Executive summary

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The promise of shared prosperity is central to the social contract in modern democracies.

Countries are bound together in a sense of shared endeavour by many things, from a common history to the collective provision of security for our homes, families and communities. But as traditional hierarchies have weakened and advanced economies become more diverse, the role of the state in delivering shared prosperity has become more central in underpinning social contracts. With rising wages, higher employment, the provision of public services or support for those who fall on hard times, the British state and economy have delivered in the past. Real wages nearly quadrupled, while state spending on healthcare as a share of the economy almost trebled, between the Second World War and the turn of the millennium.

But that progress, and the strength it gives to our society and democracy, should not be taken for granted. There are periods when this underpinning of our social contract comes under pressure; when a clear route to a better tomorrow is lacking, the improvements people expect dry up and some groups are left wondering whether the country works for them. Britain in 2022, as we outline in this book, is in this undesirable position.

That promise is under threat. The cost of living crisis is the immediate focus, but our ambitions must extend far beyond simply getting through it

The current cost of living crisis rightly dominates the attention of the public and policy makers, as the highest inflation for 40 years takes a steep toll on household living standards. Double-digit inflation is forecast to arrive later in 2022, but is already a reality for the lowest-income households. **Government support in excess of £30 billion this year will mitigate the impact of rising bills, but will not prevent household incomes falling this year and next**. This is not the recovery from the pandemic anyone was hoping for.

But as pressing as today's issues are, policy makers must lift their sights to broader challenges to ensure our shared prosperity. British households went into this crisis with low levels of financial resilience, and are forecast a sluggish living standards recovery coming out of it: **we're set to take until the middle of this decade to return to pre-pandemic income levels**. This is the result of an economy defined by the low growth of the past 15 years and high inequality of the past four decades, which pose risks not only for our economy, but to our society and democracy too. This makes the UK a stagnation nation.

Britain's huge strengths and talents are not being harnessed: we are 15 years into a period of relative economic decline

We caught up with more-productive countries like France, Germany and the US during the 1990s and early 2000s. But that came to an end in the mid-2000s and our relative performance has been declining ever since. **On the eve of the financial crisis, GDP per capita in the UK was just 6 per cent lower than in Germany, but this gap had risen to 11 per cent by 2019**. Our GDP performance would have been even weaker were it not for strong employment growth, with hours worked having increased by more than two-and-a-half times the rate in France (11 per cent compared to 4 per cent).

This reflects a productivity slowdown far surpassing those seen in similar economies. **Labour productivity grew by just 0.4 per cent a year in the UK in the 12 years following the financial crisis, half the rate of the 25 richest OECD countries (0.9 per cent).** Having almost caught up with the economies of France and Germany from the 1990s to the mid-2000s, the UK's productivity gap with them has almost tripled since 2008 from 6 per cent to 16 per cent – equivalent to an extra £3,700 in lost output per person.

Claims that these measures of economic progress mean little for ordinary workers are common but painfully wide of the mark. Weak productivity growth has fed directly into flatlining wages and sluggish income growth: **real wages grew by an average of 33 per cent a decade from 1970 to 2007, but this fell to below zero in the 2010s**. The result is that by 2018, typical household incomes were 16 per cent lower in the UK than in Germany and 9 per cent lower than in France, having been higher in 2007.

Gaps between people and places are too high – the UK has the highest income inequality of any major European economy

While Britons have been living with low wages for the last 15 years, inequality has been a problem for more than twice as long. Having surged during the 1980s, and remained consistently high ever since, **income inequality in the UK was higher than any other large European country in 2018.** This is not a league table we should be aiming to top.

The persistence of income inequality comes despite the success of the National Minimum Wage in reducing hourly wage inequality between the bottom and the middle. This reflects the top (largely men) continuing to pull away from the middle, lower earners working shorter hours and housing costs rising for poorer households even as interest rate falls boost living standards at the top.

Income and productivity gaps between places both matter, and in the UK both are high and persistent. **Income per person in the richest local authority – Kensington and Chelsea (£52,500) – was 4.5 times that of the poorest – Nottingham (£11,700) – in 2019**.

