What’s happening with real wages and living standards in the UK?

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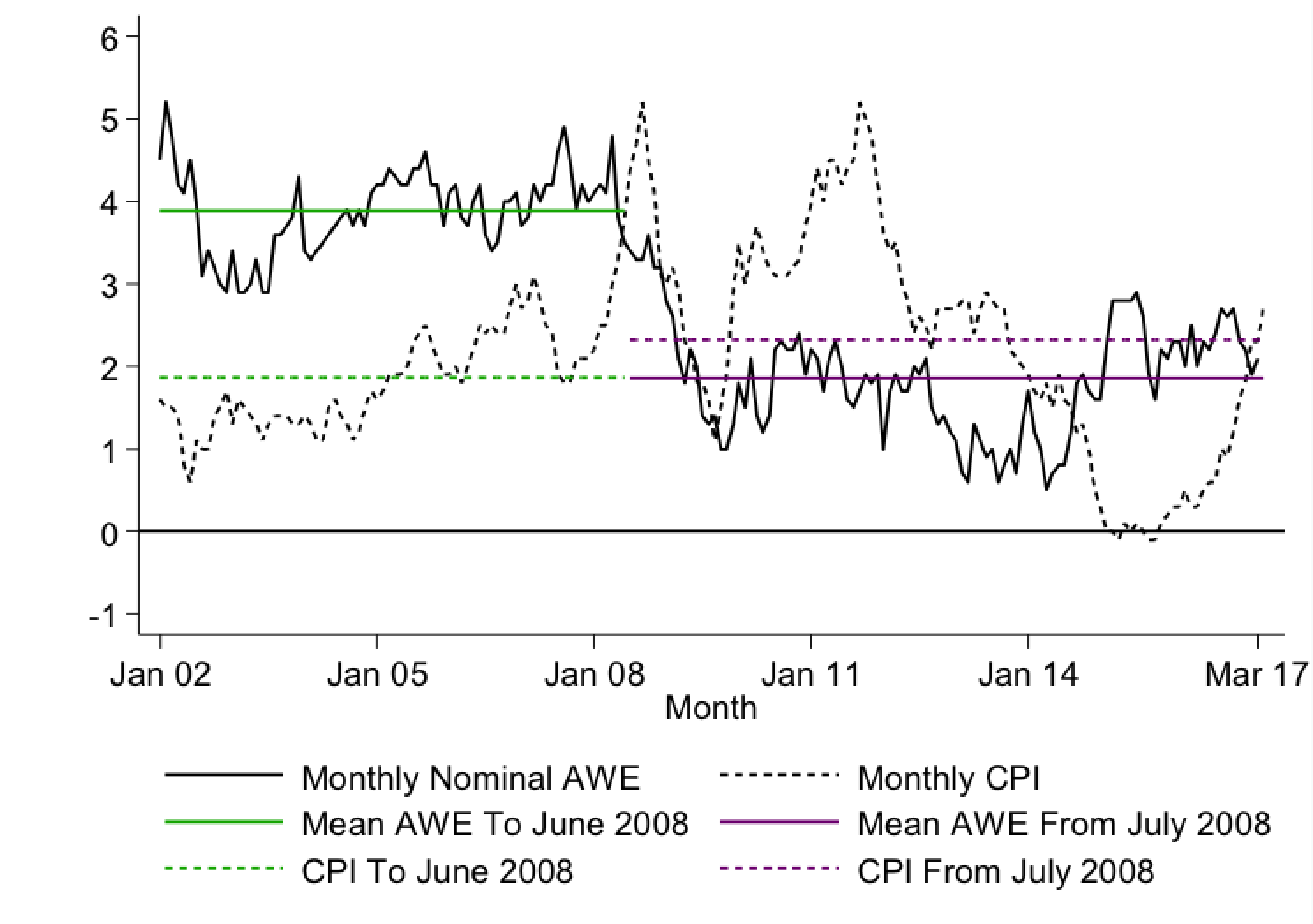
As the election season progresses, an evaluation of the current labour market trends in the UK, and of possible future movements, is of significant importance is assessing the credibility of the parties’ manifesto proposals on work. This is particularly the case as, since the global financial crisis of 2007/08, workers’ real wages and family living standards in the UK have suffered to an extent unprecedented in modern history. It is not surprising that concern over lack of real wage growth is common across the political spectrum, and all parties have stated ambitions to try to improve the situation in their manifestos.

