

# Living standards plunge in UK

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Recent analysis of the British economy shows that living standards are declining in the wake of last June's Brexit referendum. The latest figures show that economic growth has declined more than expected, inflation is rising, and real wages are falling.

According to the Office for National Statistics, UK gross domestic product (GDP) growth fell by more than anticipated to just 0.3 percent in the first quarter of 2017, down from 0.7 percent the previous quarter. The economic slowdown is expected to continue as higher inflation dampens consumer spending, upon which the UK economy relies.

The drastic fall in the pound since the Brexit referendum, combined with higher global oil prices, has lifted the inflation rate to 2.3 percent, above the Bank of England's target of 2 percent. But while inflation is expected to continue climbing to an estimated 3 percent in the coming months, wage growth is set to fall.

The most recent figures show that workers are already worse off—real wages are declining, as the 2.3 percent inflation rate is outpacing wages growth, now running at just 1.9 percent compared to February of last year. Regular pay growth has not been weaker than the inflation rate since August 2014, when wages were growing by 1.2 percent while inflation stood at 1.5 percent.

Brexit has exacerbated a trend of weak or non-existent pay growth that started well before last year's referendum. Even after adjusting for inflation, employees' average earnings are still substantially below their levels before the 2008 financial crisis, according to a new report from the Institute for Fiscal Studies (IFS).

Jonathan Cribb, a senior IFS research economist, commented, "A period of this length over which earnings have fallen is unprecedented in modern times. They had started to recover a little between 2014 and 2016, but rising inflation linked to the fall in the value

of the pound since the EU referendum has put a stop to that modest recovery".

According to current forecasts, earnings are unlikely to recover before the end of the next parliament in 2022. The Resolution Foundation think tank noted that 40 percent of the British workforce have been affected by falling wages so far. Commenting on this drastic deterioration in wages, Stephen Clarke, an economist at the Foundation said, "Britain's brief pay recovery has come to an end; 40 percent of the workforce are experiencing shrinking pay packets, according to the latest figures, in sectors ranging from accommodation to finance and the public sector. Many more will join them in the coming months as inflation continues to rise".

This decline is under conditions in which workers have already suffered the worst fall in wages in Europe—down by 11 percent since 2007—outside of Greece.

Nearly a decade of pay stagnation and freezes, the prevalence of zero-hour contracts—amid a mushrooming of the lowly paid and highly exploitative "gig economy"—means one third of the population are now officially below the poverty line, while more than half of all households depend upon state benefits.

Millions more only manage to stay afloat by relying on savings, credit cards and loans. Credit card borrowing is on the rise. At the end of 2016, the amount of savings held by British households hit a record low. Workers have increasingly been forced to dip into their savings to maintain spending at a time when wages are stagnating and prices are rising. According to former Bank of England policymaker David Blanchflower, while consumer spending is currently being buoyed by increased borrowing and use of savings, this cannot last.

The Bank of England's Financial Policy Committee, chaired by the Bank's governor, Mark Carney, stated

that household indebtedness was “high by historical standards” and is rising relative to incomes. In fact, the average household now owes around £13,000, excluding mortgages, and total unsecured debt is at an all-time high of £349 billion.

Figures from the end of March revealed that real household disposable income, after adjusting for inflation, shrank by 0.4 percent as compared to the previous quarter, the steepest drop in nearly three years.

As a mark of the collapse in the purchasing power of British workers, retail sales suffered their largest fall in seven years over the first few months of 2017. This was due to the sharp fall in the value of the pound since the European Union (EU) referendum, pushing up shop prices and forcing large sections of the population to cut back on purchases.

Compared to the day of the referendum, June 23, 2016, the pound is still down by about 14 percent against the US dollar, and around 10 percent against the euro. This slide in sterling is making itself felt in the real economy by pushing up the price of imported goods. Workers are now paying higher prices for a range of goods and services, from fuel to food—including staples such as butter and tea—putting households under increasing financial pressure.

Although the fall in the pound has boosted the UK manufacturing sector to a three-year high—with domestic orders and exports both on the up—manufacturing accounts for only around 10 percent of UK economic output. This modest increase is doing little to balance out the overall decline of the UK economy.

While the living standards of large sections of the working class are deteriorating post-Brexit, stock markets continue to show near record highs. This has fuelled a feeding frenzy by the super-rich, who have boosted their wealth enormously in the last year. The latest *Sunday Times Rich List* reveals that the top 1,000 super-rich in Britain have increased their wealth by a massive 14 percent, to a record £658 billion collectively, almost enough to fund the entire UK government budget.

The fall in living standards and the UK’s economic decline belie the claims of pro-Brexit sections of the ruling class that leaving the EU would usher in a new era of prosperity for all.

While supposedly “taking back control” of the UK

economy from the EU, the Conservative government of Prime Minister Theresa May has tied its fate to striking favourable trade deals with countries such as the United States.

US President Donald Trump, however, has made it clear that a trade deal with the EU is far more likely than one with Britain. This followed German Chancellor Angela Merkel reportedly convincing Trump in March that a trade deal with the EU would be far more advantageous for the US than one with a post-Brexit UK.

At the same time, Merkel has led the EU’s remaining 27 states in insisting that no concessions would be made in negotiations with the UK over the terms of its exit. Attacking the British government’s Brexit aspirations of negotiating a better position for the UK than it currently enjoyed within the EU, she disparaged this as “illusions” that were “a waste of time.”



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