Meanwhile, 80 per cent of the income variation between areas we see today is explained by the differences back in 1997. And productivity disparities are larger still, with that between the leading city and potential high-performing others greater than in peer countries such as France. For example, **London is 41 per cent more productive than Manchester whereas Paris is 26 per cent more productive than Lyon.**

Low growth and high inequality are a toxic combination. When sustained they are a disaster for low-to-middle income Britain and the young in particular

The twin challenges that Britain faces – low growth and high inequality – are substantial issues on their own, but together they create a toxic combination.

Slow growth is always a problem, but even more so when lower-income households lack financial resilience: over one-in-four adults went into the pandemic saying they would not be able to manage on their savings for a

month if their income stopped. Inequality seems to matter more when the economic music stops: the share of the public citing poverty and inequality as one of the most important issues facing the country rose from 7 per cent in 2010 to 19 per cent pre-pandemic.

This toxic combination is a disaster for low-to-middle income Britain and younger generations. We might think of ourselves as a country on a par with France and Germany, but we need to recognise that, except for those at the top, this is simply no longer true when it comes to living standards.

Low-income households in the UK are now 22 per cent poorer than their counterparts in France, and 21 per cent poorer than low-income households in Germany. It's important to comprehend just how material these gaps are: the living standards of the lowest-income households in the UK are £3,800 lower than their French equivalents. Meanwhile the young have seen generational pay progress grind to a halt and **those born in the early 1980s were almost half as likely to own their own home as the cohort born in the early 1950s at age 30**. We cannot go on like this.

The 2020s will be a decisive decade of change, reinforcing rather than resolving stagnation

Countries can go through phases of relative stability, but the UK in the 2020s will not be such a country. Long-standing demographic and technological shifts will continue and combine with Brexit, the aftermath of Covid-19 and the net zero transition. These will bring significant disruption for some, but not the radical reset for our economy or large job losses many predict. Instead, rather than solving our stagnation, change risks reinforcing it.

Brexit has already brought change, albeit not always in the form widely expected. Foreign direct investment has held up since the referendum and 18 months in to our new trading relationship it is not clear our exports to the EU have fallen disproportionately. Instead the UK has suffered a broad-based fall in both openness and competitiveness. **Between 2019 and 2021, UK trade openness fell by 8 percentage points** (compared to a 2 percentage point decline in France). The UK also lost market share across three of its largest non-EU goods import markets in 2021: the US, Canada, and Japan.

More change is to come as some sectors serving the EU market shrink and others grow as a result of less competition domestically. Fishing output will fall by 30 per cent, while food manufacturing could increase by more than 5 per cent. But these changes will not lead to the benefits some hoped for: a manufacturing revival or more regionally-balanced economy. UK manufacturing will change rather than grow, as high-productivity sectors like chemicals and electronics shrink even as lower-productivity food manufacturing expands. **Wages in London, Wales and the North East will be hardest hit by the trade impact of leaving the EU on productivity which, across the country as a whole, means workers will be £470 worse off by the end of the decade.**

Covid-19 caused huge changes to our economy and our lives. But just as collections of face coverings no longer pile up in people's homes, so too many of the economic shifts wrought by the pandemic have unwound. The online share of retail spending shot up from 20 per cent to 38 per cent mid-pandemic, but has fallen back to 27 per cent in the latest data - only 4 percentage points above the pre-crisis trend.

Working from home has persisted for higher earners (the proportion of people who reported that they worked from home on a regular basis surged during the pandemic, and remains high at 38 per cent of all workers in early 2022) but shows no signs of living up to claims that it would transform our economic geography or our productivity.

Instead, the pandemic has provided new headwinds to output: **there are 430,000 fewer people in work now than pre-pandemic** and **investment remains more than 9 per cent below its pre-pandemic level**. It's also, of course, been part of the inflation surge we are now all living through. If anyone ever thought that a global pandemic would bring big silver linings to our shores, they should think again.

The net zero transition brings opportunities as well as change for workers and costs for consumers. But it is not a silver bullet for the UK economy

The net zero transition is crucial to not just the planet, but in making the UK a greener and healthier place to live. But it comes with challenges in the here and now. This won't be in the form of large-scale job losses, with job change rather than destruction the norm. For example, **24 per cent of those**

working in emissions-intensive 'brown' jobs are large goods vehicle drivers – whose jobs will not disappear even as the vehicles they use become greener.

