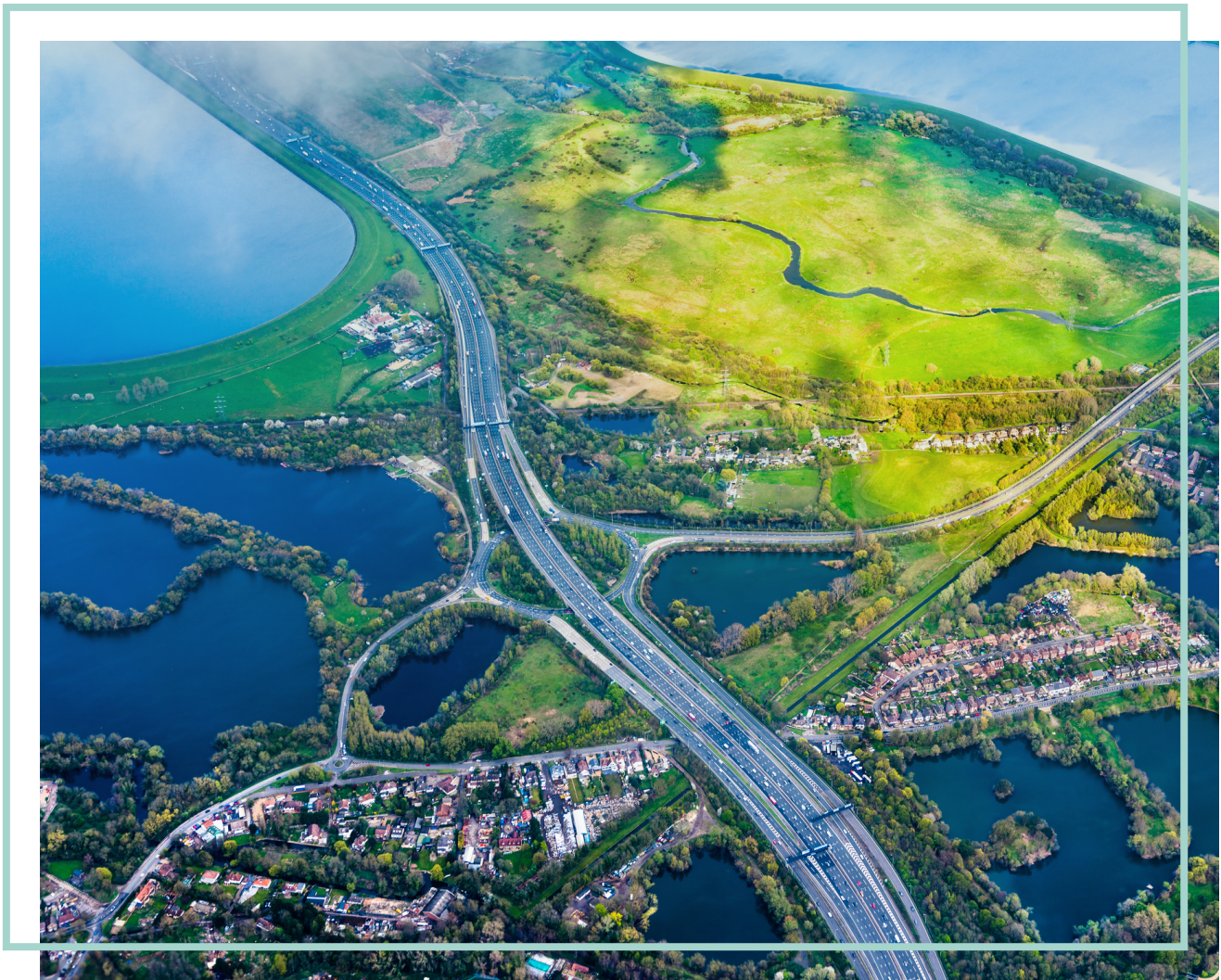


The UK's decisive decade

The launch report for The Economy 2030 Inquiry

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The Economy 2030 Inquiry

This report marks the launch of The Economy 2030 Inquiry, a landmark collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation.

The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, technology and the Net Zero transition will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality.

To achieve these aims the Inquiry will lead a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals for change.

The first phase of the Inquiry will focus on the state of the UK economy and the changes facing it. Alongside economic research, this phase of the project will also be shaped by a large programme of research into the lived experience of the economy. This work will then inform the development of coherent policy proposals in the second phase of the project. In 2023, these will be brought together in a final report that sets out a framework for successfully navigating the challenges and opportunities that lie ahead, with proposals for economic reform to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

The Economy 2030 Inquiry is led by a Commission of leading thinkers and doers, and will be informed and supported by an expert Advisory Group.

The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds research that informs social policy, primarily in Education, Welfare, and Justice. It also funds student programmes that provide opportunities for young people to develop skills in quantitative and scientific methods. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics and the Ada Lovelace Institute. The Foundation has funded this project, but the views expressed are those of the authors and not necessarily the Foundation. Visit www.nuffieldfoundation.org

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Executive summary

The 2020s: asking the right questions

As vaccines roll out and restrictions are lifted, public debate is turning to the economic recovery from Covid-19 and the deepest annual downturn for 300 years that came in its wake. Viewing the years ahead simply as the post-pandemic period is far too limited a frame, however. Instead, the 2020s look set to be the decisive decade during which the UK will need to renew its approach to achieving economic success.

The UK's recent past has been marked by stagnant living standards, weak productivity, low investment and high inequality. This makes a new economic approach desirable. What makes it essential is the scale of coming challenges. The UK now faces a decade of change, as the aftermath of Covid-19 and ongoing technological progress come together with Brexit and the Net Zero transition. The direct fall-out of these must be managed well, with those who lose out supported through the process. These shocks will also reshape the context within which a renewed economic strategy must be built. This matters for far more than economics. Slow growth, high inequality and badly-handled economic disruption undermine wellbeing, intensify social divisions and create political problems all with enduring effects.

First, the good news. There is broad consensus about the high-level objectives that any new economic strategy needs to achieve: a more prosperous and more equal economy, and a greener and healthier society. But that consensus obscures the many

difficulties we face in achieving these goals. Commitments to 'build back better' gloss over the reality that the pandemic has made many things harder to achieve. They skate over the extent to which path dependency, rather than policy makers' actions, shape outcomes. They pretend choices about the UK's competitive strengths can ignore the reality of a world economy being shaped by China, the EU and the US. And they downplay the very real trade-offs we face as the UK adapts to meet the challenges of the 2020s, and questions of power that determine whose interests prevail. There will be losers, as well as winners, and costs to be borne alongside opportunities to be seized.

The urgent task of rebuilding the UK's economic strategy in the face of this decade of change is what underpins the launch of The Economy 2030 Inquiry, a ground-breaking new collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. Recognising both the grounds for optimism and acute difficulties involved, over the next two years the Inquiry will investigate the nature of the economy today and the change to come; explore what this means for people, places and firms across the UK; and propose how we can successfully shape the decade ahead.

Understanding the nature of economic change in the 2020s

Navigating the 2020s successfully will be no small task given both the scale and cumulative nature of the changes ahead. The economic turbulence that people, places and firms face as we recover from Covid-19, exit the EU, and see decarbonisation reach into citizens' lives, goes beyond anything seen in a generation. Together with ongoing technological and demographic shifts, these challenges pose fundamental questions about the routes through which the UK achieves economic prosperity, as well as offering up new opportunities. Crucially, this is happening at a time when the country lacks any shared view about what those routes should be.

Covid-19

As the UK economy moves out of lockdown, a return to greater 'normality' will not mean a return to life as it was before March

2020. The pandemic has brought far-reaching behavioural change, with a surge in online economic activity and home working. If some of these shifts endure, it could help spread good jobs around the country, but also speed up transitions like the decline of the high street. Greater working from home could mean lifestyle change for professionals, but it will also mean disruption for lower earners who may have to find new jobs in new places.

Whichever pandemic-driven changes endure, it is also clear we should reassess our economic strategy in light of it occurring. With first the financial crisis and then Covid-19, the country has now had two “once in a generation” events in a decade. We should endeavour to minimise the risk of future shocks, but they will come, so the UK’s economic strategy needs to value resilience, including our ability to insure citizens against their impacts.

Brexit

Our emergence from the pandemic will also be intertwined with less-immediately dramatic, but ultimately longer-lasting and more-significant, shifts. Brexit constitutes a huge change for Britain’s economy. Starting from the night of the referendum, we have seen impacts on trade and investment that have passed through to labour markets and the macroeconomy. UK trade in goods with the EU in the first quarter of 2021 was 14 per cent lower than the same quarter in 2020, while trade with non-EU countries remained broadly unchanged. Brexit is also directly transforming the nature of migration and of productivity-enhancing competition faced by UK firms. More changes are to come in the 2020s as the economic consequences of leaving the EU materialise. Some firms will shrink and others grow.

Polarised Brexit debates since the referendum have not shed much light on how the country’s economic strategy should adjust to reflect this new context. Brexit proponents have downplayed the scale of the change, while opponents have focused on the aggregate economic costs that leaving the EU entails. But we still know little about the winners and losers that will follow such a large shift in the UK’s trade policy. Nor has this change triggered useful debate about the objectives of trade policy in a new world economic order being unpredictably remade by the connected, but increasingly competitive, great powers of China, the EU and

the US. The current focus, and significant progress, on traditional Free Trade Agreements tells us little about our objectives for high-value services (the share of which in the UK's exports is over two times the world average) nor the trade-offs we are prepared to make in other notable sectors (such as agriculture). A key purpose for a renewed economic strategy is to set priorities, a prerequisite for answering these questions. But Brexit will also require UK policy makers to decide how to use the new policy tools it confers on them – on trade policy, competition and migration – and come to a more clear-sighted view of how the UK will successfully compete globally, driving rising living standards in the decades ahead.

Net Zero

Alongside adapting to a post-Covid-19 and post-EU world, the UK needs urgently to accelerate an unprecedented process of decarbonisation if it is to meet its Net Zero commitments in 2035 and 2050. The UK has big advantages here, with recent rapid progress on electricity generation, geographic advantages in wind and tidal power, innovation strengths in some key areas, a cross party consensus on the Net Zero objective, and a strong institutional framework including the independent Climate Change Committee. Until recently, the cost of the Net Zero transition and its impact on jobs were seen as the main barriers to a successful, just, transition. But new evidence points to savings outweighing the costs sooner than might be expected in some areas: by 2025 it will be cheaper to purchase and run an electric car rather than petrol or diesel car over the vehicle's lifetime. Similarly, a broad body of research now points to the potential for many new jobs to be created in the transition. Overall, decarbonisation will bring significant economic, environmental and health benefits.

This welcome news, however, should not obscure the very real questions about the timing and distribution of costs, and the disruption that decarbonisation will bring for certain sectors and places. Meeting our international commitments on this front will require policy-driven shifts that go far beyond electricity generation, where a transformation has been achieved without much disruption to most workers or consumers: from now on, changes will intrude far more into citizen's daily lives. The provision

of transport, domestic heating and food choices must swiftly change, but we know far too little about the policy, and political economy, of doing so successfully. This consumption transition needs more attention alongside the current focus on production.

And this is urgent. 60 per cent of fuel supply (oil and gas industries) and half of surface transport decarbonisation by 2050 needs to happen during the 2020s to remain on track for the 2050 Net Zero target. To facilitate this scale of change, governments will have to support investment in a new generation of infrastructure: there are currently 32 public electric vehicle charging points per constituency; 433 are required by 2030. How this and other infrastructure will be financed is key, but currently highly uncertain, with gross annual UK low-carbon investment needing to increase from £7 billion in 2020 to around £50 billion by 2030 (and remain elevated at near this level until 2050).

The costs of new systems of public infrastructure will be incurred by the public, either as consumers or taxpayers, far before the savings they eventually generate, and sometimes in exchange for what could feel like worse outcomes. Low interest rates make overcoming this mismatch easier, but maintaining popular consent for the transition will mean paying careful attention to managing the costs of disruption, and realising and sharing potential rewards. But none of the difficult policy decisions in this area have yet been taken. We have plans to phase out fossil fuel car sales, but replacing fuel duty will require tax rises equal to the (very significant) ones announced in the 2021 Budget.

Demography & technology

The pandemic, Brexit and Net Zero are not, of course, the only drivers of change facing the UK economy in the 2020s. Long-run shifts in demographics and technology would – in more normal times – be dominating our policy discussion.

The swift pace at which our society is ageing will continue, and even accelerate slightly during the 2020s. The ratio of those under 20 or over 65 to those aged between 20 and 64 is set to increase from 72 per 100 to 79 per 100 between 2020 and 2030 – a faster change than has occurred in, or is projected for, any other decade in the first half of this century. Our communities are also ageing at

very different rates: parts of the UK that are already older are due to age faster than those that are relatively young (a small number of which are actually getting younger). The average age of workers has risen from 39 to 43 between 1999 and 2019, materially affecting the nature of economic adjustment: currently, older workers are less likely to change jobs and more likely to see their pay fall if they do so.

When it comes to technological change, a renewed economic strategy must wrestle with, and reconcile, two seemingly-opposing anxieties. The UK's productivity stagnation in part reflects that we have experienced far too little technological change, while many also worry that automation will change the nature of work, destroying some types of jobs as they create others. The task is to reconcile both of these views, securing not just more but the right kind of technological progress that benefits consumers, aids the Net Zero transition, supports competitiveness and helps create more good jobs.

There are complicated interactions between the different sources of change, and there will be policy trade-offs in responding to them

These major changes to the UK have usually been considered in isolation, but they will be taking place in concert. Their interactions – which are poorly understood – and not just their contemporaneous nature, will shape the pressures and opportunities facing the UK. Policy makers need an integrated approach to managing these shocks if they are to navigate a successful path through the 2020s.

Sometimes, significant changes may coincide at the level of place or sector. Some firms are both carbon- and import-intensive, and therefore particularly exposed to the combination of higher trade costs from Brexit and the Net Zero transition. Four sectors – agriculture, mining, manufacturing and transport – combine above average exposures on both fronts and collectively employ 4 million people. But the broad geographical spread of new jobs that will be created by the Net Zero transition gives grounds for hope that job losses (for example, in sectors such as retail, whose decline has been accelerated by the pandemic) could be successfully offset.

Individual policy decisions that are principally about responding to one of these major changes will inevitably be impacted by others. For example, the lasting impact of the pandemic on aviation is likely to make measures to increase the cost of flying politically impractical in the short term, even if it that is desirable for Net Zero; over the medium term, the UK's trade policy will need to balance our Net Zero goal alongside broader trade policy objectives, in considering carbon border adjustment policies for example.

Are we prepared for change on this scale?

Some will be relaxed about this scale of change. There are widely-held views that we have got used to rapid change, and that the UK's highly-flexible economy makes it adept at managing what would otherwise be difficult adjustments. The first premise is simply wrong, while the second is questionable.

In reality, the first two decades of the 21st century have been a period of flat, or even declining, dynamism. This can be seen between sectors, where the reallocation of workers between growing and shrinking industries in the 2010s was at its lowest since the 1930s. If the reallocation rate had remained flat in the past decade, rather than falling, then an extra 2 million jobs would have moved sectors. At the level of the firm, the job reallocation rate from new and closing businesses has fallen over time, while reallocation between incumbents that grow or shrink has remained stable. At the level of individual workers, the rate of voluntary job-to-job moves was 37 per cent lower in 2019 than in 2001.

It is unlikely to be a coincidence that this reduced dynamism has coincided with an historically-poor decade for productivity growth. This does not mean that change is always desirable – its impacts are various and almost always ambiguous. But it does mean we should be cautious about the idea that the UK has grown used to change, and can cope easily with the scale of adjustment that is ahead of us.

Furthermore, when the country has faced significant change in the recent past, the process of adjustment has not always been successful, and we have struggled to ensure it was inclusive. The

deindustrialisation of the 1980s was the last phase of rapid change, with new industries – especially business and financial services – expanding as others – especially manufacturing – shrank. The government of the day embraced that change, and oversaw fast-rising incomes for many, particularly at the top and middle of the income distribution. This was combined with very high costs for the individuals and places where the ‘costs of adjustment’ were concentrated. Creative, output-enhancing, destruction went alongside destruction pure and simple: many who lost jobs never again found work that was comparable in terms of pay or status. Many struggled to find work at all, with long-term unemployment more than trebling in the early 1980s, and remaining at more than double the level seen in the US for the rest of the century. And the geographical impact of de-industrialisation was hugely uneven, with 12 local authorities losing over a fifth of their jobs between 1981 and 1991, including Wansbeck (-32 per cent), Easington (-29 per cent) and Liverpool (-23 per cent). Four decades later the affected communities, and the wider country, are still living with the fallout.

A huge amount has, of course, changed since the 1980s, not least a considerable convergence in employment rates across regions. Our flexible labour and product markets, as well as our floating currency, do support successful adjustment. But there are stubborn weaknesses too, from a housing market that impedes mobility to a skills and welfare system that does little to support retraining and the successful redeployment of labour.

It is also not clear that the UK state has the capacity to respond adequately to this scale of change. Assessments of the UK’s economy have repeatedly highlighted weaknesses in the state’s institutional capacity, or wish, to shape industrial outcomes, with no long-term frameworks to govern industrial strategy. Weak sub-national powers and governance capacity, with local government spending power in England cut by 18 per cent since 2010, puts excessive weight on national direction. Meanwhile, pre-existing fiscal pressures on the state have been intensified by a Covid-19 shock that is likely to leave debt levels at over 100 per cent of GDP into the mid-2020s, just as significant pressures build on health-related spending from our ageing society.

The UK's track record of managing rapid economic adjustment has been weak, providing good grounds for challenging complacency today. Economic dynamism – far from accelerating – has been flat, or declining in the 21st century. Before this, when change was rapid, it was not inclusive. So the scale of the challenge facing policy-makers is daunting. To thrive in the 2020s, Britain's economic institutions will need to learn new, better, approaches to managing adjustment.

The economic backdrop to the 2020s is challenging

Change happens in a context, not a vacuum, and successfully navigating it will only be possible with a clear understanding of the economic backdrop to the decade ahead.

The UK is a relatively rich country, enjoyed record employment levels pre-pandemic, and has global strengths in some high value-added service sectors (as the past year has demonstrated in the case of the life sciences). It also has major assets relevant to success in the 21st century – including our universities, our language, and fast technological adoption among consumers. These can be built on as the UK manages the big changes of the 2020s.

However, the UK enters this decade with significant challenges. The decade to 2019 saw the lowest productivity growth in 120 years, in part reflecting weak investment. As a result, real wages have stagnated, with average earnings currently around the same level in real terms as they were in 2008.

Pre-Covid-19, employment was at a record high, driven by fast-rising female employment, but the share of the workforce in insecure work has increased since the financial crisis, with non-standard work accounting for two-thirds of employment growth between 2008 and 2015. Entrenched inequalities in our education system result in a labour market with a large share of highly-skilled knowledge-based workers alongside a long tail of people with low levels of qualifications. Overall, the rate of human capital improvement has slowed over recent decades.

UK income inequality has remained persistently high since the 1980s, with lower-income households in particular having lower

living standards than their European counterparts. Typical after-housing-costs household income in the bottom fifth of the income distribution was just 3 per cent higher on the eve of the pandemic than in 2004-05: there has been almost no income growth at the lower end of the distribution for 15 years. High, and highly-unequal, housing costs are driving up poverty while driving down mobility.

Although income gaps between regions and nations across the UK are at their lowest since the late 1970s, regional output and productivity gaps remain too large: GDP per capita in London is 2.4 times higher than in Doncaster, for example. Underperformance compared to similar countries is most visible in terms of our second cities, where the relationship often observed internationally between city size and productivity does not hold.

Overall, despite some of our enduring strengths and comparative advantages, the early 21st century UK was: a low investment economy; structurally reliant on integration within the single market to attract foreign capital, participate in manufacturing supply chains and export high-value services; with weak systems of social protection and entrenched inequalities. A clear-eyed understanding of this legacy should avoid falling into the twin traps of one-sided pessimism about the problems policy makers have inherited or, on the other hand, an unrealistic prospectus for change that assumes that the UK can be transformed overnight into a country with Nordic levels of inequality and US levels of productivity.

2020s: the decisive decade

The need for a renewed economic strategy in the face of change is not optional – it is urgent. Brexit and the pandemic have happened, with their impacts continuing to evolve. The last decade, here and around the world, has taught us the social and political risks of stagnant incomes, especially when twinned with high inequality. If we are to hit the 2050 Net Zero objective and realise the wider benefits, while avoiding huge economic costs, there must be a surge of progress in the 2020s: we need to move, for example, from installing almost zero heat pumps each year, to installing 3,000 every single day by 2030.

Any one of successfully emerging from the pandemic, exiting our largest market, or decarbonising our economy would test any government. Responding to all three shifts in one decade will severely stretch not just our leaders, but also our economic and political institutions. Previous cornerstones of Britain's economy – including membership of the European Single Market – can no longer be relied upon to drive competition and growth. Meanwhile, some of our largest employing sectors - hospitality, retail and leisure - face huge challenges in re-employing millions of workers post-pandemic. The short-term costs of decarbonisation are significant, and almost all of the painful political decisions about Net Zero are still to come.

Given all this, it is easy to imagine a future in which the economy 'levels down' over the 2020s, as the young and low paid suffer from the lasting impact of the pandemic, investment levels remain suppressed due to uncertainty, and opportunities to lead in new-low carbon industries are missed due to the costs of adjustment. The problems of the past might easily be overlooked, and the challenges of the future addressed haphazardly. Rather than redesign the country's economic strategy, we may choose to muddle through. But that choice would leave the UK highly exposed to the risk of a prolonged era of relative decline.

A decade of under-performance would significantly harm living standards and could leave the UK falling behind other leading European economies. The recent experience of Italy shows that once relative decline sets in, it can persist for a long time. The UK has already fallen behind Germany of late: on the eve of the financial crisis, GDP per capita in the UK was just 6 per cent lower than in Germany, but after a large downturn and slower recovery this gap had risen to 12 per cent by 2019. If this relative decline continues at the same pace in the 2020s (and Germany and Italy's relative positions remain unchanged) then the UK will end this decade closer to Italy than Germany when it comes to economic performance. But the real threat goes far beyond an economic risk, important though that is. It also concerns the sort of the country we will be. If we fail the test of this decade, then we will enter the 2030s diminished and divided.

It is conceivable, however, that the scale of change facing the country acts as an impetus for major reform. That could see a

renewed vision for how we successfully compete in the world, while recognising the role of policy in ensuring widespread good employment. Progress is certainly possible. Germany and France are about 15 per cent more productive than the UK. Halving this gap would mean a boost to household incomes of 8 per cent or £2,500 per household per year.

Our cross-party consensus on Net Zero along with the rapid progress already made in the UK could mean we seize the opportunities that decarbonisation may bring. We might have the breadth of vision to allow us to consider all these changes in the round rather than in isolation – allowing us to go beyond crafting individual policies and instead rebuilding the UK's economic strategy. The end point would be a more prosperous, fairer, greener and healthier nation.

The potential prize, as well as the obvious peril, of the decade ahead is clear. One way or another, whether by omission or commission, the 2020s will be the decisive decade that will determine the UK's trajectory into mid-21st century.

The Economy 2030 Inquiry

This launch paper marks the start of The Economy 2030 Inquiry. The first phase of the Inquiry will examine the state of the UK economy and the changes facing it. Research programmes will focus on the economy from the perspectives of people, places and firms, investigate the key drivers of change (Covid-19, Brexit, technology and the Net Zero transition), and examine the role of the state and lessons from other countries that have wrestled with change. This work will then inform the development of coherent policy proposals in the second phase. These will encompass how change is shaped, as well as responded to. They will wrestle with how living standards can be supported by competing in high value-added tradable sectors, while ensuring that decent work is available in every community. How to increase the resilience of individuals, communities and the state itself in the face of change will be placed at centre stage.

