MEASURE FOR MEASURE

Economic indicators for a fair and prosperous society

Andrew Harrop & Robert Tinker

BARROW CADBURY FUND

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CONTENTS

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1 INTRODUCTION

What we measure matters

The global financial crisis of 2008 did not just reveal the structural defects in our economy. It also laid bare the total inadequacy of how government measured success. Even as bankers at some of the world's leading financial institutions were clearing their desks, our main headline indicators provided almost no warning signals of the catastrophic events that were unfolding.

What we measure – and how we measure it – matters. The financial crisis proved that simply targeting the headline goals of GDP growth, unemployment and inflation was not enough to identify major economic weaknesses as they emerged. These indicators did not reveal growing short-termism and vulnerability in the British economy that was slowly exposing the country to the dangers of a financial crash. Nor did they identify the increasingly unequal distribution of rewards, for the official poverty measure was continuing to fall. As Britain sailed into the worst economic storm in living memory, the message from our main economic measures was 'steady as she goes'.

This report sets out measures that we believe would do a better job in reflecting what matters for a fair and sustainable economic future. They are not a comprehensive set of indicators for the next government, but they are far more wide-ranging than those routinely discussed before the crisis. Our proposals seek to establish quantifiable goals that will set a clear path for success in rebalancing the UK's economy.

For 'rebalancing' must be more than a soundbite that can be conveniently sidelined if and when GDP growth, unemployment and inflation return to 'normal'. To prevent this from happening the goals of economic reform need to be set out in black and white, with a clear and specific set of measures to track progress.

The report sets out proposals for 20 measures of economic progress.[i] These are not the only measures that should be taken into account, but we believe they most reflect the direction needed to achieve fairness, sustainability and long-term prosperity.

We have deliberately excluded the three most commonly used measures – GDP, inflation and unemployment. These measures will no doubt continue to be widely discussed, come what may. But they have become so totemic that they can obscure a broader assessment of economic good health.

i. We have sought to identify indicators covering the whole of the UK. However in a few instances data is only available for Great Britain or England. Responsibility for policy that might impact on the measures in this report is divided between the Westminster government and the Scottish, Welsh and Northern Irish governments.

Table 1: Measures for fair and sustainable prosperity

The headline measure of success	**1. Shared prosperity**: median household incomes
Long term sustainability	**2. Greening our economy:** decarbonisation **3. Controlling borrowing:** national debt **4. Generation balance:** the dependency ratio
Income inequality	**5. Left behind:** poverty in Britain **6. Not enough:** below an adequate standard of living **7. Pulling away:** income inequality (middle to top)
Sustainable growth	**8. Race to the top:** labour productivity **9. The forgotten 50 per cent:** intermediate skills **10. Spending for tomorrow:** capital investment (a) total; (b) business; (c) government; (d) intangible investment **11. Global balance:** the current account deficit
The Labour market	**12. From the middle out:** median earnings **13. Making work pay:** numbers with low pay **14. Runaway top:** market inequality **15. More jobs:** the employment rate **16. Getting Britain working:** (a) wanting work; (b) wanting more work; (c) workless households
Wealth and housing	**17. Ready for a rainy day:** the household saving ratio **18. On the brink:** households with low wealth (a) total assets (b) financial wealth **19. Affordable homes:** ratio of (a) house prices (b) private rents to earnings **20. Share the wealth:** asset inequality (middle to top)

The measures in this report are not the only ones that could indicate economic progress, and our choices will no doubt spark debate.[ii] But selecting official goals is never an objective process. It is a fundamentally political choice which allows a government to clearly define its priorities; a way of publicly applying pressure, building awareness, winning support, and placing individual policy initiatives within an overall strategy. Indicators provide a means to measure a government's success in living up to its ambitions.

The indicators we've chosen paint a picture of the economy which the next government will inherit in 2015. They explore what has gone wrong as well as developments which give cause for optimism. Alongside this our proposed goals for each indicator say what 'good' might look like, as a benchmark to judge success.

In our work we have reviewed a range of policy and economic literature as well as key official statistics. We also consulted a wide group of experts to identify where there was most agreement on the nature of economic success, as our aim is to propose measures of success that politicians and policy makers can unite around.

ii. A supplement to this report provides discussion of others' reactions to the 20 indicators.

ECONOMIC MEASUREMENT AND BEYOND

For many decades, economists have questioned how far economic growth adequately describes the advancement of human wellbeing. In the 1970s the 'Easterlin Paradox' questioned the relationship between society's economic development and its average level of happiness, and a developed literature now exists on the extent to which our headline economic indicators reflect what matters to people's lives. Indeed, as far back as the 1930s Simon Kuznets, who was among those who pioneered the measurement of GDP, warned that 'the welfare of a nation can scarcely be inferred from a measure of national income'.

There are now many proposals for supplementary measures of 'what matters' for good lives, with suggestions for tracking human wellbeing across a range of indicators and domains. Official and non-government initiatives include:

- Human Development Index (United Nations)
- Better Life Index (Organisation for Economic Cooperation and Development)
- Measuring National Wellbeing (Office for National Statistics)
- Beyond GDP Initiative (European Commission)
- National Accounts of Wellbeing (New Economics Foundation)
- Social Progress Index (Social Progress Imperative)
- Humankind Index (Oxfam Scotland)

These frameworks include some measures which lie within the economic domain and others that have a much wider reach. The scope of this report is confined to economics, with a particular focus on identifying measures that will be useful for judging progress in reshaping Britain's economy. We therefore exclude, for example, health, happiness, biodiversity and many of the outcomes achieved by public services. All of these are vital for a fair, sustainable and prosperous society, and performance on these fronts will impact on the goals set out in this report. But a boundary needs to be drawn somewhere.

Our proposed measures are not ends in themselves, but means to delivering the resources and capabilities people need to lead a good life. Metrics of this kind can be criticised for being rather abstract from people's everyday lives. But if the aim is to achieve major structural change to the economy, we can see little alternative to stating clearly, in numbers, what types of shifts matter and what degree of change might constitute success.

Regions and sectors: a different approach

At the outset of this project we envisaged proposing indicators for 'rebalancing' between geographic areas or economic sectors. After all, that has been the emphasis of much of the debate on economic rebalancing.

However, in our consultations with experts, many expressed strong reservations about setting targets for the balance between industrial sectors or regional economies and instead said that the emphasis should be on 'all doing well'. This would avoid the perverse situation where 'improvement' might be brought about by declining performance for the most successful geographies or sectors.

This approach implies adopting a set of regional and sectoral benchmarks, rather than a single national measure for balancing between geographies or sectors. In this study we have not carried out extensive work on the best basket of measures at these two sub-national levels. However, a number of our national indicators can be broken down by geography and economic sector and would lend themselves to such a basket. For some of these sub-national indicators the robustness and timeliness of the data is a significant issue. We have also identified measures which are not currently available at sub-national level, but could be in principle.

Table 2: Regions and sectors

Indicators that could be broken down by region	Indicators that could be broken down by economic sector
Decarbonisation	Decarbonisation
Dependency ratio	Intermediate skills
Employment	Investment
Housing affordability	Labour productivity
Intermediate skills	Median earnings
Investment	
Labour productivity	
Median earnings	
Median income	
Poverty	

Limitations: things that matter that we can't measure

There are also pressing challenges for the British economy which do not lend themselves to easy quantifiable measurement. Two of the most important are power and business culture.

The story of increasing economic inequality and the declining fortunes of the middle cannot be told in isolation from the weakening of employee power in the last three decades. Similarly, the institutional incentives which promote short-termist approaches to corporate strategy in the UK have contributed to business models based on speculation and 'exit' which is at odds with sustainability and investment. Both factors help explain the particular problems of the British economy which stretch from the late-1970s until the present day. But neither lend themselves to quantification.

We considered proposing 'proxy' measures, for example private sector union membership to represent employee power; or the duration of equity holdings to reflect corporate long-termism, as some have proposed. However, we concluded that neither were sufficient measures to reflect the underlying issues. Unless better measures emerge, it may only be possible to judge whether power and corporate culture is changing by the end results, such as higher rewards for typical workers or more business investment.

Next steps

This exercise provides a template which we hope will be emulated by others. We would like to see future governments sign up to a set of indicators along the lines proposed in this report to make a clear statement of what matters with respect to the economy. We also hope future ministers will join us in stating more clearly what they think 'good' looks like with respect to each indicator. Even promising to aim for movement in the right direction, across all the measures in our long list, would be an important statement of intent.

The purpose of measurement is not theoretical: we hope indicators like these will be a practical tool. Specifying what success looks like is the first step on the road to a comprehensive strategy for economic reform, as future governments can then work backwards to consider what actions will lead to change of the required direction and magnitude. So the first use of these goals should be as a test for policy makers: are their proposals for economic reform likely to move Britain closer to these economic objectives, and at the right pace?

When thinking about economic strategy, decision makers will need to consider the potential for tensions between the pursuit of different objectives, or at the very least, questions of sequencing. For instance, improvements in employment and labour productivity are both essential, but there is a debate to be had regarding the trade-off between the two.

Some of the goals we identify are quite specific to Britain's current structural challenges. In these instances, the desired direction of travel is clear in the short term but may not always be so clear in the future. For example, the UK needs to resolve long-term problems regarding investment, savings and the current account deficit, so for the time being the desired direction of change is clear for each of these indicators. However, once a degree of progress has been made, further change may no longer be desirable: too much investment and saving can be a problem too.

Therefore, while these goals are long-term in their orientation, we do not expect them to be immutable. Fixing on a set of indicators for a period of time is not a straitjacket but a means of taking stock in a systematic way, with routine, planned reassessments. Periodically reviewing economic goals is just as important as setting them in the first place. And as the facts change, policy makers should change their minds about the long-term objectives that matter most.

Conclusion

There are two lessons from the UK's hidden pre-2007 economic crisis. First we must be just as attentive to deep structural weaknesses in the economy as to the ups and downs of the business cycle. And second, the indicators governments use to hold themselves to account matter. Setting a benchmark for success is no guarantee of progress, but ignoring a measure means that performance will go unseen. Now the UK is at a crossroads, as the economy finally begins to recover and the 2015 general election draws near. Despite the recent good news on GDP growth and employment, our indicators suggest that, as things stand, Britain could be drifting towards long-term economic decline: the nation lacks the saving and investment to boost long-term growth, is scarred by an unequal and unstable economic model and remains at risk of staggering from crisis to crisis.

