Resolution Foundation

The Resolution Foundation at 20

Two decades of analysis, policy and change

resolutionfoundation.org

Resolution Foundation – where are we now?

The Resolution Foundation was formed in 2005, in response to a growing gap between those whose income and assets had benefited from several decades of growth, in stark contrast to those left behind and struggling to make ends meet.

The fear that motivated our founding, was that there was forming in Britain – seemingly unnoticed by successive governments – a permanent 'precariat' of working people, forever excluded from gaining the security and rising prosperity that have been the promise of liberal democracy since the Second World War.

The poor have been with us always, but the Foundation was established with those in work but still struggling particularly in mind. As the new century dawned, successive governments had made progress on reducing worklessness but this brought in-work poverty to the fore. Work was, and still is, the most effective route out of poverty. But millions of families were learning that it was far from a guaranteed escape path.

In short, work was simply not working, as a route to safety and better living standards.

I had spent much time in the United States from the 1980s and seen the brutal disregard of policy makers to tens of millions of working but struggling people. It was clear that merely through policy drift – not even as a result of deliberate choice – this indifference created an embedded group of people with lives of despair and anger. This is a tragedy for individuals (I know these people, and can see their faces as I write) but also stores up a storm socially and politically.

In contrast, I had personally experienced – as a grateful beneficiary during childhood – Britain's more humane approach to helping those on the very margins. Since then, I have also been fortunate enough to have found work and opportunity that has enabled me to break out from this exposed group.

But many millions have not, and so the founding mission for the Resolution Foundation in 2005 was very clear: Britain's path should be to take the actions and pursue the policies now, to avoid the early concerning signs of entrenched relative disadvantage for families at the lower end of earnings and opportunity.

Our initial programme reflected this focus, starting with years of articulating – with our now famous penchant for charts and data – the challenges of the low paid. We targeted this at the public, the press, and politicians, seeking to act as an authoritative voice for low-paid and struggling families, but always rooted in rigorous research rather than emotional appeal.

It worked. Within a few years, the public and political discussion had shifted, with phrases such as "the left behind", "the squeezed middle" or "just about managing" used interchangeably and frequently in press and political commentary.

Our policy work in the early years was energetically focused on pay progression, with minimum wages an obvious target. The reduction in very low hourly paid wages – down from 22 per cent to just 3 per cent of employees today – is one outcome of such a focus, as is the landmark introduction of a National Living Wage in 2015.

We engaged on a number of other fronts – including childcare, and forensic work on how the tax and welfare systems operate for working people – and these saw gains. Some of these were incremental, such as making Universal Credit work better for working people, while others more vital, such as preventing major income losses from tax credit cuts.

Twenty years later, what are the challenges and prospects for living standards now, and how are we adapting our work in response?

A survey of the landscape shows a troubled picture for Britain in general, and for working families in particular.

First, **wages and thus household incomes have stagnated since we started this task**. If trend growth in disposable household incomes we were experiencing in 2005 had simply continued – not even increased – then typical incomes would be £51,000. Instead, after a meagre 7 per cent growth over twenty years, typical incomes are at £31,000 today. Everyone here is keenly aware what a difference to living standards that missing £20,000 would make to a family.

Second, **there is no prospect of reversing this stagnation without addressing its heart: poor UK productivity**. Over the past twenty years Britain has found itself particularly exposed to nasty global shocks, not least the financial crisis and the

COVID-19 pandemic. The slowdown in productivity since the financial crisis has been global, but Britain has done worse than many of our peers. The productivity gap with the US now stands at 24 per cent, some 8 percentage points wider than when we started our work in 2005 at a cost of £6,000 in lost output per worker. Similarly, large gaps in productivity exist with Germany (20 per cent) and France (13 per cent).

It is this macroeconomic background that persuaded the Resolution Foundation to work on the question of where growth can be found going forward. The Economy 2030 report was delivered in late 2023 after a two-year study in partnership with the Centre for Economic Performance at the LSE and the Nuffield Foundation. The report calls for an investment-led growth strategy that builds around Britain's strengths as a services superpower, coupled with deliberate steps to ensure that growth is more evenly shared in the future – both regionally and among earnings groups – than it has been in the past.

The third challenge is that **the government's capacity to reverse the most pernicious effects of stagnation has been diminished**. The legacy of the past twenty years is also one of historically high debt and taxes, but low satisfaction in public services. As our focus has shifted from pay to living standards more generally, the vital role that housing, energy costs, savings to deal with disasters, and then access to pension income and care needs in later life, have become clearer. Access to public services matters too, with the lowest-income families typically receiving around £15,900 of benefits-in-kind from such services each year.

As we look to the future, an ageing population will only increase the pressures on the government. Addressing living standards in the broadest sense will require creative solutions to improve government effectiveness; but also creative ways the private sector can meet the needs of working families.

As we rise to the challenges of the next decades, the essential core of our approach will remain the same as our first twenty years. We have found no more effective alternative than the delivery of rigorous and pragmatic policy proposals, which refuse easy assumptions or wishful thinking, and instead face directly into the hard trade-offs necessary to make realistic progress.

Over our twenty years we have worked with all the main political parties in government and in opposition. We appreciate how all of them have listened to us and how our analysis has influenced their thinking. Tackling these issues is not the prerogative of one party or one part of the political spectrum.

Ideally, I would love the Resolution Foundation to have less of a job to do in twenty years' time. But delivering meaningful and lasting improvements in the living standards of low-to-medium earners will require us to move beyond a narrow focus on how we might redistribute the economic pie – wages, access to public services – more in their favour. The overriding question facing Britain is not who should benefit from the spoils of growth, but how we get back to having some spoils of growth to share.

The next improvements in living standards will thus depend critically on economic growth, hard choices about the size of the state, and a fair and stable distribution of power and taxation.

Tackled with a serious respect for facts, energetic creativity, and persistent determination, Britain can find itself closing the productivity, income and inequality gaps with our peers, and delivering the widely shared prosperity that is the promise of our democracy.

Sir Clive Cowdery

Founder

The Resolution Foundation at 20

Two decades of analysis, policy and change

Ruth Curtice & RF staff
September 2025

Lifting living standards: job not done

In this anniversary review, we look back at how living standards have evolved since the Foundation was set up, indulge in a little nostalgia regarding the first two decades of our own institutional life, and – more importantly – consider what the opportunities and challenges facing the UK mean for our future work.

Economic progress for Britain's families stalled, essentially, in the mid-2000s. Growth in living standards collapsed across working-age households – richer and poorer alike. But the very poorest, private renters, and children have had a particularly tough time, while pensioners, and those who own wealth, have fared relatively well. And the racing away of asset prices ahead of incomes has left millennials substantially less likely to own a home than previous generations and, more broadly, has limited the extent to which hard work is a route to opportunity.

Not everything has gone wrong: employment has mostly grown, and steep rises in the minimum wage have almost eliminated relative low pay on traditional benchmarks. But there has been an abject lack of absolute progress overall. This is ultimately caused by the dire productivity of the UK economy, transmitted to households through the collapse of earnings growth. Had real earnings continued to grow over the past twenty years at their 1985-2005 pace, then a worker on average pay would today be pulling in £394 extra every week.

Years of under-investment across public and private sectors are one important cause of our productivity woes. Lower UK investment accounts for almost the entirety of our productivity gap with France, and at least a chunk of our gap with both the US and Germany.[1] The underperformance, in productivity terms, of the UK's major cities outside of London and declining dynamism in the economy have also held back growth. The UK can, and must, do better. We tend to think of the UK's economy as of similar standing to those of Australia, Canada, France, Germany and the Netherlands, but middle incomes in the UK are 19 per cent lower than the average in those countries.

1 J Oliverira-Cunha et al, Business time How ready are UK firms for the decisive decade?, Resolution Foundation and Centre for Economic Performance, November 2021.

As well as drilling down into more detail on how living standards, and the Resolution Foundation itself, have evolved over the past twenty years, this document looks forward and asks how we can best support higher living standards over the next twenty years.

First, we must be forensic and honest about where we come from. We will continue high-quality analysis and forecasts of the trends in living standards, including by income bracket and generation, and use that to inform our policy proposals. Analytical rigour has been key to our success, and it was heartening to find that, according to recent polling by YouGov, 81 per cent of those familiar with our work agree that the Foundation is an organisation they can trust.

Second, we will continue to focus on those people most in need of living standards improvements, and least able to bear the disappointment of stagnation (or worse). That includes low and middle income households, those on low pay or in precarious work, and those vulnerable to financial shocks. Low and middle income households are a broad group, and after many years of general stagnation the plight of middle Britain remains squarely in our sights.

Third, we must be part of the effort to boost economic growth, since success there is essential to lifting living standards. We remain convinced that any serious discussion about higher living standards must engage with the need to improve productivity. Continuing the legacy of the Economy 2030 Inquiry, our research and policy work will contribute pragmatic ideas to turn the grim recent picture around.

Fourth, we will continue to assess and highlight the way that government policy affects living standards and the distribution of income through the tax system, social security benefits and public services. We must acknowledge, though, a context in which action on living standards has to compete with an ever-widening range of pressures on the state. The state has expanded while satisfaction in public services has fallen. We will confront the tough choices needed to get the public finances back on track, since if they drift out of control, low and middle income families will end up paying much of the price.

Fifth, as well as the research for which we are known best, we want to effect direct change and to support others to do so. We were delighted to announce recently the launch of a substantial new fund of social investment established as *Resolution Ventures*.[2] The Foundation and Ventures will continue to work together to bring research insights and social investment together to support entrepreneurs looking to improve work through technology (see the Box below for an introduction to Ventures and what it has achieved so far).

