

Past, present and future challenges facing the UK

James Smith, Research Director

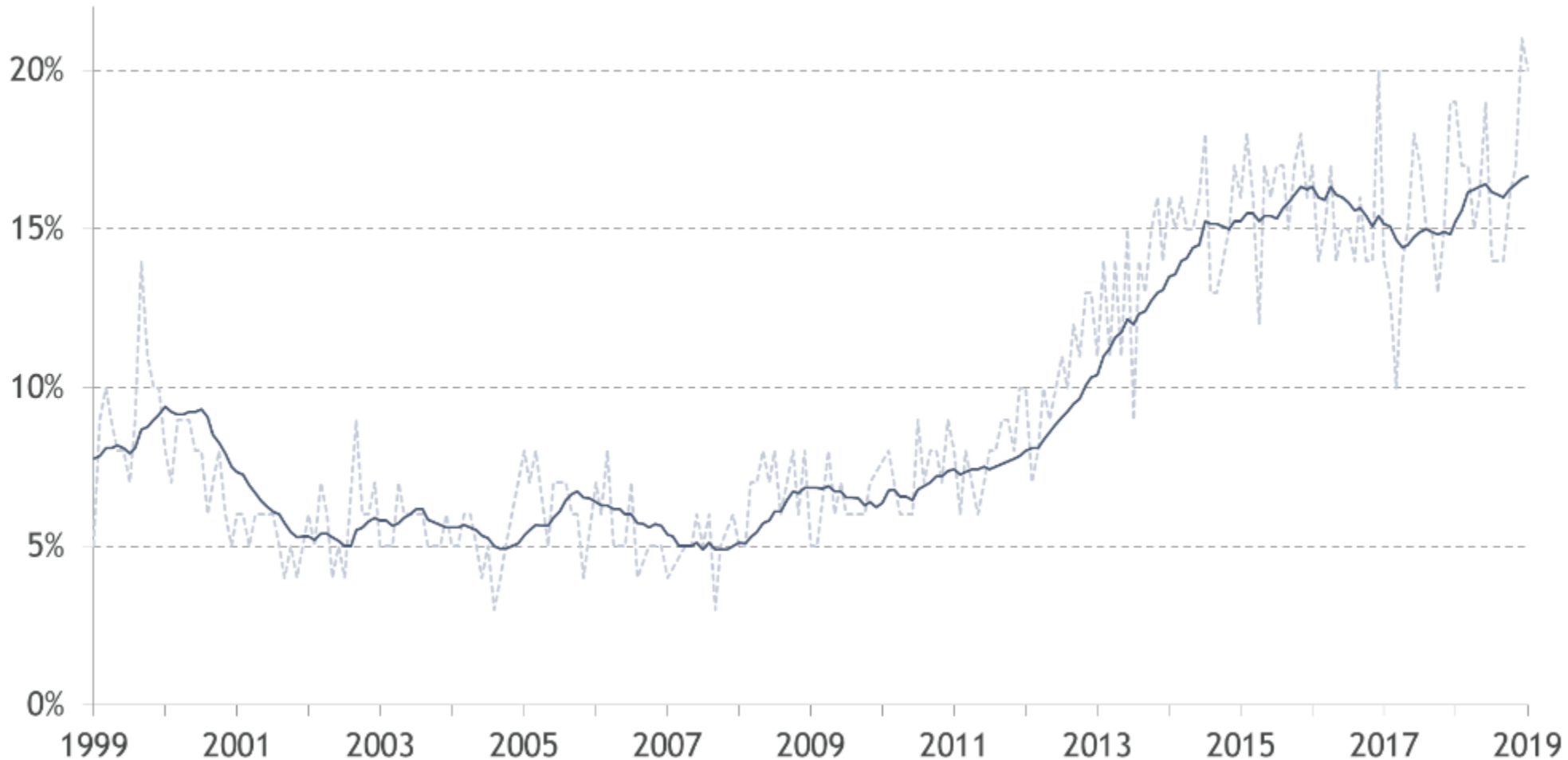
Resolution Foundation

HEPI Annual Conference, 13 June 2019

Challenges from the past (experienced in the present)

UK inequality concern is at a 21-year high...

Proportion of respondents declaring poverty/inequality to be one of the most important issues facing Britain today



Base: representative sample of c.1,000 British adults age 18+ each month, interviewed face-to-face in home.
Source: Ipsos MORI Issues Index

...and clear that this is a political priority

“We believe in a union not just between the nations of the United Kingdom but between all of our citizens, every one of us, whoever we are and wherever we’re from.

*That means **fighting against the burning injustice that, if you’re born poor, you will die on average nine years earlier than others...***

*If you’re from an ordinary working class family, life is much harder than many **people in Westminster realise.** You have a job but you don’t always have job security. You have your own home, but you worry about paying a mortgage. You can just about manage but you worry about the cost of living and getting your kids into a good school...*