But there is an alternative. Britain can be a successful North European economy which combines long-termism with the fairer distribution of rewards. To prevent the UK's structural weaknesses becoming entrenched as the recovery proceeds, the next government must embrace an alternative economic strategy that is ambitious, broad-ranging and perhaps at times uncomfortable. The language of rebalancing, pre-distribution, responsible capitalism and corporate long-termism have helped chart the territory this strategy must cover.

Now we need a concrete account of how this change will be brought about. And as a first building block, all political parties need to be specific about what success looks like. When politicians are ready to embrace a new set of measures that defines a different sort of economic success, Britain will be a step closer to a sustainable, prosperous and fair economic future.

2 THE INDICATORS

We propose 20 measures which reflect two overlapping priorities: the need for a more sustainable, long-term economic model; and a commitment to broader-based, more equitable growth. At their core is an overall headline measure of British economic success – rising prosperity for typical families, measured by real median incomes.

Long-termism

To worry about the long term may sound like a statement of the obvious, until you look at how little attention long-termism is given today in our economic measurement. The principal indicators for economic long-termism that we propose are:

1. The decarbonising of the economy
2. Declining national debt
3. Rising worker productivity
4. More people with intermediate skills
5. Higher levels of investment, which is linked to…
6. …higher household savings…
7. …and a better balance of payments with the rest of the world
8. A stable demographic dependency ratio, which means…
9. …a structural increase in employment…
10. …and a decrease in individuals and households without enough work

Inequality

Progress on many of these fronts is also likely to lead to a broader, more equal sharing of economic power and resources. For example, higher employment and more people with intermediate skills spreads wealth more broadly, everything else being equal. But that is not sufficient, because every government since 1979 has been inattentive to the linkage (or disconnection) between the performance of the economy at large and the economic circumstances of each family. For this reason we also propose indicators reflecting three egalitarian conclusions:

1. The experience of typical families is more important than aggregate measures of success: economic success isn't success if it is not shared by the

typical, median household. That is why our headline measure of economic success is median household income. We also propose two other measures with respect to typical households: rising middle earnings; and improving the affordability of housing for median earners.

2. The gap between the middle and the bottom still matters: for 50 years politicians of the left have conceived of poverty and inequality in terms of people 'at the bottom' falling behind typical living standards. Indeed, reducing relative poverty was the 1997 Labour government's principal egalitarian project. The financial crisis has not changed that: people in the middle have suffered, but that does not mean the gap between the middle and the bottom can be ignored. The last Labour government deserves credit for prioritising the fight against child poverty and pensioner poverty, but the anti-poverty agenda of the next government should be much broader. We propose the following measures of success:

- Declining poverty for all, not just children and pensioners…
- … and also lower poverty when judged against the cost of living
- Fewer people in low paid work
- Fewer workless households
- Fewer households with low wealth

3. But the gap between the middle and the top matters too: in recent years we have learnt that the gap between the typical households and the rich matters a great deal. For decades rising prosperity at the top has outstripped rising living standards for typical families, which have failed to keep up with economic growth. There is now evidence that the economy's failure to share prosperity has left it vulnerable in the future, without the broad-based domestic consumption and saving needed for the long term.[1] In a turn away from new Labour, the next government should explicitly track the gap between the middle and the top, with the stated aim of (at least) preventing the gulf from widening any more. We suggest the following measures of success:

- Stabilising or reducing income inequality between the middle and top
- Stabilising or reducing labour market inequality between the middle and top
- Stabilising or reducing wealth inequality between the middle and top

The story the indicators tell

Overall the indicators show why the British economy needs to take a different turn. Unlike traditional economic measures such as GDP and unemployment, around half the indicators we have selected were a significant cause for concern before the financial crisis. They highlight the short-termism and inequality of rewards which were storing up problems.

The trends with respect to income inequality, low pay and intermediate skills had been a cause for concern for many decades, but many problems really only emerged in the 2000s: business investment and household savings fell; housing became less affordable; median earnings and incomes began to stall.

Table 3: Trends before the financial crisis

Concerning	Neutral*	Positive
Affordability of housing	Decarbonisation	Dependency ratio
Business investment	Employment rate	Households without work
Current account deficit	National debt	Labour productivity
Household savings ratio	Wanting work/more work	Poverty
Income inequality (middle to top)		
Intermediate skills		
Labour market inequality (middle to top)		
Median earnings		
Median incomes		
Numbers with low pay		

Note: only includes indicators with established time-series data
**Neutral: either steady or a trend that was neither positive nor of major concern (eg there was progress on decarbonisation but it was not sufficient to meet long-term goals)*

Impact of the financial crisis

The financial crisis led to deterioration in around half of our indicators: median incomes and earnings declined; business investment and the employment rate fell; rising labour productivity stalled; and national debt ballooned. Although some of these problems were triggered by the crisis, in the case of middle incomes and earnings and of investment, the crisis intensified existing concerns. Given the depth of the crisis, it is perhaps more surprising that things went well on some measures. That is the perverse effect of an economic downturn: less economic output has made decarbonisation easier; poverty and inequality fell; households saved more; and the affordability of housing improved. Meanwhile on some long-term trends the crisis had little impact: the UK's poor record on low pay and intermediate skills persisted; while the positive picture on demographics and workless households was not unduly affected.

Table 4: Impact of the financial crisis

Concerning before… and got worse	Neutral/positive before… and got worse	No change or improved
Median incomes	National debt	Decarbonisation
Business investment	Labour productivity	Dependency ratio
Current account deficit	Employment rate	Poverty
Median earnings	Wanting work/more work	Income inequality (middle to top)
		Intermediate skills
		Numbers with low pay
		Households without work
		Savings ratio
		Affordability of housing

Impact of recovery: early signs

A decline in fortunes during an economic crisis is no surprise, of course. What matters now is whether recovery drives progress against these measures. Although data is unavailable for some of the indicators, the prognosis so far is poor.

There is only good news with respect to indicators linked to employment participation. This suggests that, in contrast to the scarring unemployment of the 1980s and early 1990s, the UK's labour market policies remain consistent with fairly high employment. Although many millions of people want work, the UK's performance on jobs is a story of relative success.

However, the list of indicators that give cause for concern is much longer. There is little or no sign of improvement with respect to some key trends which were worrying before the crisis: business investment; low pay; and median earnings. Indicators that improved during the crisis are now showing signs of worsening (housing affordability; household savings; poverty and inequality). And most worrying of all, labour productivity, which was a success story in the years before the crisis, shows no sign of beginning to recover.

Table 5: Impact of recovery: early signs

Concerning	Neutral*	Positive
Affordability of housing	National debt	Employment rate
Business investment	Decarbonisation	Households without work
Current account deficit	Dependency ratio	Wanting work/more work
Household savings ratio		
Income inequality (middle to top)		
Labour productivity		
Median earnings		
Numbers with low pay		
Poverty		

Note: recent data is not available in all cases. Assessments for poverty and inequality are based on projections.
**Neutral: either steady or a trend that is neither positive nor of major concern*

With a record as poor as this, the coalition's recent attempts to claim credit for economic recovery seem foolhardy. Unless these measures start to improve, the economic recovery will either grind to a halt or the seeds for another crisis will be sown, since recovery will be based on a short-termist, consumption-based and highly unequal model of growth.

What does success look like?

We propose benchmarks of success for each indicator. These take different forms; for some indicators we call for sustained annual improvements. For example, the aim should be for median incomes and earnings to rise roughly in line with long-term increases in GDP per capita or labour productivity. For other indicators it's less evident what 'pace of change' might be desirable or achievable, although the preferred direction of travel is clear. In these cases we do not specify the pace, but believe a future government should seek a reduction.

With a second group of indicators we identify a benchmark against which progress can be measured. In many cases we propose an international comparison, for example with other OECD countries. We think the UK should aim to be among the best in the OECD when it comes to poverty, labour productivity and employment, while on business investment, household savings and the incidence of low pay the immediate aim should be to find a place in the middle of the pack. On other measures recent history provides a threshold against which to measure progress, for example the affordability of housing and the national debt. Meanwhile, evidence-based investigations have developed targets for decarbonisation and for skills.

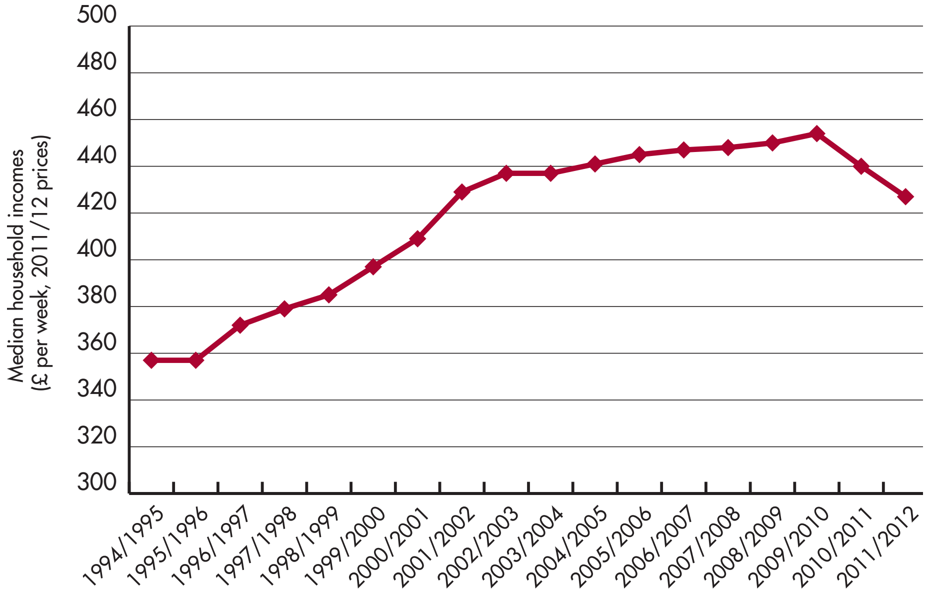
Finally, there is a group of indicators where 'standing still' may be an achievement in itself. This is obviously true for the dependency ratio, given the ageing of the population. But we fear it may be true for measures of inequality between the middle and very rich. We hope that the gap between the very wealthy and ordinary households can be reduced, but we are also realistic; a future government will have its work cut out just to prevent further deterioration.