Both phases of the project will include, and be shaped by, a large programme of research into the lived experience of the economy. Combining focus groups, surveys and rigorous

deliberative exercises, this element of the project will recognise the importance of consumer, worker and citizen perspectives and preferences. It will also reflect the reality that the public may have different views about what are the really important questions for economic policy – views which are central to formulating a sustainable economic strategy for the UK in the decades ahead. This work should also help reconcile the apparent contradiction between voters in developed countries wanting greater protection from change and at the same time supporting the very drivers of change to come, from Brexit to climate change.

In 2023, the Inquiry's work will be brought together in a final report that sets out a framework for successfully navigating the challenges and opportunities that lie ahead, with proposals for economic reform to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

Section 1

Introduction

The UK is now nearing the end of the most severe part of the Covid-19 shock, and attention is turning to the recovery from this crisis and how the economy will evolve. But the challenge for the UK in the 2020s is much broader than this. The decade is set to be one of significant economic change, driven not just by the long-run implications of Covid-19 but also the – likely larger, and certainly longer lasting – impacts of Brexit and the Net Zero transition. These, along with longer-term drivers of change, will cause significant reallocation of labour and capital within our economy. This will change the jobs people do, how and what they consume, the firms they work for and the places where they live. Managing this change well, and doing so alongside tackling long-standing challenges to our economic competitiveness and social cohesion, is the task for the decade ahead. The UK needs a return to strong, shared economic growth because the alternative of badly-handled change and further relative decline will leave us diminished and divided: this is the decisive decade.

This report sets our thinking at the start of The Economy 2030 Inquiry. A project focused on the change to come in the 2020s, the need to manage that change well, and the objective of resetting our economic strategy in light of this new context and the UK's long-lasting challenges of low productivity and high inequality.

Why focus on economic change?

The Inquiry's two-year work programme will be focused around the theme of economic change because, quite simply, a lot of change is coming. Most of the time such change is driven by long-term shifts in patterns of consumption and production, be they driven by changes in people's preferences or technological innovation. But the 2020s look set to be very different. The pace of change will also be shaped by the triple-shocks of Brexit, Net

Zero and Covid-19. The scale and scope of changes to our economy as we recover from the pandemic, exit the European Union and decarbonise are vast.

The change ahead is also highly underdetermined, and so the scope for shaping it is large. There are some fixed points – most strikingly the 2035 and 2050 decarbonisation targets – but much of what is set to take place in the decade ahead is still far from set in stone. For example, there is no settled consensus around new trade policies, no detailed plans to deliver our ambitious climate change targets in many areas, and no certainty as to which behavioural shifts that Covid-19 has brought about might last.

But the UK economy will be markedly different in 2030 than it is today. Many of the homes we live in and the cars we drive will be heated and powered very differently. The competitive pressures on our businesses will have changed as patterns of trade shift. The way many of us work may well be different too as a result of Covid-19. This reallocation will bring benefits, but also costs. It will be facilitated by price signals in the form of wage differentials and changes in asset prices that make growing occupations, industries or places more attractive than shrinking ones, with implications for household living standards. And it will be guided, too, by public institutions able to shape the future direction of local economies and solve collective action problems.

The question, then, is whether the process of transition will be managed well. Will the losers from economic change be protected from its effects? Will the UK's economic geography be rebalanced or become more lopsided? Will the UK's firms become leading innovators in new sectors that Net Zero will bring, or will our existing leading sectors struggle in the face of higher barriers to trade? These questions are big. Influencing these outcomes requires that change in the 2020s is not left to run its course but is instead actively shaped.

This creates a totally different context within which the UK must plot a course to economic success. Our previous approach was already in need of renewal given long term challenges facing our economy, from high inequality to low productivity. But the scale of the change to come, the lack of direction, and big persistent economic problems mean that the time is right for a renewed economic strategy for the UK.

Of course, we acknowledge the difficulties and trade-offs that this will bring. But they should not lead to defeatism: it is perfectly possible that the 2020s can be a decade that ends with the UK economy being more equal, more productive, greener and healthier, with new change managed well and old problems tackled in the process. Everything is still to play for.

Launching The Economy 2030 Inquiry

This launch document for the Inquiry is the first of many papers to be published through this collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics.

There are some things we can be confident of at this early stage in our research. We know the big picture position of the UK economy and the outcomes it delivers for people, places and firms. But we do not yet, as a country, have as deep an understanding as we should of how these economic groups have been affected by change in our recent past, and how they are likely to be affected by the challenges of the decade ahead. Nor do we have a clear enough view of the policy choices and trade-offs facing the country.

These are the questions The Economy 2030 Inquiry will answer between now and 2023, and this launch paper sets out the key areas of interest and focus. The remainder of this report is structured as follows:

- **Section 2** describes the **scale and nature of change** that the 2020s may bring, focusing on the core drivers of change: Brexit, Net Zero, Covid-19, ageing and technological progress.
- **Section 3** examines how **ready for large-scale change the UK is**, looking back at our economic history to see how much change we are used to and how well it has been managed in the past.
- **Section 4** outlines the **economic backdrop** to the 2020s, the context that shapes our starting point for adjusting to new challenges.
- **Section 5** outlines the **importance of managing change well**, what there is to be gained (or lost) from a decade of success (or failure).

Section 2

A decade of change

The 2020s will be a decade of major change. While many people are currently focused on the lasting impact of the Covid-19 pandemic, it is the combination of this with Brexit, Net Zero and technological change that will make this decade stand out. They pose two related but distinct challenges for economic policy.

First, these shifts will drive a reallocation of workers and capital across industries, occupations and regions, with new patterns of consumption and production. There will be winners and losers, and policy needs to maximise the former while supporting the latter.

Second, these drivers of change pose new questions of, and offer up new opportunities for, the UK's approach to economic success. Indeed, they are so significant that they necessitate a renewed economic strategy for the UK.

Major change is coming

Change is a fact of economic life. Occupations, industries, firms and regions can (and do) boom or shrink in the face of shocks from technology and policy, and shifts in the demographic, physical and natural environments. Change creates winners and losers in people's roles as workers, consumers, business owners and residents, be it from the advent of ride-hailing services in the past decade or the power loom over two centuries previously.

But change does not happen at a constant rate. There may be times when it is so gradual that policy makers can focus on understanding, and incrementally improving, the status quo. The decade ahead is not one of those times. The shifts coming to the UK in the 2020s are significant in both scale and nature. They will be driven not only by the

long-term forces of demography and technology, but by the coming together of three additional major drivers of change: the lasting impact of the Covid-19 pandemic, the UK's emergence from the EU and our Net Zero transition.

The task for economic policy makers is, first, to understand the impact of these changes on people, places and firms, and then to update the UK's economic strategy in light of them.

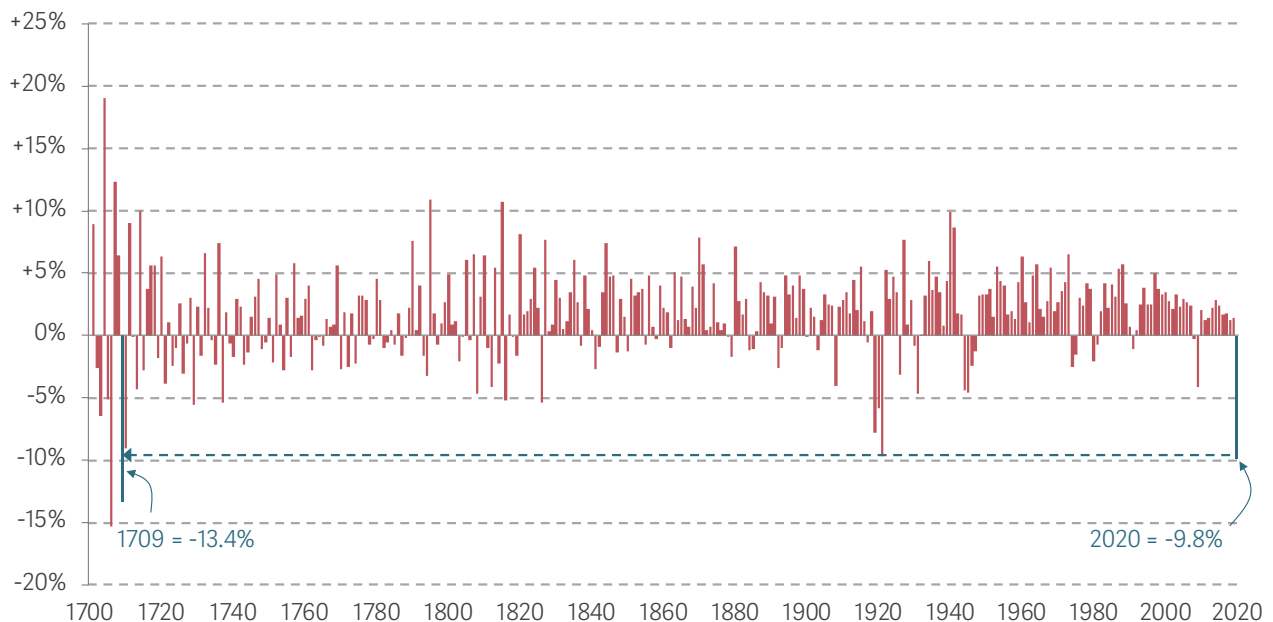
Covid-19

The economic shock caused by Covid-19 and the associated containment measures resulted in the largest annual contraction in GDP in three centuries (Figure 1).

Unprecedented fiscal support sustained household incomes and attenuated the rise in unemployment and business insolvencies.¹ And a successful vaccination rollout means a recovery is now underway and forecast to continue, even if the uneven global rollout of vaccinations and related risk of mutations pose risks.²

FIGURE 1: The annual fall in GDP associated with Covid-19 is the biggest in over 300 years

Annual GDP growth: UK



SOURCE: Analysis of Bank of England, A Millennium of Macroeconomic Data For the UK; ONS, GDP monthly estimate.

¹ T Bell & M Brewer, *The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis*, Resolution Foundation, March 2021; and N Cominetti et al, *On firm ground? The impact of Covid-19 on firms and what policy makers should do in response*, Resolution Foundation, February 2021.

² See: International Monetary Fund, *World Economic Outlook: Managing Divergent Recoveries*, April 2021.

As with any major recession, the pandemic will drive change for years to come. But it will do so in unique ways. All downturns have lasting impacts from the direct effects on people (e.g. unemployment) and firms (e.g. debt). This crisis will be no exception. The associated rise in unemployment will last for several years, while the highly unequal impact of the crisis will have a lasting legacy. This is discussed in more detail in the Annex to this report. That will include damaged labour market outcomes for low earners and the young,³ with higher savings for the rich and more debt for poorer households.⁴ That legacy will need to be addressed during the 2020s.

Beyond these direct impacts, the Covid-19 downturn was brought about by huge behavioural change (reductions in mobility and face-to-face interactions, partly voluntary and partly legislated) required to control the virus. It is the continuation of some of those behavioural shifts that may be the driver of lasting economic change after this crisis.

The two most obvious are the growth of online retail and home working. On the former, Figure 2 shows internet sales as a percentage of total retail sales between January 2015 and January 2021. Online retail has skyrocketed since the onset of the pandemic: from 19 per cent of total retail sales in February 2020 to 36 per cent in January 2021. Most tellingly, only half of the 14-percentage point increase during the first lockdown was reversed during the opening up of Summer 2020. This turbo-charging of a long-term trend will have implications for those employed in retail, the majority of whom are women.⁵

Only 5 per cent of those in employment worked 'mainly from home' in late-2019, but in the depths of the first and third lockdowns (April 2020 and February 2021) almost half of those who were working reported doing so from home.⁶ Working from home is particularly prevalent among higher-paid and higher-educated workers.⁷ At least some of the pandemic-induced increase in home working is likely to remain once social distancing restrictions are lifted.⁸

³ Labour-market scarring is itself a form of change, as workers who would otherwise have been in stable employment can spend years finding comparably good jobs. See: T Von Wachter, [The Persistent Effects of Initial Labor Market Conditions for Young Adults and their Sources](#), Journal of Economic Perspectives, Volume 34, 2020.

⁴ T Bell & M Brewer, [The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis](#), Resolution Foundation, March 2021.

⁵ L Gardiner & D Tomlinson, [Sorry, we're closed: Understanding the impact of retail's decline on people and places](#), Resolution Foundation, February 2019.

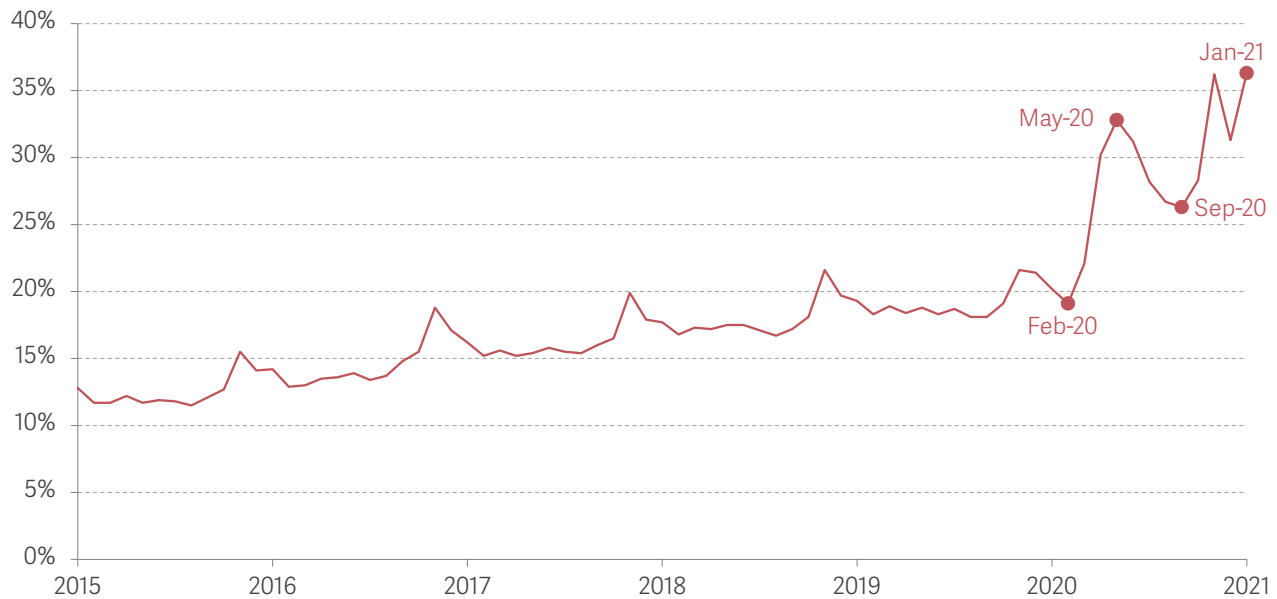
⁶ Analysis of ONS, Labour Force Survey & Opinions and Lifestyle Survey.

⁷ See: ONS, [Homeworking hours, rewards and opportunities in the UK: 2011 to 2020](#), April 2021.

⁸ See: S Taneja, P Mizen & N Bloom, [Working from home is revolutionising the UK labour market](#), VoxEU, March 2021.

FIGURE 2: The pandemic has turbocharged the move to online shopping

Internet sales as a percentage of total retail sales: 2015-2021, UK



NOTES: Data is not seasonally adjusted.

SOURCE: Analysis of ONS, Retail Sales Index, Internet Reference Tables.

A durable shift towards more home working and online retail would drive major changes for firms, workers and places. As ever, there would be winners and losers.⁹ A move to greater home working may be a welcome lifestyle change for some professionals and could spread well-paid jobs geographically, aiding efforts to level up less affluent parts of the UK. But for those, generally lower earners, who provide local goods and services, it could mean significant economic disruption as they are forced to find new jobs in new places.

Similarly, some consumers will choose to shop on the internet more often, but the labour and capital employed in the retail sector will be forced to move and be redeployed. Even a relatively small change in the nature of retail or location of office work could have profound consequences for the economic geography of the UK. The pace as well as the extent of change matters here. A swifter move to online shopping means a faster decline for high street retail, making it harder for some town centres to successfully adjust.

But at the moment there is huge uncertainty about the degree to which these shifts will persist. Even in the very unlikely situation where none do so, though, the pandemic should still make us reassess our economic strategy. Alongside the financial crisis, we have now had two “once in a generation” shocks in a decade. Both saw the state

⁹ See: Adams-Prassl et al., *Work Tasks That Can Be Done From Home: Evidence on Variation Within & Across Occupations and Industries*, CEPR, June 2020.

take on unprecedented but crucial new roles, preventing banks collapsing in 2009 and introducing emergency new measures in 2020 to insure households' and firms' incomes against the huge fall in economic activity.

This highlights the importance of building resilience into our economic strategies. That might include addressing specific weaknesses the pandemic has revealed in our existing shock absorbers: balance sheets,¹⁰ the welfare state,¹¹ health systems and international supply chains, amongst others. But in reminding us that big shocks happen, whose nature we cannot predict, the pandemic also teaches us to value the generic resilience of the state, in operational and fiscal terms (this is discussed more later, in Box 2).

Brexit

Along with the profound changes from the pandemic, the UK economy has entered a new phase of economic governance with its departure from the European Union. Brexit constitutes the first time a major modern economy has left a deep economic partnership, and is the largest change to the UK's economic structures since its entry into the Common Market nearly half a century ago.¹² Where the UK fits within a world economic order being reshaped by the dynamics of the connected, but increasingly competitive, great powers of China, the EU and the US is unclear.

And the performance of the UK economy since the EU referendum reflects the extent of the economic shock. News of the Brexit vote saw a bigger overnight sterling drop than at the height of the financial crisis or on Black Wednesday, when sterling had to leave the European Exchange Rate Mechanism in 1992. Prices of imports increased for UK consumers and firms, leading to a return to real wage stagnation. Real GDP growth remained weaker than other G7 nations.¹³ Trade and investment patterns also changed¹⁴ and, as of 2019, Brexit uncertainty had affected the most productive firms fastest, reducing productivity by between 2 and 5 per cent.¹⁵ Crucially, these effects were experienced before the economy had begun the structural adjustment that Brexit actually having happened will bring.

This adjustment is expected to operate through the partial reversal of deep integration with the EU27, along with a greater degree of independence in managing our relationships with the rest of the world and in setting our domestic regulations.

¹⁰ See: Gustafsson et al., [After shocks: Financial resilience before and during the Covid-19 crisis](#), Resolution Foundation, April 2021.

¹¹ See: M. Brewer, K. Handscomb & K. Shah, [In need of support?: Lessons from the Covid-19 crisis for our social security system](#), Resolution Foundation, April 2021.

¹² S Dhingra et al., [The Costs and Benefits of Leaving the EU: Trade Effects](#), Economic Policy, Volume 32, October 2017.

¹³ J De Lyon and S Dhingra, [Economic Performance Since the EU Referendum](#), Centre for Economic Performance, Brexit Analysis 14, March 2019.

¹⁴ See: A Graziano, K Handley & N Limão, [Brexit Uncertainty and Trade Disintegration](#), The Economic Journal, Volume 131, April 2021; and H Breinlich et al, [Voting With Their Money: Brexit and Outward Investment by UK Firms](#), European Economic Review, Volume 124, February 2020.

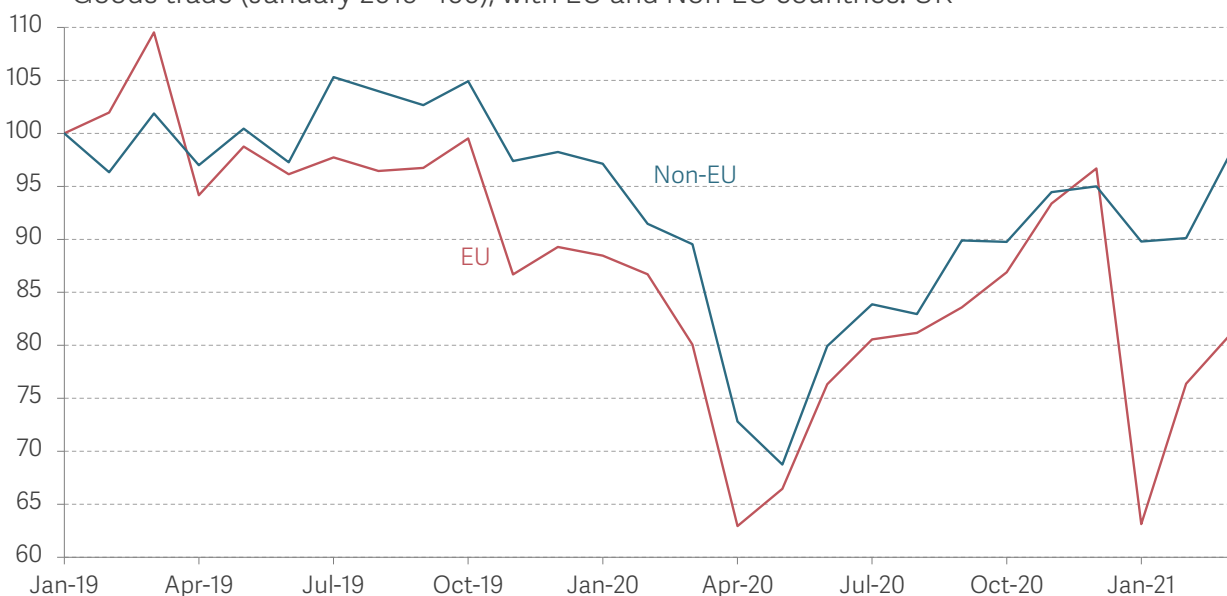
¹⁵ See: N Bloom et al., [The Impact of Brexit on UK Firms](#), Working Paper, NBER, September 2019.

Losing some of the close integration will mean higher trade costs with the EU, and these will affect firms' ability to produce efficiently for domestic consumption or exports. For example, estimates of the impact of Brexit on the UK's car industry suggest UK production would fall by 2.4 per cent, as a result of increased costs of maintaining global value chains.¹⁶ Winners and losers are likely to emerge: winners will include producers of goods that face less competition from overseas, or industries – such as customs agents – that the higher trade costs partly represent spending on.

The immediate impact of increased trade costs, some temporary, can be seen in the significant initial impact on trade with the European Union (Figure 3) and disruption to internal trade with Northern Ireland. UK goods trade with the EU in the first quarter of 2021 was on average 14 per cent lower than the same quarter in 2020, reflecting a sharp 35 per cent monthly drop in January and a subsequent partial bounce back. Trade with non-EU countries remained broadly unchanged for the same annual quarterly comparison. But the permanent impact remains to be determined, as the extent and nature of structural changes necessary over the next 10 years depends on future negotiations with the EU and trade deals with other countries.

FIGURE 3: Since the UK's departure from the European Union, the UK's trade in goods with the EU has dropped more than trade with non-EU countries

Goods trade (January 2019=100), with EU and Non-EU countries: UK



SOURCE: Analysis of ONS, UK trade statistics: March 2021.

