

Fourth, this was an expensive agenda with total spending increasing by over 60 per cent in real terms. When Labour took over, levels of spending as a proportion of national income were low by historic and international standards. The increases over this period moved the UK up the international spending league tables but its position was still, overall, unexceptional. For family policy, the UK became a high spender, while for social security it remained very low, contrary to some public perceptions about the welfare bill. Taxes did not rise as much as spending, leading to an increase in the budget deficit and national debt and causing some commentators to argue that Labour left the UK in a weaker financial position than it might have been before the crash. However, both deficit and debt were lower in 2007/8 than when Labour took office, suggesting that Labour's spending has not caused a crisis in the country's finances. The financial crash and recession of 2008, which led to a dramatic fall in GDP and the need for extra spending on social security, fiscal stimulus measures and the bank bailout, left levels of public sector debt and current budget deficit that were very high by historical comparison. Taxes must go up, or spending come down, or both, in the future.

Fifth, there remained a long way still go towards a more equal society after all the spending. Overall income inequality fell slightly as a result of the crash but had not been falling before that and remained high by international standards, as did overall relative poverty rates. Large socio-economic gaps remained on most indicators. International data on the change in the UK's international position are disappointing for health and inconclusive for education. One conclusion from this could be that "spending doesn't work". However this is not supported either at the general or specific level. In general terms, where Labour spent money, outcomes shifted, while on areas on which no policy effort or extra money was expended, outcomes remained unchanged. Specific research tended to show that more spending was better than less spending, although there were questions about value for money of certain policies. Another conclusion is that socio-economic inequalities in outcomes are hard to shift, in the context of persistent high inequality – that there are limits to what social policies can achieve in the absence of economic change.

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The net effect is that the Coalition had, on the one hand, a better inheritance than Labour – less poverty (especially for children and pensioners) and expanded public services - but on the other, a long way still to go in a much tougher economic climate, with increasing demographic pressures. Even more so than Labour coming into office, it started its period in government faced with a large structural deficit and high public sector net debt to pay down. Given the relatively modest progress towards greater social justice that could be made over thirteen years of consistent policy effort at high spending levels, making greater strides in the current financial situation must be seen as a tough challenge. It remains to be seen whether any of Labour’s progress will be sustained, built on, or (on the other hand) reversed and to what extent such changes can be put down to the economic effects of the recession, the need for public spending restraint, the longer term effects of Labour policies, or the specific policies of the Coalition itself. Using this report as our baseline, we will report on these questions in early 2015.

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## Appendix 1: Opportunity for All and Monitoring Poverty and Social Exclusion Indicators.

		OFA		
		Change in the last decade	Change in last 5 years	
Children and young people	Children in workless households	n.a.	Worse	
	Children in relative low income	Better	Mixed	
	Children in absolute low income	Better	Mixed	
	Children in persistent low income	Better	Mixed	
	Teenage pregnancy	Better	Better	
	Teenage parents in education, employment or training	Better	n.a.	
	Children from disadvantaged areas achieving good development	Better	Better	
	11 year olds attainment (KS2 maths and English)	Better	Better	
	16 year olds GCSEs attainment	Better	Better	
	Schools below floor target	Better	Better	
	19 year olds with at least a Lev 2 qualification	Better	Better	
	School attendance	Better	Better	
	Education gap for looked after children	Worse	Worse	
	NEET rate among looked after children	No change	No change	
	Stability in the lives of looked after children	Better	Better	
	16-18 year olds in education, training or employment	Better	Better	
	Infant mortality	Better	Better	
	Serious unintentional injury	Better	n.a.	
	Smoking among pregnant women	Better	Better	
	Smoking among children	Better	No change	
	Obesity among children	Worse	Better	
	Re-registration on child protection register	No change	No change	
	Housing below decency for children	Better	n.a.	
	Families with children in temporary accommodation	Better	Better	
	working-age people	Employment rate	Worse	Worse
		Employment of disabled people	Better	No change
Employment of lone parents		Better	No change	
Employment of ethnic minority people		Better	Worse	
Employment of people over 50		Better	Better	
Employment of the lowest qualified		Worse	Worse	
Working-age people in workless households		Better	Worse	
Working age people without a level 2 NVQ or higher		Better	Better	
Proportion of people on <b>long-period</b> of income-related JSA		Better	Mixed	
Working age people relative low income		Better	Worse	
Working age people absolute low income		Better	No change	
Working age people persistent low income		Better	No change	
Adults smoking		Better	Better	
Manual socio-economic group smoking		Better	Worse	
Suicide rate		Better	No change	
Rough sleepers		Better	No change	
16-24 Using class A drugs		No change	Better	
16-24 Using any illicit drug		Better	Better	
Older people	Older people: Relative Poverty	Better	Better	
	Older people: Absolute poverty	Better	Better	
	Older people: Continuous poverty	Better	Better	
	People contributing to non-state pension	Worse	Worse	
	People making continuous contributions to non-state pensions	No change	n.a.	
	Healthy life expectancy at age 65	Better	Better	
	Receiving intensive home-based services	Better	n.a.	
	Receiving community based services	Better	n.a.	
	Housing below decency for elderly	Better	n.a.	
	Fear of crime among elderly	Better	n.a.	
Communities	Employment rates in deprived areas	Better	Worse	
	Crime rates in high-crime areas	Better	n.a.	
	Housing below decency	Better	Better	
	Households in fuel poverty	Mixed	Worse	
	Life expectancy at birth between areas	Worse	Worse	
	Schools KS2 Attainment across areas	Better	Better	
Road accident casualties in deprived areas		Better	Better	