2 Resolution Foundation, Resolution Ventures launches £9 million WorkerTech fund to back start-ups supporting better work in a fast-changing labour market, September 2025.

Finally, but perhaps most importantly, we would like to thank the many and varied individuals and organisations that have supported the Resolution Foundation as it has grown over the past twenty years. While there are too many to mention, they certainly include the academics and policy makers we have enjoyed collaborating with, the trustees and advisory board members who have provided our direction, and those who have been generous enough to fund our research. Above all: thank you to the many individuals who have worked at the Foundation through the years, from those of us who seek to build on that success for the decades ahead.

Resolution Ventures

Resolution Ventures, the social investment arm of the Resolution Foundation, has completed the first stage of resourcing for its new fund, raising £6.75 million in investment. The fund will be dedicated to backing technology companies that improve the lives of low-paid workers across the UK.

Founded as the WorkerTech Partnership in 2021, Resolution Ventures has already made 21 investments into 15 start-ups, creating impact for more than 350,000 workers across the UK and reaching over 2 million people overall. Our portfolio includes ventures such as:

- Organise: an app that brings workers together to campaign for better terms and conditions. Last year, it helped secure a £2,017 annual pay rise for G4S night shift workers.
- Valla: a legal tech platform that helps people to resolve or get redress for issues they've experienced at the workplace without the need for expensive lawyers.
- TaskHer: a platform connecting skilled tradeswomen with homeowners who want to hire them, helping women break into male-dominated sectors like plumbing and electrics.

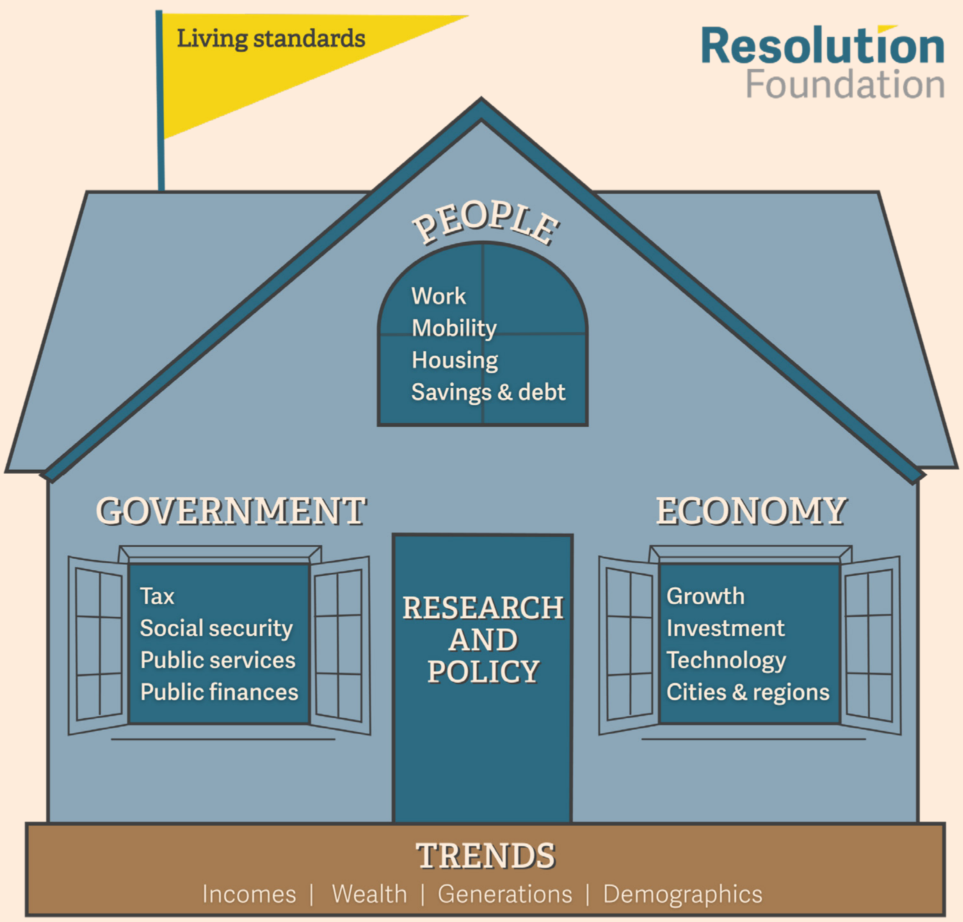
With the creation of this new fund, we've been able to bring in other like-minded investors, including the Joseph Rowntree Foundation, Better Society Capital, and the Ufi VocTech Trust, to pool capital and amplify the impact that our investment will have. This means we can back more start-ups and improve conditions for more workers. We also hope to prove WorkerTech as a viable area of investment and encourage more startups to build technology that can improve conditions for low-paid workers.

The Resolution Foundation's mission

Dedicated to lifting living standards

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.



The facts: 20 years of flat-lining living standards

Living standards in the UK have essentially stagnated over the last twenty years, to an extent unprecedented in modern times. Between 1994-95 and 2004-05, median incomes for non-pensioners had grown at a healthy 3.0 per cent per year on average. [3] Since 2004-05, by contrast, this figure has been just 0.3 per cent. Had income growth continued its mid-1990s to mid-2000s trend, a typical household would have been £20,100 per year better off by 2023-24 (in current prices).

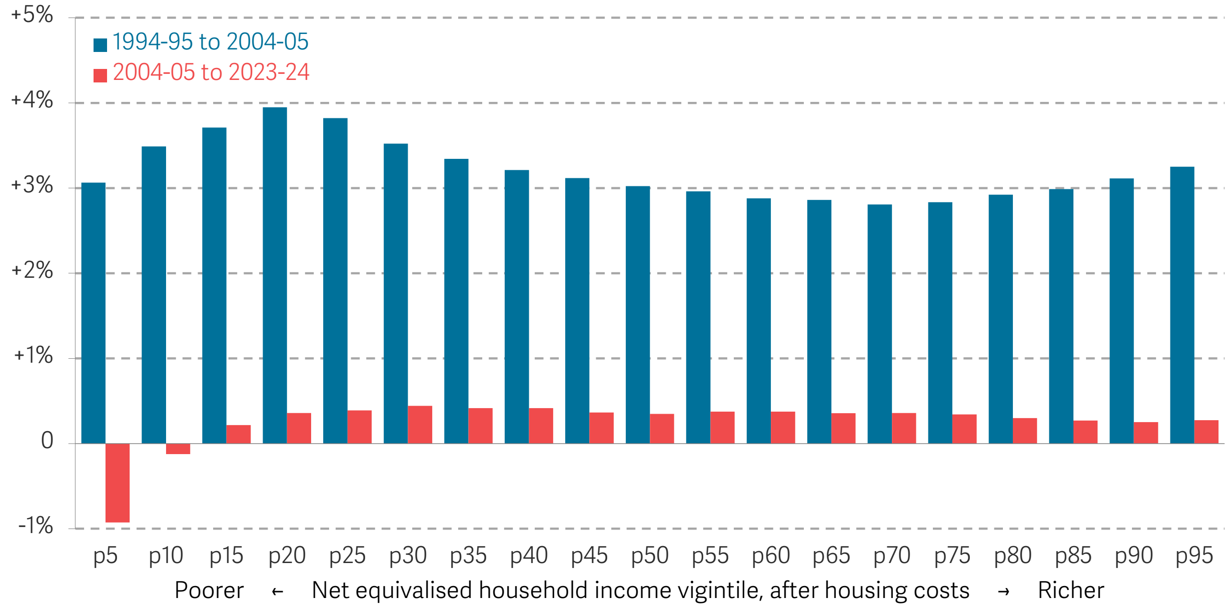
It's not just that income growth has been low on average in the past 20 years – it has also been volatile, especially compared to the steady upwards march of the late 1990s and early 2000s. Slow growth in non-pensioner incomes in the years leading up to 2008 gave way to falling incomes during the financial crisis. Income growth returned between 2013-14 and 2016-17, but four of the next seven years saw median incomes fall – not least during the pandemic (incomes fell 2.2 per cent in 2020-21) and during the cost-of-living crisis (median incomes fell by 3.0 per cent between 2021-22 and 2023-24). By 2023-24, real median household income was barely higher than it was in 2016-17, and had only grown 7 per cent in the 19 years since 2004-05. In the ten years between 1994-95 and 2004-05, it grew by 35 per cent.

Stagnation in income growth has affected both rich and poor. As is shown by Figure 1, which puts pensioners to one side, over the past 20 years there is no point in the income distribution where growth has been as fast as it was in the ten years leading to 2004-05. But stagnation has been worst for the poorest: the only part of the income distribution where incomes are outright lower on average today than 20 years ago is the bottom.[4]

3 Non-pensioner equivalised after housing costs household incomes.
4 Technically we refer here to the lowest incomes shown – percentiles 5 and 10 – rather than the very bottom. Data limitations mean we cannot measure changes below the 5th percentile.