Instead major disruption will be felt by people as consumers, as our net zero commitments require significant investment in low-carbon infrastructure that has to be paid for. In the 2020s, this is principally about making our homes more energy efficient.

Here there is a risk of outright failure to accelerate the transition, which has stalled after **a 90 per cent fall in insulation installations since 2013 even as the Government's net zero strategy suggests we will be upgrading a million homes per year by 2030**. If we remain on track, the challenge facing policy makers will be to ensure the costs are fairly born: **72 per cent of low-income homeowners live in poorly insulated homes that will cost over £8,000 to bring up to standard – almost as much as their average disposable income of £9,100.**

The concrete questions of how these investments will be paid for should receive more attention than misplaced claims that net zero is a silver bullet that will hugely boost, or a catastrophe that will hold back, growth. There are new opportunities to be seized and green innovations to be exploited, but during the 2020s the main impact of the net zero transition on GDP will be to change its composition, as we invest more but consume less, rather than its level.

These changes are not the answers to the toxic combination of low growth and high inequality – they are the context within which the badly-needed attempt to renew the country's path to economic success needs to be placed.

We cannot go on like this. The task of the 2020s is to renew the UK's economic strategy and end stagnation

Relying on supposed silver linings or silver bullets is part of a wider problem: the belief that a policy shift in one area holds the answer to stagnation. It won't. Instead the task for the 2020s is to renew the UK's economic strategy – its route to shared economic success.

Why is a strategy needed? First, because the challenges are large and have been sustained. **8 million younger Brits have never worked in an economy that has sustained rising average wages, while 25 million have never lived in a country where the top 10 per cent have had incomes less than five times that of the bottom 10 per cent**.

Second, because those challenges and the change to come are inter-dependent. And third because the financial crisis and Brexit have blown up major components of the UK's long-standing approach, which had itself been found wanting given the large and persistent gaps between people and places.

Important elements of a more comprehensive approach are visible, from the UK Government's focus on science, to the Labour Party's green investment plans, or the Welsh Government's prioritisation of social partnership. But the test for a broader economic strategy is that it requires: **goal orientation**, being clear about the problem a strategy is trying to solve; **clarity about context**, understanding the type of country we are and the opportunities and constraints this brings, without nostalgia about the past or wishful thinking about the future; **realism about trade offs**, recognising the tensions that always exist in setting strategy; policies of **sufficient scale** to plausibly move the dial; and, finally, **staying power,** because change takes time and short-termism has been a key weakness of the UK throughout the 20th century.

No one believes that Britain has such a strategy guiding policy making and shaping private decision taking today and there is a recognition, from the Chancellor downwards, that we cannot continue as we are. But a growing consensus about the problem is very different to being serious about the solution. Some argue we don't need growth because it won't translate into gains for ordinary households, ignoring the reality that a lack of growth is the cause of flatlining wages. More common is to recognise that growth is necessary, or that inequality is too high, but to be deeply unserious about what it might take to change things. The realities of modern Britain are regularly ignored and the trade offs between different objectives wished away. We are short-term to our core.

Understanding your country is a prerequisite for making a success of it: Britain is a services superpower

Not being serious begins at the most fundamental level: failing to understand what Britain's 21st century economy actually looks like. Commentators often talk of the British economy as being narrowly built on banking, which is as misplaced as the claim that there is an easy route to turning ourselves into a German-style manufacturing superpower.

These pop narratives obscure the reality that Britain is a broad-based services economy, built on successful musicians and architects as well as bankers. We're about ICT, culture and marketing, as well as finance (whose fraction of total exports fell from 12 per cent in 9 per cent in the pre-pandemic decade). No one celebrates it, but **the UK is the second largest exporter of services in the world**. And our services specialism does not lie behind our recent underperformance: on average, services-led economies tend to be richer than manufacturing-driven ones. It is also perfectly consistent with rapid export growth: global demand actually grew faster in our key export industries than in China's in the decade to 2019, but China's exports grew twice as fast.