Indicator	Desired Direction	What is success?	Trend before crisis	Impact of crisis	Impact of recovery	Data breakdown available?	
			Green arrows indicate that the trend IS in line with desired direction Red arrows indicate that the trend is NOT in line with desired direction			Region	Sector
THE HEADLINE MEASURE OF SUCCESS							
1. Shared prosperity: median household incomes	▲	Annual rises similar to GDP per capita (+2%)	▲	▼	-	✓	
LONG-TERM SUSTAINABILITY							
2. Greening our economy: decarbonisation	▼	Faster decline to meet statutory 'carbon budgets' (on path to 20% of 1990 emissions by 2050)	▼	▼	▼	✓	✓
3. Controlling borrowing: national debt	▼	Gradual decline over decades	◀▶	▲	▲		
4. Generation balance: the employment dependency ratio	◀▶	Steady (difficult because of baby boom generation reaching retirement)	◀▶	▼	◀▶	✓	
INCOME INEQUALITY							
5. Left behind: poverty in Britain	▼	Poverty reduced to 10%	▼	▼	▲	✓	
6. Not enough: below an adequate standard of living	▼	Poverty reduced to 10%	-	▲	-		
7. Pulling away: income inequality (middle to top)	▼	Downward path ('steady' will be challenging)	▲	▼	▲		
SUSTAINABLE GROWTH							
8. Race to the top: labour productivity	▲	Rapid growth (+2.5% per year) with long term aim of matching best in OECD	▲	◀▶	◀▶	✓	✓
9. The forgotten 50 %: intermediate skills	▲	Meeting agreed 2020 targets (50 % of 16-64s with intermediate qualifications)	◀▶	◀▶	-	✓	✓
10. Spending for tomorrow: capital investment (a) total; (b) business; (c) government; (d) intangible investment	▲	Rise from bottom to middle of OECD nations (after accounting for under-measured intangible investment)	(b) ▼	(b) ◀▶	(b) ◀▶	✓	✓
11. Global balance: the current account deficit	▼	Gradual reduction	▲	▼	▲		
THE LABOUR MARKET							
12. From the middle out: median earnings	▲	Rise in line with productivity improvements	◀▶	▼	◀▶	✓	✓
13. Making work pay: numbers with low pay	▼	Long term shift towards middling (ideally, best) in OECD	◀▶	◀▶	◀▶		
14. Runaway top: market inequality	▼	Downward path (staying steady will be challenging)	▲	▼	-		
15. More jobs: the employment rate	▲	Long term rise towards best in OECD	◀▶	▼	▲	✓	
16. Getting Britain working: (a) wanting work; (b) wanting more work; (c) workless households	▼	Return to pre-crisis levels of 'wanting work' / 'wanting more work'. Continue current pace of reduction in workless households.	(a) ▼ (b) ◀▶ (c) ▼	(a) ▲ (b) ▲ (c) ▲	(a) ◀▶ (b) ◀▶ (c) ▼		
WEALTH AND HOUSING							
17. Ready for a rainy day: the household saving ratio	▲	Rise from bottom to middle of OECD nations	▼	▲	▼		
18. On the brink: households with low wealth (a) total assets (b) financial wealth	▼	Downward path (new measure so success not defined)	-	(a) ▼ (b) ▲	-		
19. Affordable homes: ratio to earnings of (a) house prices (b) private rents	▼	Return to affordability levels of c.2000	(a) ▲ (b) -	(a) ▼ (b) -	(a) ▲ (b) ◀▶	✓	
20. Share the wealth: asset inequality (middle to top)	▼	Downward path – but just staying steady will be challenging	-	◀▶	-		

3 THE HEADLINE MEASURE OF SUCCESS

Indicator 1	SHARED PROSPERITY: MEDIAN HOUSEHOLD INCOMES
Why?	Improvements to typical living standards should be the first test of national economic success and this can be best measured by the disposable incomes of mid-income households. GDP is not an adequate measure to capture financial prosperity for typical households, since change in real GDP has been a poor proxy for change to real median household incomes.[2]
Recent trend	Over the last 50 years typical living standards have increased less quickly than GDP per capita. On one measure, median incomes increased by 1.4 per cent a year since the 1960s, compared to growth in GDP per capita of 2.2 per cent.[3] In the years just before the financial crisis there was a particularly weak relationship between economic output and typical living standards; between 2002-03 and 2007-08 there was not a single year where real median household income increased by more than one per cent.[4] The impact of the recession and deficit reduction programme then dealt a significant blow to middle incomes, with a cumulative fall from 2009-10 to 2011-12 of 5.9 per cent, taking average incomes back to a level last seen in 2002-03.[5]
What is success?	The objective should be for median household incomes to rise by as much as possible each year, sustainably over decades. Typical incomes in the UK are below those of the most prosperous OECD countries and would need to rise rapidly for many years to close the gap.[6] The best recent performance in the 1980s saw typical incomes grow by an average of 2.2 per cent per year, only just behind growth in GDP per capita.[7] This was a period of 'catch up' following recession, so it might be an appropriate benchmark for the coming years.
Technical details	**Specification:** Median household income, equivalised for household size, before housing costs. UK wide. **Source:** Households Below Average Income, Department for Work and Pensions. **Frequency:** Annual, with a significant lag in publication. **Breakdown:** Regions - yes; sectors - n/a **Comment:** Other measures and data sources for disposable income are available, but the source of this series (the Family Resources Survey) is regarded as the most comprehensive. To be a national headline indicator this measure should be published much more rapidly, as soon as data collection permits. Some have also called for a measure of this kind to be published more frequently so that it can be better monitored alongside GDP.[8] There is controversy regarding the best measure of inflation, with neither the Consumer Price Index nor the Retail Price Index considered appropriate. Time series based on alternative inflation measures are not available.

IN THE 2000s TYPICAL LIVING STANDARDS INCREASED VERY SLOWLY AND THEN FELL BY 2011 TO LEVELS SEEN A DECADE EARLIER



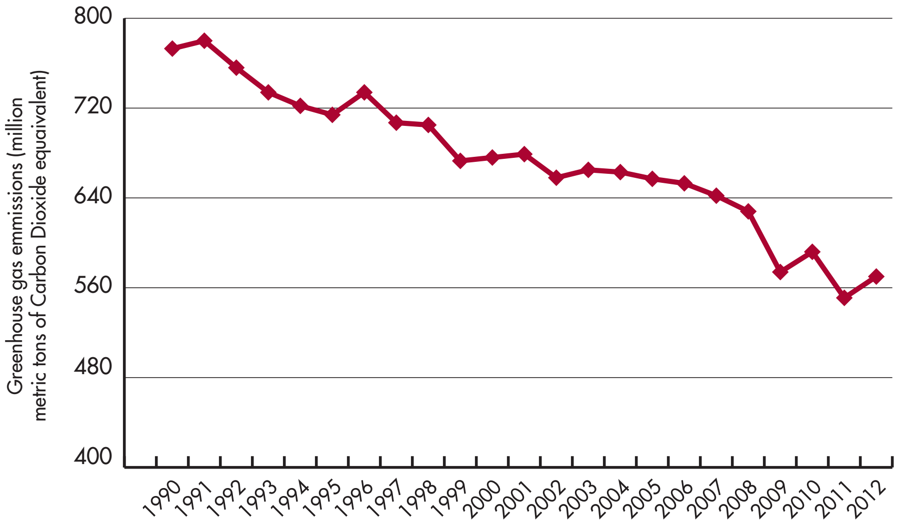
Source: Households Below Average Incomes, DWP

Note: figures for GB until 2001-02 and UK from 2002-03

4 LONG-TERM SUSTAINABILITY

Indicator 2	GREENING OUR ECONOMY: DECARBONISATION
Why?	Preventing dangerous climate change through dramatic reductions to greenhouse gas emissions is essential for the wellbeing and prosperity of future generations.
Recent trend	UK greenhouse gas emissions have fallen by around a quarter since 1990, with reductions averaging over one per cent per year. Early improvements were driven by the shift from coal to gas electricity generation in the 1990s. However, progress has also been a result of globalisation, with carbon-intensive economic activities being taken offshore. The UK was successful in meeting its first statutory carbon budgets, partly thanks to the recession which has had the effect of curtailing emissions.[9]
What is success?	The Climate Change Act introduced a system of statutory 'carbon budgets' overseen by the Committee on Climate Change as way-markers towards reducing emissions by 80 per cent in 2050, compared to 1990. The budgets are: • 556 $MtCO_2e$ for 2013-2017 (which the UK is on course to meet) • 509 $MtCO_2e$ for 2018-2022 • 389 $MtCO_2e$ for 2023-2027 The Committee on Climate Change has calculated that the latter two targets will be missed if current trends continue. The committee has also said that the budgets are probably insufficiently ambitious.
Technical details	**Specification:** Greenhouse gas emissions are measured in million metric tons of Carbon Dioxide equivalent ($MtCO_2e$). UK wide. **Source:** The Department of Energy and Climate Change is responsible for measuring emissions that fall outside the EU Emissions Trading Scheme and the European Commission those that fall within. The Committee on Climate Change reports annually on progress. **Frequency:** Annual **Breakdown:** Regions - yes; sectors - yes

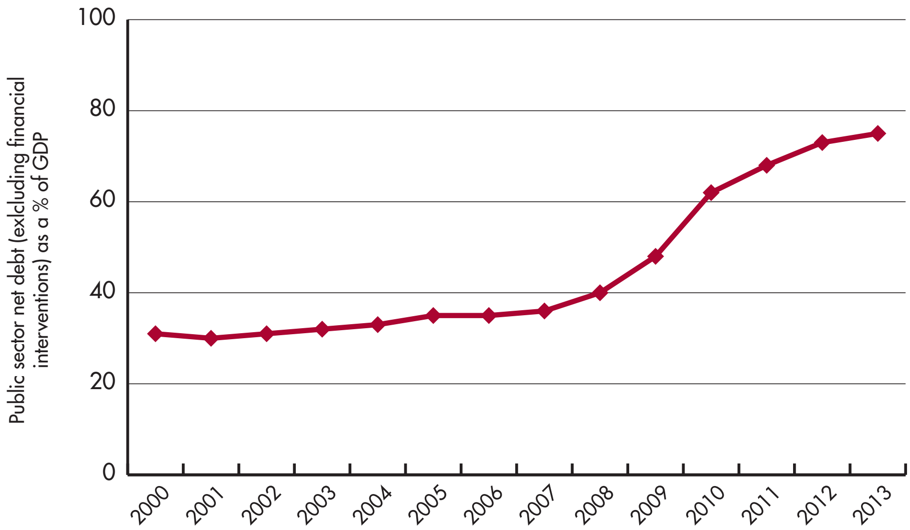
“UK GREENHOUSE GAS EMISSIONS HAVE FALLEN BY AROUND A QUARTER SINCE 1990”