FIGURE 1: **The past 20 years have been bad for everyone, especially the poorest**

Average annual non-pensioner real household income growth, by income percentile: GB/UK



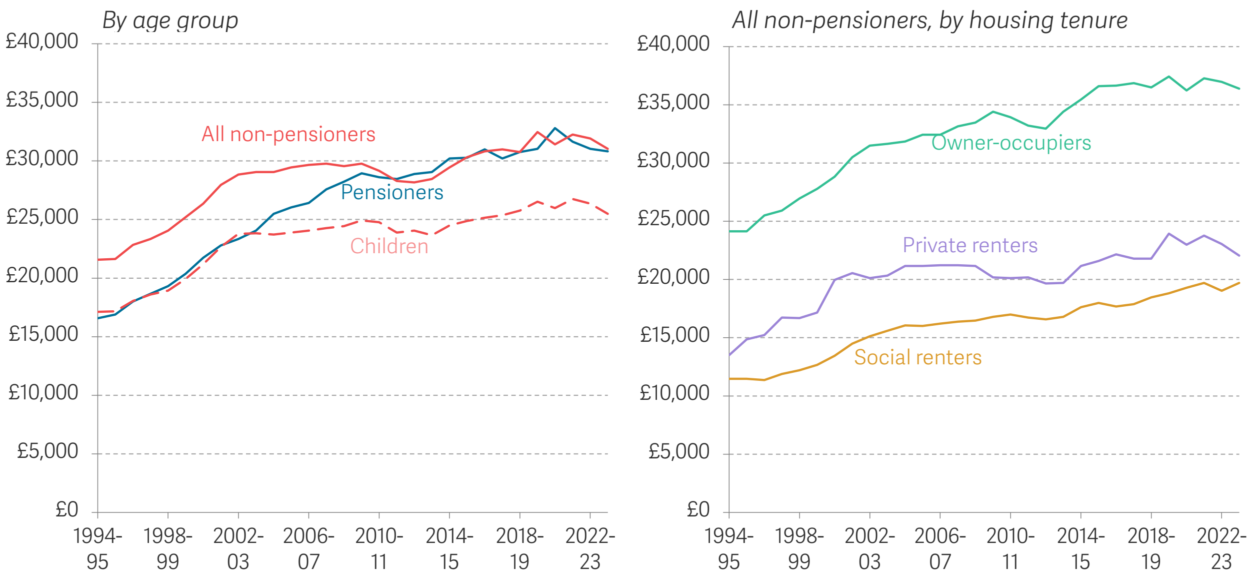
NOTES: GB before 2002-03. Shows change in equivalised household income after housing costs, per person.
SOURCE: RF analysis of DWP, Households Below Average Income.

While living standards have stagnated across the income distribution for those below pension age, pensioners have done markedly better. Median disposable incomes for pensioners have grown by 21 per cent in real terms since 2004-05, compared to 7 per cent for non-pensioners. Pensioners used to be much poorer than non-pensioners. But convergence in the 2000s means that since 2011-12, typical incomes for pensioners and non-pensioners have been more or less equal. Strikingly, pensioners are now better off than children, with typical disposable incomes for pensioners £5,300 higher than for children in 2023-24.[5] That's a big change from the 2000s when disposable incomes for pensioners and children were equal. Private renters also stand out as a group where incomes have done poorly: median disposable incomes for non-pensioner private renters grew by just 4 per cent between 2004-05 and 2023-24, compared with 14 per cent growth for owner-occupiers and 23 per cent for social renters.

5 This follows the usual HBAI approach of allocating to children the equivalised household income of the household in which they live.

FIGURE 2: Typical incomes have grown much more strongly for pensioners than for non-pensioners

Real median equivalised household disposable income (2025-26 prices), after housing costs: GB/UK



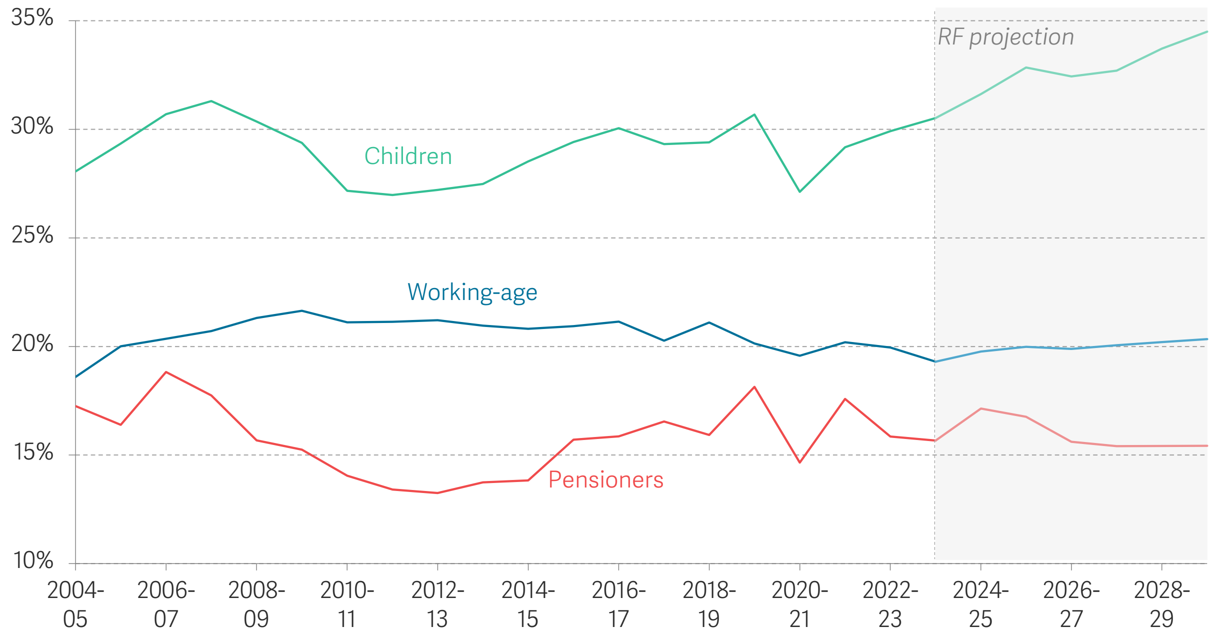
NOTES: GB before 2002-03. In the left panel, children are a subset of all non-pensioners. Right panel excludes pensioners. For owner-occupiers, housing costs only include the interest payments part of the mortgage, as principal repayments represent the cost of buying an asset as opposed to the cost of living in the house. Incomes are calculated at the household level and then assigned to individuals.
SOURCE: RF analysis of DWP, Households Below Average Income.

Differences between pensioners and younger groups are most stark at the bottom of the income distribution, and show up in the poverty statistics. Relative child poverty has remained stubbornly high over the last twenty years and has risen over the past decade, from 27 per cent in 2013-14 to 31 per cent in 2023-24. As things stand, child poverty is on track to reach record highs within this Parliament.[6] Meanwhile, relative poverty among pensioners has fluctuated between 14 and 19 per cent, after being much higher in the 1980s and 1990s (the pensioner poverty rate was 28 per cent in 1994-95, but had climbed as high as 41 per cent in 1989-90).

6 A Clegg & A Corlett, Turning the tide: What it will take to reduce child poverty in the UK, Resolution Foundation, February 2025.

FIGURE 3: **Child poverty has proved stubborn and, without action, will soon break records**

Proportion of people living in relative poverty after housing costs, by age group: GB/UK



NOTES: GB before 2002-03. Being in relative poverty means living in a household with an equivalised after-housing-cost income below 60 per cent of the median all age income.
SOURCE: RF analysis of DWP, Households Below Average Income.

These trends show the importance of policy choices. The success for pensioners is to be celebrated and is largely the result of higher spending on means-tested pensioner benefits in the late 1990s and 2000s, followed by the introduction of the State Pension 'triple lock' in 2011 (which led to faster uprating) and the New State Pension in 2016 (which meant more women in particular qualified for a full State Pension).[7] The triple lock remains in place, and will continue to ratchet up the State Pension faster than working-age benefits, especially in an era of volatile inflation.[8] The increased government spending on pensioners stands in contrast to spending on social security for working-age families. Compared to 2010, a pensioner today receives £1,319 more per year from the state pension (an increase of 16 per cent), while a single working-age adult on unemployment benefits today receives £488 less per year (a fall of 9 per cent).[9] But future pensioners also face income headwinds: older working-age people are now more likely to be renting privately and less likely to own their homes with paid-off mortgages than previous cohorts, and fewer will be able to rely on the security of defined-benefit pensions.[10]

7 D Thurley, The new State Pension – background, House of Commons Library, August 2016.
8 OBR, Fiscal risks and sustainability, July 2025.
9 The comparison uses the basic rate of Jobseekers Allowance and the Universal Credit standard allowance for a single person over the age of 25, and figures have been converted to 2025 prices for the comparison.
10 For a projection of future cohorts' pensions, see Figure 24 in: S Pittaway, Inequality control: Why wealth inequality has not increased while asset prices have soared and what that means for the future, Resolution Foundation, November 2024.