We have manufacturing strengths too: pharmaceuticals, aerospace and beverages stand out. But the services-led nature of our economy is not going away. The things countries are good at are highly persistent: of the top 10 products the UK was most specialised in back in 1989, seven were in our top 10 in 2019. Even Brexit, the biggest shake-up to our economic place in the world in decades, will have little impact on the balance between services and manufacturing.

Recognising the nature of our economy is not the same thing as welcoming all aspects of it, but an economic strategy that fails to understand it is no strategy at all. It will leave us without a clear view of how growth is achieved, exposed to policy mistakes, and failing to address the challenges being a services-led economy brings: upward pressure on inequality between people and places. **Jobs in tradable services are 80 per cent more likely than average to pay in the top 5 per cent while services exports are concentrated in the highest-wage areas.** Wrestling with this is essential, and possible. France is services focused like us but has much lower inequality.

Fundamentally we need to recognise that the path to future prosperity lies in being a better version of Britain, not a British version of Germany.

Britain's big cities outside London succeeding is the route to higher national income and lower regional gaps. But it requires change on a scale not currently contemplated

While our current economic specialisation is consistent with future prosperity, our regional divides are not. The large productivity divide between the Greater South East and the rest of the UK squeezes the brakes on economic progress nationally and accelerates regional income gaps.

Recognising the services-led nature of our economy tells us what a plausible path to releasing this brake will be. High-value services industries thrive when similar firms co-locate in large places with highly-educated populations: cities. Indeed, **the importance of an area's workforce size, skill levels, and stocks of capital (including intangibles) in determining its productivity has grown during the 21st century.** But far too few of our big cities, all deeply scarred by deindustrialisation, have successfully made the transition to a services economy: **all of England's biggest cities outside London have productivity levels below the national average**.

Focusing on turning this around would turn levelling up from rhetoric into the core of a renewed economic strategy. And, given the geography of our islands, it is not a minority concern. The UK may be a 'green and pleasant land', but **69 per cent of the UK population live in cities or their hinterlands, compared to 56 per cent in France and just 40 per cent in Italy.**

Progress is possible, building on signs of success: **between 1997 and 2015, Leeds grew the share of its output accounted for by business services from below the national average to well above it.** But we shouldn't shy away from the fact that turning more cities into services superpowers isn't going to be easy. The level of investment required is simply huge. Halving Manchester's productivity gap to London, so that it becomes as productive as Edinburgh, would require tens of billions of pounds of investment and an increase in size of over 500,000 workers. Change on that scale is needed but inconsistent with national politicians refusing to concentrate efforts or local politicians unable to embrace the disruption involved because they lack the powers to shape it.

As well as recognising the benefits this approach could bring – closing regional productivity and income gaps, and raising national income – we must also be clear about the challenges it raises. People will need connecting to the new opportunities and housing policy must respond to avoid the big winners being existing owners of land. The goal is more successful cities, not clones of London with low earners facing high housing costs.

This has to be a high investment decade – requiring more change for the private than public sector

The 2020s has to be a high -investment decade not just because of net zero, but because the UK has been a low-investment economy for too long. **In the 40 years to 2019, total fixed investment in the UK averaged 19 per cent of GDP, the lowest in the G7**. This may have made sense when the UK was the most advanced economy in the world with a huge capital stock advantage over its competitors, but it's a recipe for relative decline today.

The public sector has started to turn the corner. Despite being the focus of political debate on investment it is no longer where the big problem is. **After decades of underinvestment the government has now increased public sector net investment to its highest sustained levels since the 1970s.**

Instead, the private sector is where the challenge lies. **Business investment was only 10 per cent of GDP in 2019, far behind an average of 13 per cent in France, Germany and the USA**. Investment growth stalled after the Brexit referendum and has recovered slowly from Covid-19 – while GDP has returned to pre-pandemic levels, business investment remains 9 per cent down.

Stepping back, our analysis has shown that **persistent low investment means virtually all of the productivity gap with France is explained by French workers having more capital to work with.**

Creativity will be required to turn this situation around. The Chancellor is rightly examining what more the tax system can do, but there are limits to the role of traditional tax incentives, which struggle to cover most intangible investment, in an economy like the UK's. Ending the country's entrenched and pervasive low-investment culture will be key, as will delivering greater economic stability. The latter is obviously made harder by repeated shocks,

but our failure to reform our macroeconomic framework for an era of low interest rates risks it being harder to respond to them adequately. We should not forget that highest investment will also come with trade offs in the form of lower consumption or higher borrowing from abroad.

