

# Six lessons for living standards

This second section of the report has presented analysis across a broad domain, drawing on a wide range of original research submitted to the Commission. What do the findings tell us about the future prospects for living standards when we draw them together?

**A**t the highest level, they confirm that the link between growth and rising material wellbeing is neither stable nor automatic. The mechanisms through which growth has reached ordinary working households have changed over time and cannot be taken for granted. As things stand, it is far from clear – in particular for low income working families with children – where the next significant and sustained period of growth in household income will come from, even when GDP growth returns. Economic recovery will be necessary for a recovery in living standards but it is by no means sufficient.

More specifically, six key lessons for living standards emerge from the evidence that we have presented above. They set out starkly the scale and nature of the challenge that the UK now faces:

**1** There is a clear imperative to rebalance income growth away from state support towards employment income. Repeating the growth of state support that took place in the 2000s seems neither financially sustainable nor necessarily desirable. Under current plans, government cash transfers are set to fall over the long term and to do so in an environment that is otherwise extremely difficult for living standards. If we are to avoid an unprecedented decline in real and relative incomes for a broad swath of the country, public authorities will need to be far more ambitious and targeted than they have ever been before in supporting employment income in low income households. This can be done by boosting hourly wages, hours worked or employment in the bottom half of the wage distribution. There is no other way. Nor will this be easy. Only in exceptional circumstances has any other advanced economy achieved this in the past 30 years.

**2** The UK economy pays a heavy price for the unusually high incidence and severity of our low wage work. Our low paying sectors are larger than in other advanced economies and the people who work in them are paid worse, even when doing the same jobs. Companies find it easy – indeed they feel encouraged by our institutional environment – to adopt low paying strategies even when there are equally competitive alternatives. Meanwhile UK workers have little power to improve their situation, particularly those who are paid badly but above the National Minimum Wage in our large and largely non-traded personal service sectors with low rates of unionisation. The cost of these individual employer decisions – through the direct fiscal costs of in-work transfers, the long-term economic costs of underinvestment in skills, and the social and economic costs of wasted potential and limited mobility – is vast.

**3** A very large proportion of our workforce simply is not equipped with the skills as they need to compete for good jobs, and in particular to get a share of the very high wage returns that graduates still attract. This problem owes much to the UK's unusually

long tail of people without basic skills, the high percentage without intermediate skills, and the variable quality of our intermediate qualifications. The UK's underperformance on skills is longstanding but its consequences are now greater than ever. It is holding back our overall economic performance and skewing wage growth away from those in the bottom half of the wage distribution.

**4** Large numbers of people who could work and who want to work – and who would probably work in many other countries – do not do so in the UK. This problem exists among demographic groups that are already essential to prosperity and that are becoming more so, most notably parents and older workers. This is not a cyclical problem but a structural underperformance that arises in large part from our policy and institutional infrastructure. The result is that the UK wastes vast amounts of potential productive capacity, because work too often simply doesn't pay.

**5** Low income households are extremely vulnerable to the soaring prices of essential goods and policy-makers have no adequate way to respond. The prices of some essential goods like food are largely beyond our control. But in other areas such as energy or the costs of financial services the design of UK markets may have more of a role. Other areas, not least work-related costs like childcare and transport, may be even more tractable.

**6** Low income working families with children face particularly bleak prospects in achieving real income growth and in terms of their relationship to the overall health of our economy. Without action, their relative income growth will be extremely poor as state support looks set to recede over the long term. This owes something to our collective failure to secure a systematic and politically sustainable way of recognising children in our tax and benefit system, a point all too often glossed over in public debate.

These lessons sharpen our understanding of the challenge facing living standards. The remainder of this report does two things.

**Section 3** looks forward to 2020, sketching out some likely scenarios for living standards in the next decade. First Chapter 7 gives a more detailed account of where low to middle income Britain is headed on our current path. Then Chapter 8 sets out how much difference could be made with concerted action.

**Section 4** then turns to policy. In the course of three chapters, on the role of wages (Chapter 9), employment (Chapter 10), and the tax and benefit system (Chapter 11), it sets out the choices that will need to be made to respond to the living standards crisis. Its focus, as with of all our work as a Commission, is long term. But it also sets out some practical, incremental and funded steps that could be taken now.