Source: Committee on Climate Change

Indicator 3	CONTROLLING BORROWING: NATIONAL DEBT
Why?	The impact of the financial crisis on the public finances is a more recent challenge to long-term sustainability. If the national debt were to continue to rise indefinitely this would sooner or later affect economic output and the solvency of the government. Even stabilising debt at the levels expected by 2017 would leave the UK less able to deal with future shocks than before 2008. Future governments should therefore seek to gradually reduce national debt as a share of GDP over decades. But there is a balance to strike between putting debt on a long term downward trajectory and jeopardising the public wellbeing and medium term economic growth brought by government expenditure.[10]
Recent trend	Before the financial crisis, public sector net debt (PSND) stood below 40 per cent of GDP - the benchmark set by the last Labour government. Since 2008-09 government debt has increased rapidly, mainly as a result of a collapse in tax revenue caused by the financial crisis, recession and stagnant growth. At the end of November 2013 PSND was equivalent to 76.6 per cent of GDP and is forecast to rise each year until 2015-16 when it will reach 80 per cent of GDP.[11]
What is success?	Governments should seek to reduce levels of debt relative to GDP with the aim of returning public debt towards its pre-2008 levels over the coming decades. The precise goal is less important than the direction of travel (OBR calculations show that it makes little difference whether a government is seeking to return the national debt to 40 per cent over 40 years or 50 years). The aim should be for debt to be appreciably lower at the end of each economic cycle, compared to the last. To achieve this, over each cycle, governments will need to maintain a significant gap between non-interest revenues and non-interest expenditure (called the 'primary surplus'). This is not the same as achieving a surplus on all spending; the Chancellor has proposed the latter, which implies a much faster pace of debt reduction that is not required for long-term sustainability.
Technical details	**Specification:** Public sector net debt is the Treasury's preferred measure of government debt. The measure forms part of the Coalition government's fiscal mandate and is measured in the Office for Budget Responsibility's *Economic and Fiscal Outlook*. UK wide **Source:** Public Sector Finances, ONS **Frequency:** Monthly **Breakdown:** Regions - no; sectors - no **Comment:** PSND differs from the standard international measure (general government gross debt). However, the two measures are likely to move together and in practice both will continue to be used.

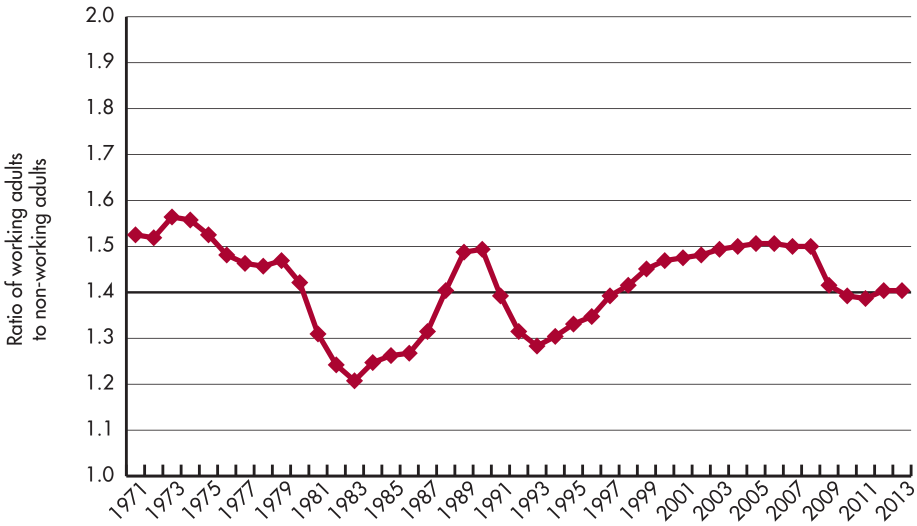
“SINCE 2008-09 GOVERNMENT DEBT HAS INCREASED VERY RAPIDLY BUT IS NOW STARTING TO LEVEL OFF”



Source: Public Sector Finances, Office for National Statistics

Indicator 4	**GENERATION BALANCE: THE EMPLOYMENT DEPENDENCY RATIO**
Why?	Along with most nations, the UK has an ageing population. If there were no change to working patterns, over decades the rising share of older people would lead to a higher proportion of non-working adults and a lower proportion of working adults. This would have negative consequences, as there would be fewer people to generate economic wealth, earnings and taxes to share with the whole of society.
Recent trend	Contrary to popular belief, the dependency ratio is not declining when measured in terms of employment participation. Since the 1970s there has been no long-term trend in the percentage of adults in work, once the effects of the economic cycle are removed. This stable picture masks a large structural shift, with many more working-age women and fewer men working than in the 1970s. The effects of ageing have been marginal by comparison.
What is success?	The aim of policy should be to prevent decline in the dependency ratio. Achieving a stable long-term dependency ratio (ignoring the effects of economic cycles) would be a notable success, especially over the next 25 years, as the large baby boom generation enjoys its retirement. This can be achieved by continued efforts to increase employment among 16-64 year-olds and by supporting more people aged over 65 to remain working, full-time or part-time.
Technical details	**Specification:** Employment rate for all UK adults aged over 16 (presented here as a ratio of workers to non-workers). UK wide. **Source:** Labour Force Survey **Frequency:** Monthly **Breakdown:** Regions - yes; sectors - n/a **Comment:** Children are not included as dependents because a higher fertility rate and more children helps to restrict the pace of population ageing. Including them would therefore create ambiguity regarding the desired direction of travel for dependency. We strongly prefer an employment measure of dependency rather than a population approach which simply compares the number of adults aged over and under 65. Discussion regarding this crude measure has led to alarmism, regarding the impact of ageing, which is totally unwarranted when the employment data is taken into account.

DESPITE RAPID INCREASES IN LIFE EXPECTANCY, THE EMPLOYMENT DEPENDENCY RATIO HAS NOT DECLINED SINCE THE 1970s



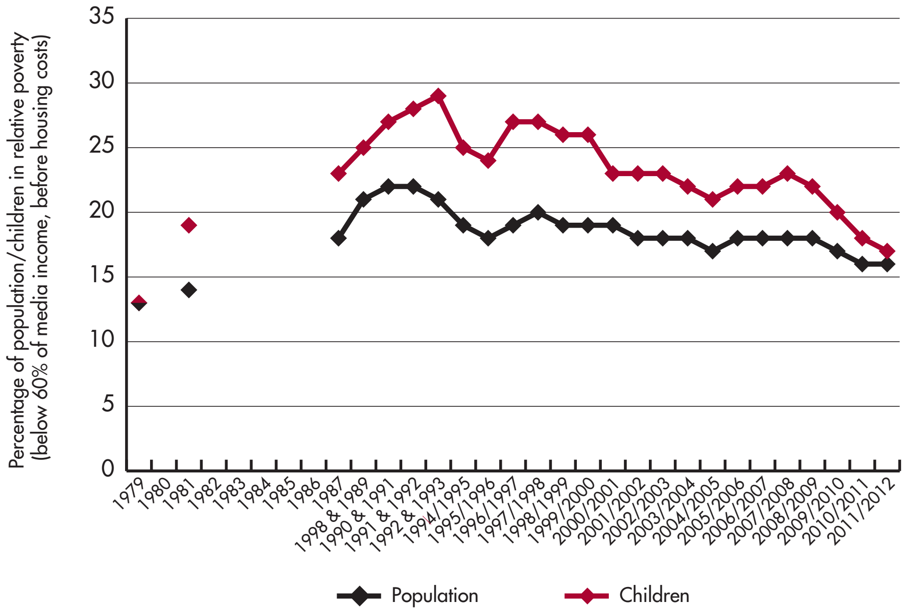
Source: Labour Force Survey

5 INCOME INEQUALITY

Indicator 5	LEFT BEHIND: POVERTY IN BRITAIN
Why?	To live adequately and take part in society people should have an income that is not too far below that of the typical household. The standard measure for how many people do not have such an income is ‘relative poverty’. It is an indicator of ‘middle to bottom’ income inequality and has been used for many decades, including in the Child Poverty Act 2010.[12] This law set an official target and reporting process with respect to the reduction of child poverty, and the previous government also sought to ‘end’ pensioner poverty. However, we suggest that future goals for poverty should be defined with respect to population-wide poverty, to prevent working-age non-parents being overlooked.
Recent trend	The number of people living in relative poverty fell from 1997-98 to 2010-11, from 20 per cent of the population to 16 per cent. This was due to reductions among pensioners and families with children. The Child Poverty Act introduced a statutory target for relative child poverty of 10 per cent by 2020. Child poverty fell from 27 per cent to 18 per cent, however this was not sufficient to meet the Act’s interim 2010 target. The most recent statistics show that the overall level of relative poverty was stable between 2010-11 and 2011-12, reflecting the way in which real incomes have dropped across all parts of the distribution recently (ie. middle and low incomes have fallen together).[13]
What is success?	• **Child poverty:** As there is little prospect of the Child Poverty Act target being met on schedule, the aim for policy makers should now be to design policies and create economic conditions that lead to the 10 per cent target being met as early as possible in the 2020s. • **Population-wide poverty:** This should also fall to 10 per cent or less (consistent with meeting ambitions for child poverty and pensioner poverty). This exceeds the performance of any OECD country at present (on OECD figures, Iceland has a poverty rate of 11 per cent compared to 17 per cent for the UK).[14] Achieving this goal would require major changes to the UK economy and welfare state. In the short term, even very modest falls in poverty for children and working-aged adults might be considered positive. This is because relative poverty is now projected to rise, since incomes from social security are forecast to increase less quickly than inflation or middle incomes.[15] Between 2010-11 and 2015-16 relative poverty is forecast to increase by 600,000 among children (BHC) and 800,000 among working-age adults (BHC).[16] More positively, pensioner poverty is projected to continue falling and is expected to decline to around 8-10 per cent by the mid-2020s.[17]
Technical details	**Specification:** People/children living in households with incomes of less than 60 per cent of the contemporary median, equivalised to take account of household size, before housing costs. UK wide.