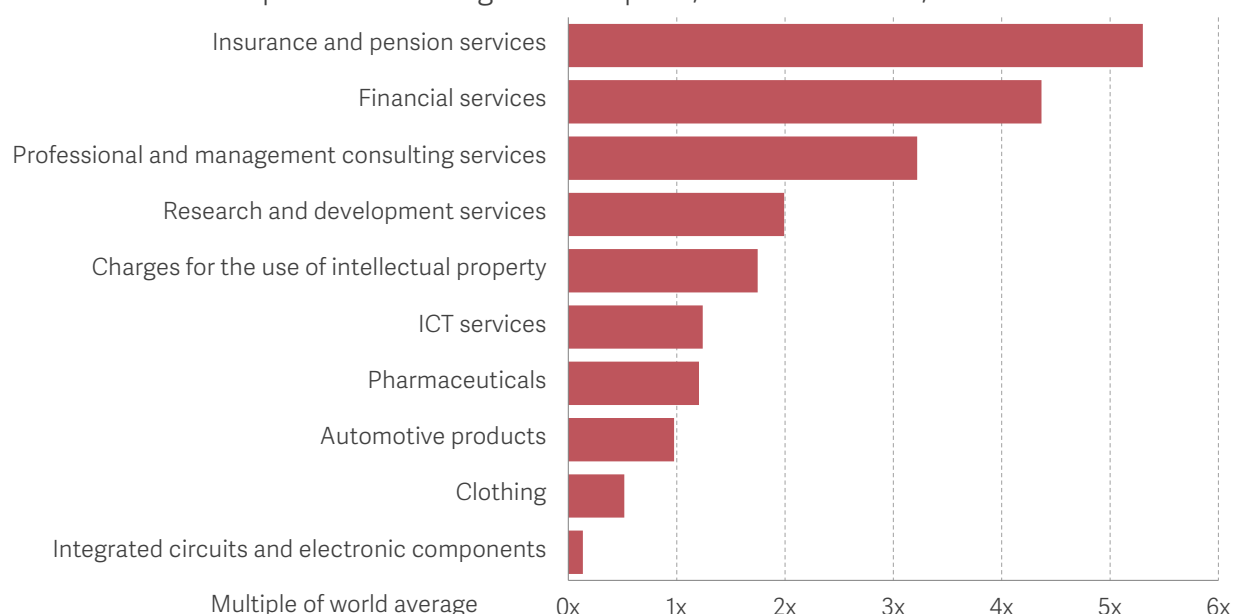
Lower trade barriers with non-EU countries are the objective of current Government efforts to secure free trade agreements. Moving away from the EU's high tariffs might

¹⁶ S Dhingra et al., *The impact of Brexit on foreign investment in the UK*, Centre for Economic Performance, LSE, April 2016.

reduce prices in sectors like food and paper through cheaper imports from third countries. But deals to overcome non-tariff barriers will be difficult in sectors where product standards and regulatory cooperation is important. And our new relationship with the EU introduces new barriers for some sectors, including service industries in which the UK tends to specialise (Figure 4.).¹⁷

FIGURE 4: The share of high-value services in the UK's exports is over two times the world average

Revealed comparative advantage of UK exports, selected sectors, 2019



NOTES: The chart shows the ratio of the share of each category of good or service in the UK's exports to the world average share. A value of 2 implies that the share of UK exports in this category is twice the share of world exports in this category.

SOURCE: Analysis of World Trade Organisation data.

Trade agreements to reduce non-tariff barriers – with the EU or other partners – require either mutual recognition of national standards or regulatory alignment. Mutual recognition can be difficult, as arguments over chlorinated chicken from the US demonstrate, while regulatory alignment requires deep cooperation among regulatory agencies (such as those between the Bank of England and the European Central Bank needed to maintain the UK's financial services exports to the EU). Aligning with one trading partner also brings clear trade-offs with respect to others. If the UK agrees, for example, to a new trade deal with the US that comes with significant alignment of product standards, then it will become harder to simultaneously align with the EU.

¹⁷ S Hall, [The Brexit deal and services sector](#), UK in a Changing Europe, December 2020.

Some of these issues will be navigated, others will not. Real-time surveys from the Confederation of British Industry showed a sharp spike in January and April 2021 in the share of UK manufacturing businesses that are pessimistic about their competitiveness in EU markets. It will be extremely challenging to achieve an improvement in competitiveness in third country markets which could compensate for the loss in EU markets.¹⁸ In the longer run, the effect of this loss of competitiveness on UK incomes may get reinforced if reduced competitive pressure from the EU slows down growth in business productivity.¹⁹

The impact of Brexit is broader than trade. The UK's new points-based immigration system ends freedom of movement with the remaining EU countries, reduces overall levels of migration and prioritises those with the highest skills. This will have a profound effect on the composition of the UK workforce, in turn driving change for particular firms and sectors.²⁰ Indeed, even before a pandemic driven fall in the stock of migrants, gross work-related immigration roughly halved from the EU in the second half of the last decade.²¹ Certain sectors and firms that currently rely heavily on low-skilled migrant labour will need to adjust by shrinking, adjusting business models (sometimes for the better) or finding alternative sources of labour.²² This is likely to be most acute in lower-paying sectors, where turnover is highest and the new migration rules will be most restrictive.²³ For example, while migrants comprised around one-quarter of employees in both the warehousing and scientific research industries in 2016 it is the former that will feel the bite of new restrictions most immediately.²⁴

High value-added industries, like professional and technical services, have benefited from access to world markets and from the UK's previous migration policies. They have also, however, been concentrated in richer regions, with higher earnings flowing to the more educated and higher skilled. Leaving the EU provides greater flexibility on certain domestic regulations and industrial policies, but the challenge remains how to make sure a renewed economic strategy for this changed context sees more people and places benefit from the UK's comparative advantages in high value-added sectors.

The Shared Prosperity Fund – the UK's replacement for the EU's Structural Funds – will need to address part of this challenge.²⁵ On average, Structural Fund transfers have increased growth in recipient areas and thus reduced disparities. These positive effects

¹⁸ J De Lyon & S Dhingra, [The Impacts of Covid-19 and Brexit on the UK Economy: Early evidence in 2021](#), CEP Covid-19 Analysis No. 21, May 2021.

¹⁹ See: M Melitz & G Ottaviano, [Market Size, Trade, and Productivity](#), The Review of Economic Studies, Volume 75, January 2008.

²⁰ See: HM Government, [The UK's Points-Based Immigration System Policy Statement](#), February 2020.

²¹ Analysis of ONS, Long-term International Migration (LTIM), Table 3.

²² What those industries might be is explored in: K Henahan and L Judge, [Home and away: The UK labour market in a post-Brexit world](#), Resolution Foundation, December 2020.

²³ HM Government, [The UK's Points-Based Immigration System Policy Statement](#), February 2020.

²⁴ See: Resolution Foundation, [Work in Brexit Britain: reshaping the nation's labour market](#), July 2017.

²⁵ For a survey of research into the impacts of EU Structural Funds see: H Overman & M Ehrlich, [Place-Based Policies and Spatial Disparities across European Cities](#), Journal of Economic Perspectives, Volume 34, Summer 2020.

are driven by regions with high human capital and high-quality local government.²⁶ However, transfers are ineffective elsewhere and, even in regions that do benefit, gains may not persist once eligibility ends. Cross-party consensus on the need to close productivity gaps between regions of the UK now needs to translate into an improved cohesion policy. This could include considering longer phase-out periods when areas become ineligible for subsidies, and how transfers can be better-targeted at investments that improve long-run growth. Given the importance of human capital and local government capacity to subsidy effectiveness, perhaps both should be higher priorities. The UK's new Infrastructure Bank (UKIB) will need to answer similar questions about how its activities fit within a broader economic strategy.

The removal of EU state aid rules also allows changes in the way the government provides direct financial subsidies to firms. The UK Government is currently consulting on how to design a new subsidy control regime, raising questions about the way we use such subsidies to support firms in disadvantaged places or to achieve other policy objectives (e.g. to support key strategic industries).²⁷ Decisions here will also need to account for the fact that international partners will insist on restrictions as part of any trade deal.

Debates since the referendum have not shed much light on how the country should respond to the changes that these shifts in trade costs or the migration regime will bring, nor how the UK's economic strategy should adjust to this new context. Supporters of Brexit have downplayed the costs as minimal, while opponents have focused on the existence of these costs, rather than on what should be done about them.

The UK's changing place in the world will require a major reallocation of labour and capital, away from the sectors that are no longer competitive in EU trade, and towards the domestic market and non-EU trade. It is critical for UK prosperity that the new jobs and firms that emerge are productive, thereby enabling the UK to remain internationally competitive and supporting the living standards of UK residents. What these new opportunities are will have wider ramifications, including for the UK's economic geography, with trade-offs inherent in the Government's prioritisation of some sectors over others.

Brexit clearly requires a strategic response from UK economic policy makers, one that has not yet been developed. One key consequence – and, for some, the aim – of Brexit has been the repatriation of a range of economic policy competencies from Brussels to the UK and devolved administrations. The UK now needs a strategy for how best to

²⁶ S Becker, P Egger & M Ehrlich, [Absorptive Capacity and the Growth and Investment Effects of Regional Transfers: A Regression Discontinuity Design with Heterogeneous Treatment Effects](#), *American Economic Journal: Economic Policy*, Volume 5, November 2013.

²⁷ See consultation: HM Government, [Subsidy control: designing a new approach for the UK](#), February 2021.

use its new powers over competition policy, trade policy and many areas of product and labour market regulation. It is widely agreed that these policy levers must support the other broadly-agreed aims of economic policy – inclusive, sustainable and strong growth – yet there is no plan for how this should be done. Now that the debate has moved on from whether to leave the EU and variants of the Single Market and Customs Union, the country must urgently focus on the pivotal question: how to make life outside the EU work.

Net Zero

The UK's commitment to bring all greenhouse gas emissions to Net Zero by 2050 will require an immense set of changes, including the transformation of agricultural and industrial processes, shifts in consumption patterns, and an end to the dependence on carbon-based energy that facilitated the birth of an industrial society 250 years ago. Again, urgency is needed: 60 per cent of fuel supply (oil and gas industries) and half of surface transport decarbonisation needs to happen during the 2020s.

The broad outline of the changes needed to deliver on this commitment is becoming clearer. The UK has several advantages in this regard. It has already made relatively rapid progress in decarbonisation: the UK has cut greenhouse gas emissions by 44 per cent since 1990.²⁸ It has an established institutional framework in the Climate Change Committee that provides transparent scientific guidance to policymakers and holds them to account. And the UK has relative strengths in a number of “clean” technologies and products which have the potential to generate areas of future growth.²⁹ Most importantly, there is a strikingly-broad political consensus around the end goal, in part reflecting the fact that earlier structural changes have left the UK with fewer workers in heavy-emitting industries than is the case in, for example, Germany.

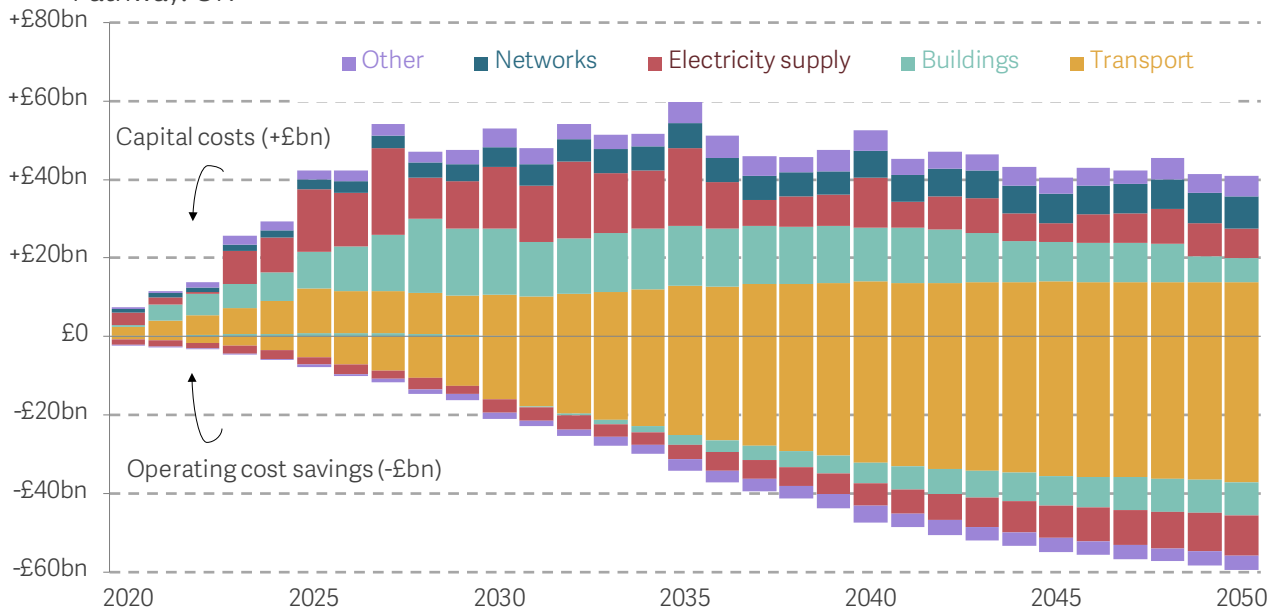
Moreover, the estimated cost of decarbonising is falling. Recent evidence suggests that the gross capital costs of the Net Zero transition across all sectors may be substantially or even wholly defrayed within 20 years by the benefits flowing from lower running costs (Figure 5), in addition to foregone gross investment in the carbon-emitting alternatives they replace.

²⁸ BEIS, [Final UK greenhouse gas emissions national statistics: 1990 to 2019](#), March 2021.

²⁹ See: R Martin et al., [Innovation for a strong and sustainable recovery](#), Centre for Economic Performance, LSE, December 2020, and: S Unsworth et al., [Jobs for a strong and sustainable recovery from Covid-19](#), Centre for Economic Performance and Grantham Research Institute on Climate Change and the Environment, October 2020.

FIGURE 5: The cost savings from a Net Zero pathway will eventually outweigh investment costs

Capital and investment costs and operating cost savings in the Balanced Net Zero Pathway: UK



NOTES: Values above the x-axis refer to additional annual capital investment. Values below the x-axis refers to savings due to operating cost reductions.

SOURCE: Analysis of Climate Change Committee, The Sixth Carbon Budget: The UK's path to Net Zero, December 2020.

However, although the political commitment to targets and some aspects of the legislative framework are in place, many of the measures needed to finance and incentivise the transition are not. This matters because the savings from new infrastructure will materialise long after the initial upfront costs. Low interest rates make that easier to manage, but where the costs fall on households it will bring challenges. The investment required, and the reallocation of labour from other areas of the economy that would follow, is significant: annual UK low-carbon investment needs to increase from £7 billion in 2020 to around £50 billion by 2030, though of course at the same time fossil fuel investment will fall. To put this in more practical terms: there are currently 32 public electric vehicle charging points per constituency, with 433 required by 2030.³⁰ The question of how the costs of this and other infrastructure will be split between the state and private sector is absolutely crucial, but almost totally unresolved. And, even more concerning, flagship programmes aimed at decarbonising domestic heating systems have ended in failure.³¹ There are also clear tensions between, for example, having world

³⁰ See: Department for Transport, [Electric vehicle charging device statistics: January 2021](#), February 2021, and Climate Change Committee, [The Sixth Carbon Budget: The UK's path to Net Zero](#), December 2020.

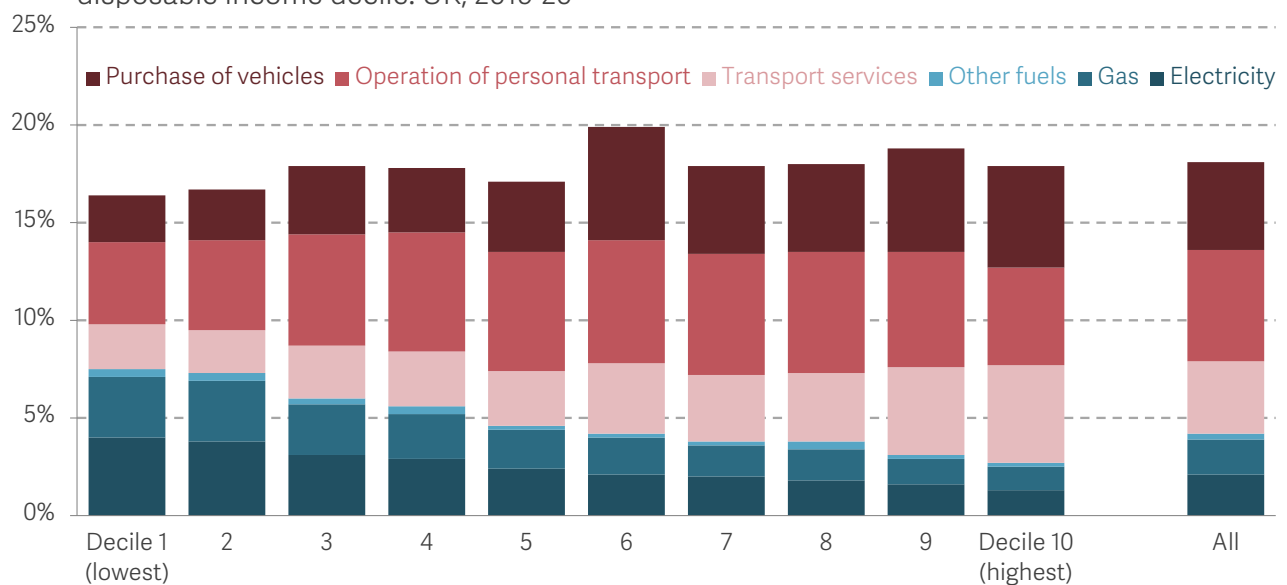
³¹ W McDowall & C Britchfield, [Decarbonising heating at home: Learning from past successes and failures to improve energy policy making](#), Institute for Government, April 2021.

leading aerospace manufacturing companies, such as Rolls Royce, and having Net Zero targets that necessitate a transformation of such companies. These tensions are still very much unresolved.

Even when expected benefits begin to exceed costs in the aggregate, the gains will be unevenly distributed across society, and the overall effect could be regressive. For example, the transition in domestic heating to low-carbon alternatives comes with large capital costs which, if passed on to higher bills, could lead to heating taking up an even larger share of spending among low income families. Already, gas, electricity and other heating costs as a share of spending for low income households (the bottom fifth of the income distribution) is 2.5 times that of high-income households (the top fifth of the income distribution) (Figure 6). Conversely, road transport, which will get cheaper more quickly (by 2025 it will be cheaper to purchase and run an electric car than a petrol or diesel car over the lifetime of the vehicle), is a larger budget share of rich households.

FIGURE 6: Poorer households spend relatively more on energy than richer households

Proportion of spending allocated to transport and energy costs by household disposable income decile: UK, 2019-20



SOURCE: Analysis of ONS, Living Costs and Food Survey.

Crucially, this next phase of decarbonisation will be more visible to the public, affecting everyday matters such as road transport and domestic heating, whereas a large fraction of progress to date has been driven by more remote changes in electricity generation. In this next phase, consumers, as well as producers, will have to adjust significantly.

The imperative of answering these questions, rather than merely announcing carbon targets, is acute. The Net Zero transition will require many thousands of workers' jobs to change, in industries from extraction and power supply, to petrol stations and housebuilding. The approach put in place over the next decade will not only determine the UK's success in meeting its Net Zero target, but also the extent to which a "just transition" can be achieved. Likewise, it will determine whether the UK will emerge as a leader, or laggard, in the development of the key Net Zero technologies and solutions that can be exported to growing global markets.³² Policies that direct innovation towards decarbonisation will maximise the chances that the UK can achieve Net Zero while also benefitting from the economic opportunities it brings.³³

Our research and policy discussion must broaden to reflect the societal shift needed to make a success of the transition to Net Zero. This means focusing not just on climate science and engineering, but also the financing of net-zero-aligned investments, the promotion of innovation and its diffusion, the role of skills training, and the contribution of our tax and benefits system (where precious little thinking has taken place about how best to support households to make the required transition). For example, we have announced plans to phase out fossil fuel car sales, there is no agreement on how to replace fuel duty revenues which will require tax rises equal to the (very significant) ones seen in the 2021 Budget.³⁴

Put simply: the implications of Net Zero target for fiscal, social and human capital policy are largely unresolved. Without a detailed plan in these areas, we cannot have confidence that domestic legislative goals will be met, nor that the benefits from a very disruptive change will be maximised. Furthermore, there is also the risk of a global failure to decarbonise and the catastrophic global heating that would result; this risk is real, not least because larger, poorer, more carbon-intensive economies have a longer, harder road to travel to bring emissions down. So, while there are compelling reasons for optimism about progress towards Net Zero, many major risks remain that could derail the process. A long-term plan to guide the process of change over the coming decades, and in the decisive 2020s, is urgently needed.

Technological and demographic change

The economic risks and opportunities from rapid technological change, especially digital technology, have dominated debate in recent years, with good reason. Technology,

³² N Stern et al., [Strategy, investment and policy for a strong and sustainable recovery: An action plan](#), Centre for Economic Performance and Grantham Research Institute on Climate Change and the Environment, July 2020.

³³ J Rydge et al., [Sustainable Growth in the UK: Seizing opportunities from technology and the transition to a low-carbon economy](#), Grantham Research Institute on Climate Change and the Environment, December 2018.

³⁴ The March 2021 Budget contained £29 billion of tax rises in 2025-26 and pre-pandemic UK government fuel duty revenue was £28 billion annually. See: HM Treasury, [Budget 2021](#), March 2021; ONS, [Current receipts: Taxes on production: Fuel duty](#), April 2021.

in the broadest sense, is the fundamental driver of rising human prosperity and has transformed the texture of daily life and work. The scope of this progress continues to broaden: for example, new opportunities in synthetic biology could transform agriculture in coming years. But disruption to lives and livelihoods is inherent in the transformations that it brings.³⁵ In this sense, it is possible to have too little technological change (and weak productivity and living standards growth) or, in some cases, too much of the 'wrong kind' that can displace workers too quickly, with little gain for others in the form of new consumption opportunities, lower prices or new jobs.³⁶ As Section 3 shows, even structural change that may be inevitable or desirable can be managed badly and exclude too many from rising prosperity.

Much of the recent discussion about technological-driven change has focused on the worry that digital technologies, such as driverless cars or other automated production processes, risk unmanageably-rapid worker displacement in the years ahead (while bringing benefits to people as consumers). The OECD estimate that 14 per cent of jobs could disappear as a result of automation in the next 15-20 years,³⁷ a much bigger impact on jobs than is expected from decarbonisation. The IMF suggests that automation proceeds more quickly in the aftermath of pandemics,³⁸ and cross-country evidence suggests that automation happens faster in ageing societies.³⁹

These concerns, however, coexist with the reality that, for the UK, the more pressing recent problem has been 'too little' automation. UK productivity growth has been very weak in the UK over the past decade, and the level of productivity is significantly lower than among our neighbours in North-West Europe, in part due to a low rate of investment (see Section 4). In 2017, the UK had only 71 robots installed per 10,000 manufacturing employees, compared to 309 in Germany and 631 in Korea.⁴⁰ The UK's record on technology adoption is low-to-middling when compared to its international peers.⁴¹

A strategy to optimise the impact of digitalisation and other modern forms of technological change on the UK economy therefore needs to reconcile these two anxieties, aiming to secure not just more technological progress and adoption, but to spread its benefits as widely as possible. Both the amount and direction of technological change is shaped by consumer behaviour and public policies on sectoral

³⁵ For an example from 19th Century Britain see: H Vipond, [Technological Unemployment in Victorian Britain](#), The Economic History Society, December 2020.

³⁶ See: D Acemoglu and P Restrepo, [Automation and New Tasks: How Technology Displaces and Reinstates Labor](#), Journal of Economic Perspectives, Volume 33, Spring 2019; and D Acemoglu and P Restrepo, [Robots and Jobs: Evidence from US Labor Markets](#), Journal of Political Economy, Volume 128, June 2020.

³⁷ OECD, [OECD Employment Outlook 2019: The Future of Work](#), April 2019.

³⁸ T Sedik and J Yoo, [Pandemics and Automation: Will the Lost Jobs Come Back?](#), IMF Working Papers, January 2021.

³⁹ D Acemoglu and P Restrepo, [Demographics and Automation](#), Review of Economic Studies, forthcoming, 2021.

⁴⁰ International Federation of Robotics, [Robot density rises globally](#), February 2018.

⁴¹ R Martin et al., [Innovation for a strong and sustainable recovery](#), Centre for Economic Performance, London School of Economics, Covid-19 Analysis 19-014, December 2020.

regulation, trade, tax, research and human capital.⁴² With respect to innovation to tackle climate change, a body of theoretical and empirical literature sets out how, in the presence of path dependencies, a suite of both environmental and broader policies are required to shift the economy onto a clean growth path.⁴³ And there has been a lack of focus on how to shape the path of technological change to promote plentiful good jobs.