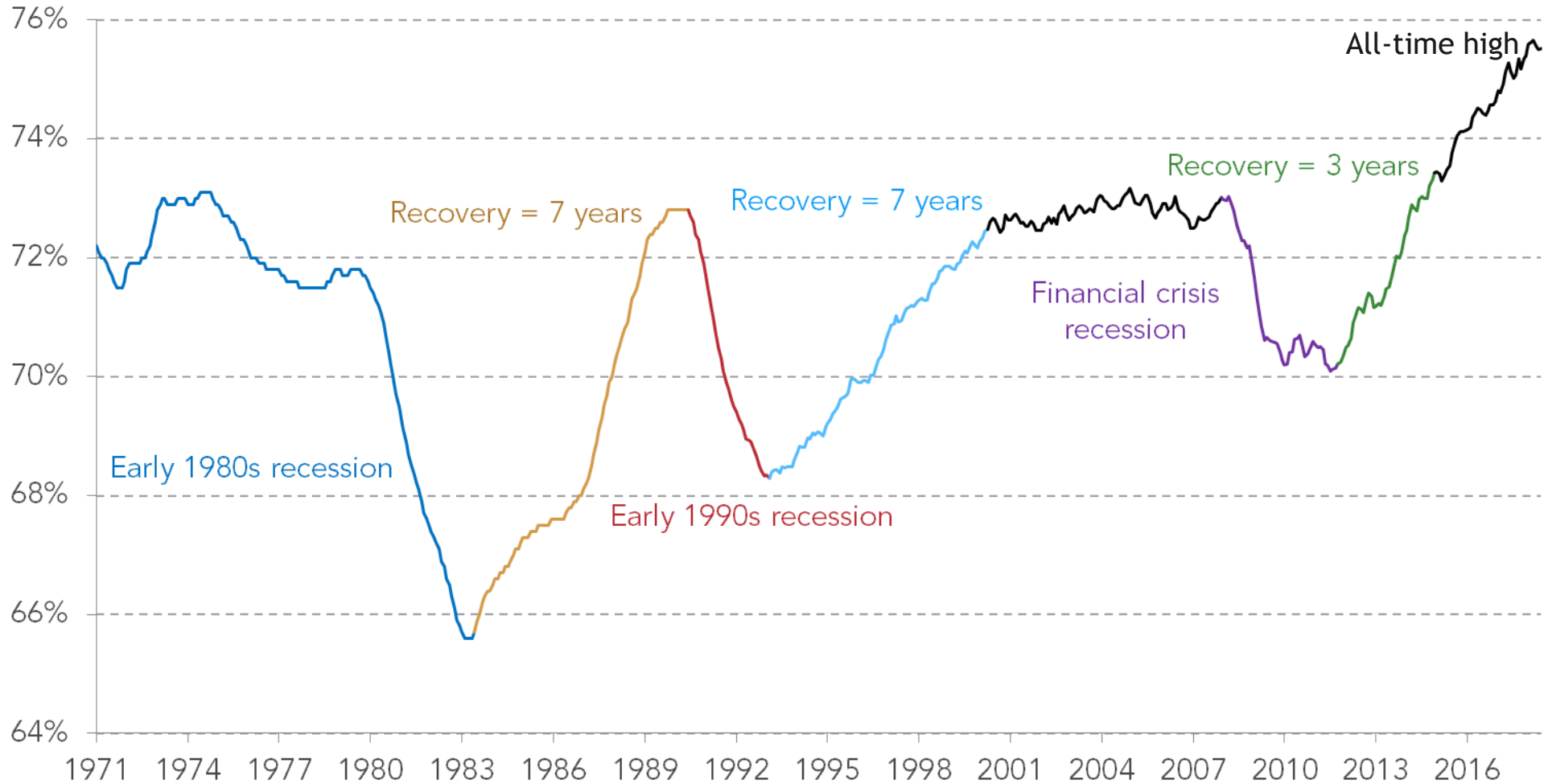
*I know you’re working around the clock, I know you’re doing your best, and I know that sometimes life can be a struggle. **The government I lead will be driven not by the interests of the privileged few, but by yours.**”*



Statement from Theresa May, Downing Street, 13 July 2016

In some ways things are going well...