In contrast, high and worsening child poverty rates are largely the result of a series of benefit cuts affecting families, such as the introduction of a household benefit cap in 2013, the phasing-in of the two-child limit from 2017, and several years of benefits freezes in the 2010s. The true damage done by these policies is understated by the increase in child poverty, because rising parental employment has offset some of the impact.[11] The outlook for child poverty over the rest of this Parliament is as dire as it is because several such benefit cuts will continue to bite more deeply as the years go by. Some £3 billion of cuts are scheduled to become effective, as reductions continue to work their way through the caseload or be imposed on new claimants.[12] These include: the extension of the two-child limit to even more larger families; the phasing-out of an enhanced Universal Credit for the first child in each family, and freezes (which translated into real-terms cuts) in the value of housing benefit in the household benefit cap. The Government is due to publish a Child Poverty Strategy this Autumn; it will be hard to improve the outlook without changing these policies.[13]

And while stagnation in income growth over the last two decades has been felt right across the income distribution, for the poorest families it means being stuck in particularly dire standards of living. There has been little or no improvement in the level of deprivation experienced by UK families in recent years. Within the poorest fifth of the income distribution, one-in-five people (20 per cent) could not afford to keep their homes warm enough in 2023-24, up from 17 per cent in 2004-05, and more than one-in-four (26 per cent) were living in food insecurity, up from 21 per cent when this was first recorded in 2019-20. The number of households in temporary accommodation is now at a record high of 130,000,[14] rising from 48,000 in 2011-12, and 2.9 million emergency food parcels were distributed by Trussell-affiliated foodbanks in 2024-25, a million more than in 2019-20.[15] Meaningful progress on these fronts will not materialise until the incomes of poor families start growing again.

Comparisons with other countries show that it is realistic to aspire to better. Consider a set of similar comparator economies: Australia, Canada, France, Germany, and the Netherlands. We would long have considered them our peers and, although impressive, they are not the richest, or most equal, countries in the world. But all are now richer and more equal than Britain. – In 2023, middle-incomes (before housing costs) in those countries were on average 24 per cent (£7,900) higher than in Britain. This catch-up potential dwarfs the Office for Budget Responsibility's forecast of a 4 per cent hit from

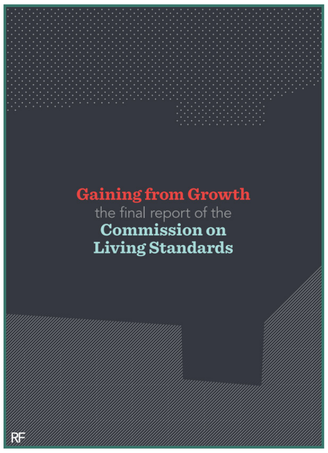
11 M Brewer & A Clegg, Working poverty out: The role of employment and progression in a child poverty strategy, Resolution Foundation, January 2025.
12 A Clegg & A Corlett, Turning the tide: What it will take to reduce child poverty in the UK, Resolution Foundation, February 2025.
13 A Clegg & A Corlett, Turning the tide: What it will take to reduce child poverty in the UK, Resolution Foundation, February 2025.
14 Ministry of Housing, Communities & Local Government, Statutory homelessness in England: January to March 2025, July 2025.
15 Trussell Trust, End of year food bank stats 2024-25, May 2025.

Brexit.[16] Britain is also more unequal than those countries, so low-income families have further to catch up. If Britain closed both its income and inequality gaps with these peer economies, the poorest households (those at the 10th percentile of the income distribution) would be fully 40 per cent better off.

So the UK should be setting its sights on catching up with peers in which there is more – and more widely-shared – prosperity. And it is possible for countries to catch up. We can see that by looking over our shoulder. Median incomes in the UK are now just one-third higher than Poland's, having been fully three-times higher in 2005.

To get living standards in the UK back on track, we need to understand how we slipped behind in the first place. So what exactly stalled our progress?

Moment in RF history: Putting living standards on the map



Arguably Resolution Foundation's biggest achievement has been to put living standards at the centre of political debate in the UK. It's now standard procedure for major policy changes (especially Budgets) to be assessed through a living standards lens – how will the change affect incomes across poor and rich households?

For Resolution Foundation, this work began in earnest in 2010 when we started publishing Living Standards Audits, but the real landmark came in 2012, when we published the final report of the Commission on Living Standards ('Gaining from Growth'). This report argued that, such growth as existed increasingly failed to raise living standards for low-to-middle income households, with the contribution from rising female employment and broad-based wage growth faltering. The report recommended an employment-led strategy via investment in skills and reductions in the cost of childcare, as well as greater support for working families through the social security system.

The proximate cause: the collapse of earnings growth

Most working-age families get most of their income from work, so what happens in the labour market is of critical importance to living standards. That's even true among

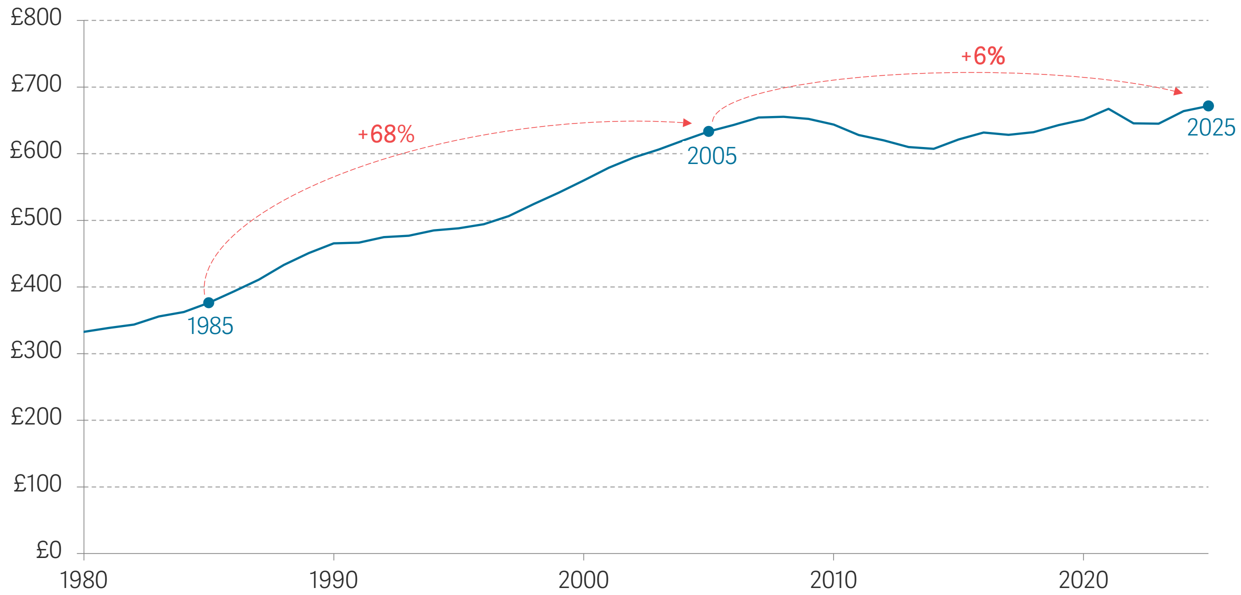
16 OBR, Economic and fiscal outlook – March 2021, March 2021.

households in the bottom half of the income distribution, where wages are three times as important as income from the social security system.[17]

The most important change from a living standards perspective over the past 20 years has been the collapse of real earnings growth after the financial crisis. This calamitous fall-off is familiar, but it's worth restating because it has dominated the grim living standards picture over the past two decades. In the 20 years running up to RF's creation in 2005, average earnings grew by 68 per cent in real terms. In the 20 years since, they grew by just 6 per cent. Had earnings continued to grow in real terms at their 1985-2005 pace, average earnings today would be £394 per week higher.

FIGURE 4: **Vanishing progress – how earnings growth petered out**

Average weekly earnings (2025 prices): GB



NOTES: Deflated with CPI.
SOURCE: RF analysis of ONS, AWE; Bank of England, Millenium of Macroeconomic Data

Two positive labour market trends have provided partial mitigation for this collapse, helping to support living standards. The most important has been employment growth, which during the 2010s was the main driver of economic growth in the UK. On the eve of the pandemic, the UK's working-age employment rate peaked at 76.5 per cent; at previous employment high points in 1974, 1990 and 2008, the employment rate reached 73 per cent.[18] The increase in employment between 2008 and 2020 was equivalent to an additional 1.4 million people in work. The good news from a living standards perspective

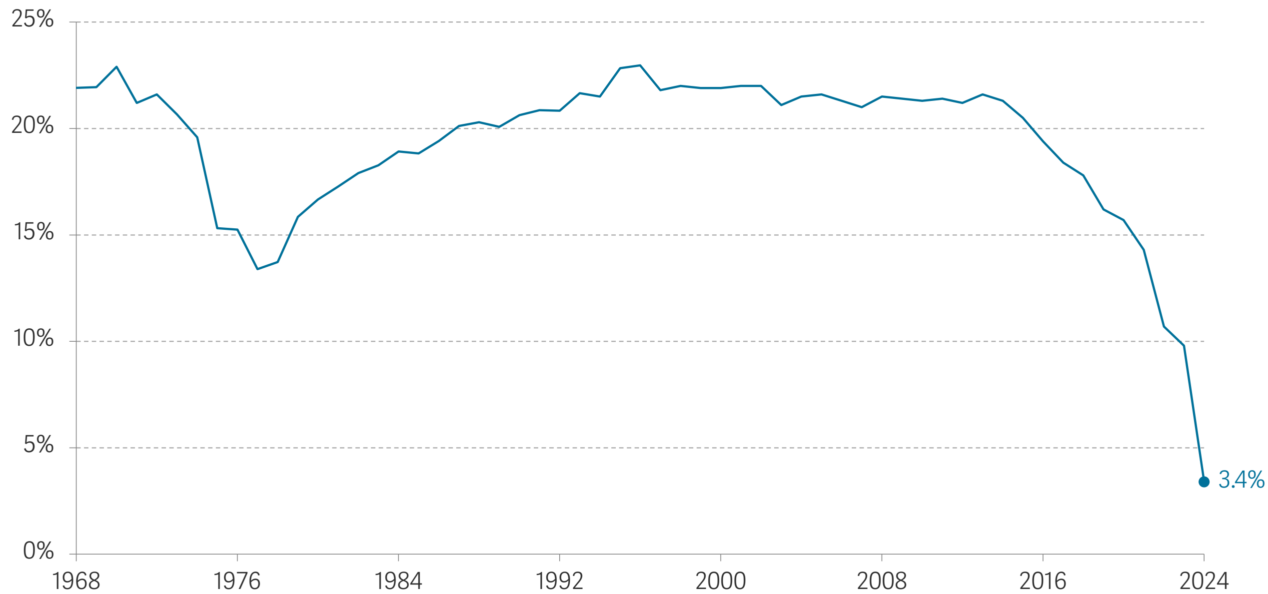
17 L Try, Money, money, money: The shifting mix of income sources for poorer households over the last 30 years, Resolution Foundation, February 2025.
18 ONS, Labour market statistics time series: 16-64 employment rate, August 2025.