Alongside technological advance, the long-run shift to an ageing society will also create challenges and opportunities over the next decade. We discuss this in Box 1.

BOX 1: Demographic and economic change in the 2020s

Major changes in demographics of the scale currently under way would – in normal times – feature more prominently in national policy debates. The swift pace of population ageing, which accelerated in the 2010s, will further pick up pace during the 2020s (see Figure 7). The ratio of those under 20 or over 65 to those aged 20-64 is set to increase from 72 in 100 to 79 in 100 between 2020 and 2030. All of the baby boomers will reach 65, and many will move into their 80s.⁴⁴ Working in the other direction, the significant surge in the number of births from 670,000 to 810,000 between 2002 and 2012 will place demands on the education system, but also provide an opportunity for more rapid labour-market reallocation as these people enter

the labour market for the first time in the 2020s.⁴⁵

This nature of population ageing is also strongly geographically-differentiated. Older places (like Eden, Powys and Richmondshire) are ageing faster than younger ones (which in some cases, such as Barking and Dagenham, Manchester and Nottingham, are actually getting younger).⁴⁶

An ageing population does not just shape the nature of economic change, but also how we adapt to it. The average worker age has risen from 39 to 43 between 1999 and 2019. Labour reallocations may be harder to achieve in a world of longer working lives and higher average working ages, when

⁴² N Bloom, J Van Reenen & H Williams, *A Toolkit of Policies to Promote Innovation*, *Journal of Economic Perspectives*, Volume 33, Summer 2019.

⁴³ P Aghion et al., *Path dependence, innovation and the economics of climate change*, Centre for Climate Change Economics and Policy and Grantham Research Institute on Climate Change and the Environment Policy Paper, A contributing paper to: *New Climate Economy*, November 2014.

⁴⁴ Population ageing is not a phenomenon unique to the UK. For more on how the UK compares internationally see Box 3 in C McCurdy, *Ageing, fast and slow: When place and demography collide*, Resolution Foundation, October 2019.

⁴⁵ For a fuller discussion see: D Willetts, *The Pinch: How the Baby Boomers Took Their Children's Future – And Why They Should Give It Back*, Revised and updated, Atlantic Books, November 2019.

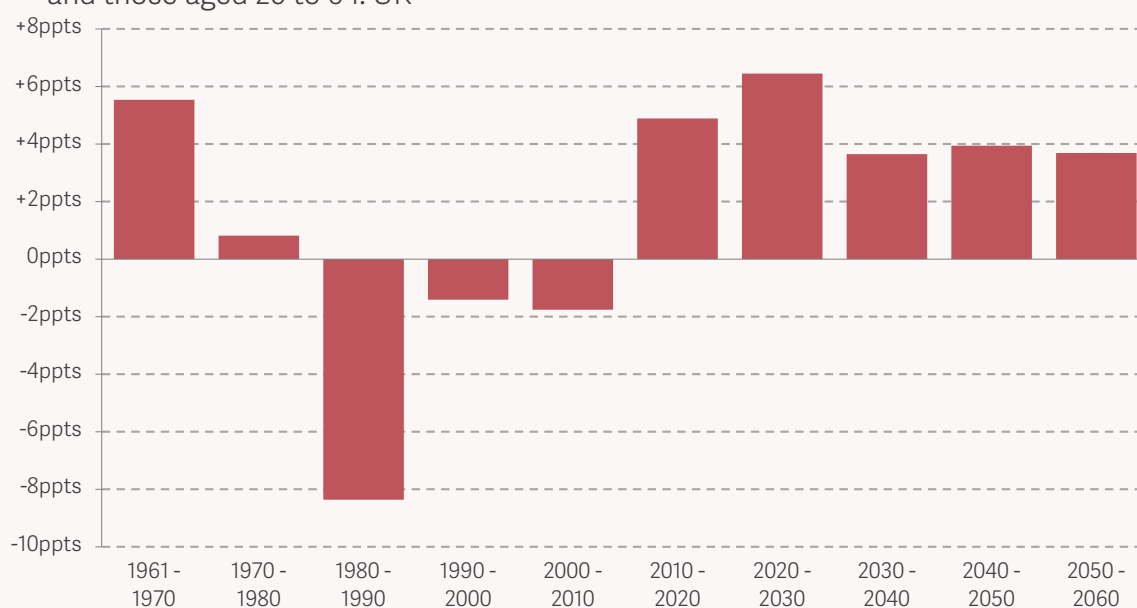
⁴⁶ C McCurdy, *Ageing, fast and slow: When place and demography collide*, Resolution Foundation, October 2019.

the ability or propensity to make large changes is lower.⁴⁷ Currently, older workers tend to move less for work and, if they do, are more likely to see their wages fall.⁴⁸ However, social norms

relating to changing occupation in middle age may change in the face of higher life expectancy and better education.⁴⁹

FIGURE 7: The swift pace of population ageing will accelerate during the 2020s

Ten-year percentage point change (ppts) in the ratio between those under 20 or 65+ and those aged 20 to 64: UK



SOURCE: Analysis of ONS, Mid-Year Population Estimates; ONS, 2018-Based Population Projections.

Interactions and trade-offs

These shocks and transitions in the 2020s will all result in major reallocations of capital and labour. But they will also interact in ways which will multiply or mitigate their effects. Policy responses must be joined-up to be effective.

Significant changes may coincide at the level of place or sector, to compound challenges or offset them with new opportunities. For example, the economies of central London and Edinburgh have been among those worst affected by the move to mass working from home during Covid-19, but the number of people that eventually return to city-centre roles will in part be determined by the lasting impact of Brexit on the high-value

⁴⁷ D Autor & D Dorn, *This Job Is "Getting Old": Measuring Changes in Job Opportunities Using Occupational Age Structure*, American Economic Review, Volume 99, May 2009.

⁴⁸ N Cominetti, *A U-shaped crisis: The impact of the Covid-19 crisis on older workers*, Resolution Foundation, April 2021.

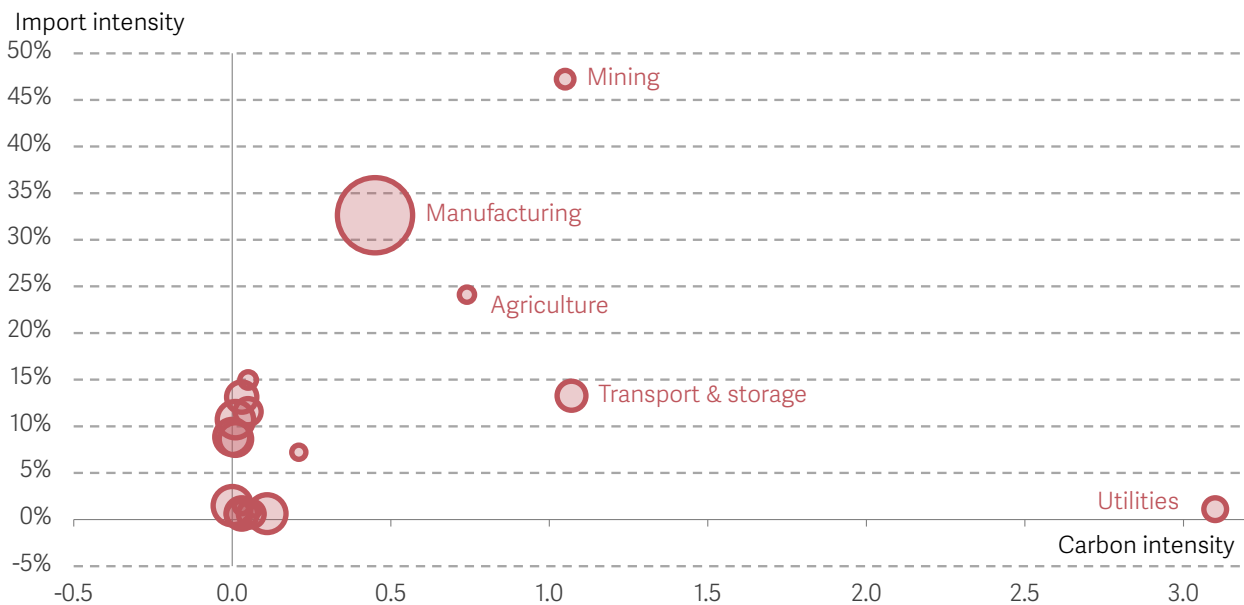
⁴⁹ L Gratton & A Scott, *The 100-year life: living and working in age of longevity*, Bloomsbury, June 2016.

services provided in cities.⁵⁰ In the City of Edinburgh, financial and insurance activities make up 9.6 per cent of employee jobs (compared to 3.5 per cent nationally) with trips to work down 25 per cent on pre-pandemic levels at the end of March (compared to 19 per cent down nationally). More positively, any significant reduction in travel for commuting purposes could contribute towards meeting the UK's exacting Net Zero targets.

Climate policy will interact with Brexit. Some sectors and firms are both carbon- and import-intensive, and therefore particularly exposed to a domestic decarbonisation drive that is not matched elsewhere. Four sectors (agriculture, mining, manufacturing and transport) combine above-average exposures on both fronts, and collectively employ 4 million people (Figure 8).

FIGURE 8: Some high-carbon industries are also very open to trade, creating an interaction between trade and Net Zero policy

Carbon intensity (thousands of tonnes of CO₂ per £ million GVA) and import intensity (imports from all sources as a share of supply), by industry: UK, 2017/ 2018



NOTES: Size of bubbles show number of employees
SOURCE: Analysis of ONS, UK Environmental Accounts 2018.

These drivers of change will pose acute and intersecting challenges. Individual policy decisions that are principally about responding to one of these major changes will inevitably be impacted by others. For example, the scale of publicly-supported lending, much of which aims to support the Net Zero transition, will be materially affected by the Brexit-induced creation of the UK Infrastructure Bank (UKIB) to take on the role previously filled by the European Investment Bank (EIB). Here there is likely to be a

⁵⁰ For example, see: Google, [COVID-19 Community Mobility Reports](#).

shortfall to make up: by the middle of this decade, the UKIB is projected to be lending under a third of the average annual investment provided by the EIB to the UK between 2010 and 2016, as a proportion of GDP.⁵¹ Meanwhile, the lasting impact of the pandemic on aviation is likely to make it more politically challenging to increase the cost of flying in the short term, even if that is desirable for Net Zero. And, in the medium term, the UK's position on carbon border adjustment policies will have to consider not just our Net Zero goal but broader trade policy objectives.

A decade of change

This section has shown that the UK faces a decade of change: The Economy 2030 Inquiry will help bring about a better understanding of its impact on people, places and firms. What we know already is that there will be significant winners and losers, and that these drivers of change create problems and opportunities to which a new economic strategy will need to respond. The next section will assess how much practice the UK has recently had at managing change.

⁵¹ See box 3.6 in Office for Budget Responsibility, [Economic and fiscal outlook](#), March 2021.

Section 3

Is the UK ready for a decade of change?

With significant economic change set to take place in the 2020s, the question is how ready the UK is to successfully navigate it. Some take comfort from the widely-held view that economic change has accelerated in recent years, meaning that the country has significant experience of managing it. But the reality is that rates of economic change have been flat or falling in recent decades. Labour reallocation between sectors in the 2010s was the lowest since the 1930s, and pre-Covid voluntary job-to-job moves were down 37 per cent since the start of the millennium.

History cautions against thinking big change in the UK is always handled well when it does happen. The de-industrialisation of the 1980s supported aggregate income growth but the process of adjustment was far from smooth. The impacts on those losing out were deep and very long-lasting. Long-term unemployment trebled and huge regional employment gaps opened up, with 12 local authorities losing over a fifth of their jobs between 1981 and 1991, including Wansbeck (-32 per cent), Easington (-29 per cent) and Liverpool (-23 per cent).

Making a success of change in the 2020s is therefore something we must focus on, rather than take for granted.

The first two decades of the 21st century have been a period of flat, or even declining, economic change

Should we be concerned about the flux facing the UK economy during the 2020s? The widely-held view is that we have got used to accelerating change, largely driven by technological advancement.⁵² If this were the case then we could be more relaxed about

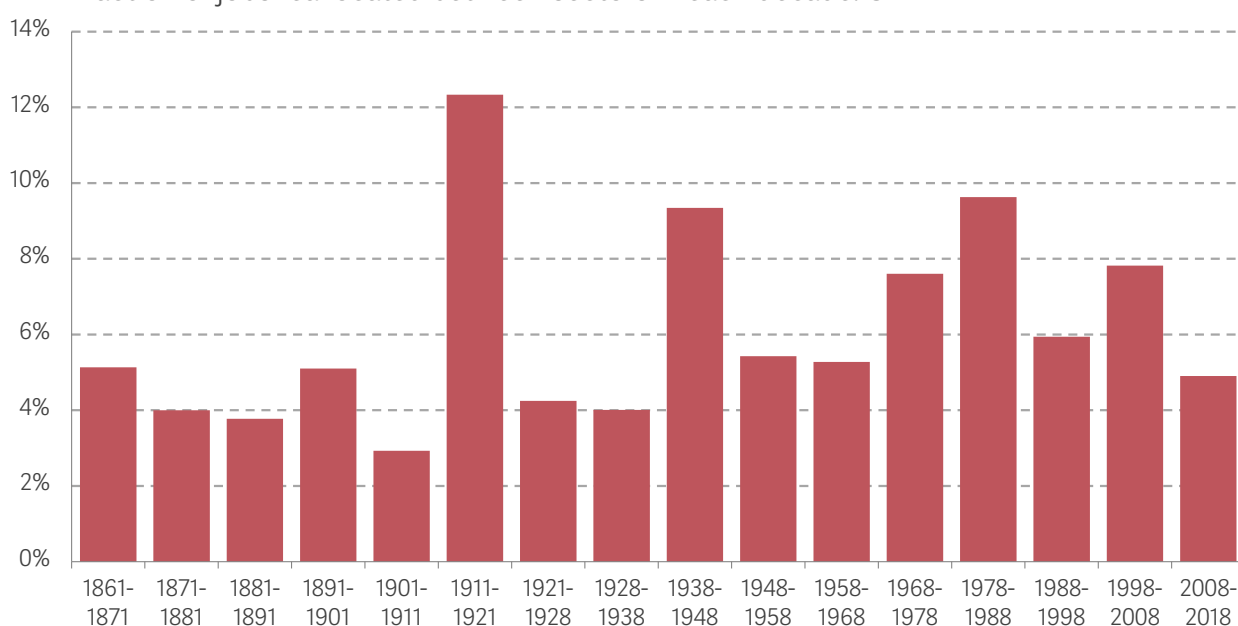
⁵² See: R Colvile, *The Great Acceleration: How the World is Getting Faster, Faster*, Bloomsbury Publishing, April 2016.

what lies ahead. To examine the scale and speed of change, and think through whether that has been handled with ease, we first turn to relevant aggregate measures, before examining those relating to individuals. In all cases, though, we find that, far from being a period of accelerating change, recent decades have featured flat or declining dynamism.

Aggregate levels of reallocation between industrial sectors in the 2010s was the lowest since the 1930s, as shown in Figure 9, indicating a surprisingly static economy. Labour reallocation was particularly high in the periods that include world wars, but also in periods of partly policy-driven de-industrialisation (the 1980s) and globalisation (early 2000s). If reallocation had remained flat, rather than fallen, in the past decade, an extra 2 million jobs would have moved sectors.

FIGURE 9: Reallocation between broad industrial sectors in the 2010s was the lowest since the 1930s

Fraction of jobs reallocated between sectors in each decade: UK



NOTES: Sectors refer to the broad industrial groupings of SIC 2007 sections: primary (agriculture, fisheries & forestry), mining & utilities, construction, manufacturing, transport, storage & ICT, retail & wholesale, insurance, banking & finance, public admin & defence, professional, scientific & technical (including education & health) and other services including hotels & catering. These groupings are those provided by the Bank of England's millennium of macroeconomic data. Data from 2016 onwards splices ONS workforce jobs data with the BoE's database. We calculate the absolute decadal change (e.g. between 2008 and 2018) in each sector's share of total employment, and multiply the average of this by 5 (the number of sectors halved). Irregular reporting of employment shares by industry means that after 1921 we switch to the 8th year of the decade for decadal changes. The result that the 2010s saw the lowest reallocation since the 1930s is robust to using the standard deviation in place of the average absolute deviation, and to measuring changes in shares proportionally as well as in percentage-point terms. The result that the last decade saw less reallocation than the preceding one is robust to measuring sectors at the two-digits level, but data is not available for longer on a consistent basis at this level of disaggregation.

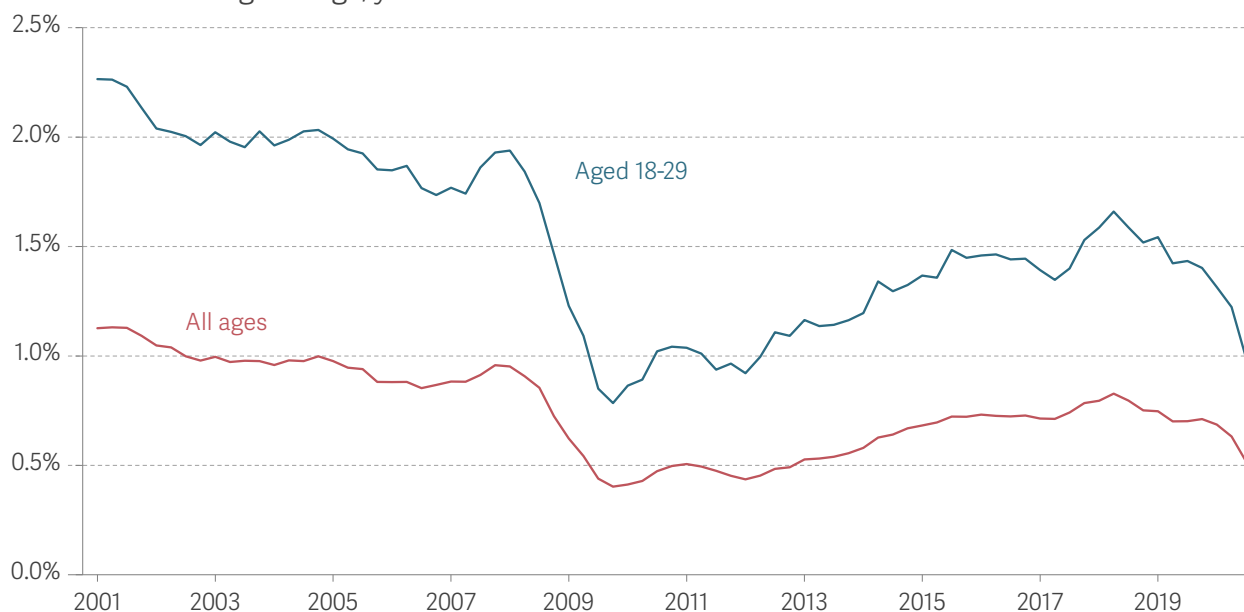
SOURCE: Analysis of Bank of England, A Millennium of Macroeconomic Data For the UK; ONS, Workforce Jobs.

Economic change, of course, happens between firms, as well as industries. But when we look at business dynamism – as measured by the rate of job creation and destruction caused by the entry of new, and the exit of old, businesses – we find a similar story: the rate of job reallocation from business entry and exit has fallen since the late 1990s.⁵³ Over the same period, the reallocation of jobs between incumbent firms that grow or shrink has been broadly flat.

This relative stasis has also been reflected in the experiences of individual workers. Figure 10 shows the proportion of workers choosing to move jobs per quarter, from 2001 to 2020. Even ignoring recent falls related to the Covid-19 crisis, the rate of voluntary job-to-job moves at the end of 2019 was 37 per cent lower than in 2001. We see a similar broad trend even among traditionally more mobile younger workers (who are the group for whom job moves are most associated with enhanced productivity),⁵⁴ who were also less likely to choose to move jobs in the years since the financial crisis than at the turn of the century.

FIGURE 10: The rate of voluntary job-to-job moves fell by 37 per cent between 2001 and the end of 2019

Proportion of workers voluntarily moving from one job to another each quarter by age, annual rolling average, year to date shown: UK



SOURCE: Analysis of ONS, Labour Force Survey.

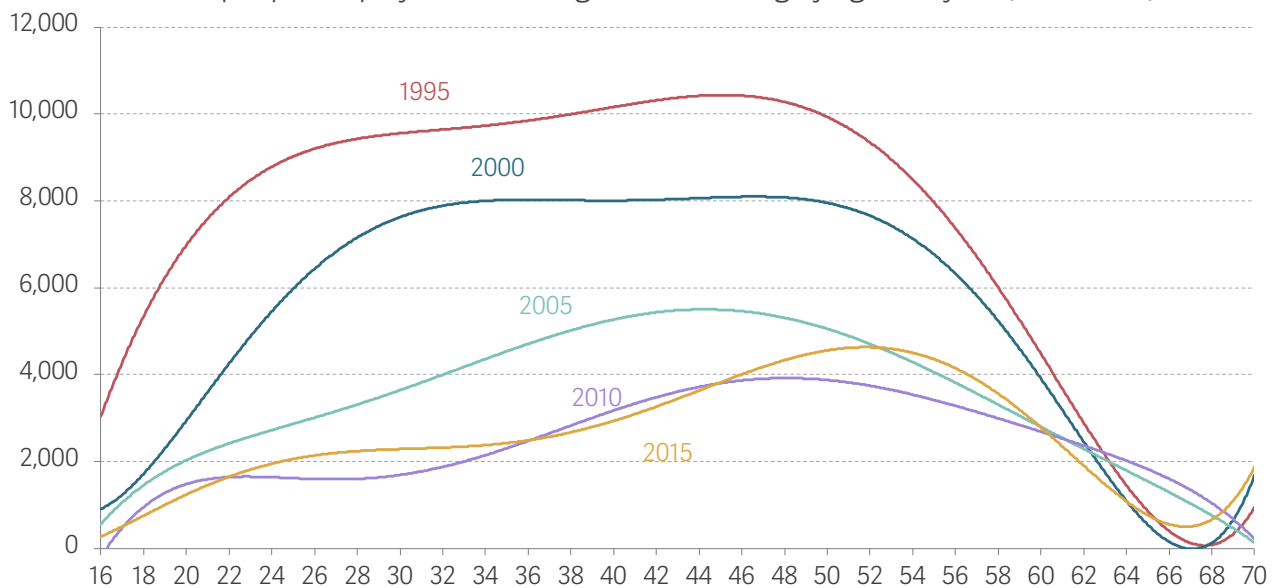
⁵³ Office for National Statistics, *Business dynamism in the UK economy: Quarter 1 (Jan to Mar) 1999 to Quarter 4 (Oct to Dec) 2019*, October 2020. Data on business creation shows that the number of businesses increased by 2.5 million between 2000 and 2020, but it is important to recognise that the vast majority of this growth was caused by increasing self-employment. The number of businesses with no employees has increased by 2.2 million over the same time period, accounting for 88 per cent of the overall increases in UK businesses since 2000. See: Department of Business, Energy and Industrial Strategy, *Business population estimates for the UK and the regions 2020*, October 2020.

⁵⁴ E Albagli et al., *Productivity Growth and Workers' Job Transitions: Evidence from Censal Microdata*, Working paper, NBER, April 2021.

There are examples of rapid change in certain industries. Employment in the UK clothing manufacturing industry fell by two-thirds in the 20 years to 2015, although even here the decline slowed in more recent years (Figure 11). This change was driven in large part by a reduced inflow of younger workers into the industry, with the average age of workers rising as a result.⁵⁵

FIGURE 11: Employment in clothing manufacturing has been hollowed out

Number of people employed in clothing manufacturing by age and year (smoothed): UK



SOURCE: Analysis of ONS, Labour Force Survey.