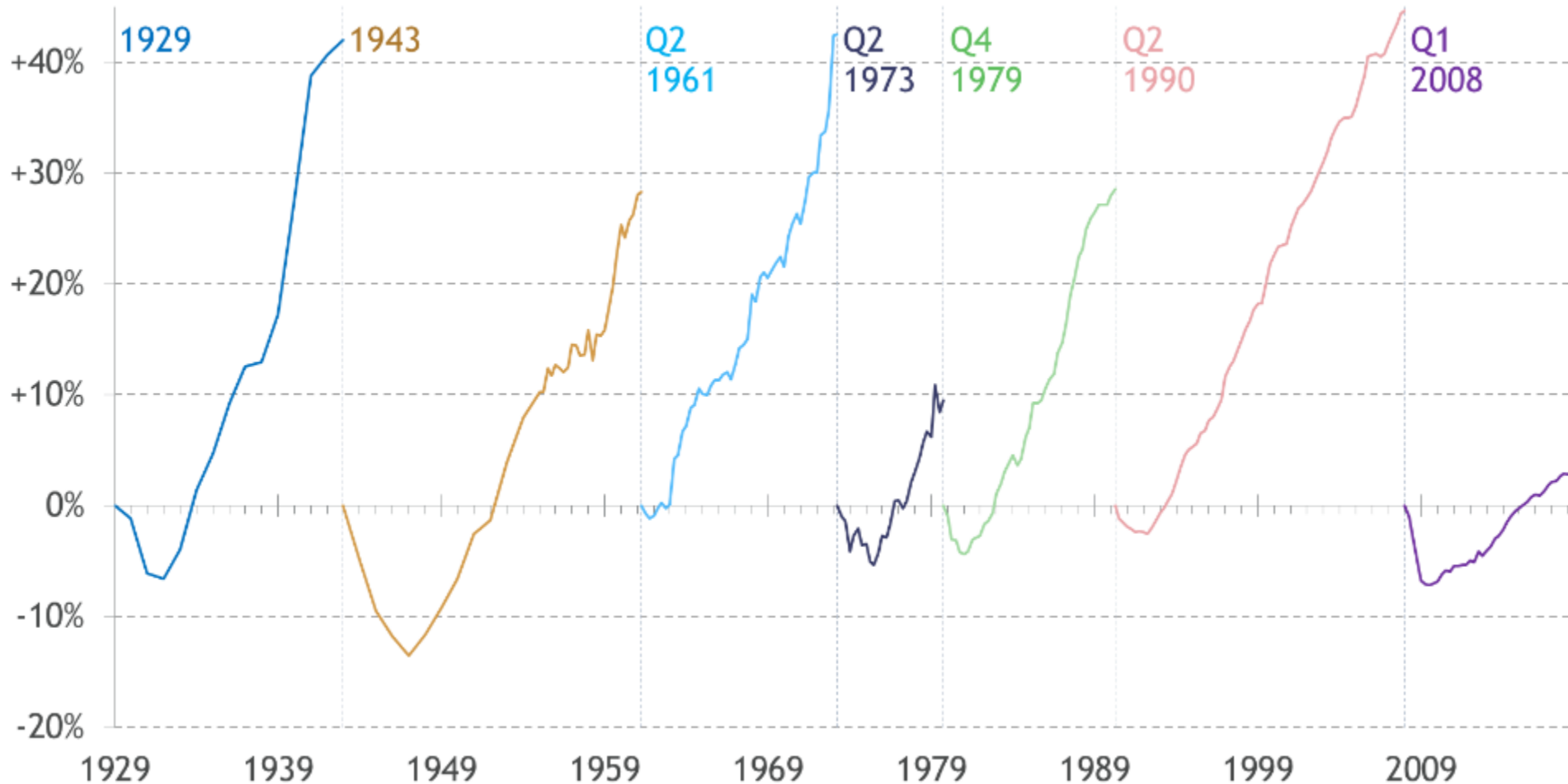
Employment rate (16–64): UK



Source: RF analysis of ONS, *Labour Force Survey*

...but the key thing to understand is that the Crisis was different to past recessions

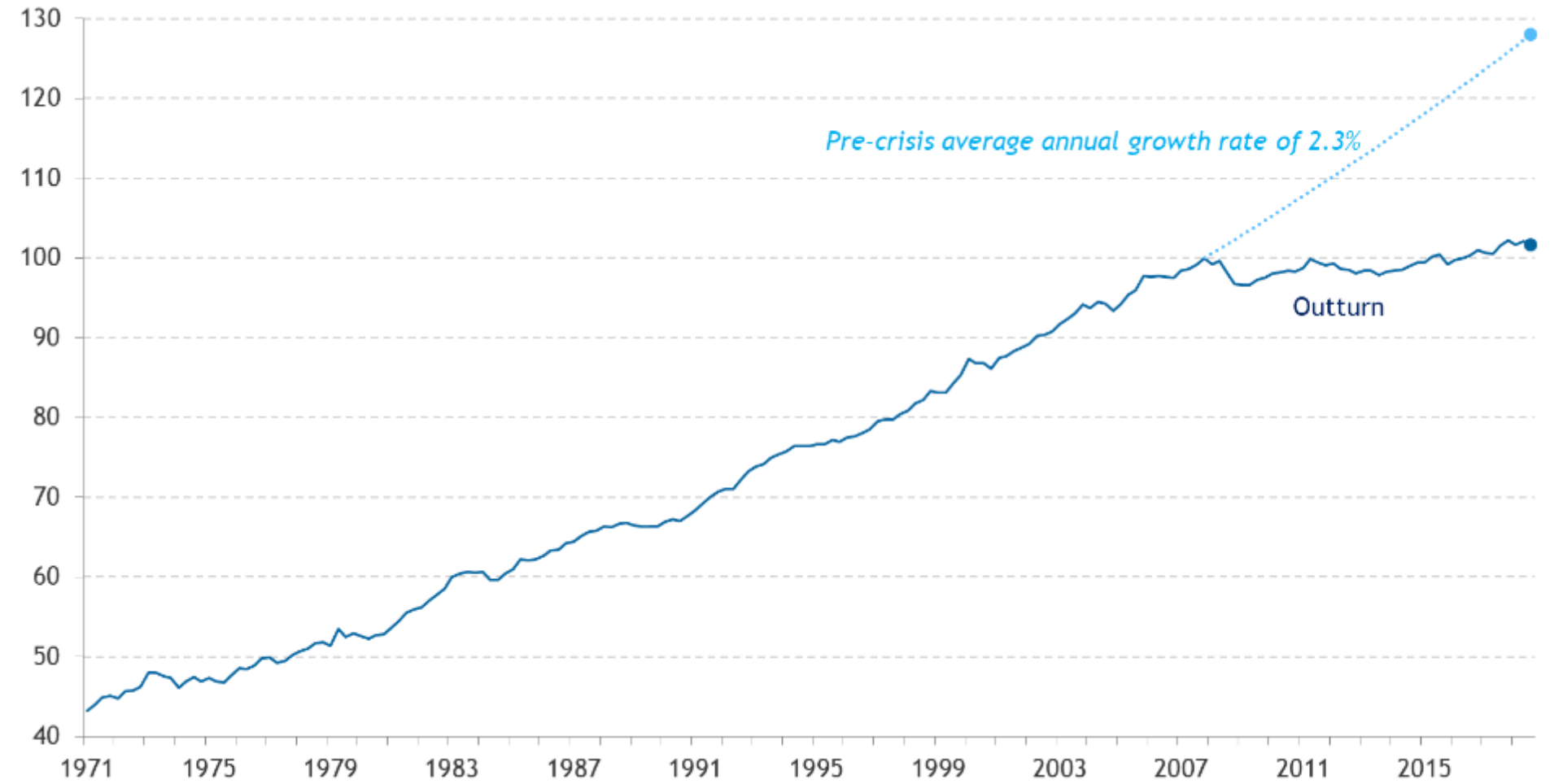
Cumulative growth in real-terms GDP per capita over successive economic cycles: UK