is that most of these additional workers came from households in the bottom third of the income distribution.[19] The bad news is that employment growth has gone into reverse post-pandemic.[20]

A second labour market trend which contributed positively to living standards for those on low hourly pay has been the big fall in hourly pay inequality, driven by a rising minimum wage. The minimum wage was created by a Labour government but co-opted and hugely boosted by the Conservatives with the creation of the National Living Wage in 2016. As is clear from the name, the Living Wage Foundation's campaign helped build the case for raising the pay of low earners. In 2019 then Chancellor Philip Hammond committed to 'ending low pay' through further increases. This is more or less what has happened: the share of employees with hourly pay below two-thirds of the median fell to 3 per cent in 2024, having been above 20 per cent for most of the past 30 years.

FIGURE 5: **A rising minimum wage has almost eradicated 'low' pay**

Proportion of employees with hourly pay below two-thirds of the median: UK



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings, and ONS, New Earnings Survey.

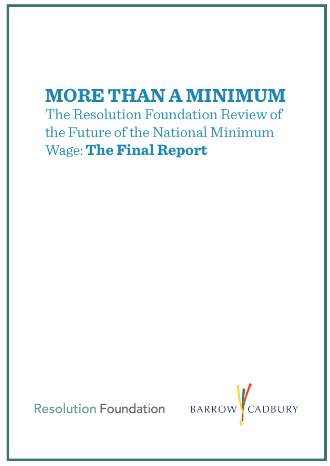
This has been good news for low earners' pay packets. There are 1.9 million workers who are paid the minimum wage (as well as more who are paid just above and whose pay is in effect set by changes to the minimum wage).[21] These workers – cleaners, bar staff, retail assistants, warehouse packers – earn 37 per cent more in real terms thanks to the

19 N Cominetti & L Murphy, A hard day's night: The labour market experience of low-to-middle income families, Resolution Foundation, December 2024.
20 Resolution Foundation, Estimates of UK employment, August 2025.
21 Low Pay Commission, Low Pay Commission 2024 report, February 2025.

increases in the minimum wage which have been made since 2005 (equivalent to £125 more per week for a 37.5-hour week).

Moment in RF history: The review of the minimum wage

In 2014, Resolution Foundation published 'More than a minimum', our review of the National Minimum Wage. This report argued for a more ambitious minimum wage policy to tackle the persistent issue of low pay. A central recommendation was for the minimum wage to be increased to 60 per cent of median hourly pay by 2020.



A year later, that was government policy, as the new 'National Living Wage' (a higher minimum wage for workers aged 25 and above) was announced, with exactly that target. George Osborne referenced the Resolution Foundation's work in his Budget speech. 10 years later, the minimum wage stands as one of the UK's major policy successes. The UK now has one of the highest wage floors in the world, boosting pay for millions of low earners without the job losses its detractors claimed would follow.[22]

However, important as the gains to low earners have been, when it comes to boosting incomes, the minimum wage can only ever be a small part of a wider toolkit. Its power as a policy to reduce inequality is limited because it does nothing for those who are not in work, it only affects a minority of workers, and minimum wage workers aren't all in poor families (in fact, 3-in-10 minimum wage earners in 2022-23 were in families in the top half of the working-age income distribution).[23] In addition, for those workers in low-income households who are on the minimum wage, the link between hourly pay increases and higher disposable income is attenuated by the operation of the tax and benefit system. This can mean that changes to benefit policy are more important than changes to the minimum wage. Strikingly, a hypothetical family with three children with adults earning the minimum wage would have been worse off in 2023 than in 2013 due to changes in benefits policy, despite their gross earnings having risen by 27 per cent in real terms.[24]

22 OECD, Minimum wages relative to average wage of full-time workers.
23 Based on analysis of the Family Resources Survey 2022-23, using the Labour Force Survey direct hourly pay rate variable to impute hourly pay for some workers.
24 N Cominetti, Giving with one hand: Exploring the impact of minimum wage uprating in 2024 on living standards, Resolution Foundation, November 2023.

But the minimum wage does not address problems relating to job quality, such as insecurity, and unpredictable hours and pay. These are problems faced by many low-paid workers,[25] and can have a material impact on workers' wellbeing.[26] A third of low-paid workers experience anxiety about unexpected changes in shifts,[27] linked to the fact that some employers change or cancel shifts with very little notice: 17 per cent of employers who use low-paid flexible work give only a day's notice of shift changes.[28] In many cases these are long-standing features of the UK labour market rather than new problems, but the rise of 'solo self-employment' (which includes 'gig' work) over the past two decades stands out as a trend taking work in the direction of greater insecurity.[29] The current Government is seeking to tackle many of these problems with its Employment Rights Bill.[30]

The deeper cause: the productivity slowdown

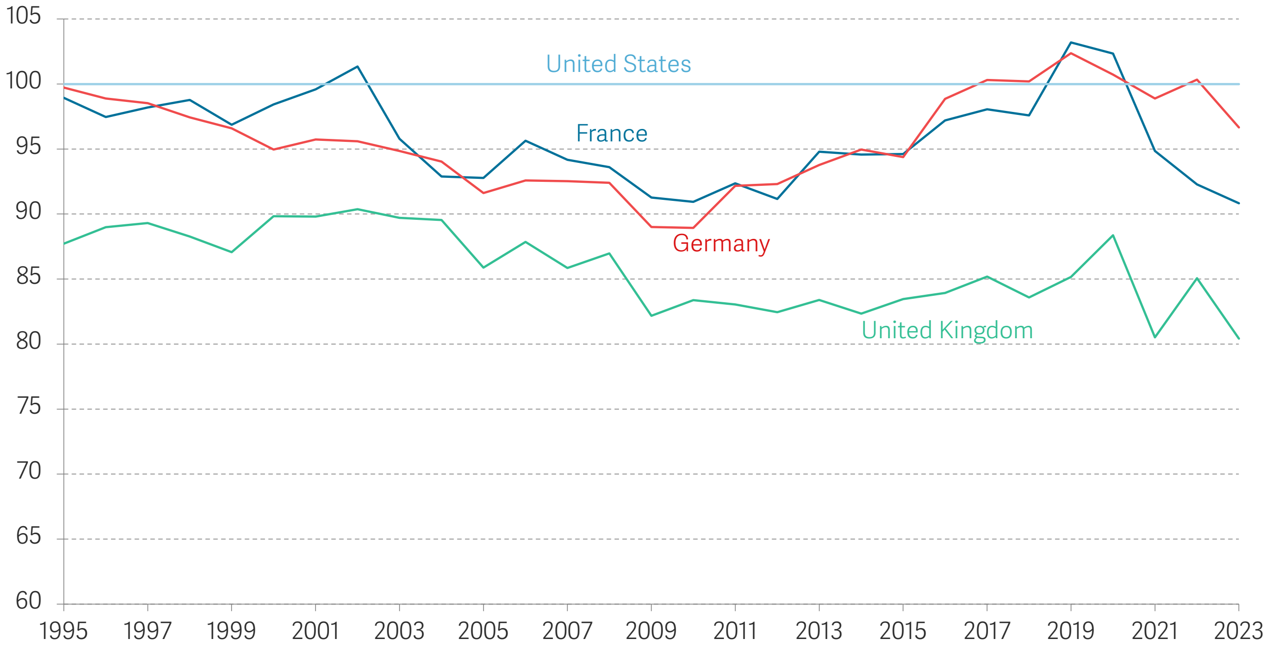
The ultimate cause of the UK's dire record on earnings and incomes growth over the past two decades has been the collapse in productivity growth. It is true that all rich countries have experienced a slowdown in productivity growth since the financial crisis, but the UK's slowdown has been worse.[31]

A comparison with the world's most productive economy – the United States – and the two most productive large European economies – France and Germany – hammers this point home. Between 1995 and 2005, the productivity gap between the UK and US remained stable, and the UK actually caught up with France and Germany. But since then, the gap with all three has widened. The UK's productivity gap with the US is 8 percentage points wider than in 2005, standing at 24 per cent in 2023, while for Germany it is 14 percentage points wider, standing at 20 per cent.

25 N Cominetti, Low Pay Britain 2024, Resolution Foundation, September 2024.
26 A Irvine et al., How Does Precarious Employment Affect Mental Health? A Scoping Review and Thematic Synthesis of Qualitative Evidence from Western Economies, Work, Employment and Society, December 2022.
27 N Cominetti, C McCurdy & H Slaughter, Low Pay Britain 2021, Resolution Foundation, June 2021.
28 Low Pay Commission, Low Pay Commission Response to the Government on 'one-sided flexibility', December 2018.
29 G Giupponi & X Xu, What does the rise of self-employment tell us about the UK labour market?, Institute for Fiscal Studies, November 2020.
30 N Cominetti & C McCurdy, Low Pay Britain 2025, Resolution Foundation, July 2025.
31 J Oliverira-Cunha et al., Business time How ready are UK firms for the decisive decade?, Resolution Foundation and Centre for Economic Performance, November 2021.