Overall, far from accelerating, economic dynamism is best thought of as flat or declining at the individual-, firm- or economy-wide level. Change is not intrinsically good or bad. But what the experience since the millennium does suggest, however, is that there are no grounds for complacency about our readiness to ride out the reallocations that are likely to be needed in the decade ahead. That conclusion is reinforced if we consider the lessons from the last time significant structural change did take place: the 1980s.

Structural change has been controversial and badly managed in recent UK economic history

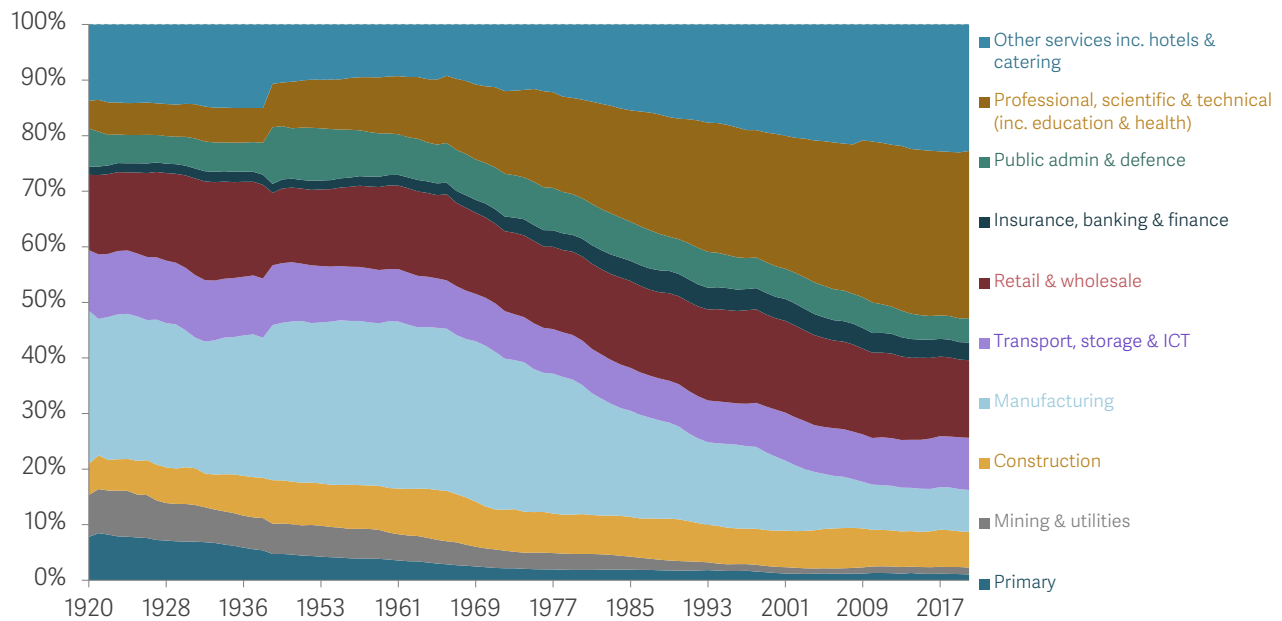
The de-industrialisation of the 1970s and 1980s marked a turning point in the UK's recent economic and social history. It was certainly an era of rapid economic change in the UK, with new service industries – especially business and financial service – expanding as others, particularly manufacturing, shrank (manufacturing employment fell by 39 per cent

⁵⁵ This pattern is observed across industries. See Autor et al., *This Job Is "Getting Old": Measuring Changes in Job Opportunities Using Occupational Age Structure*, American Economic Review, Volume 99, May 2009.

between 1979 and 1993).⁵⁶ We can look to this period to consider the forces and choices that led to this pattern of change, as well as how effectively aspects of it were managed.

FIGURE 12: A shrinking manufacturing sector drove big changes in previous decades

Employment share by broad industrial sector: UK



NOTES: Data from 1978 onwards splices ONS workforce jobs data with historic data.

SOURCE: Analysis of Bank of England, A Millennium of Macroeconomic Data For the UK; ONS, Workforce Jobs.

The reason for this scale of economic change was the confluence of two powerful factors. First, a deliberate governing programme by the administration of the day to use public policy to reduce the power of organised labour in the economy and create a new system of industrial relations⁵⁷; revamp the tax-system with lower income tax rates, particularly for higher earners; privatise publicly-owned utilities; deregulate capital and credit markets; and use state action to boost the growth of certain sectors while accepting the demise of others. And, second, the intensification of underlying structural trends in technology and international trade that also inevitably created far-reaching disruption, with winners and losers across industrial sectors, regions and social classes.⁵⁸ These two forces became intertwined, and to some extent compounded each other, and different opinions still exist on their respective importance and roles.

⁵⁶ Source: Analysis of Bank of England, A Millennium of Macroeconomic Data For the UK.

⁵⁷ M Gregory, *Reforming the Labour Market: An Assessment of the UK Policies of the Thatcher Era*, Australian Economic Review, December 2002.

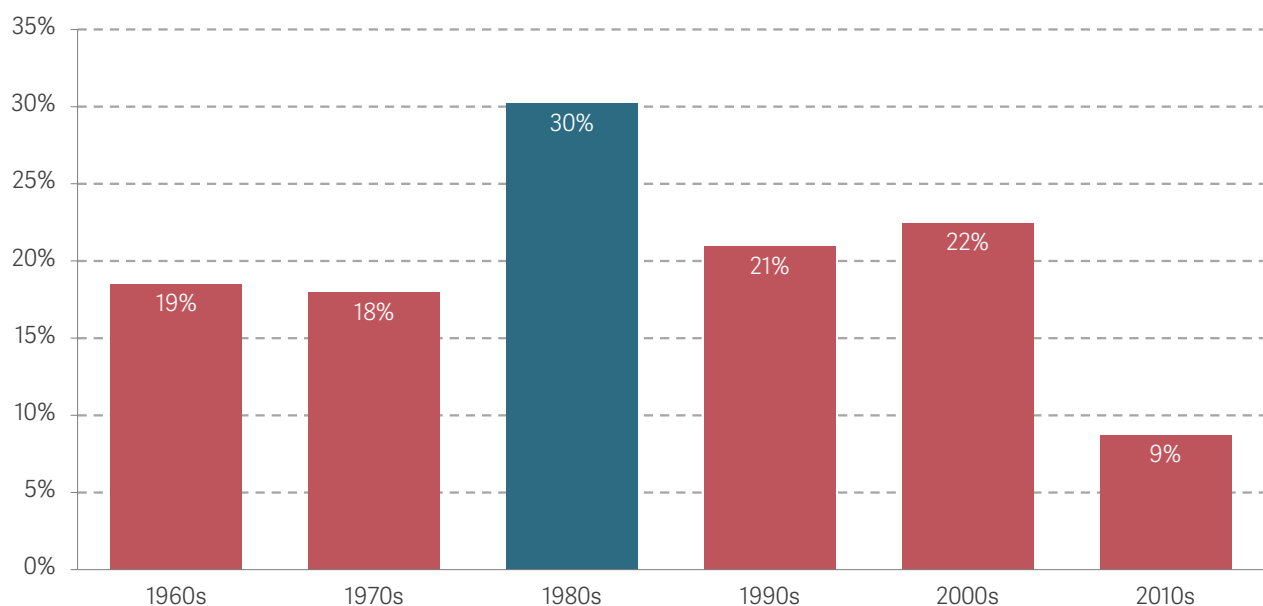
⁵⁸ R Baldwin, *Globalisation, automation and the history of work: Looking back to understand the future*, VoxEU, January 2019.

What resulted was a set of far-reaching industrial, occupational, distributional and power shifts. As manufacturing declined, other sectors grew substantially, with professional, scientific and technical services (including education and health) increasing as a share of employment from 17 to 23 per cent between the late 1970s and 1993. Low-wage (and lower-productivity) service-sector jobs including hotels and catering also grew as a share of employment, from 13 to 17 per cent over the same time period.⁵⁹

The expansion of these higher- (and lower-) paid parts of the economy along with other economic and policy decisions, such as falling income tax rates, led to the 1980s delivering strong income growth for many households (Figure 13). Reallocation of capital and labour brought many costs but there were clear benefits too, not least from the growth of higher-paid service-sector roles.

FIGURE 13: Income growth for typical families was particularly strong in the 1980s

Real growth (CPI-adjusted) in median equivalised household income (after housing costs): GB/UK



NOTES: 1960s refers to growth between 1961 and 1970. GB data pre 2003-04, and UK data from 2003-04 onwards.

SOURCE: IFS Living Standards, Poverty and Inequality 2020; DWP, Households Below Average Incomes, 2021.

But despite this positive average picture, it is very hard to conclude that the 1980s represents a successful period of economic adjustment to structural change. There

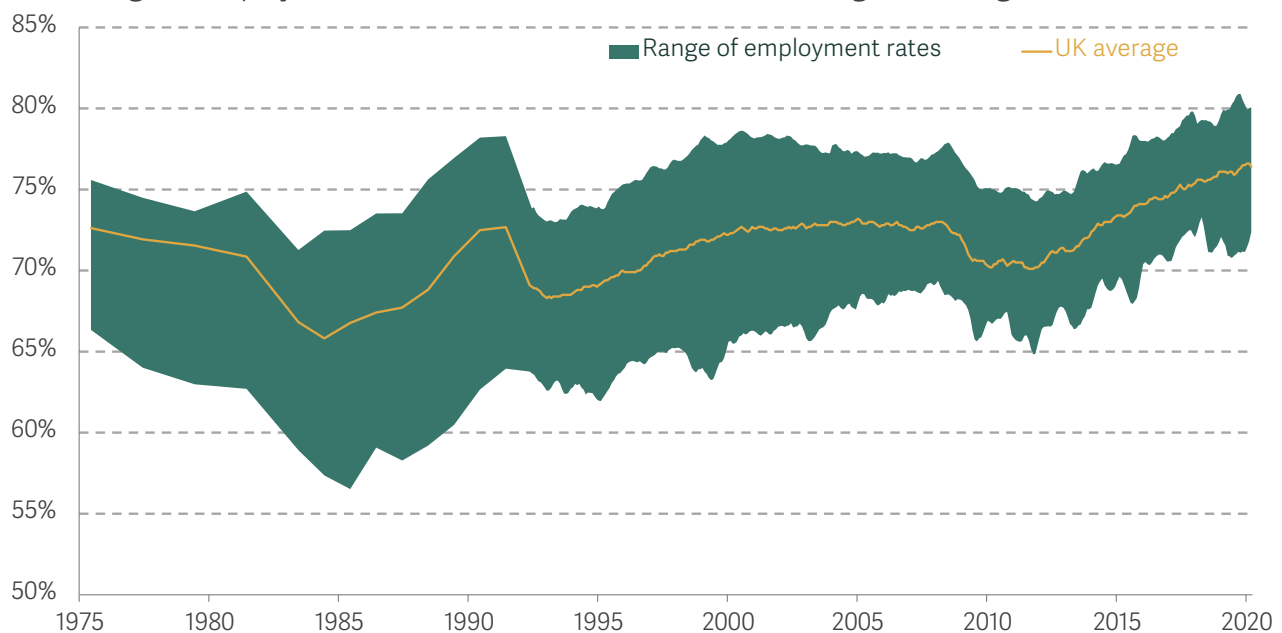
⁵⁹ For a discussion of the growth in low pay, low productivity sectors see: J Forth & A Rincon-Aznar, [Mind the gap: productivity in the UK's low-wage sectors](#), NIESR, April 2018.

was significant and lasting damage to those who lost out from the swift relocation of resources across the economy, with the impact concentrated on particular people and places (see section 4 for a discussion of the impact on inequality). Long-term unemployment trebled in the early 1980s – remaining at more than double the United States level for the rest of the century.⁶⁰ And many of those who lost their jobs never again found work that was comparable in terms of pay, conditions and status.⁶¹

These employment outcomes are in part a consequence of the geographically-concentrated nature of the disruption associated with deindustrialisation, as well as policy choices that accelerated the pace of change, all compounded by a stronger-than-anticipated appreciation of sterling. During a period of elevated unemployment nationally – with over 3 million unemployed – there was also a huge increase in the variation of employment rates between the nations of the UK and regions of England (as shown in Figure 14). The range of regional employment rates increased sharply from 9 percentage points in 1975, to 16 percentage points in 1985, double its current level (8 percentage points).⁶²

FIGURE 14: The range of employment rate across the UK surged in the 1980s

Range of employment rates across nations of the UK and regions of England



NOTES: Employment data are smoothed using quarterly averages after 1992.

SOURCE: Analysis of ONS, Annual Population Survey; ONS, Annual Labour Force Survey (1975-91); ONS, Quarterly Labour Force Survey (1992-latest).

⁶⁰ M Elsby & J Smith, *The Great Recession In The U.K. Labour Market: A Transatlantic Perspective*, National Institute Economic Review, October 2010.

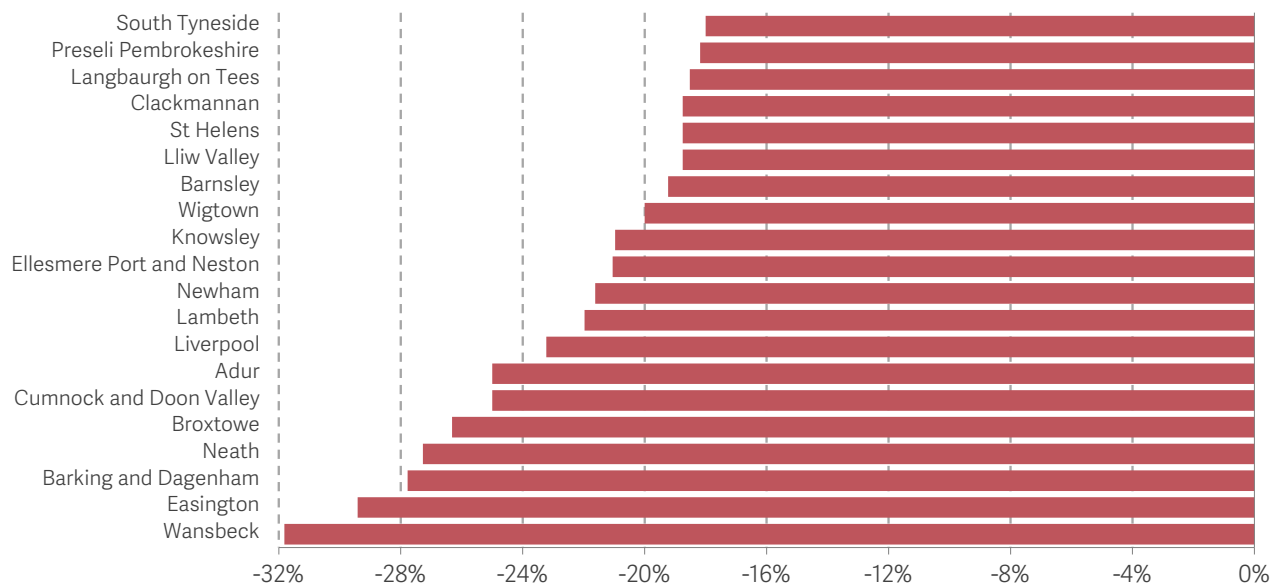
⁶¹ S Coulter, *The UK labour market and the 'great recession'*, LSE research online, March 2016.

⁶² If we instead use the coefficient of variation as a measure of geographic dispersion, regional gaps rise substantially until 1985 and remain elevated until 1988.

The economic costs were felt most acutely in local centres of industrial production. Figure 15 shows that 12 local authorities lost over a fifth of their jobs between 1981 and 1991, including Wansbeck (-32 per cent), Easington (-29 per cent) and Liverpool (-23 per cent).

FIGURE 15: The geographic nature of the 1980s employment shock was felt most acutely by previous centres of manufacturing

Change in employee jobs, 20 local authority districts in Great Britain with the biggest fall: 1981-1991



NOTES: Uses pre-1996 local authority district boundaries. Data for Northern Ireland isn't available. The City of London is excluded.

SOURCE: Analysis of ONS, Census of Employment.

A huge amount has, of course, changed since the 1980s. Geographical variation in employment has reduced considerably since then (see Figure 14). But it took decades to reach that point, and some of the scars from that era are still visible.

Deeply-held differences of view exist on the merits of the political choices made in the 1980s concerning industrial, regional, trade union and macroeconomic policy. Forty years later there is still little prospect of there being a consensus about the events of such a polarising decade but there are, perhaps, lessons from that era that are highly relevant for the decade ahead, that a broad spectrum of opinion might agree on.

First, the state can play a potent role in shaping, not just responding to, the nature of structural economic change. Second, major reallocations of capital and labour can be an important part of the dynamic process of generating significant increases in living standards for many, at the same time as they create painful social and economic

dislocation for others. Third, managing the costs of major economic reallocations is incredibly hard to get right and requires a coherent governing strategy if trade-offs are to be resolved reasonably and costs and benefits shared equitably. Any notion that periods of intense economic change will largely take care of themselves can be dismissed. Finally, the consequences of mis-managing economic change are not just painful in the short-term – they can endure for a generation or more, and damage social cohesion as well as economic performance. These are all lessons that the Inquiry will return to as we consider the nature of economic change in the 2020s.

The role of policy in shaping previous phases of economic change highlights the need to consider current state capacity to manage a new era of potentially highly significant re-allocations. We do so in Box 2 below.

BOX 2: It is not clear that the UK state has capacity to adequately respond to the scale of change in the 2020s

The state, broadly conceived, has a key role in managing transitions both strategically (e.g. in relation to Net Zero) and also in terms of helping individuals through periods of turbulence (e.g. job loss). However, as we embark on a decade of change, there are reasons for concern about the UK's state's capacity in these areas.

To begin, the size and shape of the state has changed substantially over the past decade. Real terms day-to-day government spending per person outside protected departments (health, education and international aid) is a quarter below its 2009-10 levels.⁶³ The share of total spending on general economic and labour affairs has

declined by 7 per cent since the late 1990s; in other words, the proportion of Whitehall tasked with managing and shaping economic change has shrunk.⁶⁴ On top of this, and as many have noted, the UK also lacks any long-term institutional structure to govern industrial strategy.⁶⁵

The ability of sub-national government to manage change has also been weakened, with local authority spending power in England falling by 18 per cent since 2010.⁶⁶ The result is that the number of people working in local authorities has fallen by 290,000 over the past decade (while employment in central government has risen by 14,000).⁶⁷ In addition, although some

⁶³ T Bell et al., *Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021*, Resolution Foundation, March 2021.

⁶⁴ M Whittaker, *The shape of things to come: Charting the changing size and shape of the UK state*, Resolution Foundation, November 2019.

⁶⁵ LSE Growth Commission, *UK Growth: A New Chapter*, LSE, March 2017.

⁶⁶ This figure is for England. See: Institute for government, *Local government funding in England*, March 2020.

⁶⁷ These figures are adjusted to look through the impact of school academisation, which further pushes down on local, and up on national, government employment.

devolved Mayors may be getting more attention now, the process of devolving additional powers to city regions has stalled and the UK still has a highly-centralised polity (particularly within England).

The social security system, a key way in which we insure households against the costs of economic change, has been through a decade of retrenchment – with spending on social security and tax credits falling from 11.8 per cent of GDP in 2012-13 to 10 per cent in 2019-2020.⁶⁸ And our wider skills and labour market policies are comparatively weak at supporting workers to transition into new roles.⁶⁹

These long-run institutional and governance weaknesses coincide with significant fiscal pressures. The Covid-19 shock likely means debt levels remaining over 100 per cent of GDP into the mid-2020s. In addition, fiscal pressures from an ageing society will continue to build over the decade

ahead: spending on health and adult social care is forecast to increase from 9.3 per cent of GDP in 2021-22 to 10.6 per cent by 2030-31 – a rise equivalent to £39 billion a year by 2030-31.

The 2020s will also pose big questions for our taxation system, particularly in relation to how tax can best be used to accelerate and support the Net Zero transition – from carbon taxes to the balance of taxation on gas vs. electricity. These questions exist alongside long-run issues with parts of our tax system, such as the relative taxation of capital and labour.

In sum, we enter the 2020s with many parts of central government significantly smaller than they were a decade ago, a weakened system of social security, and under-developed sub-national government capacity, as well as big new challenges that will add further pressures, both on spending and tax.

Overall, this generation of UK policy makers are not that accustomed to dealing with far-reaching structural change, even if the two global shocks since 2008 means they are now more experienced in managing economic crises. Over recent decades, and contrary to widespread perception, levels of dynamism have been declining or flat. Significant structural adjustment did occur in the 1980s, but the results were far from inclusive, even as average living standards rose quickly. Add to this the major questions concerning current UK state capacity and it is clear that the scale of the challenge facing today's policy-makers is daunting. To thrive in the 2020s, Britain's economic institutions and policy makers will need to learn - in real-time - new and inclusive approaches towards managing adjustment well.

⁶⁸ K Cooper & J Hills, [The Conservative Governments' Record on Social Security: Policies, Spending and Outcomes, May 2015 to pre-COVID 2020](#), Centre for Analysis of Social Exclusion, LSE, February 2021.

⁶⁹ Department for Education, [Post-18 review of education and funding: independent panel report](#), May 2019.

Section 4

The economic legacy: the backdrop to change

Successful management of change in the 2020s will only be possible with a clear understanding of the economic context to this decade. We are not starting from year zero: our economic past and present matters.

It matters, first, because the position of different people, places and firms in the run-in to the 2020s will affect how the big changes that the UK faces will crystallise for these parts of the economy. And, second, because an honest assessment of the country's economic strengths and weaknesses is a crucial input to considerations of renewing the UK's economic strategy. It's important to know what our high-performing sectors are, the assets and institutions we want to strengthen, and the good economic outcomes that we want to preserve. And at the same time, we need to understand the ways in which our firms underperform, our labour market could produce better outcomes for workers, and how the large gaps between households and places manifest themselves.

Overall, a balanced assessment of the state of the UK economy going into the 2020s has to conclude that, despite significant strengths, there are major challenges of weak productivity and high inequality that must be tackled in the 2020s.

Understanding the economic context to this decade is vital if change is to be managed well

The economic backdrop to this decade matters immensely for both how change will impact us all, and how policy makers should respond to it. Any economic strategy for navigating this decade has to be grounded in what has come before, as well as what is ahead of us.

A balanced understanding of the UK's recent economic past and possible futures should avoid falling into the twin traps of one-sided pessimism about the legacy problems that policy makers have inherited, or an unrealistic prospectus for change that assumes that the UK can be transformed overnight into a country with Nordic levels of inequality and US levels of productivity.

The UK's current economic model has many strengths and policy in the 2020s will need to build on these, as well as fix long-standing problems. In doing so, it is important to recognise that trade-offs abound in economic policy making, with economic strengths often matched by related weaknesses. Fixing one problem can cause another, and path dependency is as important in shaping outcomes as policy makers' choices. So we must view our economic inheritance in the round as we seek to navigate the best course through the decade ahead.

[The UK economy has major strengths, which can be built on in the 2020s](#)

When thinking about how the country can make a success of the years ahead, it makes sense to start with its strengths. The UK has many world-leading industries. The past year has demonstrated the cutting-edge nature of the life sciences, and particularly the pharmaceuticals sector, in the UK.⁷⁰ Although manufacturing is often seen as a sector which the UK no longer has a leading edge, the reality is that aspects of high-end manufacturing, particularly aerospace and green technologies, are comparative strengths; international analysis of patents reveals that the UK has a large comparative advantage in a these (and other) areas.⁷¹

In creative sectors, including fashion and gaming, the UK has taken a lead internationally. As the analysis presented in Section 2 (and Figure 4 in particular) shows, the UK's financial and professional services sector is also highly competitive.⁷² On the consumption side, the UK ranks highly on some metrics in terms of the use of technology among consumers – 3rd in the world, for example, in terms of uptake of online retail.⁷³

Leading industries exist alongside, and sometimes because of, the country's assets and institutions. The UK's Higher Education system is clearly a very important strength (and export sector), with some of the best research globally taking place here. Further strengths come from the English language, the UK's legal system and London's position as a truly global city. Specific institutions and brands are famous the world over, from the

⁷⁰ Office for Life Sciences, [Life Science Competitiveness Indicators 2020](#), February 2021.