Source: Households Below Average Income, Department for Work and Pensions.
Frequency: Annual, with a significant lag in publication.
Breakdown: Regions - yes; sectors - n/a
Comment: We have presented the 'before housing costs' measure as it is closer to disposable income and therefore more straightforward. In practice the separate 'after housing costs' measure, which accounts for changing levels of housing costs and subsidies, should also be monitored.

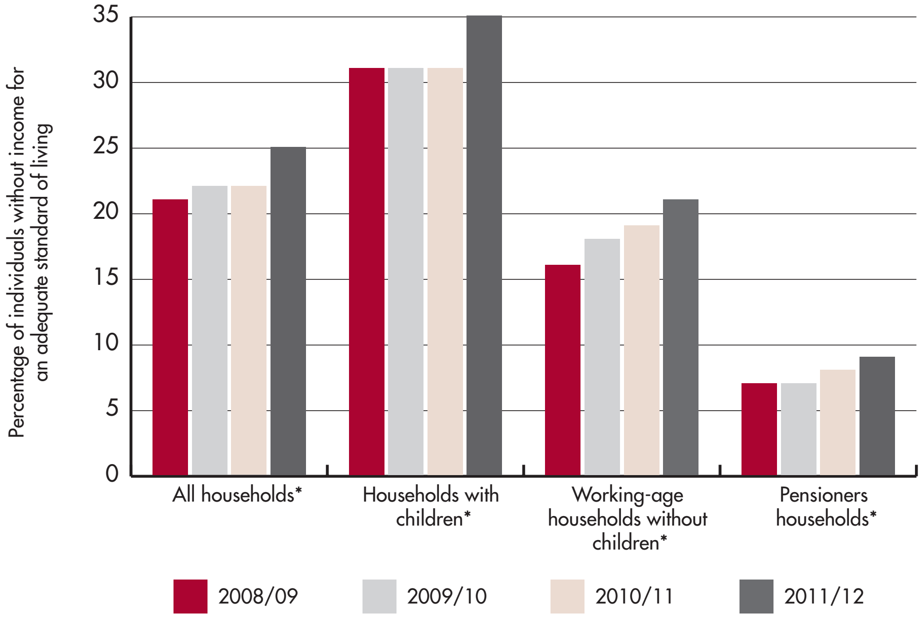
"THE NUMBER OF PEOPLE LIVING IN POVERTY HAS FALLEN SINCE 1997"



Source: Households Below Average Incomes, DWP (Family Expenditure Survey until 1993 and Family Resources Survey from 1994-95; the period 1994-95 to 1997-98 is for GB not UK)

Indicator 6	NOT ENOUGH: BELOW AN ADEQUATE STANDARD OF LIVING
Why?	The ability to achieve an adequate standard of living depends on the cost of goods and services, not just on household income. The Minimum Income Standard (MIS) is a 'poverty line' defined each year by the cost of a basket of goods and services required to achieve an adequate standard of living. As with relative poverty, the MIS is therefore a measure of the money it takes to participate in mainstream life in contemporary Britain. In 2013 the MIS for a single person was around £200 per week, excluding housing costs.[18]
Recent trend	In the latest year for which data is available (2011-12) 25 per cent of the households examined had incomes below the MIS. This represents an increase of three percentage points on the previous year and one fifth since 2008-09.[19] It is likely that the number of people falling beneath this threshold has increased since then because the cost of the current Minimum Income Standard 'basket' has increased by around 24 per cent over the last five years, compared to a 17 per cent rise in CPI and a nine per cent rise in average weekly earnings.[20]
What is success?	The MIS approach is relatively new and experimental. It is not currently an official government statistic and there is no internationally comparable data. However, since it is broadly similar to poverty as a concept, aiming for a similar reduction, to around 10 per cent of the population, would be plausible.
Technical details	**Specification:** The MIS approach has been pioneered by the Joseph Rowntree Foundation and the University of Loughborough. The basket of goods and services required to meet each MIS is determined using deliberative public attitudes research and expert opinion on what comprises adequate consumption. The cost of each basket is then updated annually. At present a MIS basket has only been developed for the most common types of household, covering two thirds of the population. The data on the number of people below the MIS for each household type is from the government's Family Resources Survey. UK wide. **Frequency:** Annual, with a significant lag in publication. **Breakdown:** Regions - no, but possible in principle; sectors - n/a **Comment:** If a future government adopts the MIS as a formal measure of economic success, some form of official oversight of the methodology and calculation of the MIS may be required.

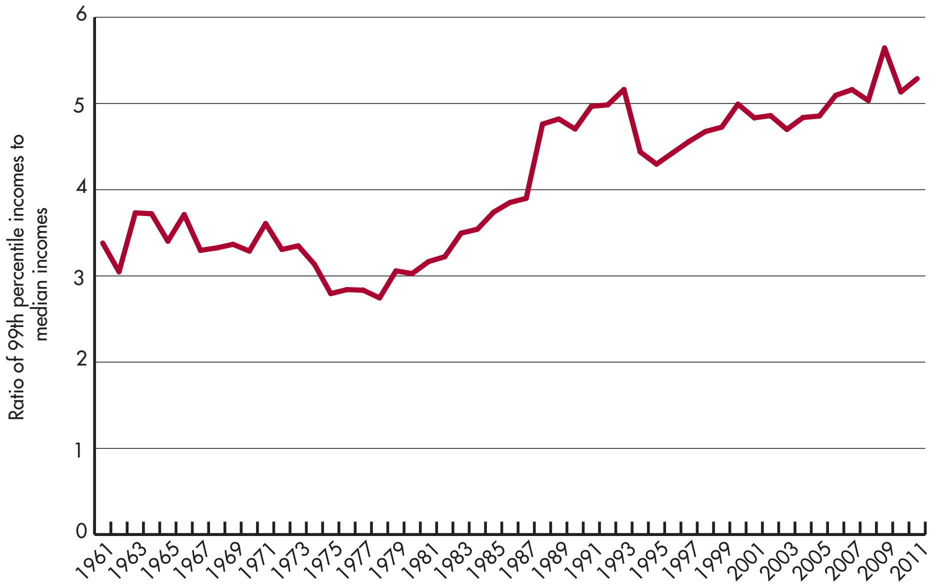
“OVER 20% OF HOUSEHOLDS EXAMINED HAVE INSUFFICIENT INCOME TO SECURE AN ADEQUATE STANDARD OF LIVING”



Source: Joseph Rowntree Foundation
Note: *each population group is incomplete as the sample only includes people living in common types of household formation

Indicator 7	**PULLING AWAY: INCOME INEQUALITY (MIDDLE TO TOP)**
Why?	Before the economic crisis, inequality between typical households and those with high incomes was not a major priority for most policy makers. The financial crisis and concerns regarding the fairness of recession and recovery has changed that. We also know that a wide gap between the very well-off and typical households has long term economic implications.[21]
Recent trend	The gap between incomes at the median (50th percentile) and top (99th percentile) has been steadily rising since the late 1970s. Incomes at the 99th percentile are now more than five times greater than median incomes, compared to a ratio of three in the 1970s. This was the only measure of inequality that worsened significantly during Labour's period in office (the 90/50 and 50/10 ratios were broadly flat). The ratio fell slightly immediately after the economic crisis but is now rising.[22]
What is success?	The aim should be a reduction in inequality, but in the medium term simply stabilising the 99/50 ratio would be a significant achievement. Associating success with no movement in an indicator of income inequality may seem pessimistic and unambitious. But there has been a steady rise over decades and today there are huge upward pressures, so it would still reflect a breakthrough. The IFS projects that median incomes will fall by 1.1 per cent between 2011-12 and 2015-16, while 90th percentile incomes will rise by 0.9 per cent.[23]
Technical details	**Specification:** The 99/50 ratio divides the income of households at the 99th percentile of income distribution by the income of those at the 50th percentile. The income measure is household income, equivalised for size of household, before housing costs. UK wide. **Source:** Households Below Average Income, Department for Work and Pensions. **Frequency:** Annual, with a significant lag in publication. **Breakdown:** Regions - no, possible in principle, but methodological limitations; sectors - n/a **Comment:** This ratio is currently calculated by the Institute for Fiscal Studies using an official dataset. There are methodological limitations with using this source to measure top incomes (since these may not be fully captured by a household survey).[24]

“THE GAP BETWEEN THE INCOME OF THE MIDDLE AND THE VERY TOP HAS BEEN STEADILY RISING SINCE THE LATE 1970s”



Source: Households Below Average Incomes, DWP
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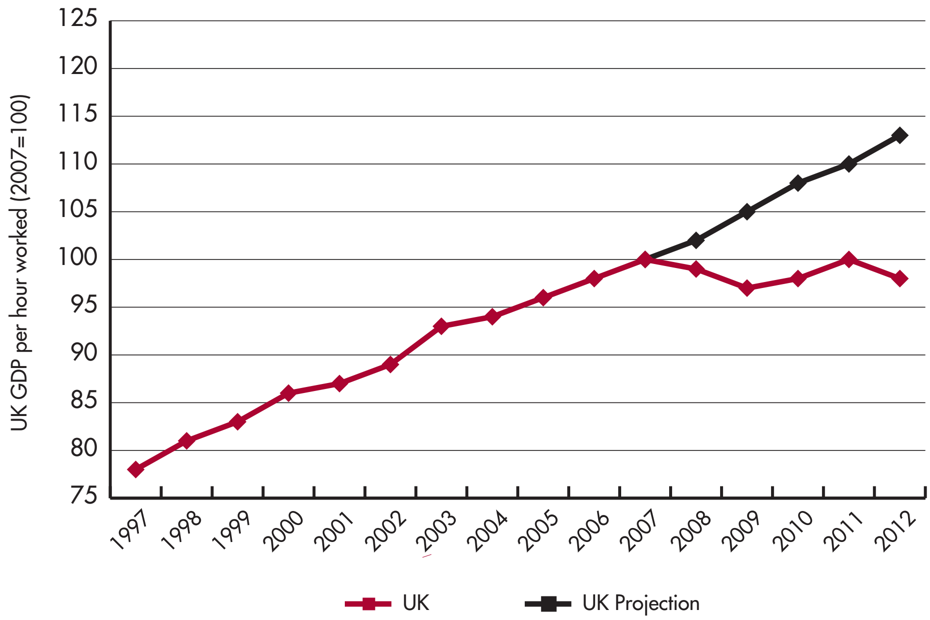
6 SUSTAINABLE GROWTH