Source: RF analysis of ONS, *National Accounts*

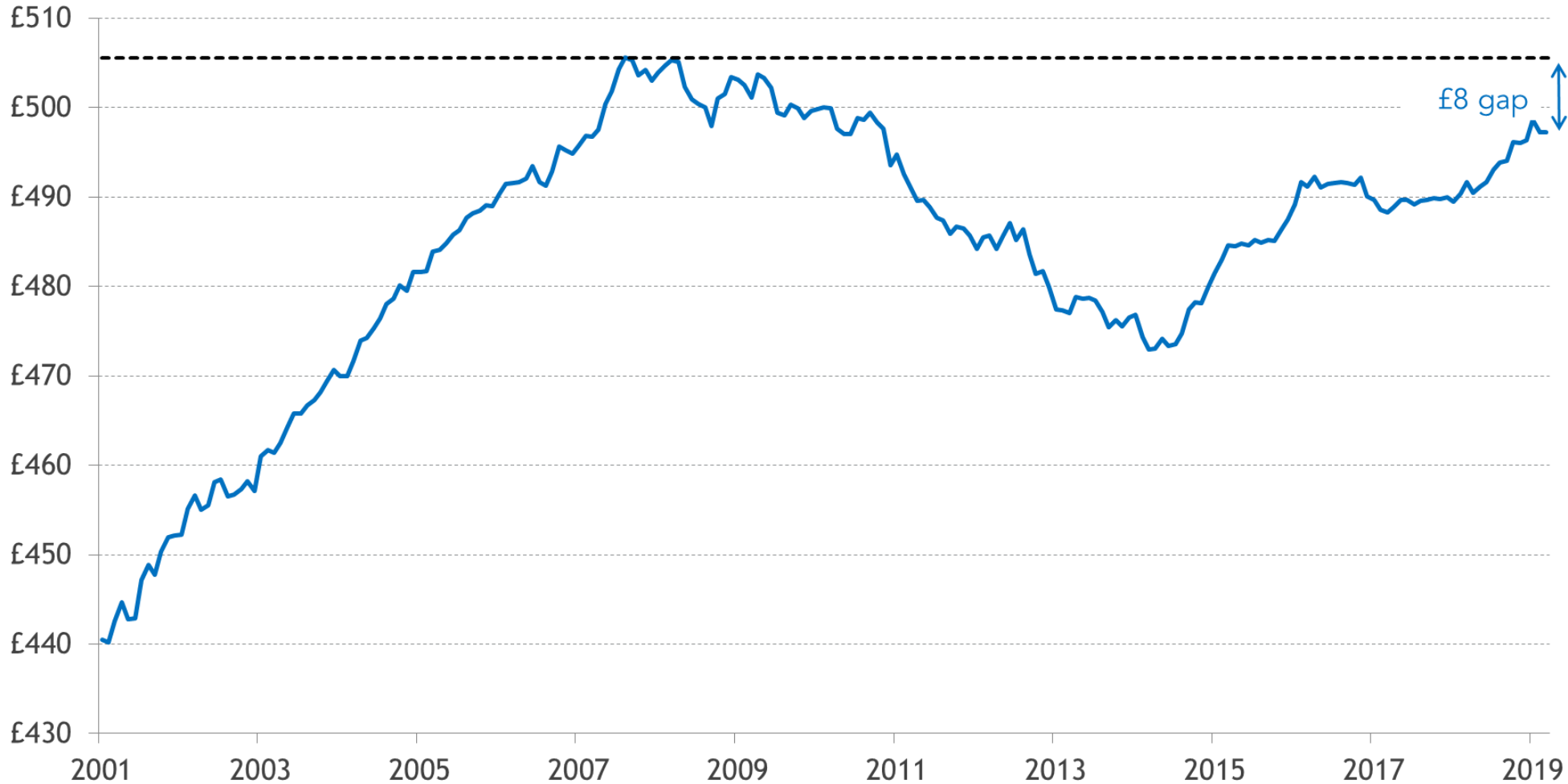
This means productivity has hit a brick wall...

Index of output per hour worked, outturn and pre-crisis counterfactual: UK



...leading to an unprecedented stagnation in *average* living standards

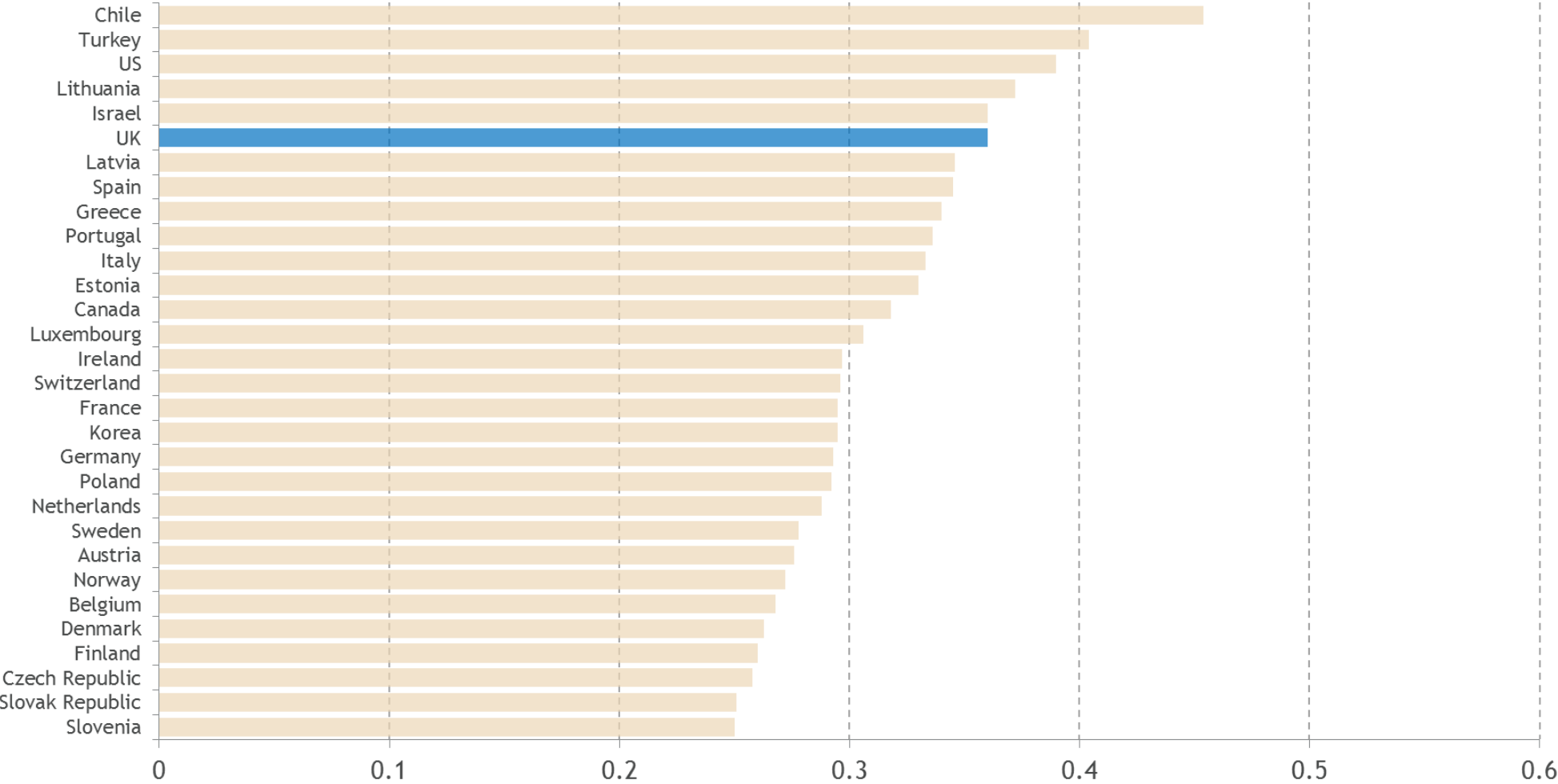
Real average weekly earnings since 2001: UK