⁷¹ R Martin et al., [Innovation for a strong and sustainable recovery](#), Centre for Economic Performance, London School of Economics, Covid-19 Analysis 19-014, December 2020.

⁷² R Kalifa, [Kalifa Fintech Review](#), February 2021.

⁷³ IMD World Competitiveness Centre, [IMD World Digital Competitiveness Ranking 2020](#), 2020.

Premier League to the BBC. Setting up a business in the UK is much easier than in many other advanced economies.⁷⁴

And, on some measures, outcomes in the UK are indeed very good. The UK's employment rate had risen to record highs pre-pandemic, with rising female labour force participation meaning the share of working-age adults in work was seven percentage points higher than the OECD average in 2019.⁷⁵ The UK also has a highly educated labour force: almost 40 per cent of those aged 22 to 65 in the UK have a degree.⁷⁶

These strengths are, however, matched by significant and long-standing economic weaknesses that we must be clear-eyed about if we are to improve upon them in the years ahead. The remainder of this section discusses the UK's main economic challenges from the perspective of the firms, people and places. These should be front of policy makers' minds as the UK reconsiders its economic strategy.

The UK's firms: productivity and investment levels are low, and gaps with comparator countries have widened

The UK experienced the lowest productivity growth in 120 years in the decade to 2019.⁷⁷ Amid global debates about the cause of slower growth in advanced economies, the UK's decline in productivity growth stands out as being greater than that seen in other advanced economies after the financial crisis, as Figure 16 below shows.⁷⁸

Compositionally, the recent underperformance in UK productivity reflects a slowing in the rate at which the UK's more productive firms advance towards the global productivity frontier.⁷⁹ This recent lack of progress among the most productive firms is coupled with clear evidence of a long tail of low productivity firms,⁸⁰ in part reflecting a longer-term slow rate of technological diffusion from the most advanced firms to the wider economy.⁸¹

⁷⁴ World Bank, Ease of Doing Business rankings.

⁷⁵ OECD, Labour Market Statistics: Labour force statistics by sex and age: indicators.

⁷⁶ ONS, Labour Force Survey.

⁷⁷ Analysis of Bank of England Millennium of Macroeconomic data and ONS productivity series LZVB.

⁷⁸ See, for example: R Gordon, [Declining American economic growth despite ongoing Innovation](#), Explorations in Economic History, July 2018.

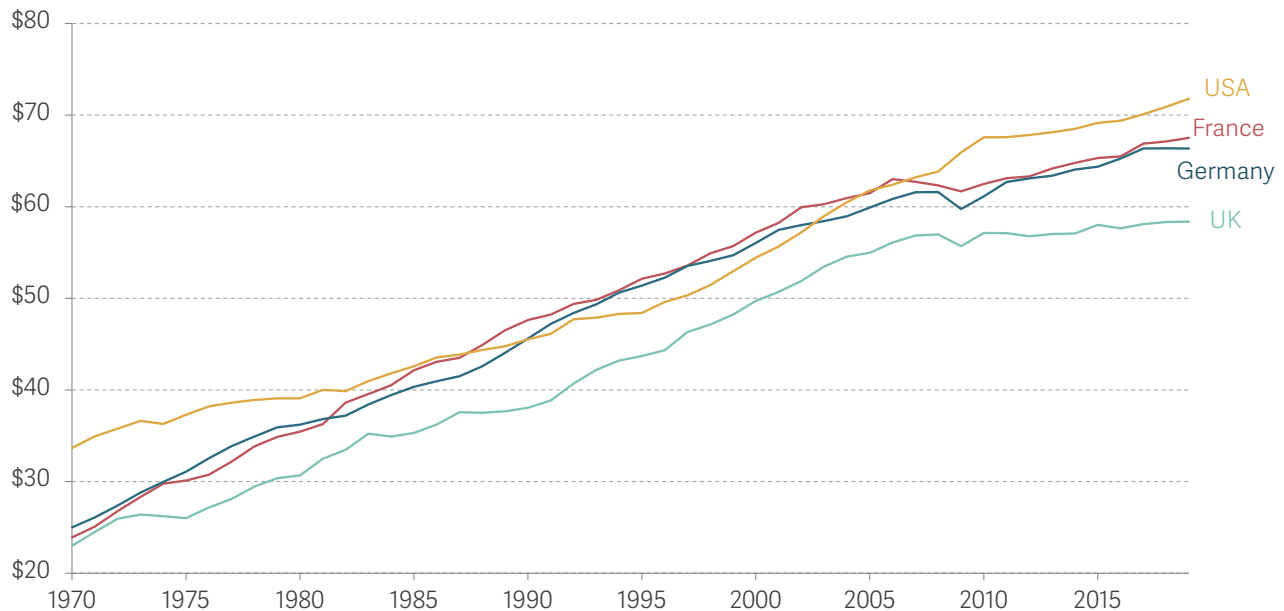
⁷⁹ P Schneider, [Decomposing differences in productivity distributions](#), Bank of England Working Paper, July 2018.

⁸⁰ A Haldane, [Productivity puzzles](#) (speech), Bank of England, March 2017.

⁸¹ A Haldane, [Productivity puzzles](#) (speech), Bank of England, March 2017.

FIGURE 16: The UK has a long-standing and growing productivity gap with other advanced economies

GDP per hour worked in US dollars, Purchasing Power Parity adjusted, 2010 prices: selected countries, 1970-2019



NOTES: Chart replicated from: HM Treasury, *Build Back Better: Our Plan for Growth*, March 2021.

SOURCE: Analysis of OECD, GDP per capita and productivity growth.

Evidence suggests that a range of issues in the corporate sector can account for the long-term weakness in aggregate productivity levels. Businesses in the UK tend to be smaller, domestically-focused and particularly concentrated in service sectors;⁸² suffer from relatively poor management, on average;⁸³ and with low levels of ICT adoption relative to other OECD countries.⁸⁴ Of course, decompositions of this kind account for the differences in productivity but do not necessarily draw out the underlying behavioural drivers, including the role of demand.

One factor contributing to the low productivity growth in recent years is weak private sector investment. Figure 17 shows that annual private investment has been lower in the UK than in any other G7 economy in every year since 2007. Investment growth has been particularly low in the last five years, with investment broadly flat since 2016, and falling for four consecutive quarters in 2018.⁸⁵ Part of the explanation for low investment in the latter years of the 2010s was Brexit-induced uncertainty,⁸⁶ whereas weak public

⁸² For a discussion, see: B van Ark & A J Venables, *A Concerted Effort to Tackle the UK Productivity Puzzle*, *International Productivity Monitor*, Centre for the Study of Living Standards, vol. 39, pages 3-15, Autumn 2020.

⁸³ See: N Bloom & J Van Reenen, *Measuring and Explaining Management Practices Across Firms and Countries*, *The Quarterly Journal of Economics*, November 2007, and B Bloom et al., *World Management Survey at 18: lessons and the way forward*, Programme on Innovation and Diffusion, February 2021.

⁸⁴ World Economic Forum, *Global Competitiveness Report 2019: How to end a lost decade of productivity growth*, October 2019.

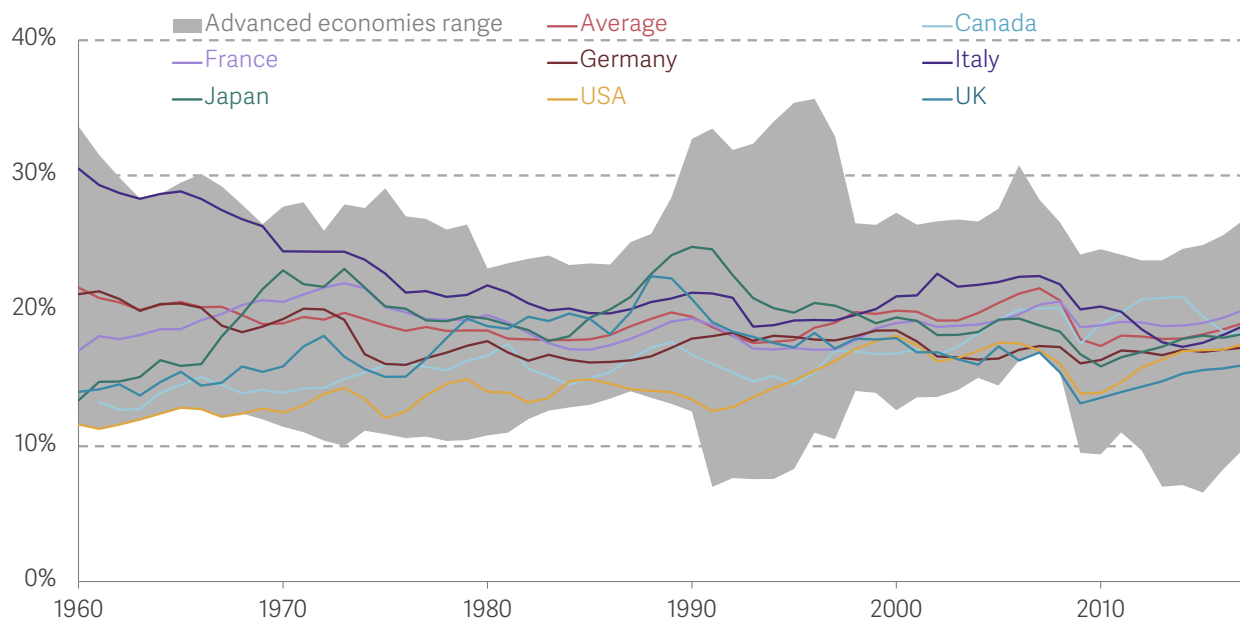
⁸⁵ Analysis of ONS, *Gross Fixed Capital Formation (NPFL)*.

⁸⁶ N Bloom et al., *Brexit and Uncertainty: Insights from the Decision Maker Panel*, The IFS, December 2018.

sector investment in the early part of the 2010s was a result of active decisions by the government of the day.⁸⁷

FIGURE 17: Private sector investment has been lower in the UK than in any other G7 economy in every year since 2007

Private investment (gross fixed capital formation) as a proportion of GDP: advanced economies and G7



NOTES: Shaded range of advanced economies and 'average' time series refer to 28 IMF member states, including all European and North American advanced economies plus Japan and Korea, excluding Luxembourg, Ireland, Malta and Cyprus.

SOURCE: Analysis of IMF Investment and Capital Stock Dataset, 2019.

Investment in Research and Development (R&D) is a key driver of future productivity growth, certainly at the firm level and also – to varying extents across countries – at the aggregate level, to the extent that technological improvements spread across the economy.⁸⁸ But gross R&D (or innovation) spending, both private and public, has been persistently lower than in comparator countries such as France, Germany and the US.⁸⁹

The UK's people: in work pre-Covid-19, but with low pay growth and elevated levels of labour market insecurity

In terms of aggregate employment, the UK labour market was performing well at the end of the 2010s. Pre-Covid-19 employment had reached a record high of 76.5 per cent

⁸⁷ A Valero & J Van Reenen, *The UK Economy: Policies for Investment and Productivity Growth*, Centre for Economic Performance, London School of Economics, November 2019.

⁸⁸ D Castellani et al., *The Productivity Impact of R&D Investment: A Comparison between the EU and the US*, IZA Discussion Paper 9937, May 2016.

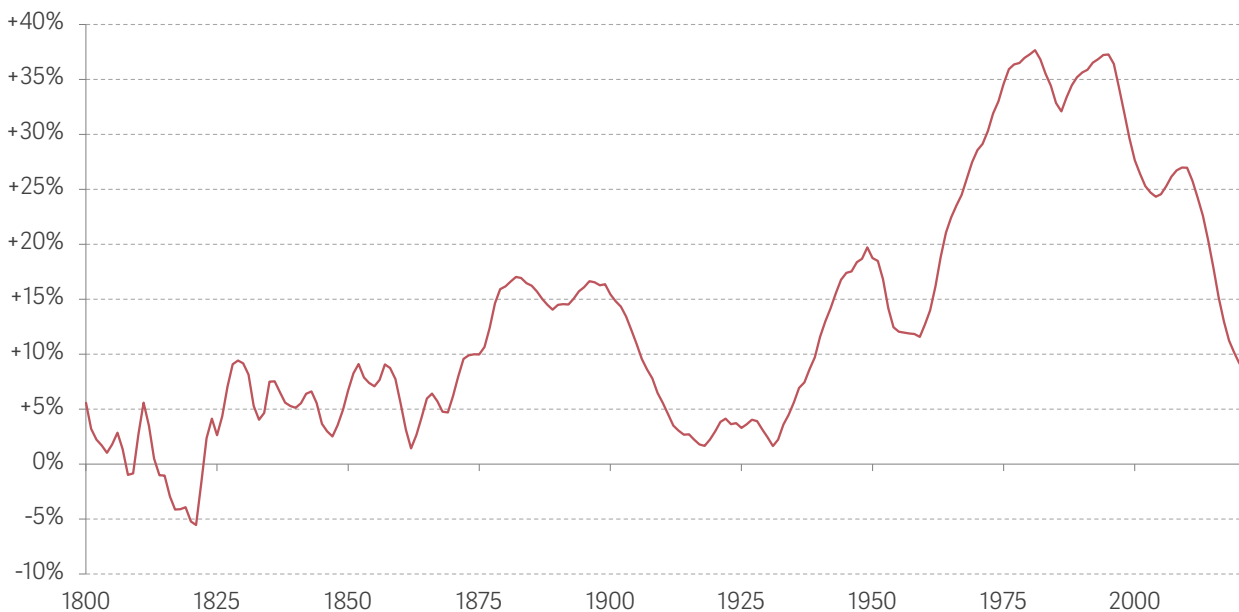
⁸⁹ R Martin et al., *Innovation for a strong and sustainable recovery*, Centre for Economic Performance, London School of Economics, December 2020.

and unemployment declined to a record post-1970s low of 3.8 per cent.⁹⁰ Recovery from the financial crisis and the subsequent employment boom saw catch-up for parts of the country and low employment groups (particularly women) who had traditionally experienced low employment rates.⁹¹ As well as high employment rates, the UK's labour share of income has remained broadly flat over the past four decades while it has fallen in many other advanced economies.⁹²

However, the last decade was the worst decade for pay growth since the 1930s (Figure 18); with average earnings currently around the level they were in 2008 and not set to return to their pre-crisis peak until the middle of the 2020s.⁹³ This historic slowdown in pay growth has had a big effect: average (mean) pay would have been over £7,000 a year higher on the eve of the pandemic had it continued to grow in line with the pre-financial crisis trend.⁹⁴ This weak wage growth is consistent with the weak productivity and investment growth described earlier. Furthermore, it is the major cause of the rise in labour supply that drove the rising employment.⁹⁵

FIGURE 18: Earnings growth has been very weak in the past decade

Decade on decade growth in real consumption earnings



NOTES: Earnings are real consumption earnings. Data are based on Bank of England Millennium of Macroeconomic Data, linked to modern series from the point at which modern series available.
SOURCE: Analysis of Bank of England, A Millennium of Macroeconomic data; OBR, real consumption earnings, March 2021 EFO.

⁹⁰ Analysis of ONS, Labour market statistics time series (LMS).

⁹¹ T Bell & L Gardiner, *Feel poor, work more: Explaining the UK's record employment*, Resolution Foundation, November 2019.

⁹² M Whittaker, *Dead-end relationship? Exploring the link between productivity and workers' living standards*, Resolution Foundation, January 2020.

⁹³ T Bell et al., *Spending fast, taxing slow*, Resolution Foundation, March 2021

⁹⁴ Analysis of ONS, average weekly earnings (regular pay) adjusted for CPIH inflation.

⁹⁵ T Bell and L Gardiner, *Feel poor, work more: Explaining the UK's record employment*, Resolution Foundation, November 2019.

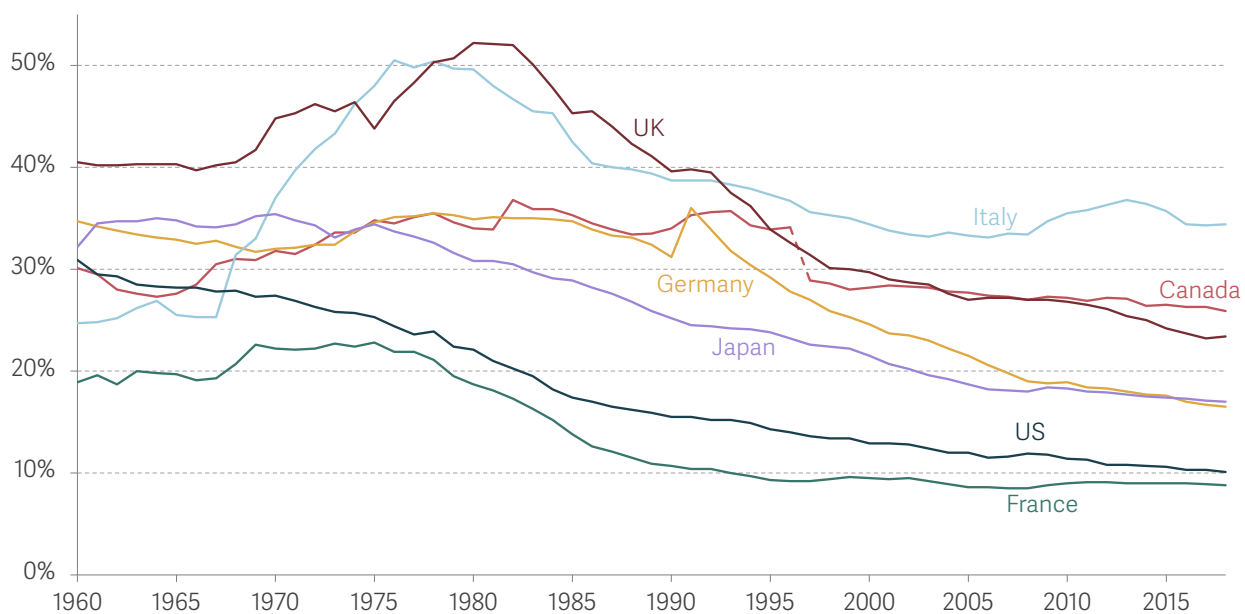
Pay growth has been stronger for low-paid employees in recent years as a result of the National Living Wage,⁹⁶ but there are long-term challenges in the UK labour market in relation to job quality and worker power – particularly for those on the lowest wages.

Trade union membership has fallen by half in the UK since the early 1980s. Deliberate policy decisions to limit the ability of workers to organise, coupled with declines in key industries that had high trade union membership rates have led to the share of employees that are unionised falling to 23 per cent in 2018. The main reason for decline was not the de-unionisation of existing union membership or derecognition, nor was it due to differential closure of unionised workplaces: it was the lack of unionisation in newly-set-up establishments.⁹⁷

As Figure 19 shows, a decline in worker power (as measured by union density) is observed across many advanced economies. Collective bargaining coverage is at a similar level to membership rates in the UK, at 26 per cent in 2018, in contrast to the situation in some other advanced economies where collective agreements cover a much larger share of the workforce than are members of unions;⁹⁸ by contrast, in France almost all employees are covered by collective agreements even though only 10 per cent of employees are union members.⁹⁹

FIGURE 19: Trade union membership rates have fallen in all G7 economies since the 1980s

Trade union density: 1960-2018, G7 economies



NOTES: Data series for Canada changes in 1997.

SOURCE: Analysis of OECD, Trade union density.

⁹⁶ D Blanchflower, R Costa and S Machin, *The Return of Falling Real Wages*, CEP Technical Report, May 2017.

⁹⁷ S Machin, *Union Decline in Britain*, British Journal of Industrial Relations, Volume 38, December 2000.

⁹⁸ Department for Business, Energy & Industrial Strategy, *Trade union statistics 2018*, May 2019.

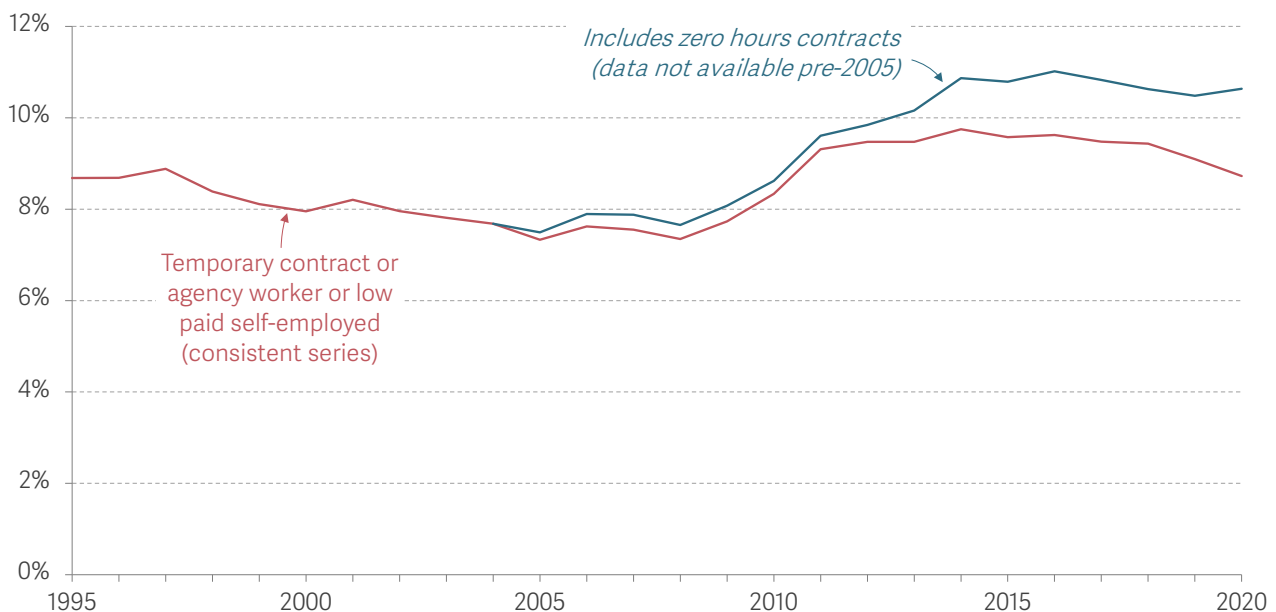
⁹⁹ Analysis of OECD, Trade Unions and Collective bargaining statistics.

In the UK, workers in the public sector are more likely to be unionised than those in the private sector: strikingly, less than 10 per cent of the lowest earners in the private sector are trade union members, compared to over 60 per cent of the highest earners in the public sector.¹⁰⁰ This lack of worker representation will have had consequences for the quality of work for those on the lowest wages as well as for the overall level of inequality.¹⁰¹

Further, this institutional backdrop, coupled with the dynamics of the post-financial crisis labour market, contributed to a large increase in atypical forms of work.¹⁰² Zero hours contracts, agency work, temporary work and low-paid self-employed roles accounted for two-thirds of net employment growth from 2008 to 2015.¹⁰³ As is shown in Figure 20, the share of employment in these categories increased from 7 per cent in 2005 to 11 per cent by 2020, growth of 42 per cent. A large proportion of this work is done by women and those from an ethnic minority.¹⁰⁴

FIGURE 20: The share of the workforce in insecure employment has increased

Non-standard employment contracts and low-paid self-employment as a share of total employment: UK



NOTES: Low paid self-employed defined as self-employed workers with jobs in Standard Occupational Classification (SOC) groups 6 (caring, leisure and other service occupations), 8 (process, plant and machine operatives) and 9 (elementary occupations).

SOURCE: Analysis of ONS, Labour Force Survey.

¹⁰⁰ Analysis of ONS, Labour Force Survey.

