REAL WAGES AND LIVING STANDARDS: the latest UK evidence

Since the global financial crisis, workers’ real wages and family living standards in the UK have suffered to an extent unprecedented in modern history. The one group in society for whom living standards have risen since 2008 is pensioners. But young workers have faced a ‘double whammy’: greater falls in real wages and bigger rises in unemployment.

These are among the findings of a new report on real wages and living standards from the Centre for Economic Performance (CEP) – the latest in a series of background briefings on key policy issues in the May 2015 UK general election.

Author Professor Stephen Machin shows that:

- Real wages of the typical (median) UK worker have fallen by almost 10% since 2008. Compared with the trend of 2% yearly real wage growth (from 1980 to the early 2000s), this represents around a 20% shortfall. This recent experience is weaker than in the majority of other OECD countries.

- Very recently, real wage growth has started to pick up a little, but this is mainly due to falling price inflation, not improved nominal wage growth.

- Low wages have helped price workers into jobs. But some groups have been hit harder by the downturn: young workers in particular have suffered the ‘double whammy’ of greater falls in real wages and bigger rises in unemployment.

- Falls in real wages have occurred right across the earnings distribution.

- The post-2012 fall in unemployment has not yet had a discernible impact in fostering wage growth. In the recoveries from the 1980s and 1990s recessions, real wages grew as unemployment fell. This time, median real wages have actually dropped a little as unemployment has fallen.

- Median family incomes have not fallen by quite as much as median wages, in part due to the ‘automatic stabilisers’ like welfare benefits, but also through tax changes such as increases in the personal allowance.

- Falling real wages is a principal reason why the living standards of working age households are doing worse than before the crisis whereas pensioner households have fared much better.

- The difference between falling living standards due to falling real wages for working age households and rising living standards for pensioner age households is important for understanding the different positions taken by Labour, who emphasise gross wages, and the Conservatives, who emphasise net family incomes. The falls in gross wages are based on actual numbers up to April 2014. The net income numbers – which are claimed
to be back to pre-downturn levels – include pensioners and are projected forward to 2015 from 2012/13 data.

- No party has a coherent policy on what can be done substantively to improve the real wage position of UK workers. Higher minimum wages, living wages and cajoling employers into paying more are unlikely to alter the wages of the typical (median) worker.

Professor **Stephen Machin**, the report’s author, comments:

‘Improving the labour market prospects and opportunities for young people should be a central aim of economic policy.

‘In the longer run, this is down to education and skill acquisition. But there are labour market policies that could play a major role in repairing some of the damage done by the combination of sizable real wage falls and poor employment opportunities that have hit the wages and living standards of the young so badly.

‘These include raising minimum wages and offering properly funded apprenticeship and vocational skills programmes.’

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**Notes for editors:**

‘Real Wages and Living Standards’ by Stephen Machin is the latest in CEP’s #ElectionEconomics series.

Objective, brief and non-technical, CEP Election Analysis is a series of background briefings on the policy issues in the May 2015 UK General Election

This series discusses the research evidence on some of the UK’s key policy battlegrounds, including immigration, austerity, living standards, productivity, business, Europe, health, education, crime, inequality, gender, urban and regional policy, housing and planning, climate change and energy.

These analyses are provided by some of our expert researchers and draw on some of our past and current research.

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