Source: RF analysis of ONS, *Labour Market Statistics*

But UK inequality is high by international standards...

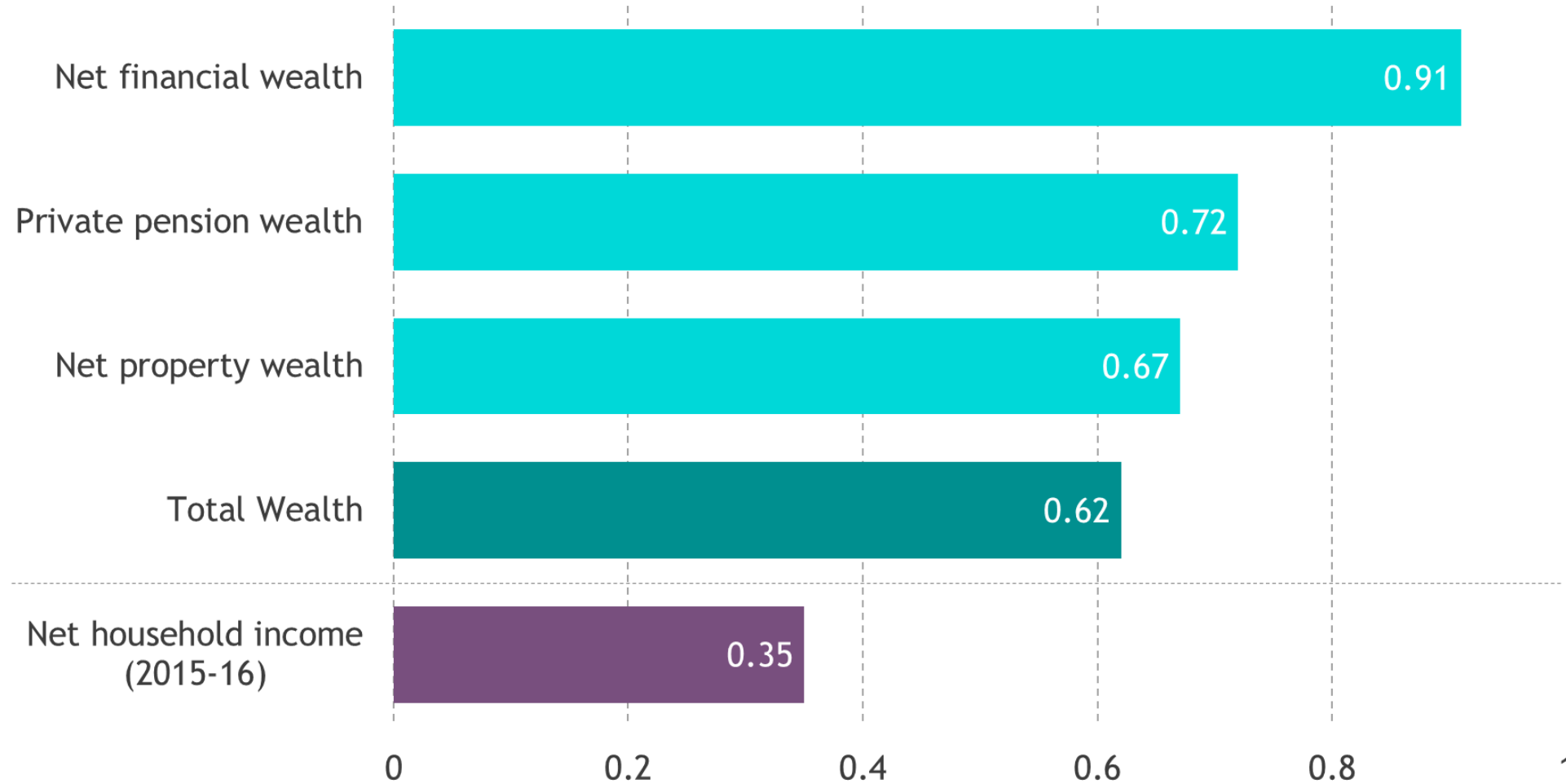
Gini coefficient (1 = perfect inequality, 0 = perfect equality), 2015, disposable income