¹⁰¹ See: International Labour Organisation & OECD; *Building trust in a changing World of Work*, May 2018.

¹⁰² T Boeri et al., *Solo Self-Employment and Alternative Work Arrangements: A Cross-Country Perspective on the Changing Composition of Jobs*, Journal of Economic Perspectives, Volume 34, Winter 2020.

¹⁰³ Low-paid self-employment roles are defined here as those in Standard Occupational Classification (SOC) groups 6 (caring, leisure and other service occupations), 8 (process, plant and machine operatives) and 9 (elementary occupations).

¹⁰⁴ Analysis of ONS, Labour Force Survey.

It is important to note that this level of insecurity exists alongside evidence that a large proportion (56 per cent) of workers on a zero hours contract report being satisfied with the hours that they work.¹⁰⁵ And these changes have not coincided with a long-term increase in workers who feel at risk of losing their job.¹⁰⁶ But it clearly is associated with wider challenges for lower-earning workers that have gone unaddressed even as the minimum wage has risen rapidly.

In particular, too many low-paid workers face significant uncertainty in elements of working life, such as the number of hours of work they are offered and the notice of shift timings they are given. Two-in-five workers in sales and customer service occupations feel anxious about changes to their working hours, with an associated increase in the share of low earners reporting they are underemployed.¹⁰⁷ Among workers whose job involves “variable hours or shift work”, three-fifths report having less than a week’s notice of their schedules, with 12 per cent reporting having less than 24 hours’ notice.¹⁰⁸

There are also wider labour market issues in relation to training and skills.¹⁰⁹ The UK has had persistent gaps in basic skills and vocational education and, despite consistently reporting skills gaps, employers are investing less in training today than in the past. Training rates have fallen for younger and highly-skilled workers, and rates have been persistently low for those with lower-skill levels.¹¹⁰ Further reductions in job-related training in sectors exposed to sterling’s depreciation followed the EU referendum.¹¹¹ Recent prioritisation of apprenticeships is not yet bearing fruit – with apprenticeship starts down by two-fifths between 2014/15 and 2019/20.¹¹² The overall rate of human capital improvement has slowed in the UK over the medium-term, with longer-term implications for productivity and pay.¹¹³

The UK’s people: living with persistently-high income inequality

In broad terms, if productivity stagnation is the key economic challenge inherited from the 2010s, then the key challenge inherited from the 1980s is a dramatic rise in income inequality. As discussed in section 3, the greatest costs of economic change in that

¹⁰⁵ ONS, [EMP17: People in employment on zero hours contracts](#), February 2021. See also: N Datta, G. Giupponi and S. Machin, [Zero Hours Contracts and Labour Market Policy](#), Economic Policy, Volume 34, July 2019.

¹⁰⁶ A Manning & G Mazeine, [Subjective job insecurity and the rise of the precariat: evidence from the UK, Germany and the United States](#), CEP Discussion Paper No 1712, August 2020.

¹⁰⁷ T Bell et al., [A new settlement for the low paid: Beyond the minimum wage to dignity and respect](#), Resolution Foundation, June 2020.

¹⁰⁸ Living Wage Foundation, [Almost two-fifths of working adults given less than a week’s notice of working hours](#), April 2021.

¹⁰⁹ According to the OECD Skills for Jobs database, 28 per cent of the UK workforce are underqualified for their occupations, compared with an OECD average of 19 per cent. While shortages in STEM are often cited, there are critical shortages across a range of skills, knowledge and abilities, and there are particular issues with respect to mid-level technical skills. See: OECD, Skills for Jobs Database.

¹¹⁰ J Li et al., [Trends in job-related training and policies for building future skills into the recovery](#), Centre for Vocational Education Research, London School of Economics, December 2020.

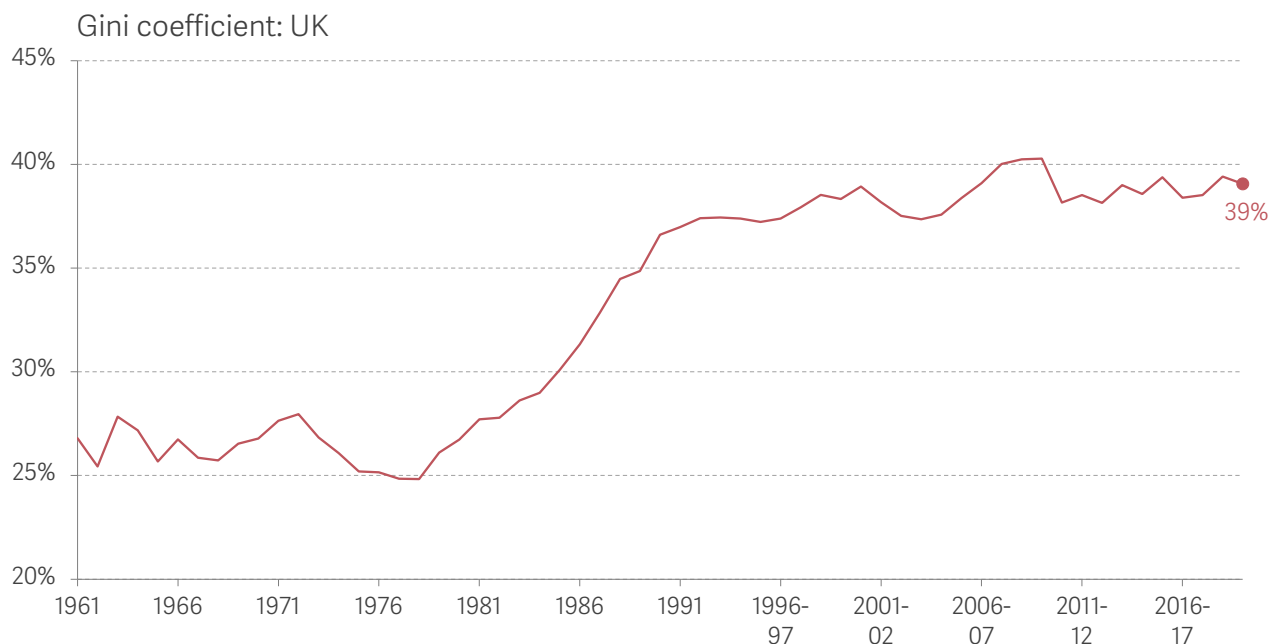
¹¹¹ R Costa et al., [Trade and worker deskilling](#), CEP Discussion Paper No 1622, May 2019.

¹¹² Analysis of DfE, Apprenticeships and traineeships.

¹¹³ K Henehan & A Vignoles, [Technical Fault: Options for promoting human capital growth](#), Resolution Foundation, April 2018.

decade were concentrated in particular industrial communities, but the distribution of income growth also reflected policy choices on things like benefits levels and tax rates. As shown in Figure 21, the Gini coefficient for disposable household income increased from 27 per cent to 37 per cent in the space of a decade and has remained roughly unchanged ever since. The UK Gini coefficient is higher than all countries in the EU except Bulgaria and the second highest in the G7 other than the US.¹¹⁴ High income inequality is also reflected in large gaps between different groups: median disposable household income (after housing costs) in 2018-19 for White British households was £25,000 pre-Covid-19, compared to between £14,000 and £16,000 for Bangladeshi, Pakistani and Black African households.¹¹⁵

FIGURE 21: The level of income inequality in the UK has remained high since the large rise in the 1980s



NOTES: Gini coefficient calculated using income after housing costs. UK from 2003-04, Great Britain from 1961 to 2002-03.

SOURCE: Analysis of IFS, Living Standards, Poverty and Inequality 2020; DWP, Households Below Average Incomes, 2021.

But an unchanging Gini coefficient hides that there have also been changes in the nature of income inequality in the UK. Following the financial crisis, the middle of the income distribution experienced more income growth than the top. The income share of the top 1 per cent fell in the early 2010s, but not enough to offset pre-crisis trends, and has recovered more recently: the share of net income flowing to the top 1 per cent of

¹¹⁴ Analysis of OECD, Income inequality.

¹¹⁵ A Corlett et al., *The Living Standards Audit 2020*, Resolution Foundation, July 2020.

the population increased from 6.8 per cent in 1994-95 to 8.7 per cent by 2017-18.¹¹⁶ And, despite employment and wage growth for low earners in the last decade, the bottom of the income distribution has fared less well than the middle over the past decade, left further behind by benefit cuts. These benefit cuts have also pushed up child poverty for large families in particular. Box 3 discusses elements of UK's welfare system in more detail.

BOX 3: The welfare state and supporting individuals manage change

An important function of social security in the context of economic change is to support those who lose their job.

¹¹⁷ The UK's welfare system provides less support to the newly-unemployed than many other advanced economies whose welfare systems are designed with social insurance in mind. For a half a century, national policy makers in the UK have tended to take the view that the support for the newly-unemployed need not reflect past earnings, but instead needs to provide a basic amount that will incentivise quick moves back into work.

But this approach, as the pandemic has revealed, means that there is clear weakness in the capacity of the welfare state to adequately insulate families from unemployment driven income shocks. It also partly explains why households in the UK have seen larger income falls when experiencing a job loss during the pandemic than their

equivalents in France or Germany.¹¹⁸

The typical family income replacement rate when one earner moves out of work in the UK is 50 per cent, with 30 per cent of households experiencing replacement rates of less than 36 per cent. Comparative analysis of stylised replacement rates shows that the support in the UK is significantly lower than in many other comparable countries. A single adult who had previously been earning two-thirds of the average in-country wage and had been out of work for two months, had a benefit replacement rate of just 17 per cent in the UK pre-pandemic. This is one of lowest replacement rates among advanced economies, many of which have replacement rates that are around three times as generous than in the UK.

In addition, the overall trend since the 1980s has been towards a less generous welfare system, with a choice made to support pensioners at the expense

¹¹⁶ A Corlett et al., [The Living Standards Audit 2019](#), Resolution Foundation, July 2019.

¹¹⁷ Much of this Box draws on: M Brewer, K Handscomb and K Shah, [In need of support?: Lessons from the Covid-19 crisis for our social security system](#), Resolution Foundation, April 2021.

¹¹⁸ M Gustafsson et al., [After Shocks: Financial resilience before and during the Covid-19 crisis](#), Resolution Foundation, April 2021.

of working-age households, including latterly those with children. Pensioner benefits have increased steadily relative to earnings since the late 2000s. On the other hand, policies aimed at reducing working-age welfare spending in recent years, such as the benefit freeze and the two-child limit, have led to slow or

negative income growth for low-income families in recent years. Incomes in the lowest household income quintile were only 3 per cent higher on the eve of the pandemic than they were in 2004-05, compared to an increase of 14 per cent over the same period at the middle of the income distribution.¹¹⁹

Diverging housing costs between rich and poor households, driven by interest rate falls and the shift of poorer (and younger) households into the private-rented sector, have also pushed up inequality in incomes measured after housing costs. The average housing cost to income ratio (including housing benefit) reached 40 per cent for those in the lowest income quintile by 2017 and was just 9 per cent for households in the top-quintile.¹²⁰

Overall, inequality on this scale has a very real impact on our country. It means that lower-income households have living standards materially lower than comparable households in comparable countries. Despite similar typical incomes, working-age household incomes in the lowest-income quintile were one-fifth lower in the UK than in France in 2018, while incomes in the top quintile were 17 per cent higher.¹²¹ This leaves low-income households here with lower living standards and more exposed to income or expenditure shocks. While there is more movement up and down the income distribution in the UK, with persistently-low incomes less common than in many other advanced economies¹²², low incomes are disproportionately experienced by certain demographic groups in the UK, and intersect with other forms of inequality (see the Annex for more discussion of inequalities in relation to Covid-19). There is clear evidence that higher inequality reduces social mobility, increasing the sense that inequality is unfair.¹²³ On top of this has been a continuous rise since the early 1970s in the aggregate wealth-to-income ratio.¹²⁴ As well as meaning that wealth, which is distributed far more unequally than income, now matters more for the overall inequality of lifetime resources – something that has clear intergenerational consequences - it is also acting as another channel by which inequalities now serve to stoke inequalities tomorrow.¹²⁵

¹¹⁹ Analysis of Department for Work and Pensions, Households Below Average Income: for financial years ending 1995 to 2020.

¹²⁰ D Tomlinson, *Inequality Street: Housing and the 2019 general election*, Resolution Foundation, November 2019.

¹²¹ M Gustafsson et al., *After Shocks: Financial resilience before and during the Covid-19 crisis*, Resolution Foundation, April 2021.

¹²² OECD, *A Broken Social Elevator? How to Promote Social Mobility*, June 2018.

¹²³ M Brewer, *What Do We Know and What Should We Do About Inequality?*, June 2019, SAGE Publications.

¹²⁴ G Bangham and J Leslie, *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, Resolution Foundation, June 2020.

¹²⁵ P Bourquin, R Joyce & D Sturrock, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, April 2021.

The UK's places: declining household income gaps, but high output gaps and underperforming 'second cities'

Variation in living standards across the UK as measured by household incomes are currently at their lowest levels since the late 1970s.¹²⁶ This good news is a product of a confluence of factors: rising employment that disproportionately benefited low employment areas,¹²⁷ a higher minimum wage that reduced geographic pay inequalities, and rising housing costs that reduced after housing cost incomes in London and the South East more than elsewhere.¹²⁸ The fact that typical pensioner household incomes are now higher than typical working-age household incomes has also played a role.¹²⁹

However, despite a positive story on household incomes, there remain large and important differences in the economic performance of different parts of the country. For example, looking at our larger towns and cities, GDP per capita in 2015 was 2.4 times higher in London (£43,500, richest area) than in Doncaster (£18,300, poorest area). Figure 22 shows that this large gap is not just a result of comparing outliers: GDP per capita in Edinburgh (5th highest) is still 1.6 times greater than in Swansea (5th lowest).

Figure 22 also demonstrates that, except for London, the largest cities in the UK are not high performing: for example, none of Leeds, Birmingham or Manchester is in the top 10. The evidence of underperforming second cities is also there when we focus on productivity as measured by GDP per worker. Unlike in Germany, France or the US, there is no positive relationship between city size and output per worker in the UK.¹³⁰ These differences in GDP per worker reflect underlying differences in total factor productivity and in the local availability of other factors of production.¹³¹ Evidence suggests that spatial differences in human capital – i.e. in education and skills – play a particularly important role in understanding spatial disparities in the UK.¹³² In line with this, and as with GDP per worker, the concentration of highly-educated people in our capital city but not our second cities marks the UK as an outlier compared to other similar countries.¹³³

London is truly exceptional in being a highly-productive, highly-educated and very large city. There are many benefits that derive to the UK from having a truly global city like

¹²⁶ S Clarke, *Mapping gaps: Geographic inequality in productivity and living standards*, Resolution Foundation, July 2019.

¹²⁷ S Clarke & N Cominetti, *Setting the record straight: How record employment has changed the UK*, Resolution Foundation, January 2019.

¹²⁸ S Clarke, *Mapping gaps: Geographic inequality in productivity and living standards*, Resolution Foundation, July 2019.

¹²⁹ C McCurdy, *Ageing, fast and slow: When place and demography collide*, Resolution Foundation, October 2019.

¹³⁰ P Swinney & K Enenkel, *Why big cities are crucial to 'levelling up'*, Centre for Cities, February 2020.

¹³¹ Manchester Independent Economic Review, *The Case for Agglomeration Economies*, April 2016.

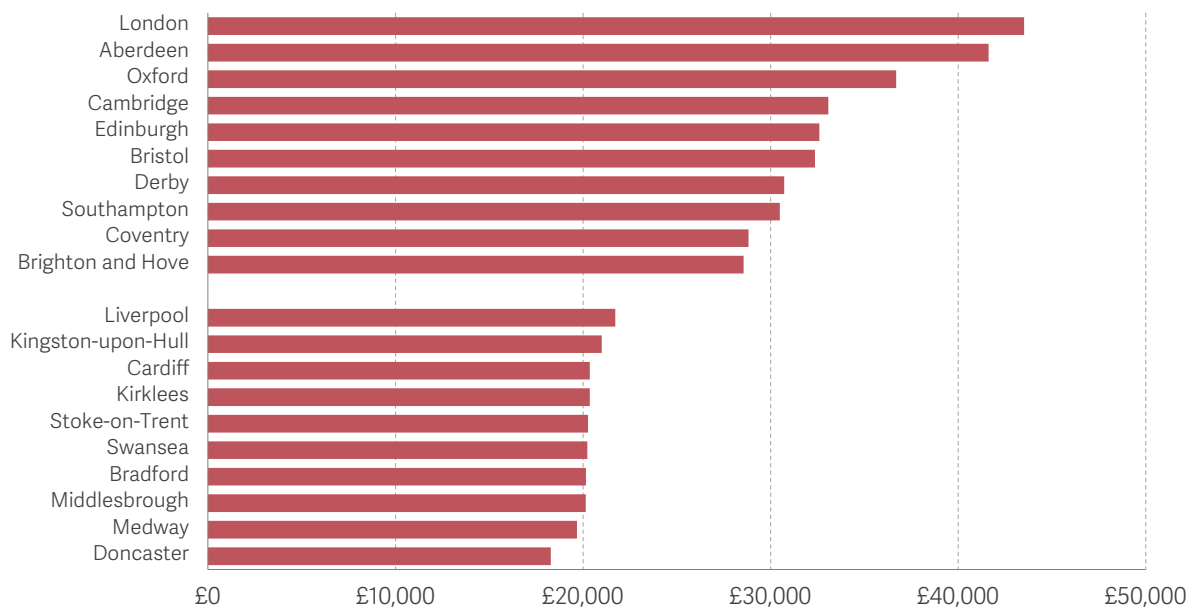
¹³² S Gibbons et al., *The decomposition of variance into individual and group components with an application to area disparities*, Oxford Bulletin of Economics and Statistics, 2014.

¹³³ M Ehrlich & H Overman, *Place-Based Policies and Spatial Disparities across European Cities*, Journal of Economic Perspectives, Summer 2020.

London, but it does also lead to striking geographic inequalities. For example 30 per cent of the individuals whose income is £100,000 or more reside in the capital, despite the fact that just 13 per cent of the UK population live there.¹³⁴

FIGURE 22: There are large gaps in economic output between places in the UK

Metro area GDP per capita, top 10 and bottom 10 areas in the UK: 2015



NOTES: GDP per head in Purchasing Power Standard, converted into pounds sterling using EU28 Purchasing Power Parities.

SOURCE: Analysis based on Eurostat calculations in M Ehrlich & H Overman, Place-Based Policies and Spatial Disparities across European Cities, Journal of Economic Perspectives, Summer 2020.

Overall any assessment of the UK economy has to conclude that the economic inheritance with which we enter the 2020s is weak

This section has shown that the UK entered the 2020s with a range of strengths but also with a large number of long-term economic issues: although the UK's performance is good in some areas, it is by no means 'Premier League' across the board. From weaknesses in productivity and investment, to long-standing internationally- and historically-high levels of inequality between households, the challenges inherited from our economic past by the 2020s are substantial.

The goal, then, for policy making in this decade is to build on strengths and tackle weaknesses alongside managing the economic change that is to come. It will not be good enough to focus on future change as if the UK doesn't already have an economic history. Economic policy making must consider the legacy and the new challenges together. This is the route to a better economy by the end of the decade, and the route that this Inquiry will plot over the coming two years.

¹³⁴ Analysis of HMRC, Survey of Personal Incomes.

Section 5

The 2020s: the decisive decade

This report has shown that major change is upon us, that the UK does not have a recent record of successfully handling such change, and that our economy faces the 2020s with important strengths but also substantial weaknesses. The choice facing the country now is how to respond to, and shape, this change.

One risk is that the 2020s may see the UK 'level down', as we struggle with the legacy of the pandemic for low earners and the young, lose key export markets, and fail to turn ambitious climate goals or economic opportunities in new low-carbon technologies. It is possible to imagine a world where the problems of the past are ignored and future challenges only addressed haphazardly, as we choose to muddle through. But that would leave the UK at risk of a prolonged era of relative decline. This would hold back household living standards and leave the country's economic performance much more comparable with Italy than Germany. But the real threat goes far beyond a financial risk: if we fail the test of this decade we will enter the 2030s diminished and divided.

However, the scale of change could instead provide a spur for major reform. It could trigger a renewed vision for how we successfully compete in high value-added tradable sectors, while recognising the role of policy in spreading good employment to every community. We could convert our cross-party consensus on Net Zero into significant progress on decarbonisation that maximises the benefits it can bring. The opportunity to consider these changes in the round, rather than in isolation, might see us renew the UK's economic strategy to leave us a more prosperous, fairer, greener and healthier nation.

The importance of the decade ahead is clear: the 2020s will be the decisive decade that will determine the UK's trajectory into the mid-21st century.

The need for a renewed economic strategy

This report has set out the nature and scale of the changes and challenges facing the UK in the next decade. These changes will mean a redeployment of physical and human capital across industries, occupations and, possibly, regions. And these changes will affect the entire population. Some people will work for different companies, doing different things. All will experience change as consumers, with different ways of heating our homes, or as residents, whose local high streets need to discover a new future.

This reallocation will bring benefits, but also costs. It will be facilitated by price signals in the form of wage differentials and changes in asset prices that make growing occupations, industries or places more attractive than shrinking ones, with implications for household living standards. And it will be guided, too, by public institutions able to shape the future direction of local economies and solve collective action problems.

Responding well is essential. The direct impact of these changes must be managed well, with support for the losers it creates. But this matters for far more than economics. Slow growth, high inequality and badly-handled economic disruption undermine the well-being of individuals and their communities, deepen social divisions and generate political strife.

But we must also recognise the implications of a decade of unprecedented change for our economic strategy. Successfully navigating the challenges of the aftermath of a pandemic, exiting our largest market and the need to decarbonise would each in their own right be a major test for any government. Responding to all in one decade will severely stretch our economic and political institutions.

There is now, therefore, an urgent need for a renewed economic strategy. Changes driven by the pandemic and Brexit are already with us, and if the 2050 Net Zero objective is to be met while minimising wasted capital and capturing wider economic and societal benefits, there must be a surge of progress in the 2020s (for example, moving from installing almost zero heat pumps each year to 3,000 every single day by 2030). The Government has acknowledged the need for a new strategy and set out some important elements of one, but we are a long way from the comprehensive plan the UK needs (see Box 4).

BOX 4: The UK Government's "Plan for Growth"

The Government's recent "Plan for Growth"¹³⁵ shares aspects of this report's assessment of the UK's strengths and weaknesses: high employment, strong universities and research, and some innovative industries on the plus side; low levels and growth rates of productivity, poor technical skills and regional inequality among the things to improve.

Its strategic response is to focus investment in infrastructure, skills and innovation. In particular:

- The Government envisages a significant programme of capital investment in broadband, roads, rail and towns as the primary plan to boost overall productivity, close regional gaps and make all parts of the country desirable places to live. Part of this has been earmarked as the Government's 'Levelling Up Fund' (LUF) of £4.8 billion, alongside the Shared Prosperity Fund, Towns Fund and High Street Fund.
- On skills, the Government's plan includes a reform of apprenticeships (primarily college-based) which is already in place and since 2017 has seen larger firms paying into

the apprenticeship levy. The key educational shifts to come are the introduction of T Levels and funding for adults without a Level 3 qualification (A levels or equivalent) to take courses to improve their job prospects.

- To boost the UK's strengths in high-value services the Government has focused on innovation and science. The Government has set an ambitious target for (public and private) R&D spending to reach 2.4 per cent of GDP by 2027.

Alongside this are a number of smaller initiatives, such as a programme to improve the quality of management among SMEs, a key determinant of productivity differences across countries.¹³⁶ In addition, clear commitments to swift decarbonisation (including the 2035 and 2050 targets, and regulatory timelines for phasing out carbon in certain activities) should also be seen as key elements of the Government's economic plan. All of the above could form components of a comprehensive strategic approach to the challenges posed by the next decade.