FIGURE 6: **UK productivity has fallen further behind the pack since the mid-2000s**

GDP per hour worked benchmarked relative to the US, current PPP



NOTES: Data shown is two-year rolling averages. See R C Feenstra et al., The Next Generation of the Penn World Table, American Economic Review, 105(10), 3150-3182, 2015.
SOURCE: Analysis of OECD, Level of GDP per capita and productivity dataset.

The UK's underperformance relative to these other countries can't be pinned to specific sectors, or to the UK's sectoral mix. Productivity gaps exist across sectors, and the UK's sectoral mix explains almost none of the overall gap to the US, France and Germany.[32] Moreover, gaps are not driven by our skills base: the UK has too many young people who don't progress past fairly low-level training,[33] but overall we tend to do well on measures of human capital,[34] and the last 20 years have seen a welcome improvement in outcomes in our schools.[35]

If those factors don't explain the UK's productivity shortfall, what does? Leaving the European Union has played a role. Our own analysis suggested that labour productivity will be 1.3 per cent lower by the end of the decade as a result of Brexit,[36] but more recent evidence points to much larger effects – of a 5 per cent reduction in the size of the UK's economy.[37]

32 J Oliverira-Cunha et al., Business time How ready are UK firms for the decisive decade?, Resolution Foundation and Centre for Economic Performance, November 2021.
33 R Costa et al., Learning to grow: How to situate a skills strategy in an economic strategy, Resolution Foundation and Centre for Economic Performance, October 2023.
34 OECD, A new macroeconomic measure of human capital exploiting PISA and PIAAC: Linking education policies to productivity, April 2022.
35 The Economist, The strange success of the Tories' schools policy, July 2023.
36 S Dhingra, The Big Brexit: An assessment of the scale of change to come from Brexit, Resolution Foundation and Centre for Economic Performance, June 2022.
37 E Alabrese et al., Levelling up by levelling down: The economic and political costs of Brexit, July 2024.

But the causes of the UK's underperformance pre-date Brexit. Fundamentally, the biggest reason has been a failure to invest, by both the state and by businesses. This results in a lack of capital – technology, buildings, infrastructure – available to British workers. Total fixed investment in the UK has lagged behind our counterparts so much that almost the entirety of our productivity gap with France is accounted for by lower physical capital available to each worker.[38] The UK needs to invest more if it is to return to faster productivity growth.

This is one area where the present Government has listened, attempting to address not just the low level of public investment, but also its volatility. At the 2024 Autumn Budget the Chancellor announced plans to significantly increase capital spending, effectively reversing cuts planned by the previous Government (although the level remains below the average of comparable countries).[39] To make space to fund this through borrowing, the Government announced new fiscal rules which exclude investment spending from the key measure of borrowing the Government plans to contain.[40] This should also reduce the incentive to cut investment plans in the face of stressed public finances as has happened many times in the past, removing the costly boom and bust cycles of much-needed infrastructure investment.[41]

There are some potentially positive signs in the wider economy too. In the end, higher investment must either come from abroad or through higher domestic saving, and so it is positive that the household saving ratio peaked at just under 25 per cent in the pandemic, the highest level on record, and continues to remain above pre-pandemic levels.[42] In fact, the last five years has seen the highest half-decade of household saving in over 25 years. Such a transition inevitably means lower consumption, but it does bode well for boosting investment levels, and UK business investment grew 3.9 per cent in the first quarter of this year.[43]

Beyond investment struggles, declining dynamism in the economy has been a feature of the last 20 years and has contributed to the UK's productivity slowdown. The rate at which jobs have relocated from shrinking to growing firms has fallen by one-fifth since 2008,[44] while the growing and shrinking of different industries is at its lowest level for over

38 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

39 C Aref-Adib et al., More, more, more: Putting the Autumn Budget 2024 decisions on tax, spending and borrowing in context, Resolution Foundation, October 2024.

40 HM Treasury, Charter for Budget Responsibility: Autumn 2024, October 2024.

41 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low investment rut, Resolution Foundation, March 2023.

42 M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023.

43 S Pittaway, Inequality control: Why wealth inequality has not increased while asset prices have soared and what that means for the future, Resolution Foundation, November 2024; ONS, Business investment in the UK: January to March 2025 revised results, June 2025.

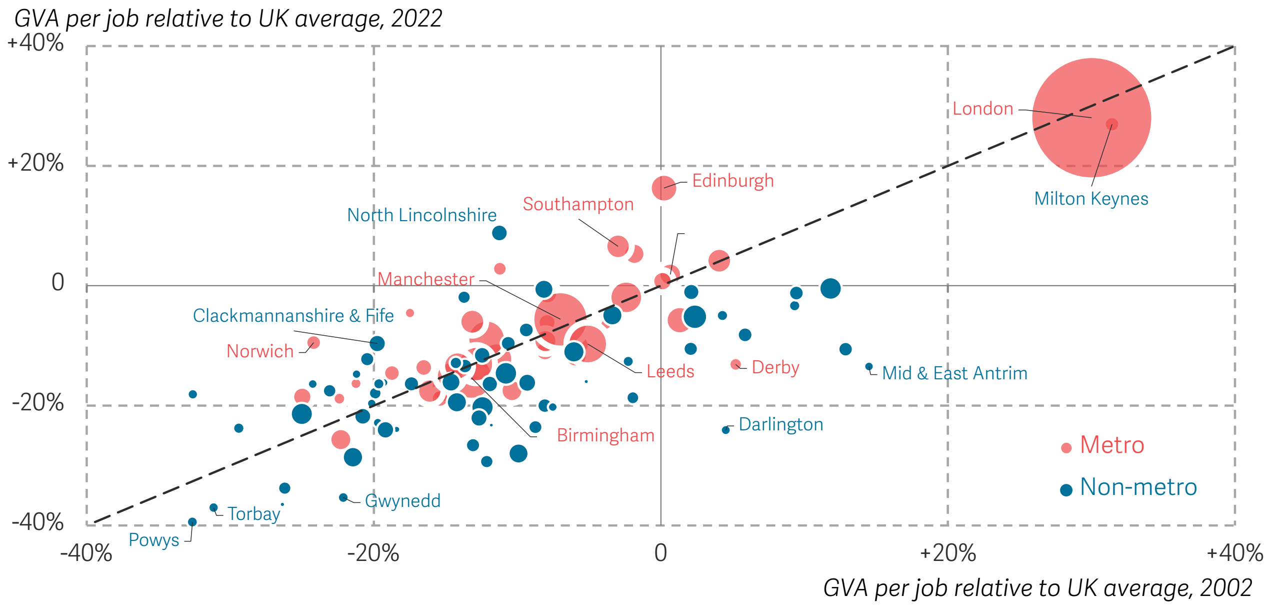
44 R Davies, N Hamdan & G Thwaites, Ready for change: How and why to make the UK more dynamic, Resolution Foundation, September 2023.

90 years.[45] Sectoral reallocation contributed 0.4 percentage points to productivity growth per year over 1997 to 2007, but contributed nothing between 2008 and 2019.[46] If future governments want to get serious about productivity, they cannot ignore the importance of dynamism and reallocation in the economy despite the political challenges it can create. The UK economy is in dire need of more change, not less.

One under-appreciated driver of the UK's productivity problems is the country's geographic divides. In particular, the UK has a problem with its 'second cities' (i.e. its major cities beyond the capital), which make a smaller contribution to national prosperity than equivalent cities in other countries.[47]

FIGURE 7: **Productivity gaps between different parts of the UK are large**

Output per worker compared to whole UK in metro and non-metro areas: 2002 and 2022



NOTES: Spatial units are a combination of OECD metro areas and NUTS3 for non-metro areas. Circle size represents the number of jobs in the area.
SOURCE: RF analysis of ONS, Subregional Productivity.

It's normal for countries to have a leading city – like London – which sits above the national average in terms of productivity, but the UK is unusual for how far behind its other big cities are. Productivity in Birmingham is 37 per cent below the level in London, but the gap between the equivalent city in France (measured relative to the size of its

45 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
46 R Davies, N Hamdan & G Thwaites, Ready for change: How and why to make the UK more dynamic, Resolution Foundation, September 2023.
47 P Brandily et al., Bridging the gap: What would it take to narrow the UK's productivity disparities?, Resolution Foundation, June 2022.

economy) – Toulouse – and Paris is just 27 per cent.[48] The more encouraging news is that Manchester, the UK's second largest city by size of economy, has been gaining ground on London in the past decade.[49] As shown in Figure 7, productivity in Manchester grew by 17 per cent between 2013 and 2023, compared to growth of just 1 per cent in London (which lagged UK-wide growth in this period).[50] Manchester's progress is welcome, but the productivity gap to London remains large, so progress will have to be sustained for many years (and enjoyed by other cities) for the UK to no longer have a second cities problem.

Moment in RF history: The Economy 2030 Inquiry

The Economy 2030 Inquiry was a two-year collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, supported by the Nuffield Foundation, which set out a strategy for ending stagnation in Britain. It set out the UK's twin problems – low growth and high inequality – and put forward detailed plans for making improvements on both fronts. The Inquiry's final report – Ending Stagnation, published in December 2023 – was underpinned by 70 different research reports into areas as diverse as tax, trade, local economic geography, skills, net zero, macroeconomics, business dynamism, good work, and the benefits system. The Inquiry also benefited from deep dives on what the UK can learn from other countries contributed by local experts.