Source: OECD

...and wealth inequality is much bigger

Gini coefficient (1 = perfect inequality, 0 = perfect equality) for wealth (GB) and income (UK): 2014-16

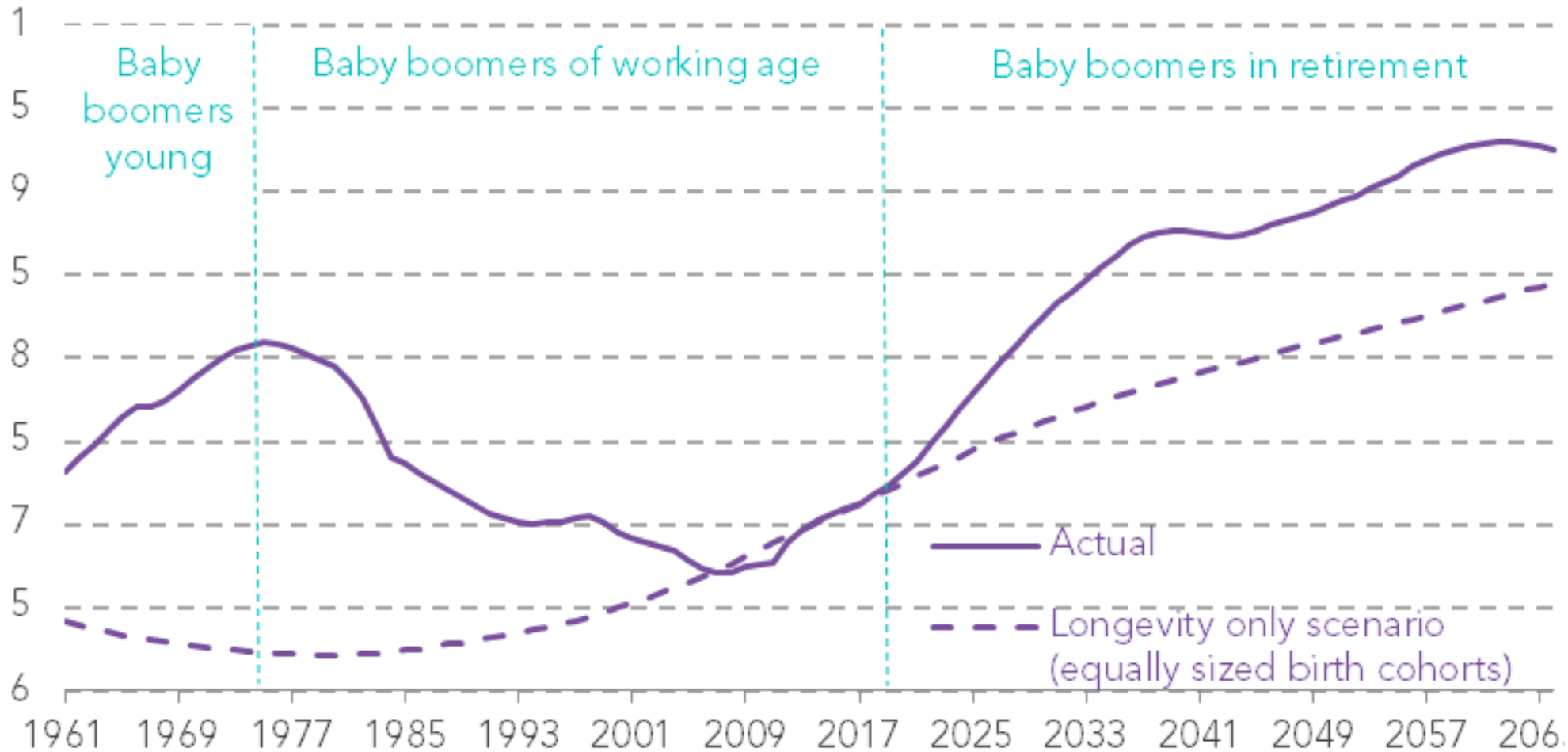


Source: RF analysis of ONS, *Wealth and Assets Survey* and DWP, *Households Below Average Income*

Challenges for the future (also experienced in the present)

The UK population is ageing...