Our research shows that real wages of the typical (median) worker have fallen by almost 5 per cent since 2008, while real family incomes for families of working age have just about recovered to pre-crisis levels. Almost all groups of individuals and families – with the exception of minimum wage workers and pensioners – are no better off on average than they were in 2008.

As shown in Figure 1, between 2002 and 2008 average weekly earnings rose at an average of 4 per cent a year and prices at just 2 per cent. From July 2008 onward the opposite occurred: pay growth fell to 2 per cent, whilst inflation exceeded this. Real wages did not grow until a modest bounce back began in September 2014. Growth in real wages since then were mainly due to a decrease in price inflation, rather than significant increases in nominal wage growth, which appears to have become stuck at a 2 percent norm.

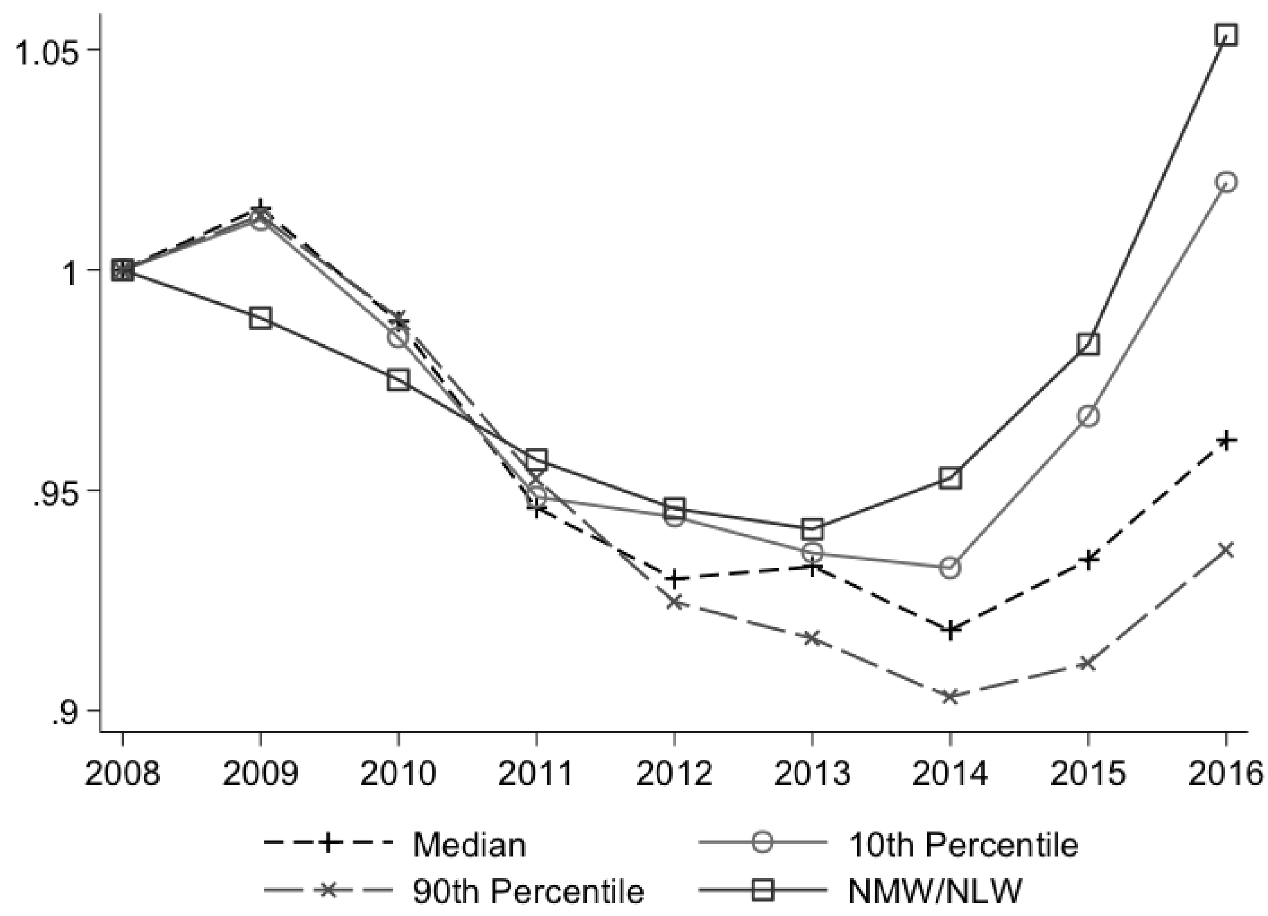
Figure 1: Monthly nominal AWE and CPI growth, 2002 to 2017