An overarching theme of the Inquiry was the need for the UK to invest more. This is now an accepted consensus across politics; both the previous Government (by changing the tax treatment of investment) and the current Government (by raising public investment levels) have sought to address the problem. The Inquiry pressed politicians to acknowledge the scale of action needed to turn around the country's fortunes, but also rejected pessimistic thinking, and argued that the UK needn't accept the course it's on.

Higher wealth instead of higher incomes

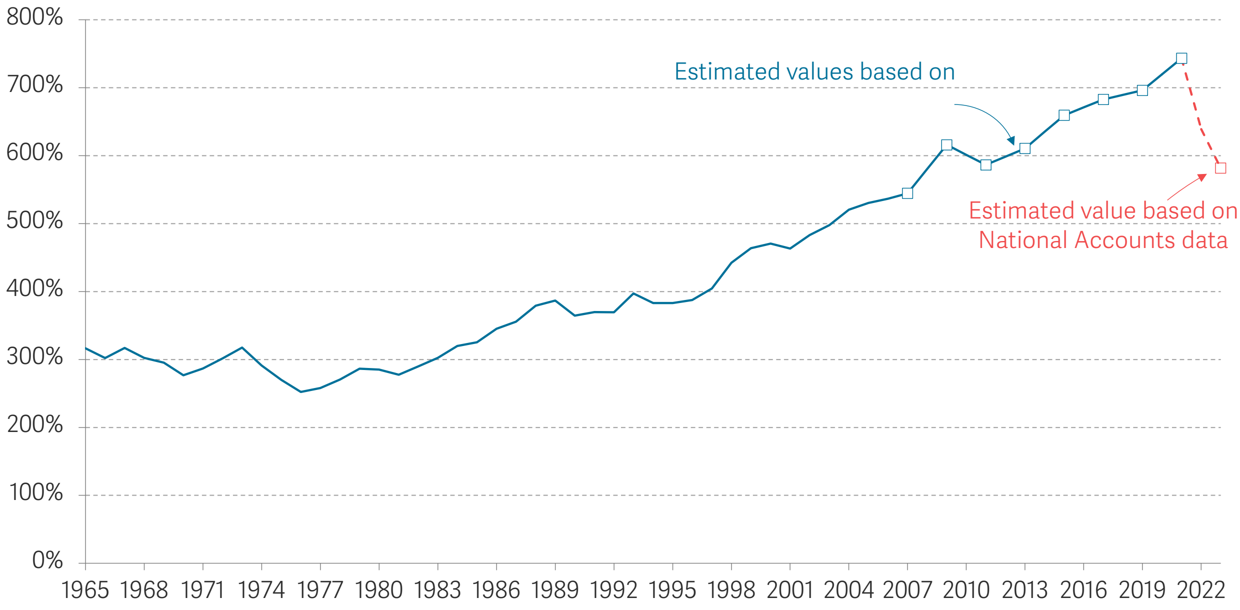
In contrast to stagnant incomes, the last two decades have seen big increases in the value of the country's wealth, a trend that was already underway when Resolution

48 P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, Resolution Foundation, September 2023.
49 ONS, Regional and subregional labour productivity, UK: 2023, June 2025.
50 ONS, Regional and subregional labour productivity, UK: 2023, June 2025.

Foundation was created.[51] In the early 1980s, total wealth in the UK stood at around three times the value of GDP; by 2020 this had more than doubled to 7.5 times GDP. Higher interest rates post-pandemic have reduced this figure somewhat (as indicated in the red line in Figure 8), but interest rates are now coming down, meaning wealth will rise again. The general expectation is that interest rates will be enduringly higher post-pandemic, which would imply the wealth to GDP ratio not returning to its 2020 high point, but the big picture story of wealth outstripping incomes growth over the long term looks likely to continue as an important feature of the UK economy.

FIGURE 8: **Wealth has grown in relation to incomes**

Wealth as a share of GDP: UK



SOURCE: RF analysis of D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Wealth and Assets Survey; ONS, Gross Domestic Product at market prices.

Rising wealth alongside stagnant incomes should not be seen as coincidental: slower growth itself is one factor contributing to the period of low interest rates which has come with rising asset prices (another important driver of lower interest rates is an older population more interested in saving than borrowing).[52] But the UK's change from a country where incomes grew to being one where wealth swells while incomes stagnate has profound implications. It means life chances are shaped less by what you can earn, and more by what you own – or what your parents own. Overall, that's a recipe for higher inequality, because wealth is more unevenly shared than income. The

51 Facts in this section, as well as Figure 7, are drawn from analysis for RF's forthcoming 2025 Wealth Audit. See also M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of household wealth, Resolution Foundation, July 2023.

52 L Rachel & L Summers, On secular stagnation in the industrialised world, NBER, August 2019; M Broome, I Mulheirn & S Pittaway, Peaked interest? What higher interest rates mean for the size and distribution of Britain's household wealth, Resolution Foundation, July 2023; N Lisack, R Sajedi & G Thwaites, Demographic trends and the real interest rate, December 2017.

richest 10 per cent receive 28 per cent of the country's income, while the wealthiest 10 per cent own fully half of the country's wealth.[53] Wealth being so important is highly likely to dampen down social mobility, something which will offend most people's sense of fairness.

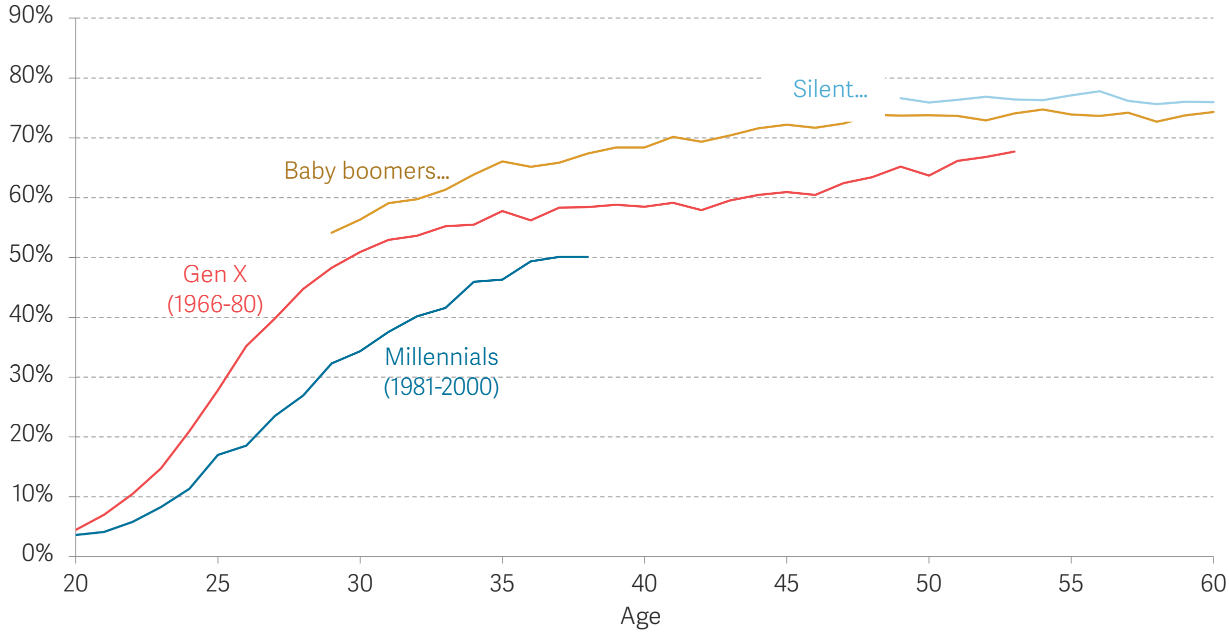
Nowhere are the effects of booming asset prices more salient than when it comes to owning a home. Between 1970 and 1997, earnings and house prices both grew in tandem, both roughly doubling in real terms. But from 1997, the two diverged: house prices have increased by 152 per cent since 1997 in real terms, and earnings by 36 per cent. An average house today would cost about half as much (£145,000, instead of £270,000) if house prices had tracked earnings growth.

These rising house prices delivered substantial passive gains to homeowners, who have been able to watch their wealth grow simply by holding property. By contrast, non-homeowners have gained nothing from this boom, and buying a home has become harder. It now takes a typical young family around 12 years to save for a deposit, up from 7 years in the mid-1990s.[54] The impact of these changes can be seen in the home ownership statistics. Millennials (those born in the 1980s and 1990s) are substantially less likely to own a home than previous generations: by age 35, 46 per cent had made it onto the housing ladder, compared to 66 per cent of 'baby boomers' (those born between 1946 and 1965). This reflects the wider point that the rising value of wealth – much of which has come from passive gains, not active saving – has widened the gaps between the generations as wealth tends to be in the hands of older people.[55] The difference in typical wealth held by those in their early 30s and early 60s has more than doubled over the past 20 years, from £135,000 to £310,000, in today's prices.

53 ONS, Household income inequality, UK: financial year ending 2024, May 2025.
54 Resolution Foundation, Housing indicators.
55 M Broome et al., An intergenerational audit for the UK, Resolution Foundation, November 2023.