¹³⁵ HM Treasury, *Build Back Better: Our plan for growth*, March 2021.

¹³⁶ D Scur et al., *The World Management Survey at 18: lessons and the way forward*, Working Paper, NBER, March 2021.

But the Plan also suffers from serious omissions and deficiencies:

- There is no acknowledgement that trade costs with the EU have increased as a result of Brexit, and therefore no assessment of the impact this will have or any prioritisation between sectors that future trade policy decisions will require.
- There is no serious engagement with the economics of how to spread prosperity more widely between regions nor across households.
- Improving the quality of work does not feature heavily in Government plans.
- Plans to improve the skills of the UK workforce are being made in the

aftermath of major cuts to education spending: school spending per pupil in England was down by 9 per cent between 2009-10 and 2019-20.¹³⁷

- Although the Government plans to raise public investment to the highest sustained level in four decades, there is little concrete action to raise weak private sector investment (beyond temporary measures) which forms the bulk of the productive capital stock.¹³⁸

Overall, the Plan for Growth is testament to the breadth of consensus on both diagnosis and many stated policy aims in the UK, but also revealing in terms of the lack of a coherent plan that acknowledges the full scale and scope of the challenges the country faces.

What is at stake

Given all this, it is easy to paint a picture in which the economy 'levels down' over the 2020s, as the young and low paid suffer from the lasting impact of the pandemic, investment levels remain suppressed due to uncertainty, and opportunities to lead in new low-carbon industries are missed due to the costs of adjustment. The problems of the past may be ignored, and the challenges of the future only addressed haphazardly. Rather than redesign the country's economic model, we may choose to muddle through. That choice would leave the UK highly exposed to the risk of a prolonged era of relative decline.

It is also possible, however, that the scale of change facing the country acts as an impetus for major reform. That could see a renewed vision for how we successfully

¹³⁷ L Sibieta, [2020 annual report on education spending in England: schools](#), Institute for Fiscal Studies, September 2020.

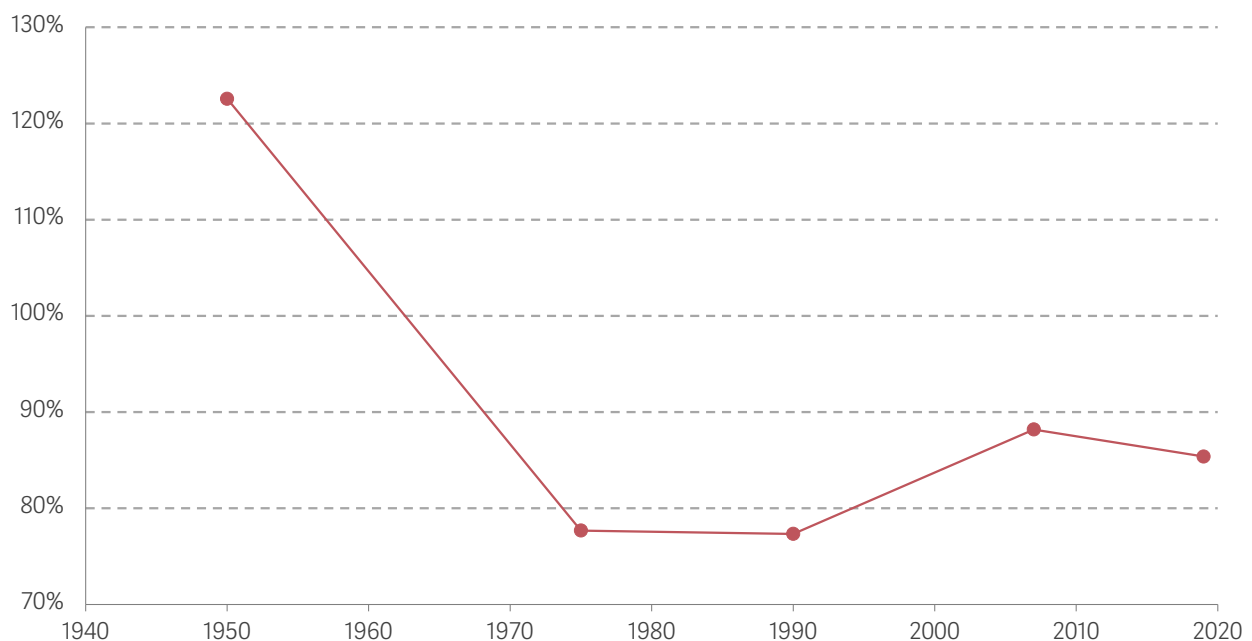
¹³⁸ J Smith, [Macroeconomic Policy Outlook: Q1 2021](#), Resolution Foundation, April 2021.

compete in high value-added tradable sectors, while recognising the role of policy in ensuring non-tradable sectors provide widespread good employment in every community. Our cross-party consensus on Net Zero could mean we are better able to seize the opportunities the transition may bring. We might broaden our lens to consider these changes in the round rather than in isolation – enabling us to go beyond crafting individual economic policies and instead rebuild the UK's economic strategy. The end point would be a more prosperous, fairer, greener and healthier nation.

Choices countries make do matter for their relative economic strengths. As of 2019, productivity was about 15 per cent lower in the UK than the average across France, Germany and the USA (see Figure 23). It was not always this way. From the industrial revolution until the aftermath of the Second World War, UK productivity exceeded the average of this group. The UK then fell behind, but the period between approximately 1990 and the global financial crisis was one in which the UK made up some of the ground that it had previously lost. But that process of convergence has once again become one of divergence in recent years.

FIGURE 23: The UK has lower productivity than leading industrialised countries

UK GDP per hour worked at PPP vs average of Belgium, France, Germany and the Netherlands



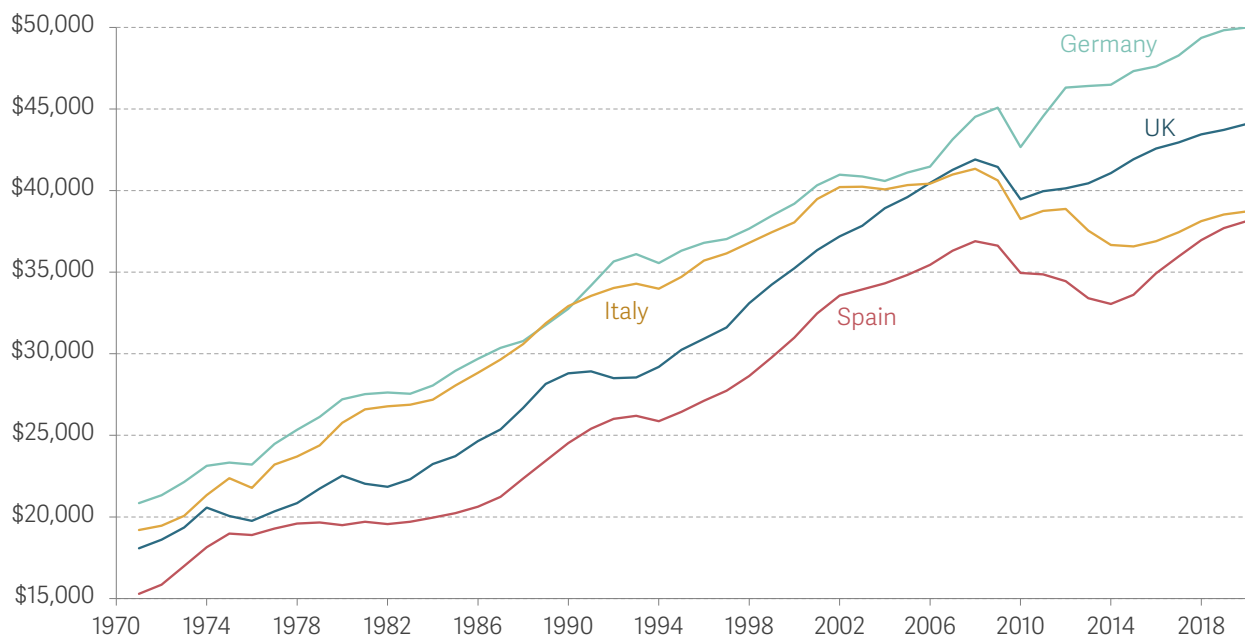
NOTES: The observations from 1975 onward show GDP per hour at current PPP in the UK relative to a simple average of France, Germany and the USA. The observation for 1950 is a backcast based on the change in the ratio of GDP per worker between 1950 and 1975.

SOURCE: Analysis of Penn World Tables; OECD, GDP per capita and productivity growth.

The coming decade could be one of catch-up or continued divergence. History shows us that the performance of different countries has been markedly different in decades past, as some have pulled ahead while others experience relative decline. Take the example of Italy. In 2000, Italy's GDP per capita was 9 per cent higher than in the UK, but by 2019 it had fallen 12 per cent below the UK (Figure 24). Over this 19-year period Italian GDP has essentially flat-lined, largely as a result of a very poor 2010s. A decade of underperformance can transform a country's economic place in the world, and the living standards of its population. Italy's GDP per capita is now on a par with Spain's, having been 22 per cent higher in 2000.

FIGURE 24: The UK's, or any country's, place in the world is not fixed

GDP per capita, US dollars, 2015 prices: Germany, UK, Italy and Spain



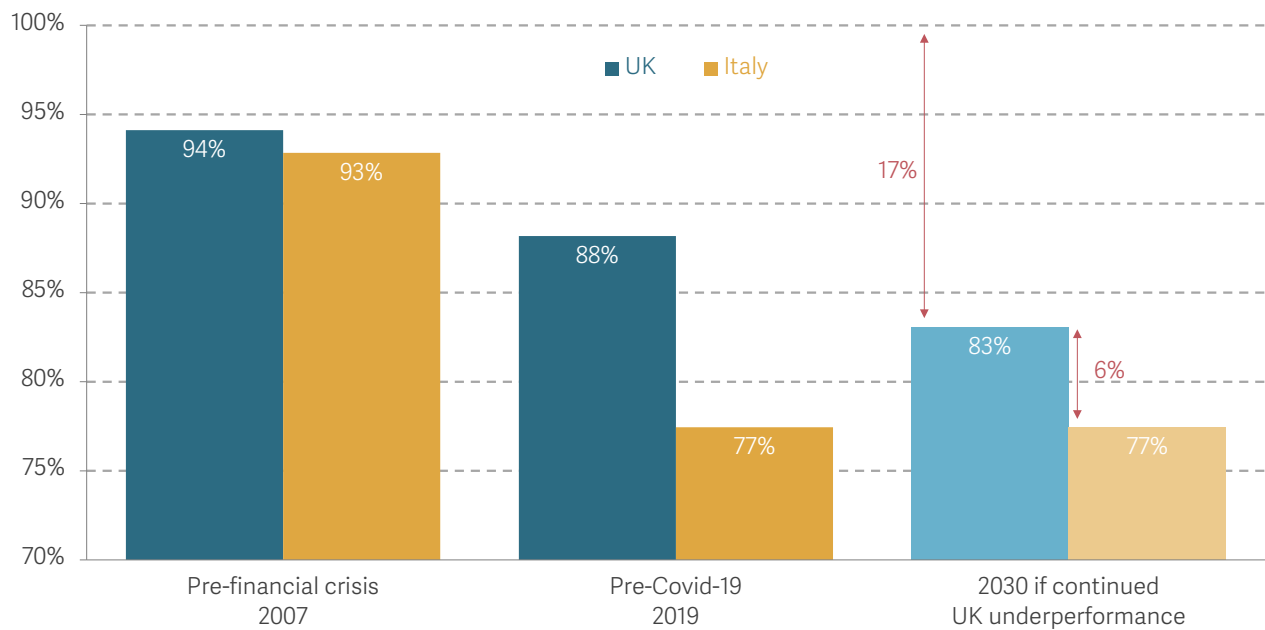
NOTES: Purchasing Power Parities used to present data in comparable terms.

SOURCE: Analysis of OECD, Level of GDP per capita and productivity.

How does the UK's international performance compare? We can use Germany as a reasonable benchmark: it is a similarly-sized European country and – until recently – operated in the same market as the UK. In 2007, GDP per capita in Germany and the UK were similar, with the UK just 6 per cent smaller. However, a large financial crisis and a slower recovery from it mean that the UK has underperformed in the past decade. By 2019, the UK's GDP per capita was 12 per cent smaller than the level in Germany. As Figure 25 shows, Italy underperformed to a much greater extent with GDP per capita falling from 7 per cent below Germany to 23 per cent below in the space of 12 years.

FIGURE 25: Continued UK underperformance may leave us with an economy much closer in size to that of Italy than Germany

GDP per capita relative to Germany (Germany GDP per capita=100%)



SOURCE: Analysis of OECD, Level of GDP per capita and productivity.

If the UK's pace of underperformance relative to Germany were to continue at the same pace in the 2020s as in the 12 years to 2019, then the country will end this decisive decade with GDP per capita much closer to that of Italy than Germany: 17 per cent lower than Germany, and just 6 per cent higher (relative to the level of GDP per capita in Germany) than Italy. This is, of course, a thought experiment, relying on the assumption the gap between Germany and Italy remains constant throughout the 2020s. But it highlights a broader truth, seen also in Figure 24, that fatalism about the relative economic performance of any country is misguided – and that big change to the UK's relative prosperity could take place.

Just as this decade could see the gap grow between the UK and countries like Germany, it could also be a period of catch-up for the UK, with relatively strong productivity and income growth. Germany and France are about 15 per cent more productive than the UK. Halving this gap would mean a boost to household incomes of 8 per cent or £2,500 per household per year. Within these two broad scenarios, a huge range of paths for other essential outcomes is possible. The UK's relatively high employment level, which helps mitigate the impact of lower productivity on household incomes, could rise further or fall back to historical or international norms. Inequality could rise or fall, irrespective of what happens to average incomes, but with important consequences for living standards,

especially of the poor.¹³⁹ Meanwhile, growth could be achieved in the short term, but in a manner which is incompatible with swift progress on decarbonisation. So the real danger of failing to reset the UK's economic strategy for this era of change goes far beyond a financial risk, important though that is. It concerns the sort of the country we will be. The last decade, here and around the world, has taught us the social and political risks of stagnant incomes, especially when twinned with high inequality. If we fail the test of this decade, then we will enter the 2030s diminished and divided.

The potential prize, as well as the obvious peril, of the decade ahead is clear. One way or another, whether by omission or commission, the 2020s will be a crunch decade that will determine the UK's trajectory into the mid-21st century.

The work of The Economy 2030 Inquiry

This launch paper has set out the scale of the changes ahead for the UK in the 2020s; the UK's recent experience of change and our chequered history of managing it; the key long-term strengths and weaknesses of the UK economy; and, in this concluding section, the impact that making a success (or failure) of this decade could have.

This report marks the start of The Economy 2030 Inquiry, a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals for change.

The first phase of the Inquiry will focus on the state of the UK economy and the changes it faces. It will include research programmes focused on the varying perspectives of people, places and firms, and investigating the impact of Covid-19, Brexit, technology, and the Net Zero transition. The role of the state, and lessons from other countries wrestling with change, will also feature heavily. This work will then inform the development of coherent policy proposals in the second phase of the project. These will encompass how economic change is shaped, as well as how it is responded to. They will wrestle with how living standards can be supported by competing in high value-added tradable sectors, while ensuring that decent work is available in every community. How to increase the resilience of individuals, communities and the state itself in the face of change will be placed at centre stage.

Both phases of the project will include, and be shaped by, a large programme of research into the lived experience of the economy. Combining focus groups, surveys and rigorous deliberative research, this element of the project will recognise the importance of consumer, worker and citizen perspectives and preferences. It will also reflect the reality that the public may have different views about what are the really important questions

¹³⁹ Median incomes are similar in the UK and France, but this is not the case at the bottom of the income distribution. See: M Gustafsson et al., *After shocks: Financial resilience before and during the Covid-19 crisis*, Resolution Foundation, April 2021.

for economic policy – views which are central to formulating a sustainable economic strategy for the UK in the decades ahead. This work should also help reconcile the assumption that voters in developed countries want greater protection from change, with the reality that some of the wider choices that have public support (from Brexit to tackling climate change) are the very drivers of change.

In 2023, the Inquiry's work will be brought together in a book-length final report that sets out a framework for successfully navigating and shaping the decade ahead, with proposals for economic reform to drive strong, sustainable and equitable growth, and significant improvements to people's lives, living standards and well-being.

Annex

The uneven impact of the Covid-19 recession

The Covid-19 crisis has been accompanied by a host of near-real-time research, aided by the ease of online surveys and digital data. And much of this has shown its uneven impact, across a wide range of domains. We summarise some of that work below.

The labour market hit has been concentrated among the youngest and, to a lesser extent, the oldest workers, resulting in a U-shaped pattern to the jobs crisis.¹⁴⁰ Those in low-paid and atypical work have also been disproportionately hit. Such workers are most likely to work in 'social consumption' sectors involving in-person contact that have been most affected by social distancing measures: 72 per cent of those working in hospitality pre-crisis had seen a negative labour market change by January 2021. The self-employed have also been heavily affected.

The average impact on household incomes has been largely flat across the distribution and much smaller than the sharp fall in GDP, thanks to the various income support policies.¹⁴¹ But there are large differences between those who were and were not able to benefit from more generous emergency support: just 14 per cent of employees who were furloughed over the summer months experienced a severe income drop, compared to 51 per cent of those who had lost their job.

Unlike previous economic downturns, the different changes in spending patterns have been just as important as the pattern of income changes, combining to create greater inequality of family budget pressures today and of their balance sheets tomorrow.¹⁴² Lower-income households, especially those with children, have seen their costs rise and

¹⁴⁰ Findings in this paragraph come from: N Cominetti, *A U-shaped crisis: The impact of the Covid-19 crisis on older workers*, Resolution Foundation, April 2021; N Cominetti et al., *Long Covid in the Labour Market: The impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery*, Resolution Foundation, February 2021; L Elliot Major et al., *Unequal Learning and Labour Market Losses in the Crisis: Consequences for Social Mobility* Centre for Economic Performance, LSE, Discussion Paper 1748, February 2021; M Gustafsson, *Young workers in the coronavirus crisis: Findings from the Resolution Foundation's coronavirus survey*, Resolution Foundation, May 2020; M Benzeval et al., *The Idiosyncratic Impact of an Aggregate Shock: The Distributional Consequences of COVID-19*, IFS Working Paper W20/15, June 2020; A Adams-Prassl et al., *Inequality in the Impact of the Coronavirus Shock: New Survey Evidence for the UK*, Cambridge-INET Working Paper Series No: 2020/10, April 2020; J Blundell & S Machin, *Self-employment in the Covid-19 crisis: a CEP Covid-19 analysis*, LSE, May 2020.

¹⁴¹ Findings in this paragraph come from: Figure 8 of T Bell et al., *Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021*, The Resolution Foundation, March 2021, which shows the OBR's series for real household disposable income. Our own nowcast can be found in: M Brewer et al., *The Living Standards Outlook 2021*, Resolution Foundation, January 2021, K Handscomb & L Judge, *Caught in a (Covid) trap: incomes, savings and spending through the coronavirus crisis*, Resolution Foundation, November 2020. For more on the impact on household incomes, see Box 3 in M Brewer, et al. *Living standards Outlook 2021*, Resolution Foundation, January 2021.

¹⁴² Findings in this paragraph come from: M Brewer & R Patrick, *Pandemic Pressures: Why families on a low income are spending more during Covid-19*, Resolution Foundation, January 2021; A Davenport et al., *Spending and saving during the COVID-19 crisis: evidence from bank account data*, Institute for Fiscal Studies, October 2020; and T Bell & M Brewer, *The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis*, Resolution Foundation, March 2021. For an international perspective, see: M Gustafsson et al. *After shocks: Financial resilience before and during the Covid-19 crisis*, Resolution Foundation, April 2021. For more on aggregate savings, see: S Rocher & M Stierle, *Household saving rates in the EU: Why do they differ so much?*, European Commission Discussion Paper 005, September 2015; Bank of England, *Monetary Policy Report*, May 2021; C Nourse et al., *How has Covid affected household savings?*, Bank of England, November 2020.

are more likely to have taken on additional debt. Meanwhile those on higher incomes are more likely to have seen their spending fall, given their inability to consume restaurant meals or holidays, and savings rise.

Mortality rates in some Black groups (specifically: Black African men, and Black Caribbean women) have been twice those among the White British population, which is in part driven by occupational differences.¹⁴³ In the labour market, Bangladeshi, Pakistani, Black African and Black Caribbean men are significantly more likely, to varying degrees, than White British men to have entered the pandemic working in the hardest hit sectors. Bangladeshi and Pakistani men were also more likely to be self-employed, resulting in disproportionate job insecurity during the crisis.

The impacts by gender are less straightforward. Male employment has fallen more than female employment, driven by falling self-employment.¹⁴⁴ But within the home, mothers have tended to take on the bigger share of unpaid childcare and home schooling. And a very striking finding is that women, and especially young women, have suffered much steeper declines in mental health and well-being than men.

School children and those in post-compulsory education have experienced big learning losses.¹⁴⁵ These losses are unequally distributed, being larger for those in the lower part of the pre-lockdown education distribution and from poorer families. In the first lockdown, nearly three-quarters (74 per cent) of private school pupils were benefiting from full school days - nearly twice the proportion of state school pupils (38 per cent). The crisis has exacerbated pre-existing educational inequalities.

Endnote

This launch report has been drafted by the following Resolution Foundation and Centre for Economic Performance staff: Torsten Bell, Swati Dhingra, Stephen Machin, Charlie McCurdy, Henry Overman, Greg Thwaites, Daniel Tomlinson and Anna Valero. With contributions from: Mike Brewer, Tania Burchardt, Maja Gustafsson, Lindsay Judge, Gavin Kelly, Cara Pacitti and James Smith.

¹⁴³ Findings in this paragraph come from: P Johnson et al., [The IFS Deaton Review of Inequalities: a New Year's message](#), Institute for Fiscal Studies, January 2021; L Platt & R Warwick, [Are some ethnic groups more vulnerable to COVID-19 than others?](#), Institute for Fiscal Studies, May 2020; Women and Equalities Committee, [Third report: Unequal impact? Coronavirus and BAME people](#), House of Commons, December 2020.

¹⁴⁴ Findings in this paragraph come from: ONS, [Labour market statistics](#), April 2021; C Hupkau & B Petrongolo, [Work, Care and Gender during the COVID-19 Crisis](#), Fiscal Studies, September 2020, pp. 623-651; A Andrew et al., [How are mothers and fathers balancing work and family under lockdown?](#), Institute for Fiscal Studies, May 2020; G Bangham, [Time with the kids: How parents' time use has changed during the pandemic](#), Resolution Foundation, July 2020; A Adams-Prassl et al., [Inequality in the impact of the coronavirus shock: Evidence from real time surveys](#), Journal of Public Economics, Volume 189, September 2020; Women and Equalities Committee, [Fifth report: Unequal impact? Coronavirus and the gendered economic impact](#), House of Commons, February 2021; ONS, [Coronavirus and depression in adults, Great Britain: January to March 2021](#), May 2021; and B Etheridge & L Spanting, [The gender gap in mental well-being during the Covid-19 outbreak: evidence from the UK](#), ISER Working Paper Series, University of Essex, June 2020.

¹⁴⁵ See: A Andrew, et al. [Family time use and home learning during the COVID-19 lockdown](#), Institute for Fiscal Studies, September 2020; L Sibiet, [The crisis in lost learning calls for a massive national policy response](#), Institute for Fiscal Studies, February 2021.

The UK is on the brink of a decade of huge economic change – from the Covid-19 recovery, to exiting the EU and transitioning towards a Net Zero future. The Economy 2030 Inquiry will examine this decisive decade for Britain, and set out a plan for how we can successfully navigate it.

The Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. It is funded by the Nuffield Foundation.

For more information on The Economy 2030 Inquiry, visit economy2030.resolutionfoundation.org.

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