

Ingredients for shared growth

The first three sections of this report described the nature of the squeeze on living standards, explaining how we got here and where we are heading

Even on fairly optimistic assumptions, the long-term prospects for the real incomes of ordinary working households are unprecedentedly poor. This trajectory is unlikely to change without bold action on a number of fronts. Even when money was available for new direct support from government, shifting the income distribution was very hard work. Changing the growth and distribution of employment income will be far harder and the impact of policy interventions more diffuse.

But we have also seen that alternative paths are possible. Some countries have done much better than the UK in making sure their labour market raises the standard of living of ordinary working households. The UK has also performed better in this respect at other times. These variations are explained in part by favourable social and cultural circumstances such as the changing role of women in society. But policy also matters. Faltering prosperity for the low to middle income group is not a universal 21st-century malaise; it depends in large part on the decisions that public authorities, individuals and business make.

Summing up what we have learned, we can identify some important ingredients for shared growth. Pursuing higher productivity through research and business investment, better quality management and a smarter planning system is vital. But productivity growth only creates the potential for steady and widespread growth in living standards. The following additional mechanisms are needed to ensure this potential is realised:

1 *A skills system that gives people in the bottom half of the UK workforce a fighting chance to secure good jobs, backed by labour market institutions that encourage employers to share their proceeds broadly.* In many countries this means that sector-based skills bodies work alongside broad collective bargaining coverage and strong employer bodies. But this is not the only answer. Some countries have innovated, building new institutions like Australia's system of sectoral minimum wages and fair

negotiation clauses. Accepting that the UK needs new institutions as well as improvements in skills supply is a big change. Improved skills are vital, but they are not enough.

2 *Not just low unemployment but broad employment in which a greater portion of the UK population is economically active.* Although it is vital to reduce unemployment through macroeconomic policy and strong demand, to reach new levels of prosperity over the medium to long term the UK also need groups with historically low levels of activity – including mothers and older workers – to find that work is rewarding, financially worthwhile and compatible with other commitments. This will depend on new, pro-employment public services, most notably affordable, accessible childcare and reliable social care. Developing services of this kind should be one of the great projects of the early 21st century.

3 *Not just a welfare safety net but a well-established system of in-work cash transfers to support low income working households – particularly for low income working families with children.* Although recent growth in state support is unlikely to be repeated, tax credits – and their replacement Universal Credit – cannot be eroded without destroying a prerequisite for shared growth. These systems are not symptoms of a dysfunctional labour market, but a fact of life in advanced economies, acknowledged to be essential in countries as diverse as the US and Sweden. Only in exceptional cases has any country delivered steady growth in living standards for low income households without some form of government cash transfer playing an important role.

These are not universal or timeless conditions for shared growth. Some countries have found different paths open to them. But from our starting point in Britain today, it is hard to see how broad-based income growth can be achieved without a mix of all of these factors. The next section of the report turns to what this means in practice.