Indicator 8	RACE TO THE TOP: LABOUR PRODUCTIVITY
Why?	Rising productivity is the most important driver of long-term prosperity, since rising productivity reflects the extent to which the same hours of work can produce more goods and services. Other things being equal, rising labour productivity should lead to higher living standards, so long as typical households are able to share in the rewards of increased output per worker.
Recent trend	The UK has traditionally suffered from poor productivity. However, in the years preceding the financial crisis growth in labour productivity was strong. During the 1990s productivity grew rapidly, above the average rate seen in the G7, and between 1997 and 2010 increases in output per hour was second only to the US.[25] Since the financial crisis the UK has experienced a stagnation in labour productivity, lagging behind countries such as France, Germany and the US. In 2012 the UK ranked 13th in the OECD for GDP per hour worked.[26] This is related to the remarkable resilience of employment, when compared to previous downturns: fairly steady levels of employment, combined with a fall in economic output of over 6 per cent from the 2008 peak, has led to output per worker now being around 15 per cent below the pre-recession trend.[27]
What is success?	The long-term objective should be to catch up with the performance of other advanced economies such as Germany. This might be achievable if the UK could return to annual levels of real productivity growth seen before the financial crisis (around 2.5 per cent per year) and maintain this performance sustainably for decades.[28] Over the next five years productivity growth should ideally be above this trend to catch up for poor recent performance. As a benchmark, the UK should aspire to being consistently in the top quartile of annual improvement in productivity for OECD nations.
Technical details	**Specification:** GDP per hour worked. This is calculated by dividing GDP by the number of people in employment and hours worked per person per year.[29] UK wide. **Source:** National Accounts and Labour Force Survey **Frequency:** Quarterly, within three months of the end of the relevant period **Breakdown:** Regions - yes; sectors - yes

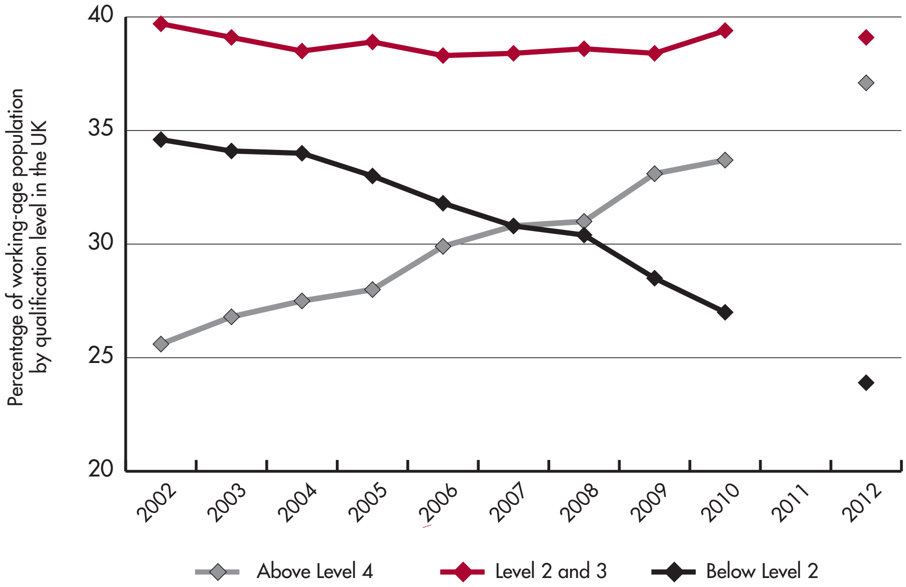
“SINCE THE FINANCIAL CRISIS THE UK HAS EXPERIENCED ‘THE PRODUCTIVITY PUZZLE’: AN ENDURING STAGNATION IN GDP PER HOUR WORKED”



Note: Projections based on average growth of GDP per hour worked over 1997-2007 (UK 2.5 per cent).
Source: National Accounts; Labour Force Survey

Indicator 9	THE FORGOTTEN 50 PER CENT: INTERMEDIATE SKILLS
Why?	Good skills matter for the economy and for individuals. Strong skills and an effective system for distributing and utilising them are a cornerstone of an economy with high levels of employment and good jobs.[30] Skills are also essential for personal prosperity and resilience in the face of change. The UK has high numbers of people with advanced skills (degree level or equivalent) but also has a long history of failure with respect to the quality and quantity of intermediate skills.[31] On current projections the number of jobs requiring these skills will fall over the next decade, which has concerning implications for middle incomes.[32] Increasing the number of people with intermediate skills will over time increase the number of mid-level jobs which employers create, for example through redesigning jobs that were formerly low skilled and low paid. Rebalancing the economy to improve the living standards of middle income households therefore depends on more people acquiring intermediate skills. This should be the first priority for skills policy.
Recent trend	The UK has traditionally suffered from a lack of intermediate skills, due in part to an inferior system of qualifications, compared to those found in other European countries.[33] In the decade after 2002 the share of the population with intermediate qualifications has been very stable.[34] This is because the country has done better at promoting advanced qualifications than supporting people with few skills to progress to intermediate qualifications. The UK's international position has also worsened in recent years: in 2012 it ranked 25th among the OECD for intermediate skills among 25-64 year olds, and it is estimated that on current trends its position will be lower by 2020.[35]
What is success?	The official goal is for 50 per cent of adults to have an intermediate qualification by 2020 (22 per cent at Level 2; 28 per cent at Level 3). This is in addition to 40 per cent being qualified to Level 4 or above.[36] These targets were initially adopted by the last Labour government informed by the 2006 Leitch Review of Skills. The intention was to put the UK in the top quartile of the OECD for each qualification level by 2020.[37] Progress is tracked by the Ambition 2020 strategy.[38] These challenging targets cannot be achieved solely by improving education for young people; they also depend on helping people of working age improve their skills. Current projections suggest that the 2020 target for the proportion of working age people qualified to Level 4 will be achieved. However, they also suggest that the UK is course to miss its 2020 targets for Level 2 and for Level 3.[39]
Technical details	**Specification:** The UK's qualifications framework is composed of eight levels: Level 2 includes 5 GCSE A*-C, NVQ Level 2 and Intermediate Apprenticeships; Level 3 includes A/AS Level, NVQ Level 3 and International Baccalaureate (IB) Diploma; Level 4 to 8 ranges from Certificate of Higher Education, Foundation Degree, to Bachelor and Masters Degree and Doctorates.[40] UK wide. **Source:** Labour Force Survey **Frequency:** Monthly **Breakdown:** Regions - yes; sectors - yes **Comment:** Formal qualifications are an imperfect measure of employment-relevant skills and overall totals do not reflect the match between the specific skills requirements of employers and the skills of the workforce. However, qualification level is the only means of tracking the skills of the population using regular household surveys.

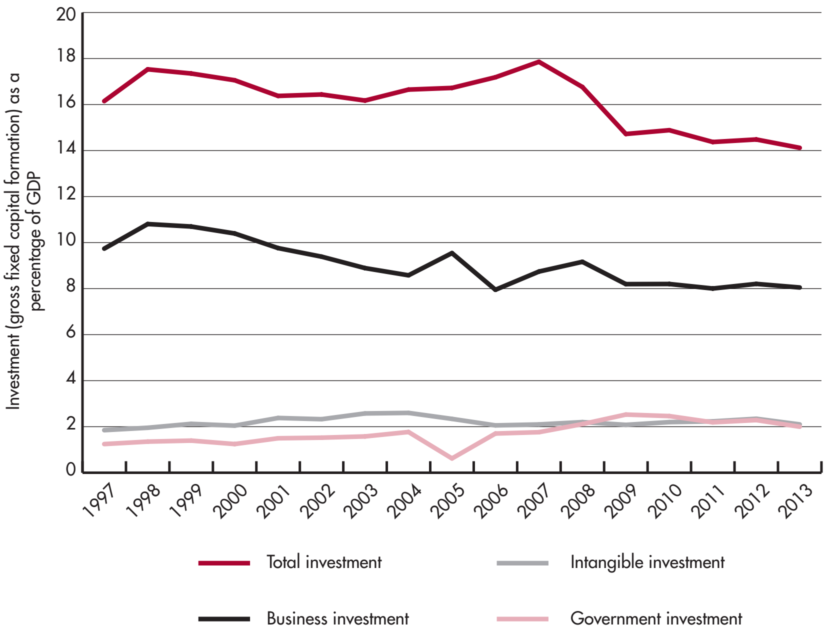
“THE NUMBER OF PEOPLE WITH INTERMEDIATE SKILLS HAS BEEN FLAT FOR THE LAST TEN YEARS”



Source: Labour Force Survey; UK Commission for Employment and Skills/Warwick Institute for Employment Research time series model.[41] Data for 2012 kindly provided by the UK Commission for Employment and Skills