FIGURE 9: **Young Brits today are less likely to own a home than their predecessors**

Proportion of people who own their home, by age and birth cohort: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

At some point the housing wealth held by older generations will become available to younger generations as it is passed down through families (unlike those generations' pension wealth, which is roughly equivalent in scale to housing wealth, but not all heritable).[56] This means that, on top of increasing intergenerational inequality, the UK's wealth boom is also raising inequality within generations, because the rich are more likely to receive gifts and inheritances – especially large ones.[57]

56 ONS, Household total wealth in Great Britain: April 2020 to March 2022, January 2025.
57 S Pittaway, Inequality control: Why wealth inequality has not increased while asset prices have soared and what that means for the future, Resolution Foundation, November 2024.

Moment in RF history: The Intergenerational Commission

In 2018, Resolution Foundation launched the final report of its two-year Intergenerational Commission, which argued that the traditional 'intergenerational contract' – the idea that each generation does better than the last – was breaking down. Young people today were less likely to own a home than their predecessors, and did not earn more, despite big increases in the number going to higher education.

The standout recommendation was for a £10,000 'citizens' inheritance' to be given to all 25-year olds – funded by reforming Inheritance Tax – with the idea that young people lacking personal or parental wealth could use this to invest in their future. It also argued in favour of uprating the state pension in line with earnings rather than via the 'triple lock' – now widely recognised as a risk to the public finances.

Work on intergenerational issues has continued via an annual Intergenerational Audit, most recently as part of the ESRC-funded Connecting Generations research centre.

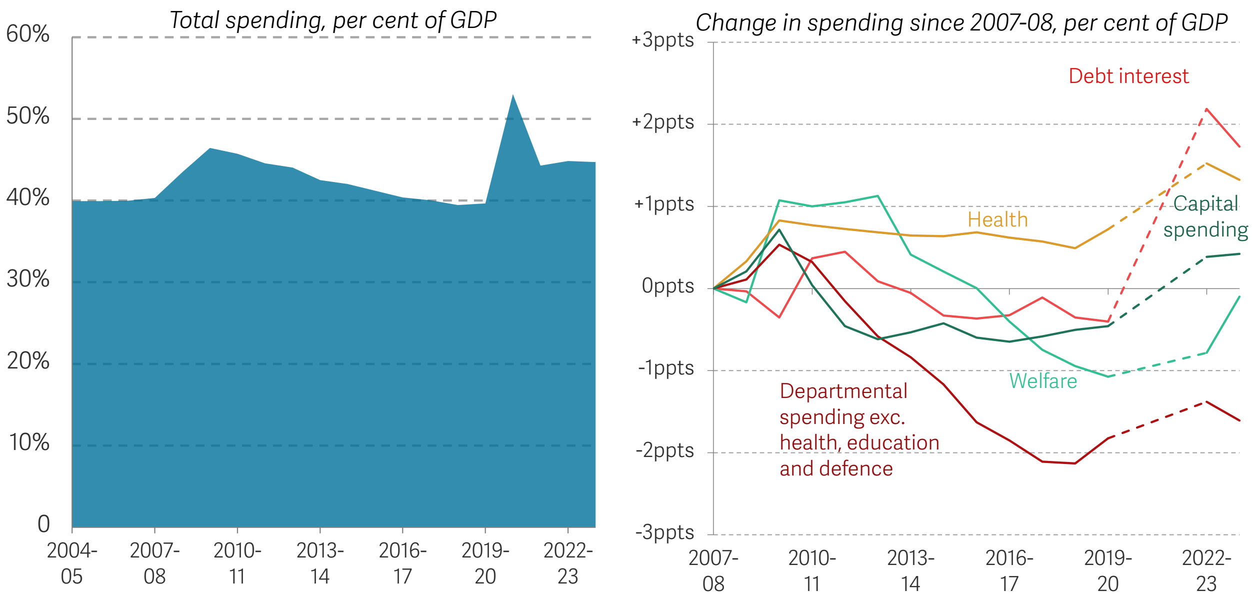
The growing importance but diminished performance of the state

The last 20 years have seen a multitude of events that have required big state intervention, culminating in the swelling of the scale of the public sector during the pandemic. But not all of that growth reversed when the economy unlocked. Pre-financial crisis, total spending by the public sector ('total managed expenditure') accounted for 40 per cent of GDP. This leapt up after the 2008 financial crisis, but the years of austerity that followed meant that, by the mid-2010s, we were back at the 40 per cent mark. But the pandemic triggered what seems to be a more permanent shift. Total managed expenditure now sits at 45 per cent of GDP, and is set to remain around this level across this Parliament.

It's not just the levels that have changed, but, crucially, what we spend the money on. A large part of the increase in the size of the state is accounted for by increases in debt interest payments and on health. Debt interest payments now gobble up 4 per cent of GDP each year, more than double pre-pandemic, and a larger amount than the entire education budget. Meanwhile, the health budget has grown from 5 per cent of GDP in the mid-2000s to 7 per cent now. As a result, the post-pandemic rise in the size of the state has not undone the 2010s squeeze on day-to-day budgets for departments outside health, education and defence. Meanwhile, the total size of the welfare budget is essentially at the same level as it was back in 2007-08.

FIGURE 10: **The state has grown post-pandemic, with increased spending on health and debt interest**

Total state spending as a share of GDP (left panel), and change in spending since 2007-08 in selected spending categories, per cent of GDP (right panel): UK



NOTES: Departmental spending totals from 2023-24 onwards are based on the latest HMT figures. Totals for earlier years are calculated using growth rates from OBR EFO and HMT PESA tables.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget, Spending Review documents and PESA tables, various; DWP, Benefit expenditure and caseload tables 2025.

Has this bigger and changed state led to higher satisfaction and improving public services? Anything but. The state may have become bigger, but it has also become less effective. The NHS, in spite of seeing its funding as a share of GDP increase (and with it higher staffing levels), faces productivity challenges.[58] The proportion of patients that are not receiving treatment within 18 weeks of referral has more than tripled since 2010, rising from 11 per cent to 40 per cent. Productivity in the NHS is 8.8 per cent lower than pre-pandemic levels. The share of Crown Court cases not heard within six months has almost doubled from 23 per cent to 45 per cent since 2019. What does this all lead to? A growing sense of dissatisfaction with our public services. Over half of people (52 per cent) are not confident in the police's ability to deal with crime, up from 40 per cent in 2019.

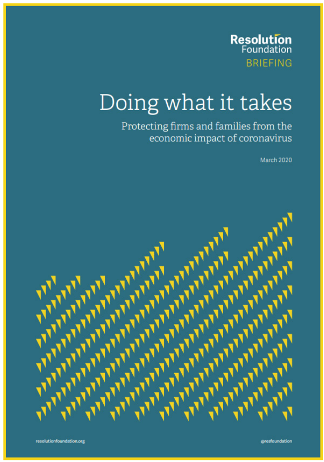
The importance of public services for living standards is sometimes underappreciated, since it does not feed directly into measures of incomes. Novel work from us earlier this year estimated that English households, on average, will receive £13,000 of 'in kind' benefits

58 M Warner & B Zaranko, Is there really an NHS productivity crisis?, IFS, November 2023.

from public services in 2025-26, and this is particularly redistributive, with the poorest fifth of households receiving £15,900.[59] The declining performance of public services through the last twenty years is therefore an additional hit to living standards. If any government, local mayor, or local council can succeed in turning it around, they will achieve a bigger and more progressive improvement in living standards than measured simply by income metrics.

This shift in the size of the state has happened without, so far, a big shift in the attitudes of the public towards its size.[60] In other words, the usual "thermostat" – whereby voters begin to switch against directional shifts in tax and spending – has not yet kicked in. But as the population ages (the proportion of the population aged 85 and over is expected to double by mid-2047), other things being equal, the cost of providing the same support to pensioners and the same quality of healthcare will rise.[61] A key question for living standards, economics and politics over the next decade is whether the state (and tax revenues) should expand again to provide that support, whether ways can be found for it to (genuinely) provide the same service with fewer resources, or whether some things the state currently provides will be scaled back.

Moment in RF history: The furlough scheme



One of the most powerful roles of government, and one that we have seen growing in the past five years, is to mitigate the effects of economic recessions and crises. Through recent crises, governments have provided unprecedented support, including paying a proportion of wages for workers who couldn't work through the pandemic, and providing universal support to reduce energy bills through the energy price crisis.

The Resolution Foundation has sought to be a think-tank that combines deep analysis with being reactive and relevant to the moment. Within days of it becoming clear that the economic effects of the pandemic would be profound, we recommended the introduction of a retention scheme where the government paid a proportion of wages while businesses were unable to operate. The Government's furlough scheme was ultimately even more generous, replacing 80 per cent of workers' earnings, and supporting 9 million workers at its peak in Spring 2020.

59 C Aref-Adib, E Fry & Z Leather, At your service? Why the 2025 Spending Review must reckon with the distribution of public service use, Resolution Foundation, April 2025.
60 National Centre for Social Research, British Social Attitudes 41 | Five years of unprecedented challenges, June 2024.
61 ONS, National population projections: 2022-based, January 2025.

Resolution Foundation

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. Our Intergenerational Centre investigates fairness between the generations.

We aim to provide rigorous analytical work, develop effective policy proposals and use our expertise to affect direct change. We analyse, and seek to promote greater understanding of, the trends and outlook for living standards, including explaining the impact of policy and economic trends on different age groups, family types, and levels of household income and wealth. Our research focuses both on the specific areas of the economy that matter most for living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We examine the role of government in improving living standards including through taxes, benefits and public.

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