Higher price inflation as a result of sterling’s depreciation following the vote to leave the EU, coupled with nominal wage growth stuck at a norm of 2% a year, means that once again the UK faces falling real wages, threatening family living standards.

A new report from the Centre for Economic Performance (CEP) – the first in a series of background briefings on key policy issues in the June 2017 UK general election – outlines what’s been happening to real wages and living standards, and considers relevant policies in the parties’ election manifestos.

The CEP reports that:

- Real wages of the typical (median) UK worker have fallen by almost 5% since 2008, reflecting a sizable fall from 2008 to 2014, and a modest bounce back in the following two years. Compared with the trend of 2% annual growth of real wages from 1980 to the early 2000s, this represents around a 20% shortfall.

- The recent pattern of real wage growth in the UK is much weaker than in the majority of other OECD countries.

- The modest real wage recovery that started in 2014 has recently been eroded by two factors: first, higher price inflation as a consequence of the depreciation of sterling following the vote to leave the EU in the 2017 referendum; and second, nominal wage growth becoming stuck at a 2% norm.

- Low-wage workers have benefited from minimum wage increases, especially the 2016 introduction of the National Living Wage. They have done better than workers higher up the wage distribution, thus leading to a modest decrease in wage inequality.

- Young workers have been the ones most affected since the crisis, experiencing a sharp fall in real weekly wages (of the order of 16% for workers aged 18-21), linked to lower hours, part-time work and self-employment arrangements.

- Self-employment has been on the rise, but only for individuals without employees. Many of these individuals receive low incomes, and are sometimes employed in ‘gig economy’ positions, with little access to the non-wage benefits that employees receive.
Family incomes have recovered to pre-crisis levels and done better in growth terms than wages, largely due to the tax and benefit system. In particular, pensioners have fared significantly better due to the ‘triple lock’ policy and the tax and benefit system.

Three sets of manifesto promises are of particular relevance to UK living standards: proposed changes to minimum wages; classifications of employees and the self-employed, and proposals on insecure work; and amendments to the ‘triple lock’.

Professor Stephen Machin, CEP director and co-author of the report, concludes:

‘Concerns about the lack of real wage growth are common across the political spectrum, and all parties have stated ambitions to try to improve the situation in their manifestos.’

‘But other than the proposals on minimum wages, which would raise wages at the lower end of the wage spectrum, it is not straightforward to see how proposed policies contained in the manifestos of all parties could enable future pay growth for all workers.’

ENDS

Notes for editors:

‘Real Wages and Living Standards in the UK’ by Rui Costa and Stephen Machin is the first in CEP’s #GE2017Economists series.

Objective, brief and non-technical, CEP Election Analysis is a series of background briefings on the policy issues in the June 2017 UK General Election.

This series discusses the research evidence on some of the UK's key policy battlegrounds, including education, health, immigration, industrial strategy, living standards, regional policy and Brexit.

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

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