Indicator 10	**SPENDING FOR TOMORROW: CAPITAL INVESTMENT (A) TOTAL; (B) BUSINESS; (C) GOVERNMENT; (D) INTANGIBLE INVESTMENT**
Why?	Investment is spending by business and the public sector on long-term assets which are expected to improve productivity and economic success over many years. Government and business are both important sources of investment, although non-residential business investment is most closely linked to rising productivity and growth. **Business investment:** This accounts for a fairly small proportion of investment in the UK, partly because investment in residential property is high. In recent years, companies have built up a considerable surpluses but have not been increasing investment.[42] In 2011 the CBI calculated that if companies simply stopped adding to their net assets £189bn extra could be spent on business investment.[43] **Intangible investment:** Investment in over three quarters of 'intangible' assets is currently excluded from the standard measure of investment published in the National Accounts.[44] This matters because rising investments in 'knowledge' are essential for growth and are now larger than investment in 'tangible' assets.[45] **Public investment:** Even at a time of relative spending restraint, there are many long-term projects which will lay the foundation for future prosperity and can only be secured by government investment or part-investment. There is little reliable evidence that public investment crowds out private investment or that high levels of government spending impedes growth, within the range seen in the OECD.[46]
Recent trend	• Total investment has fallen from a high of 18 per cent of GDP in 2007 to 14 per cent of GDP in 2012. • Business investment stood at 8 per cent of GDP in 2012, having been 9 per cent in 2008 and 11 per cent during the late 1990s boom. • Government investment stood at 1.8 per cent of GDP in 2007, increased to 2.5 per cent in 2009 and 2010 and fell to 2.3 per cent in 2012. Government spending plans will see public investment fall further as a share of GDP in coming years. • Intangible investment included in the National Accounts has been broadly flat, as a share of GDP. Recent data is not available for other intangible investment. The decline in business investment has impacted significantly on growth.[47] The gap between the OBR's estimate of real GDP growth between 2010 and 2013 and what was achieved is thought to be due to optimistic assumptions about the rate at which business investment would increase.[48]
What is success?	The immediate goal should be for total investment to return to pre-crisis levels, as a share of national income (the medium term trend is around 17 per cent of GDP). After that, it may be desirable for UK investment to rise towards the average level of investment seen across OECD and EU nations today (18 per cent of GDP on latest data) or before the financial crisis (21 per cent of GDP). But before setting such a benchmark, investment in all intangible assets (ie. not just those currently measured in the National Accounts) should be taken into account. In 2009 the UK had the fourth highest level of intangible investment out of OECD nations (as a share of GDP). This explains some of its poor performance on official investment measures, although in 2010 business investment, after adjusting to include all intangible assets, was still below the norm for the OECD.[49] The goal of exceeding the OECD median on a measure that includes

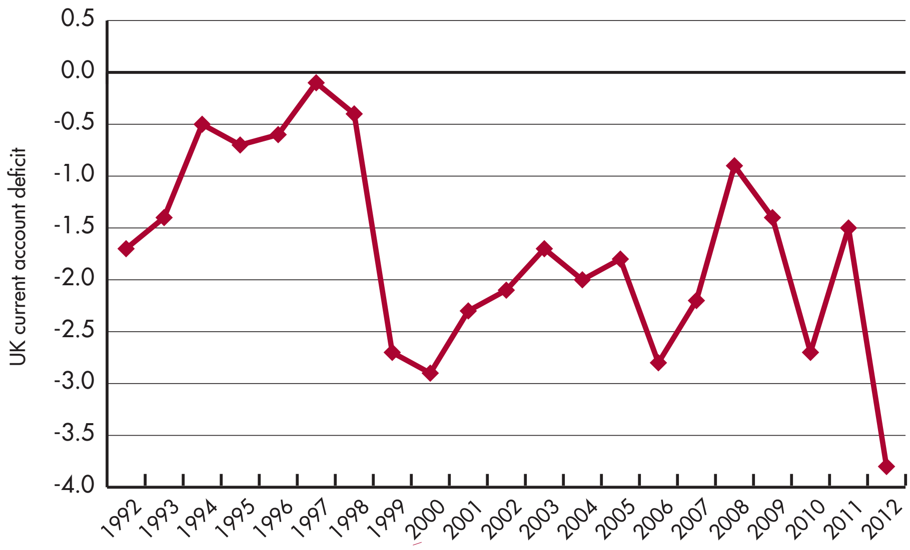
	all intangible investment should be able to attract consensus. Facilitating business investment in this broad sense must be a priority. Public investment can be controlled by policymakers: it is a political choice as much as an economic outcome. In 2013 the Fabian Commission on Future Spending Choices proposed that the government should seek to revert to 2007 levels of public investment, as a share of national income. This would require public investment to grow by more than GDP or overall government spending in coming years. In the long term it might be desirable to spend even more on investment, since public investment is a far smaller share of GDP than in previous decades.[50]
Technical details	**Specification:** Investment is defined as spending on assets which will bring long-term benefits. The standard definition of capital investment is gross fixed capital formation (GFCF). We have used the same measure for reporting general government investment. However, another measure is available, based on fiscal data. UK wide. **Source:** National Accounts **Frequency:** Quarterly **Breakdown:** Region - yes; sector - yes **Comment:** Gross fixed capital investment is defined to include spending on some but not all intangible assets. At present intangibles which are treated as fixed investment include software, mineral exploration and copyrighted materials (from 2014 this is being extended to R&D). This leaves around three quarters of spending on intangible assets outside the National Accounts' definition of investment, including training, advertising and market research. In 2009 business spending in these areas amounted to almost £100bn of a total of £124bn of intangible investment. The OECD is developing international measures and in the UK NESTA has introduced an innovation index, although these approaches are experimental and data collection is relatively infrequent.[51]



Source: Economic Accounts, ONS. *only intangible investments included in the National Accounts, which account for less than a quarter of total intangible investment

Indicator 11	GLOBAL BALANCE: THE CURRENT ACCOUNT DEFICIT
Why?	The current account is the component of a country's balance of payments which records trade in goods and services with the rest of the world. A deficit on the current account may suggest too much of a reliance on imports from abroad and has to be offset in other parts of the balance of payments (ie. capital flows into the country).
Recent trend	The UK's global trade in goods and services has been a cause for concern for many decades: we recorded a current account deficit every year since 1984.[52] The gap narrowed in the mid-1990s, nearing surplus by 1997, but the current account deficit then widened significantly over the 2000s. The devaluation of sterling in recent years has done little to rebalance exports and imports. The most recent quarterly data show the UK's current account deficit at around five per cent of GDP.[53]
What is success?	There's no consensus on what an ideal current account should be. There are downsides for economies which are strong net exporters, but there is also very broad agreement that the UK's high and persistent current account deficit is undesirable, as it comes with the costs of paying overseas creditors and can lead to further vulnerabilities.[54] Reducing this deficit will require the UK to boost export performance, something politicians always subscribe to. But how far this is possible will in part depend on progress in improving investment, skills and household saving.
Technical details	**Specification:** The current account records transactions for: goods, services, income and current transfers. Together with the capital account and the financial account it completes the balance of payments. UK wide. **Source:** Office of National Statistics – The Pink Book **Frequency:** Quarterly **Breakdown:** Region - no; sector - no **Comment:** The current account deficit is the difference in value of exports and imports. In the national accounts the position of the current account is also related to levels of domestic saving and investment.[55]

“THE UK HAS RUN A PERSISTENT CURRENT ACCOUNT DEFICIT”

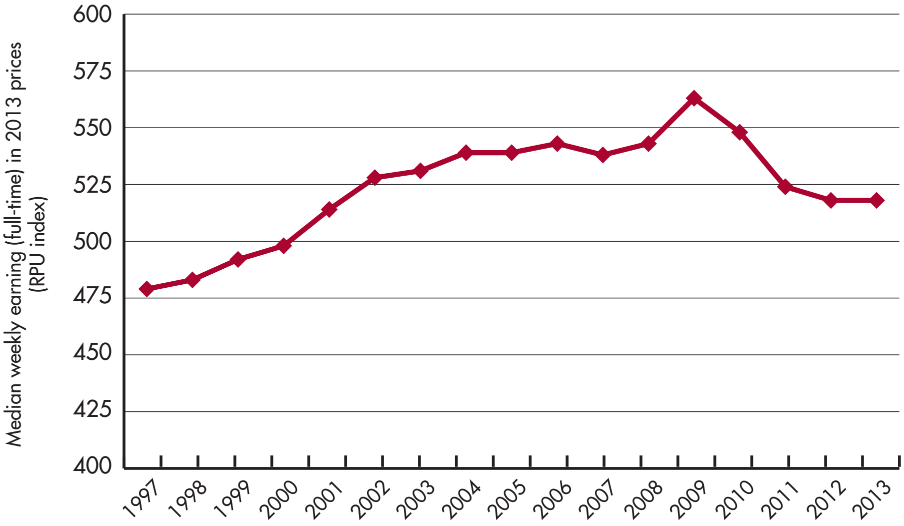


Source: The Pink Book, ONS

7 THE LABOUR MARKET

Indicator 12	FROM THE MIDDLE OUT: MEDIAN EARNINGS
Why?	Earnings compose the majority of household income so personal prosperity depends on improving wages. Measuring median pay is a barometer for the whole labour market, but it also shows the extent to which mid-skill jobs are being rewarded and the fruits of economic production are being broadly shared
Recent trend	Real median earnings today are at levels last seen in 2001. Wages were rising until 2004, then stagnant from 2004 and 2008. In real terms they increased temporarily as a result of a temporary fall in prices, but since 2011 they have been well below pre-crash levels.
What is success?	The ambition should be for real median pay to rise in line with growth in labour productivity, which in itself we hope will rise by more than two per cent per year. In the short term, when earnings begin to rise they are expected to do so slowly. The Office for Budget Responsibility has revised down its forecast for real mean wage growth and expects its weakness to continue into 2014, before reaching two per cent in 2016.[56] The OBR does not forecast median wage growth, but Resolution Foundation calculations suggest the pay of employees in the middle of the distribution will rise at an even more muted rate. By the end of the OBR's forecast period weekly median pay will be more than five per cent lower than its level in 2008.[57]
Technical details	**Specification:** Median gross weekly earnings (full time), including over-time. UK wide **Source:** Annual Survey of Hours and Earnings **Frequency:** Annual **Breakdown:** Region - yes; sector - no **Comment:** The inflation measure used here is the new RPIJ index, which overcomes the limitations of both the Retail Price Index and Consumer Price Index. An alternative source, the Labour Force Survey, offers more frequent and faster earnings data, but is not considered to be as accurate.