Greater investment in human capital, where progress has slowed and outcomes are very unequal, is also needed. With the quantity of labour falling post-pandemic, we need to focus on its quality. This runs from school, where the gap in numeracy skills between 16-20-year-olds who do not have a parent that attained an upper-secondary qualification (A-level equivalent) and those that did is the third largest in the OECD, to the workplace, where **the average number of days an employee spends in training each year has fallen by 18 per cent (from 7.8 days to 6.4 days) between 2011 and 2017.**

Rather than address these issues our policy debates focus on the question of whether we are doing too much education or fears of a brain drain from poorer places, despite **young people from the most-deprived areas being two-and-a-half times less likely to leave their home area upon reaching adulthood than their peers in the least-deprived quintile.**

We need to think harder about change – how we help workers manage it and whether our economy has too little of it

The 2020s may see an acceleration of labour market change as the shocks and transitions discussed above play out. We must do a better job than we have in the past to help workers losing their jobs. On average, **in the UK, 40 per cent of employed people experience a large loss of income when becoming non-employed, compared to 30 per cent of employed people in Germany and 26 per cent of employed people in France.**

But taking economic change seriously also means ignoring popular claims that it is permanently speeding up, when it's actually been slowing down: **the reallocation of labour between sectors was equivalent to 7 per cent of total employment in in the decade to 2021, hugely down on the 20 per cent experienced in the 1980s**. Any reversal of the downward trend this decade will not be large enough to return us to the highs of decades past.

Indeed, an economic strategy for the 2020s needs to go further and confront the worrying lack of 'good change' seen in the UK in recent years. **The proportion of workers switching job each quarter declined by 25 per cent between 2000 and 2019 despite those moving jobs typically enjoying pay growth 4 percentage points higher than individuals staying put.**

Part of this looks to be a product of people being reluctant to take labour market risks given the lack of income insurance offered by the UK's welfare state: workers need both a cushion against job loss and a secure platform from which to embrace good change. Housing costs rising faster in higher-paying areas has also locked people out of opportunities. Lower labour market dynamism is a problem for reallocating workers to higher-productivity firms, something that is much more important to raising national productivity than policy makers current focus on supporting the 'long tail' of low-productivity firms.

A serious economic strategy will be as hard-headed about lower inequality as it is about higher growth

Success for Britain does not look like becoming America. Despite being far richer, the past decade has shown the dangers to democracy from being the most unequal advanced economy in the world. And there is nothing economically or democratically sustainable about a UK status quo that saw **the number of families experiencing destitution reach 1 million in 2019, an increase of one-third compared to 2017**. So we must be just as serious about reducing inequality as boosting growth.

But that is not where we are today. Businesses think it's enough to talk about environmental, social and governance (ESG) issues; we get local authorities to bid for small pots of cash as our answer to gaping regional divides; and each new crisis sees us patching up the welfare state rather than ensuring it is fit for purpose in the first place.

Good jobs must be a central objective of a renewed economic strategy

The UK's high employment rate is a strength we should not take for granted; **the poorest half of households experienced two-thirds of the jobs growth in**

the decade after the financial crisis. But celebrating the strengths of our flexible labour market has too often prevented us from being serious about tackling its problems.

Indefensibly, **half of shift workers in Britain receive less than a week's notice of their working hours or schedules**. While higher-paid workers have seen their exposure to insecure forms of work fall, low earners have not and are around three times more likely to experience contract insecurity or volatile hours or pay. The minimum wage has driven the first sustained falls in low hourly pay for four decades, but far less progress has been made in reducing inequality in weekly wages.

Jobs with decent pay and conditions underpin any path to widely shared prosperity. Politicians' promises that all jobs will be available everywhere are very far from serious, but ensuring good jobs exist in every part of our country – including in the non-tradable sectors that provide largely for the domestic market, from care to hospitality – must be a central objective of an economic strategy rather than a by-product of it.

