How to end Britain’s stagnation

*Ending Stagnation, the final report of the Economy 2030 inquiry, sets out a serious strategy for ending Britain’s relative decline. At its core is the aim to reverse decades of underinvestment – by private and public sectors alike – built on a realistic understanding of Britain’s strengths. Here, researchers from **LSE’s Centre for Economic Performance** and the **Resolution Foundation** present their findings and recommendations.*

The promise of shared prosperity is key to our social contract, but there are periods when the social contract comes under pressure. In these moments, a clear route to a better tomorrow is lacking, the improvements people expect dry up and some groups are left wondering whether the country works for them. Britain is in this undesirable position today.

A stagnation nation in 10 key facts

1. Low growth: Real wages grew by 33 per cent a decade from 1970 to 2007, but have flatlined since, costing the average worker £10,700 per year in lost wage growth.

2. High inequality: Income inequality in the UK is higher than any other large European country.

3, The toxic combination: Low growth and high inequality means typical households in Britain are 9 per cent poorer than their French counterparts, while our low-income families are 27 per cent poorer.

4. Stalled progress: 9 million young workers have never worked in an economy with sustained average wage rises, and millennials are half as likely to own a home, and twice as likely to rent privately, as their parents’ generation.

5, Talent wasted: Almost a third of young people in the UK are not undertaking any education by age 18 – compared to just one in five in France and Germany.

6. Gaping gaps: Income per person in the richest local authority – Kensington and Chelsea (£52,500) – was over four times that of the poorest – Nottingham (£11,700) – in

2019.

7. Bad work: Half of shift workers in Britain receive less than a week's notice of their working hours or schedules.

8. Flaky firms: UK companies have invested 20 per cent less than those in the United States, France and Germany since 2005, placing Britain in the bottom 10 per cent of Organisation for Economic Co-operation and Development (OECD) countries, and costing the economy 4 per cent of GDP.

9. Taxes up: Having averaged 33 per cent of GDP in the first two decades of this century, the tax take is now on course to rise over four percentage points by 2027-28: equivalent to £4,200 per household.

10. The wrong track: Six in ten Britons think the country is heading in the wrong direction, with far fewer – just one in six – thinking it is on the right track.

We cannot go on like this. Britain needs a new economic strategy that will rebuild the UK's path to shared prosperity. We need to start with a strategy, firstly because the challenges we face are large and persistent. Secondly, because the complex challenges and disruptions yet to come are interdependent. And thirdly, because the financial crisis and Brexit have blown up major components of the UK's long-standing growth-model, which had itself already been found wanting.

Renewing our economic strategy won't be easy, but we have a lot of catch-up potential. Consider a set of similar comparator economies: Australia, Canada, France, Germany, and the Netherlands. We would long have considered them our peers and, though impressive, they are not the richest, or most equal, countries in the world. But all are now richer and more equal than Britain. We're 16 per cent poorer than these countries on average, suggesting catch-up potential that dwarfs the Office for Budget Responsibility's forecast of a 4 per cent hit from Brexit. If Britain exploited its catch-up potential, closing its average income and inequality gaps with these peer economies, the typical household would be 25 per cent (£8,300) better off, with income gains of 37 per cent for the poorest households. A better future for the UK does not need global growth to suddenly accelerate, or Britain to match American levels of productivity and Scandinavian levels of inequality. It just requires us to have the resolve to do what is necessary to converge with similar countries who, in the scheme of things, are not so very different to us.

Ending stagnation in 10 key steps

1. A services superpower: Britain must build on its strengths as the second biggest services exporter in the world, behind only the United States, while protecting the place of its high value manufacturing in European supply chains.

2. Our second cities are too big to fail: Our cities should be centres for Britain's thriving high-value service industries. But instead, all England's biggest cities outside London have productivity levels below the national average.

3. Investing in our future, not living off our past: Public investment in the average OECD country is nearly 50 per cent higher than in the UK. Tackling this legacy, alongside the net zero transition, requires public investment to rise to 3 per cent of GDP.

4. Pressure from above and below: British managers too rarely invest for the long-term. Pressure for change should come from more engaged owners – a smaller number of far larger pensions funds – and from workers on boards.

5. Good work in every town: Despite the success of the minimum wage, a good work agenda cannot be a one-trick pony. Statutory Sick Pay can leave the ill on just £44 a week, while 900,000 workers miss out on paid holiday.

6. Steering change: Hospitality represents a higher share of consumption in the UK than anywhere else in Europe, because it is relatively cheap. Better pay for low earners in hospitality, paid for by higher prices that most affect better off households, will create a more equal UK.

7. Recoupling everyone to rising prosperity: Benefit levels have not kept pace with prices: cuts since 2010 have reduced the incomes of the poor by almost £3,000 a year. Shared prosperity means benefits rising with wages.

8. Better, not just higher, taxes: A rising tax burden should not just fall on earnings but should be shouldered by other sources of income and wealth. Wealth has risen from three to over seven times national income since the 1980s.

9. Resilient public and private finances: Higher growth and higher taxes are needed to raise investment, rescue public services, and repair public finances. Higher investment should be funded by higher savings at home, not borrowing from abroad.

10. Exploiting catch-up potential: If the UK matched the average income and inequality of Australia, Canada, France, Germany and the Netherlands, the typical household would be £8,300 better off.

Moving the UK back into the pack is realistic, and it would be transformative. Our strategy takes us in that direction. Over 15 years, improved physical and human capital might mean GDP being 7 per cent higher than currently expected. Wages would receive a 5 per cent boost, sufficient to repair all of the damage done to UK pay levels relative to the G7 average between 2008 and 2022. Typical incomes before housing costs for the working-age population would rise by 11 per cent (almost £4,000) more than they otherwise would, sufficient to overtake France and halve the income gap with the Netherlands and Germany. Relative poverty, rather than rising by 1.1 million as currently expected, would be cut by 1.3 million people. This would amount to a Britain back into the pack of peer economies, but with lots more work to do. And, with only 60 per cent of the eventual impact of higher business investment manifesting within the 15-year frame of our projections, this is an economic strategy whose impact would continue to build.

It is also a strategy to help resolve some of the big macroeconomic trade-offs facing the country. Faster growth, combined with the tax changes proposed, would raise revenues to the tune of 3 per cent of GDP by the end of the 2030s. That would provide useful resources to boost public investment, see to it that the debt burden is genuinely falling, and also support the rebuilding of public services.

After these changes Britain would still have a recognisable, distinctively liberal, flexible, highly service-oriented economy. But it would be one that is looking to the future – not just embracing change but having the self-confidence to steer it too. The scale and scope of this challenge should not daunt us. Economies can adapt and be shaped for the better. History teaches us that growth can speed up as well as slow down, and inequality can fall as well as rise. This stagnant chapter of British life has gone on long enough. It is time to turn the page.

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