Source: Average weekly earnings (AWE regular) and CPI from ONS

Since the June 2016 referendum on the UK's membership of the EU, real wages have again been weakened by rising inflation. Sterling has fallen by 15 per cent against the dollar since the vote and according to the Bank of England's most recent *Inflation Report*, the depreciation will lead to higher import costs, raising consumer price inflation some way above target. With the current 2 per cent nominal wage growth norm, as Figure 1 shows, in 2017 real wage falls have therefore returned to the UK labour market.

Figure 2: Percentiles of Real Hourly Wage and NWM/NLW, Indexed to 2008

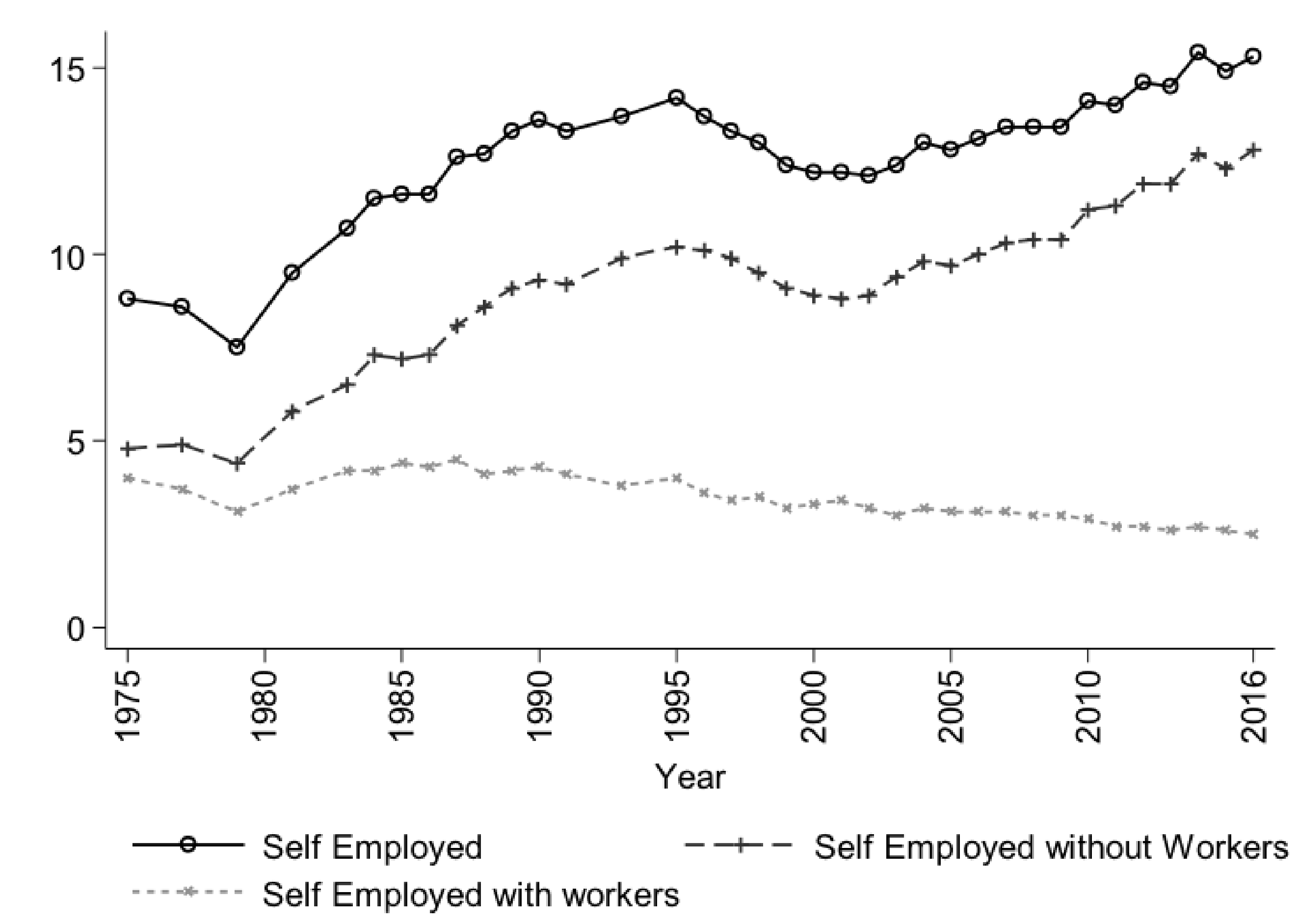


Notes: NMW stands for National Minimum Wage and NLW stands for National Living Wage. Source: Annual Survey of Hours and Earnings (ASHE) hourly earnings, all workers. 2008=100

Figure 2 offers a closer look at the growth in real hourly wages at different points in the wage distribution. At the bottom, the introduction of the National Minimum Wage by the Labour Government in 1999 and the Conservative introduction of the National Living Wage (NLW) in April 2016 have driven pay up, resulting in those at the lower part of the distribution recovering at a considerably faster rate since 2014. In fact, a worker on the National Minimum Wage (NMW) and the NLW when it came in, experienced a 5 per cent real wage growth between 2008 and 2016. These recent real wage developments show significant differences by age. Those aged 18 to 21 have seen a 16 per cent fall in real weekly earnings, linked to fewer hours, part-time work and self-employment arrangements.