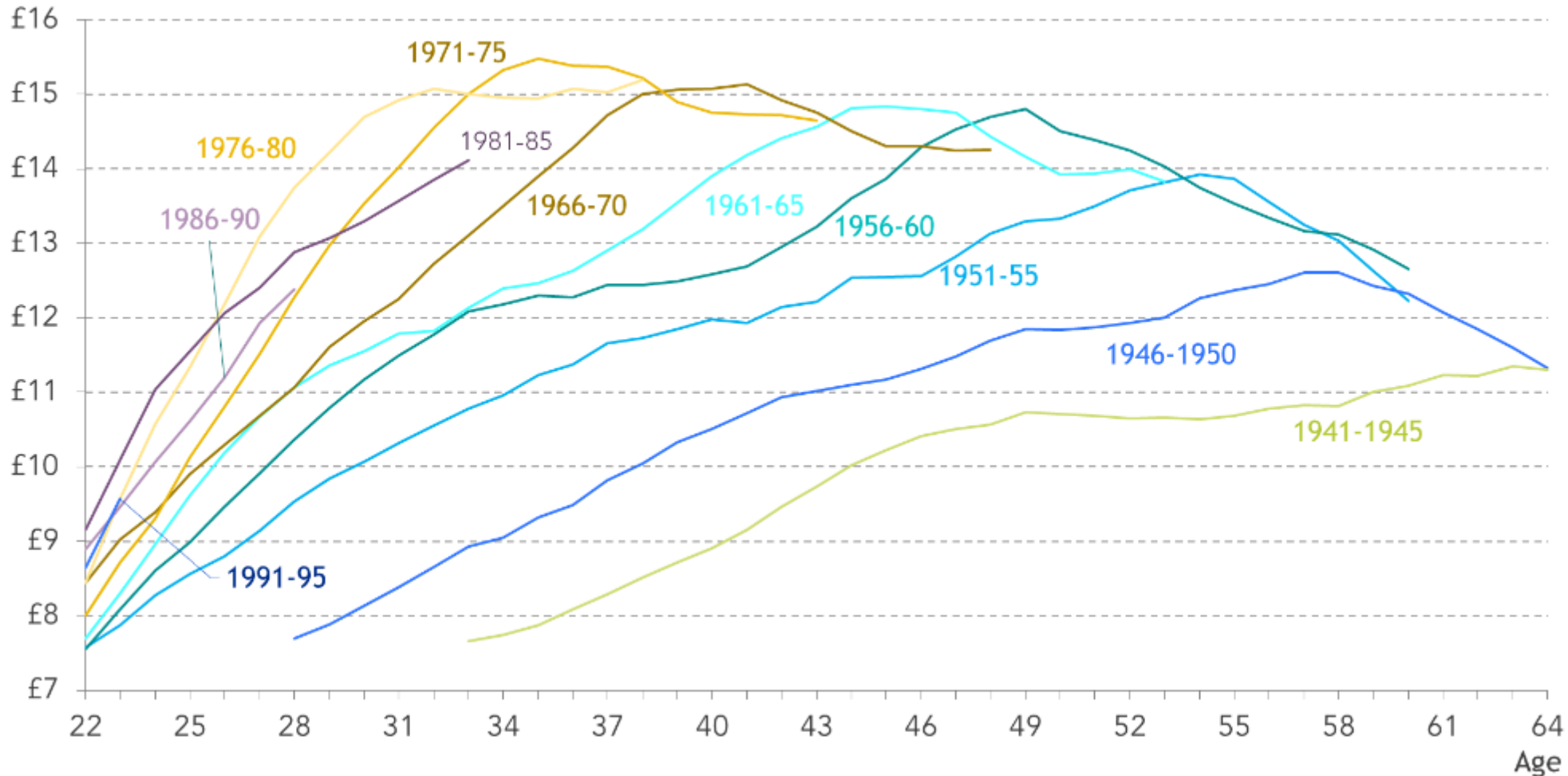
Dependency ratio (under-20 and 65+ population)/20-64 population



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings* (1997–2018); ONS, *New Earnings Survey* (1975–97)

This has meant earnings progress for younger generations has slowed...

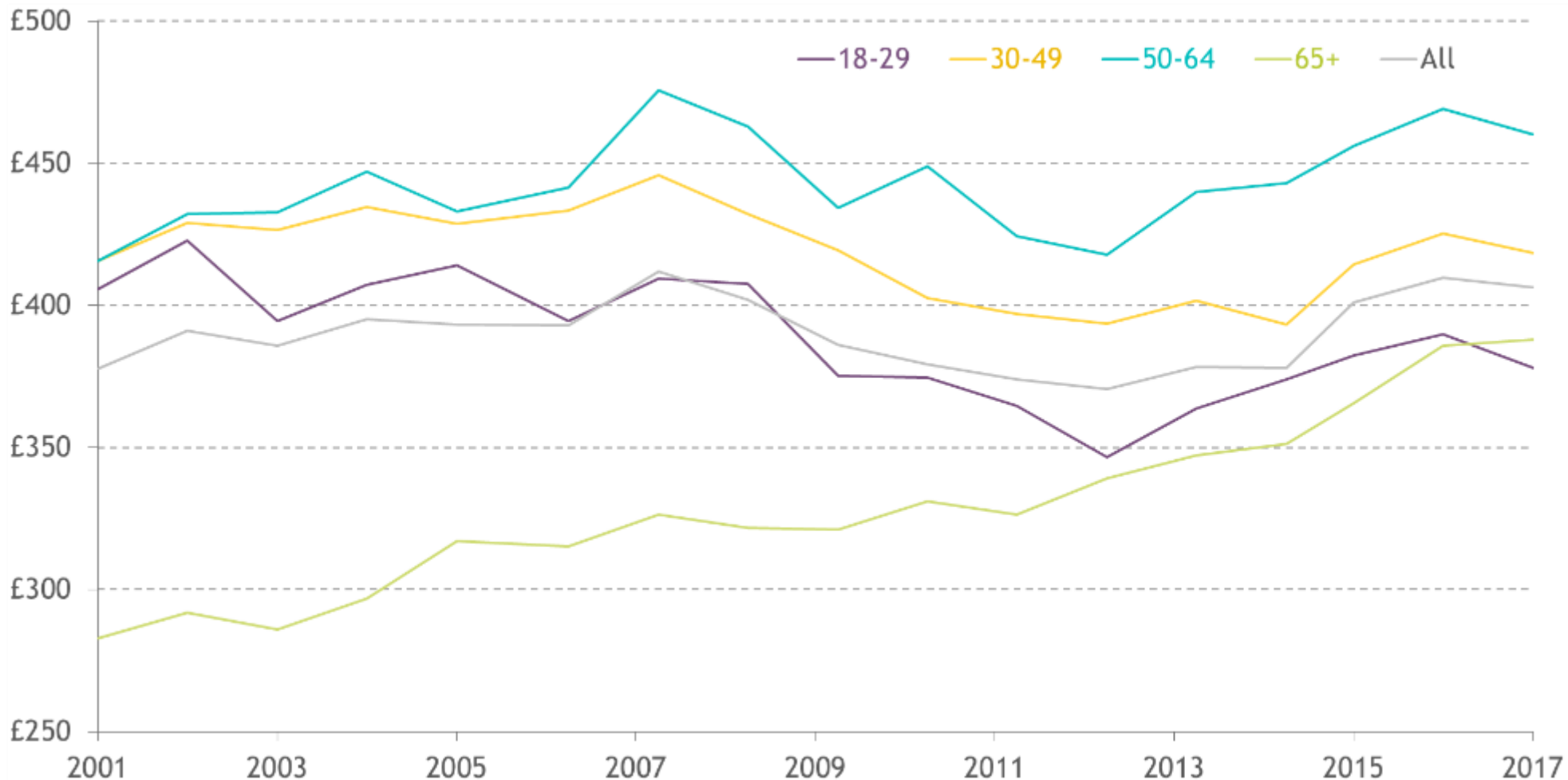
Median real hourly employee pay (CPIH-adjusted to 2018 prices), by age and cohort: UK, 1975-2018



