

**The Labour Party Conference Demos & Resolution Foundation Fringe
Event**

***Lean Government: how to balance the book without wounding low
earners***

29 September 2009

Chair: Kate Green, Child Poverty Action Group
Speakers: Rt Hon David Blunkett MP
Helen Goodman MP, Parliamentary Under-Secretary of State,
Department of Work & Pensions
Clive Cowdery, Resolution Foundation
Sonia Sodha, Demos
Jonathan Cox, London Citizens

The chair for the event, Kate Green, Child Poverty Action Group, said that this debate was very timely as focus was firmly on the 'squeezed middle'. She introduced the panel and asked Clive Cowdery, chairman of the Resolution Foundation to kick off by highlighting the current situation for low earners.

Clive set the scene for the discussion by explaining the Foundation was set up in 2005 to focus on improving the outcomes of low earners in a mixed economy. He argued that the government and third sector's focus had been on those at the very margins of society, the socially excluded and that there has been some great work to support this group of people. However, low earners remain overlooked: too poor to access private services but too rich to be eligible for government initiatives or third sector support.

Clive explained that government initiatives were helping to protect low earners during the recession but that these needed to go further and not end before the full force of lagging unemployment was felt. He also warned that the biggest challenge to low earners was yet to come in the recovery period. Low earners could bear the brunt of public spending cuts and tax rises if their vulnerable situation is not fully understood. The affect of cuts in public services on low earners is demonstrated by the fact that 20 years ago low earners got 85p back in benefits and public services for every £1 they paid in tax - now they get £1.06. This is a significant improvement and does make a difference to the 13.7m low earners and their 4m children living in the UK.

Sonia Sodha, Demos, agreed that this was an important debate and that awareness of this group must be increased as focus on 'middle class benefits'

might detract attention from low earners. She said there were three areas that needed to be protected:

- help form the state in the form of working tax credits
- protection for low earning employees
- protection of the public services which aid low earners

Sonia concluded by saying that it might be easier to consolidate by stealth but it is low earners that will lose out.

Jonathan Cox followed Clive giving details of London Citizens' Living Wage campaign, which has been in operation since 2001. He argued that the campaign came out of a realisation that the National Minimum Wage didn't recognise regional variations in living costs which meant that many people could not live off the current rate. London Citizens worked with some academics to derive a Living Wage which took into account a range of needs, including the need for warmth, shelter, a healthy diet and the need to live in avoidance of chronic stress. The calculation led to a London Living Wage of £7.45 per hour. So far, as a result of their campaigning activities, 29 businesses in London have signed up. He argued that tax credits and benefits remained very important though. Without these a Living Wage would need to be £9.65.

Helen Goodman MP, said the Government couldn't afford not to consider low earners as they save £700m for every 100,000 people in work. She highlighted the Government initiatives that were helping low earners to stay in work including the huge uptake in tax credits of 80-90% compared to the Conservative' family supplement which only saw an uptake rate of 30%. She argued that tax credits make a real difference to low earners and questioned the Conservative's commitment to maintain them for low earners quoting Theresa May as saying 'tax credits mask poverty.' Helen said that the Labour Government was committed to increasing the minimum wage and tax credits but this will all change if Labour lose the next election.

David Blunkett MP said we need to have a plausible story of how we pay off the deficit in order to still be able to protect the services that help low earners to stay financially independent. He argued that in order to halve the deficit by 2014 we needed economic growth as cuts in spending alone would not be sufficient. He argued that public expenditure retention helped facilitate growth and well-being. We therefore needed to think carefully about where cuts are made so that growth is still enabled. As a reduction in spending was also inevitable David had three areas where cuts could be made without wounding low earners:

- Cutting or reducing trident
- Fund commitments to frontline services via things like the education reserve bank
- increase benefits such as child benefit, university loans etc but tax them whilst protecting low earners

David also referenced work he had done with the Resolution Foundation on reform of the social fund and money guidance which would provide affordable credit and free generic financial advice respectively.

Discussion

- Clive suggested capitalism could self-generate contributions naturally in the economic cycle to make redistribution take place. He suggested a 'licence to trade' could be introduced so that financial services pay for the problems they create that need remedying i.e. debt advice, money guidance.
- Jonathan said that citizens of civil society should hold leaders to account and first and foremost in this was to get a living wage.
- Sonia said the government should set an example through up-skilling in the public sector. She believes this could make a big difference to employment practices.
- Helen said that when loan sharks charge 276% APR but the payment is £10 a week people tend to go with what they trust. A post office bank might offer the same trusted brand and the challenge was to understand these practices in order to enable people to make sounder financial choices.

Contact details

For further information on this or any of the Foundation's work please contact Cara Brown on 020 7731 9143 / 07957 536758 or cara.brown@resolutionfoundation.org