As is shown in Figure 3, the proportion of self-employed individuals has also risen significantly. However, all the increase was in terms of individuals in self-employed positions who do not have any employees. This has been steadily increasing since the 1980s, but since 2000 the proportion has increased from 9 per cent to 13 per cent of all those in work. This group are often employed in “gig economy” positions, with little access to non-wage benefits that employees receive. Examples include the right to be paid the National Living Wage, sick pay, holiday pay, employment security and pensions.

Figure 3: Percentage of self-employed individuals in the workforce



Source: QLFS, ONS

The work done by these self-employed individuals without employees is very low paid, and median real weekly incomes for this group have dropped significantly since 2007/2008, experiencing close to a 20 per cent loss in real terms by 2014/2015. Both employees and the self-employed with a staff have had milder drops compared with individuals in independent self-employed work arrangements.

Policies that are relevant in the various party manifestos are: proposed changes to minimum wages; classifications of employees and the self-employed, and proposals on insecure work; and amendments to the 'triple lock'. But other than the proposals on minimum wages, which would raise wages at the lower end of the wage spectrum (although they may have other economic effects as well), it is hard to see how proposed policies contained in the manifestos offer any realistic prospect of boosting future pay growth across the whole wage distribution.

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Notes:

- *This blog post is based on the authors' paper Real Wages and Living Standards in the UK, an election analysis report by LSE's Centre for Economic Performance (CEP).*
- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
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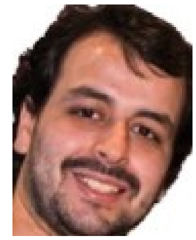

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