We need to be less enamoured of the status quo and more open to policy innovations. The minimum wage has hugely raised earnings without the job losses many predicted, yet we still underestimate the degree of choice we have over the quality of work, particularly in sectors not exposed to international competition. Yes, higher pay and better conditions will bring trade offs, including higher prices. But this shouldn't deter us from such an approach. **Countries with higher prices tend to have lower inequality.**

As well as getting the basics right in terms of labour market regulation and enforcement, Britain should learn lessons from bolder approaches to labour market innovation taking place in similar Anglo-Saxon labour markets like New Zealand and focus on the quality of work in growing occupations that exist in every community – like care and retrofitting.

There is a lot to play for. The focus today is on the combination of high inflation and a tight labour market leading to industrial disputes, but structural questions of power in the labour market matter more for pay levels and inequality in the long-term. **Under 10 per cent of low-paid private sector workers are unionised**, and the decline of unions explains a sixth of the increase in wage inequality among men between 1983 and 2019. Looking across the whole labour market, **wages could be as much as 15 per cent**

lower than they would otherwise be because of a lack of worker power, equivalent to almost £100 a week for the average worker.

Places are different, but everywhere should be a good place to live

The Government's 'Levelling Up' agenda has been criticised for focusing on liveability, rather than just productivity. But it is the right call to focus on both. Productivity in 21st century Britain will be unevenly distributed across the country, but the status of the places in which we live and the standard of their public realm should not be. Our qualitative research showed a consistent focus from people on the state of town centres, the quality and availability of public services and the capacity of local government to deliver the basics. **The share of people thinking their local area has deteriorated in the preceding two years rose from 20 per cent in 2013-14 to 26 per cent in 2019-20.**

Tackling this sense of decline is essential to delivering on a social contract that promises you'll gain from the national economy wherever you live. But Britain is not serious, yet, about delivering this. **A striking 18 per cent of all revenue grants and 30 per cent of all capital grants for local authorities are wound up every year, hindering long-term planning.** And council revenues per person fell by 30 per cent between 2009 and 2019 in the most-deprived places, compared to 15 per cent in the least-deprived places.

Ensuring that poorer areas remain well-funded creates a clear trade off with the imperative noted above for greater devolution, required to underpin strong local economic leadership. Powers to raise more taxes locally inevitably give more fiscal flexibility to richer areas. But other, less-centralised, countries manage this trade off, and the UK must too.

The burden for funding a growing state can't all be shouldered by the young

The exact size of the state in the years ahead depends on political choices, but the 2020s are best thought of as an era of a bigger government than we were used to in the 2010s. An ageing society, rising costs of healthcare, and new demands such as the pandemic's legacy all point in that direction. The approaches by which pressures for a bigger welfare state have been absorbed in decades gone by are also not available. **Defence spending was**

reduced from 8 per cent of GDP in the mid-20th century to around 2 per cent today as health and education spending grew, but the Prime Minister is now calling for an increase to 2.5 per cent of GDP.

When combined with low growth this explains why the same politicians declaring their low-tax 'instincts' have raised taxes to their highest levels since the 1940s. But the elevated level of taxes has not prompted sufficient focus on good taxes. Both main parties have in recent decades focused tax rises on National Insurance, despite it falling narrowly on younger workers at a time of flatlining wages. Take the recent Health and Social Care Levy: **a typical 25-year-old worker today will pay an extra £12,600 over their working life from the employee part of the tax rise alone, compared to nothing for landlords and most pensioners.**

A strategy for the 2020s will need to consider new approaches, recognising that **wealth has risen from three to almost eight times national income since the 1980s, while wealth taxes have not risen at all as a share of GDP.**

A decent society doesn't allow those in need to fall ever further behind the rest of society

The UK has deliberately chosen incredibly low levels of basic income protection in our social security system, prioritising spending instead on the extra costs of children and housing. The long duration of this approach however has completely decoupled some of the poorest households' incomes from the rest of society: **the basic level of benefits is now just £77 per week – only 13 per cent of average pay and its lowest level on record.**

Large families and disabled people are falling behind, with almost one-third (31 per cent) of households with a disabled adult being in poverty in 2019-20, compared to 19 per cent of families in which no one has a disability. And **pre-pandemic almost half of families with three or more children were in poverty, up from one-third in 2012-13**. Any economic strategy that claims to be serious about reducing inequality and financial hardship will need to take a different approach.