		MOPSE	
		Change in the last decade	Change in last 5 years
Low income	Child poverty (relative, AHC - supported by absolute)	Better	No change
	Pensioner poverty	Better	Better
	Working-age adults with children poverty rate	No change	Worse
	Working-age adults without children poverty rate	Worse	Worse
	Proportion of population in deep poverty (40% of median)	Worse	Worse
	Income inequality	Worse	Worse
	Children needing tax credits to escape low income	Worse	Worse
	Number of people receiving out-of-work benefits	Worse	Worse
	Material deprivation	n.a.	Worse
Children	11-year-olds not attaining expected standards	Better	Better
	16-year-olds not attaining five GCSEs at A*-C	Better	Better
	Looked-after children not attaining five GCSEs	Better	Better
	School exclusions	Better	Better
	Infant mortality	Better	Better
	Under-age pregnancy (under 16)	Better	n.a.
	Low birth-weight babies	Better	Better
Young adults	Unemployment among young adults	Worse	Worse
	Lacking qualification at 19	Better	Better
	Victims of crime (all ages)	Better	No change
	With a crime record	Better	No change
Work	Unemployment and underemployment	Worse	Worse
	Total JSA claimants	Worse	Worse
	Rate of worklessness for lone parents	Better	No change
	Rate of worklessness for disabled people	Better	No change
	Number of children in workless households	No change	Worse
	Households who have never worked	Worse	Worse
	Proportion of employees who are low-paid	Better	No change
	Pay inequalities between low-paid men and average	No change	No change
	Pay inequalities between low-paid women and average	Better	No change
	Re-occurring unemployment (% starting new JSA claim within 6	Worse	Worse
Proportion of workless disabled people	Better	No change	
Older adults	Poverty rates for ages 55-64	No change	n.a.
	Poverty rates for ages 65-74	Better	n.a.
	Poverty rates for ages 75+	Better	n.a.
	Non-take-up of benefits by pensioners	Worse	No change
	Number of pensioners with no private income	Better	No change
	Premature deaths in deprived areas	Better	Better
	Disability-free life expectancy	Better	n.a.
	Fear of crime (all ages)	Better	Better
	Digital exclusion (all ages)	n.a.	Better
	Lack of care by 'in deprived areas'	Better	n.a.
Housing	Social housing poverty risk	Better	No change
	Private rental poverty risk	No change	Worse
	Housing costs as a proportion of income for low-income households	Worse	Worse
	Number of loans in arrears	n.a.	Worse
	Number of mortgage repossessions	n.a.	Worse
	Number of households receiving HB or LHA	Worse	Worse
	Risk of overcrowding in social or private rented accommodation	Worse	Worse
	Rate of fuel poverty	n.a.	Worse
	Number of households accepted as homeless	Better	Better

Sources: Authors' update of Department for Work and Pensions Opportunity for All 2007 Update; New Policy Institute, Monitoring Poverty and Social Exclusion Indicators.