Source: RF analysis of ONS, *Annual Survey of Hours and Earnings* (1997–2018); ONS, *New Earnings Survey* (1975–97)

...meaning young adults now spend less after housing than pensioner households

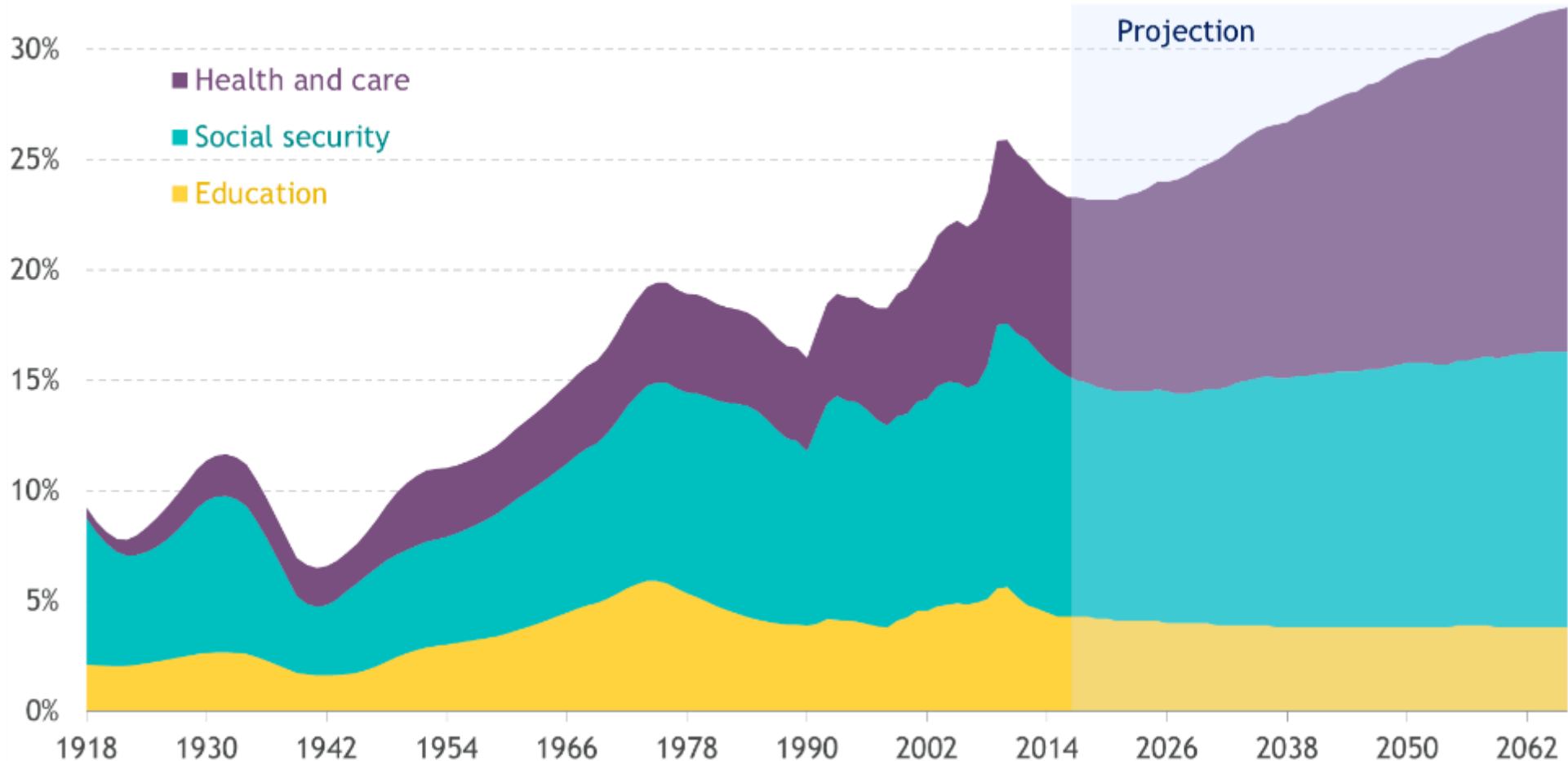
Real equivalised weekly non-housing household consumption, by individual age: UK



Notes: Consumption in each detailed spending category in each year is reweighted to figures from the National Accounts (on a per-household, per week basis), to correct for growing under-recording of consumption expenditure in surveys. Consumption is deflated using deflators specific to each spending category. Source: RF analysis of ONS, *Living Costs & Food Survey*; ONS, *Expenditure & Food Survey*

Our demographic challenges mean there is more of this to come...

Historic and projected welfare spend as a proportion of GDP: UK



Source: RF analysis of OBR, *Fiscal sustainability report – July 2018*, July 2018; HMT, *Public Expenditure Statistical Analyses*; J Hills, *Inequality and the State*, Oxford University Press, October 2004

Takeaways

- Brexit is all encompassing...
- ...but the legacy of the past is an unprecedented stagnation in living standards;
- This is a macroeconomic phenomenon (don't give up on macro!);
- Looking ahead, society is ageing...
- ...that will dominate policymaking for decades to come.

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