Slow growth and high inequality are far from inevitable. Progress on both would transform the lives of low-to-middle income Britain

So there is a lot to be done to renew the UK's economic strategy and it will be far from easy, economically or politically. Some might question how achievable a material increase in growth or reduction in inequality is for a relatively small and mature economy like the UK, taking the view that these difficulties outweigh the potential benefits. They might point to arguments about slowing growth at the global frontier. But accepting such fatalism misjudges the room for improvement the UK has, because we are not at the head of the pack. It also too lightly passes over the transformational impact plausible progress would have for low-to-middle income households.

Progress is possible for the UK for one big reason: we have a lot of room to catch up towards both the prosperity and inequality frontiers. To see why consider a set of similar comparator economies to the UK: Australia, Canada, France, Germany, and the Netherlands. These are not the richest, or most equal, countries in the world and we would long have considered them our peers. But **we're now 21 per cent poorer than these countries on average**, demonstrating copious amounts of catch-up potential that dwarfs the Office for Budget Responsibility's forecast of a 4 per cent hit to our long-run productivity from Brexit, relative to remaining in the EU.

These countries are also more equal than the UK: **if we reduced inequality to the levels in the comparison group, it would raise incomes for the poorest fifth of the country by more than 20 per cent,** while reducing them for the richest in society.

If we were able to close the gap in income and inequality with the average of this group it would have huge effects, increasing incomes by over 40 per cent among the poorest fifth of the country, and around one third for the middle, without reducing incomes at the top (indeed, they would still rise slightly).

This is not to say this is precisely where Britain could end up, but to demonstrate the size of the prize available. A better future for the UK does not need global growth to suddenly accelerate, or Britain to match American levels of productivity and Scandinavian levels of inequality. It just requires us to have the resolve to do what is necessary to converge with similar

countries who, in the scheme of things, are not so very different to us. There is a lot to play for, especially for those on low-to-middle incomes.

Towards a fairer and more prosperous Britain

This book brings together an analysis of the key challenges facing the UK and the strengths that can be brought to bear in addressing them. It outlines the contours of an economic strategy that could provide a plausible path to confronting stagnation, focusing on the most material elements of the route. We have not covered off every policy area or prescribed the relevance of this national approach to devolved or sub-national administrations, whose own strategies will also have to wrestle with significant variation across the country.

This book comes at the mid-point of The Economy 2030 Inquiry. The second phase of the project will assess how policy can make a reality of such a strategy, a subject on which others will have many views to contribute. The prize is reviving the promise of shared prosperity that underpins our social contract, and the route to it is a renewed economic strategy that helps guide Britain through the 2020s and beyond to a richer, fairer, and greener future.

Stagnation nation: 10 key facts

1. Low growth: real wages grew by 33 per cent a decade from 1970 to 2007 on average, but this fell to below zero in the 2010s.

2. High inequality: income inequality in the UK was higher than any other large European country in 2018.

3. The toxic combination: low-income households in the UK are 22 per cent poorer than their counterparts in France, and typical household incomes are 9 per cent lower.

4. Stalled progress: 8 million young workers have never worked in an economy with sustained average wage rises, and those born in the early 1980s were almost half as likely to own a home as those born in the early 1950s at age 30.

5. Levelling up: income per person in the richest local authority – Kensington and Chelsea (£52,500) – was over 4 times that of the poorest – Nottingham (£11,700) – in 2019.

6. Brexit Britain: fishing output could shrink by 30 per cent by 2030 as a result of Brexit, but food and beverages manufacturing output could increase by more than 5 per cent.

7. The nature of our economy: Britain is the second largest exporter of services in the world, behind only the US.

8. Good work: half of shift workers in Britain receive less than a week's notice of their working hours or schedules.

9. Staying put: young people from the most-deprived areas are two-and-a-half times less likely to leave their home area upon reaching adulthood than their peers in the least-deprived places.

10. Burden sharing: wealth has risen from three to almost eight times national income since the 1980s, but wealth taxes have flatlined as a share of GDP.