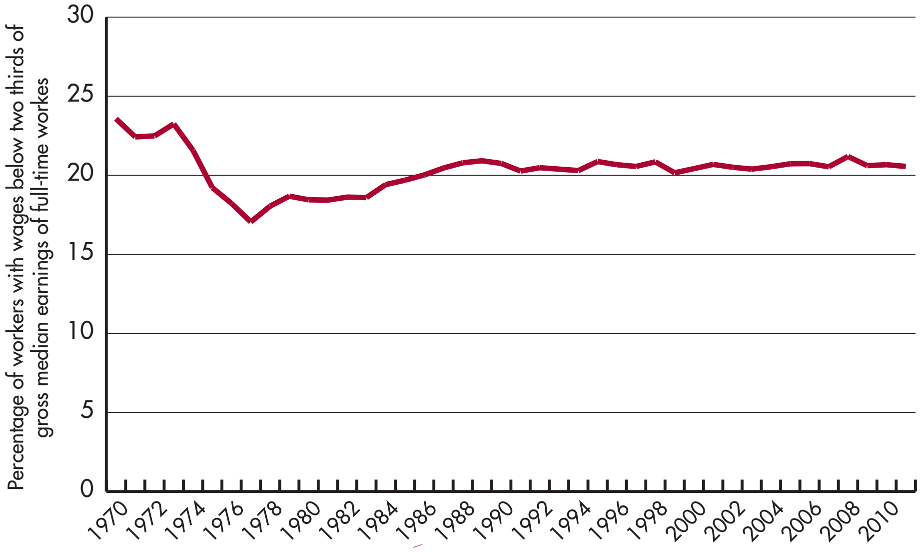
“REAL MEDIAN EARNINGS TODAY ARE AT LEVELS LAST SEEN IN 2001”



Source: Annual Survey of Hours and Earnings and RPIJ index, ONS

Indicator 13	MAKING WORK PAY: NUMBERS WITH LOW PAY
Why?	Britain should be less reliant on low-paid work. A high incidence of low pay means lower household incomes and greater need for social security. It is also linked to less skilled, productive work and a higher likelihood of cycling between employment and unemployment. While the national minimum wage has been successful in reducing extreme low pay and improving incentives to work, simply setting wage floors is not a sufficient solution to low pay. For example, in April 2012 the statistical threshold for 'low pay' was earning £7.44 per hour, which is higher than the national living wage at the time (£7.20).[58] Government, employers and other institutions also need to work together to improve the skills of workers and promote business models which are less reliant on low value work.
Recent trend	The incidence of low pay has been very stable since the late 1980s, at around 21 per cent of the workforce, despite the introduction of the national minimum wage.[59] This compares to a low of 17 per cent achieved in the late 1970s, after the introduction of the Equal Pay Act.
What is success?	Compared to other European countries, the UK suffers from a particularly high incidence of low pay which imposes a barrier to many households' ability to reach a decent standard of living through employment.[60] Some advanced economies have a far smaller incidence of low pay than the UK (less than 10 per cent of the workforce experience low pay in Belgium, Finland, Italy and Switzerland). However, this can sit alongside other labour market problems, including high unemployment. A cautious staging-post would be to seek to reverse the changes experienced since the 1970s and achieve an incidence of low pay of 17 per cent.
Technical details	**Specification:** The standard international definition of low pay is the percentage of employees with wages below two-thirds of gross median earnings of full-time workers. UK wide. **Source:** OECD **Frequency:** Annual **Breakdown:** Available in principle but not published. **Comment:** This recognised international indicator is not routinely published by the UK and is only published by the OECD with some delay. The Resolution Foundation calculates a very similar measure based on earnings for all workers, which presents a fuller picture (but with almost identical results).

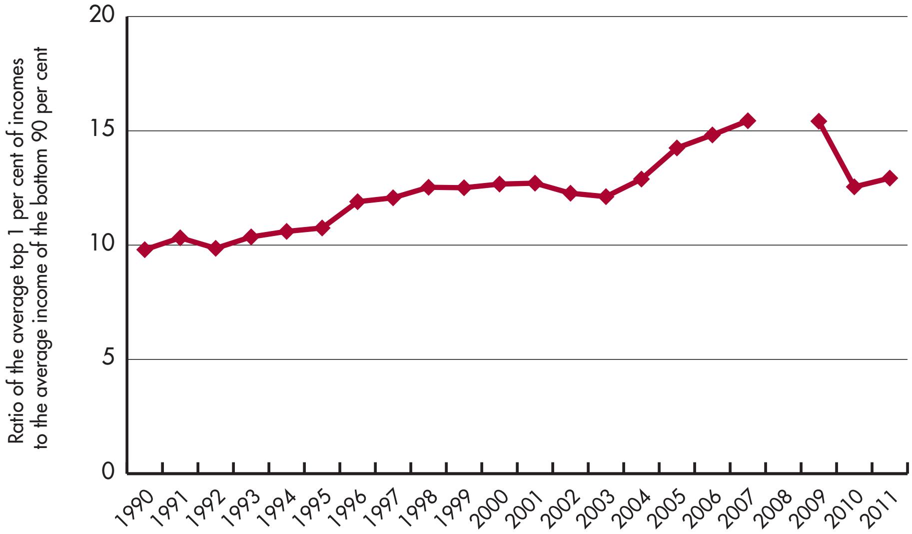
“THE INCIDENCE OF LOW PAY HAS BEEN VERY STABLE SINCE THE LATE 1980s”



Source: OECD

Indicator 14	**RUNAWAY TOP: MARKET INEQUALITY (MIDDLE TO TOP)**
Why?	The economic rewards accrued by high income groups have grown rapidly since the mid-1990s and has been the main driver of rising income and wealth inequality. Although this is evident in divergence in earnings, this data understates the growing gap between the top and the middle, since high income households also benefit from business profits which have also been on the rise. Countries with highly unequal market distributions have to do more through the tax and benefit system to prevent poverty and inequality rising, with implications for the public finances and social solidarity.
Recent trend	Under New Labour rising earnings inequality mainly occurred at the right-hand 'tail' of the distribution (in contrast to the 1980s when earnings grew less equal across the distribution).[61] The ratio between earnings at the median and 90th percentile grew a little (from 1.9 in 2000 to 2.0 in 2011, on the OECD measure). But earnings for the top one per cent grew far more. The Resolution Foundation found that the share of wages going to the top one per cent increased from eight to 9.4 per cent from 1999 to 2008, an increase of 1.4 percentage points, compared to a 0.9 percentage point increase for the rest of the top 10 per cent.[62]
What is success?	Preventing any further distancing of top earners from the median is a hugely challenging objective, even before our thoughts turn to decreasing inequality. A stabilisation in this measure of inequality would be a major achievement.
Technical details	**Specification:** The ratio of the average income for the top one per cent of the distribution of taxable incomes, relative to the average income for the bottom 90 per cent.[63] **Source:** Data on top incomes in the UK is compiled by the World Top Incomes Database using HMRC's *Personal Incomes Statistics* and National Accounts.[64] **Frequency:** Annual **Breakdown:** Region - no; sector - n/a **Comment:** Here we present academic data on the relationship between the incomes of the top one per cent of tax payers and the bottom 90 per cent. There is not an official time series to track market inequalities between people with very high incomes and typical households and we believe the government should commission work to establish a robust measure or set of measures.[65]

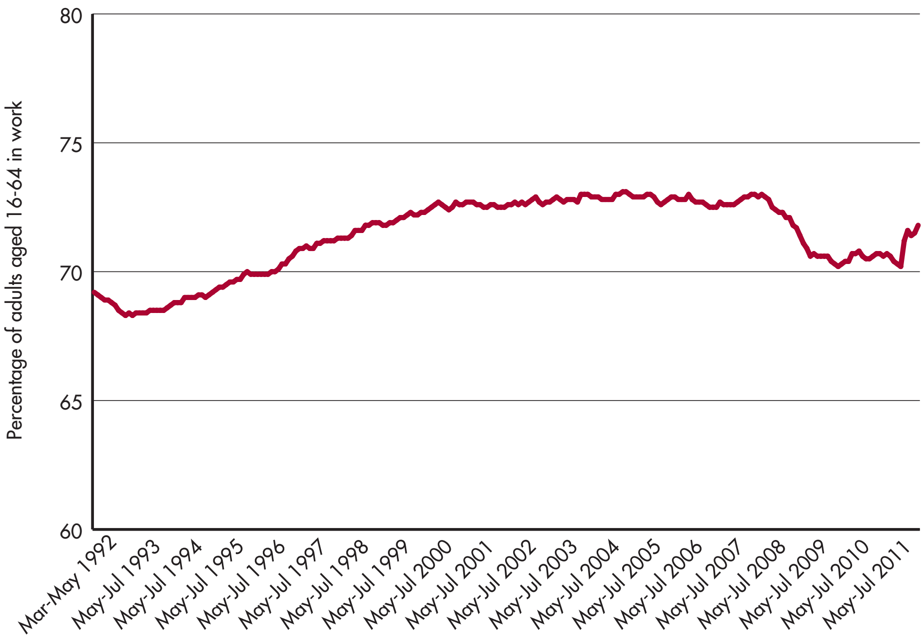
“THE INCOMES OF THE TOP 1% HAVE INCREASINGLY PULLED AWAY”



Source: The World Top Incomes Database
Note: data for 2008 are unavailable

Indicator 15	**MORE JOBS: THE EMPLOYMENT RATE**
Why?	Raising the employment rate up to and beyond its mid-2000s peak will strengthen the economy and increase average incomes. More people in work would also support the public finances by reducing pressure on the tax and benefit system. In particular, the aim should be to achieve a structural increase in the employment rate that goes beyond simply reversing the rises in unemployment since the financial crisis.
Recent trend	Before the recession, between 2001 and 2008 the previous government presided over what was considered 'full employment', defined as an employment rate at 73 per cent of 16 to 64 year-olds. The employment rate is currently around 72 per cent.[66] This figure shows how resilient jobs have been during the downturn and casts a positive light on the UK labour market and the employment programmes introduced by the last government.
What is success?	An immediate goal should be to restore pre-crisis levels of employment, which would be consistent with a reduction in unemployment from around seven per cent to five per cent, without further structural changes to the labour market.[67] However, the best employment rates in OECD nations are closer to 80 per cent and performance in this region should be the UK's long term aspiration. This requires supporting many more people into the labour market, especially women and people with lower skills. Future prospects are uncertain. Some economists believe future employment growth may be muted, because employers will focus on increasing productivity per worker in the medium term. But the resilience of the labour market is a reason for optimism. Even after a huge economic crisis, employment is comparable to the 1970s not the 1980s, so policies targeted to help people excluded from work could yield positive results.
Technical details	**Specification:** Adults aged 16 to 64 in paid work. UK wide. **Source:** Labour Force Survey **Frequency:** Monthly **Breakdown:** Regions - yes; sectors - n/a

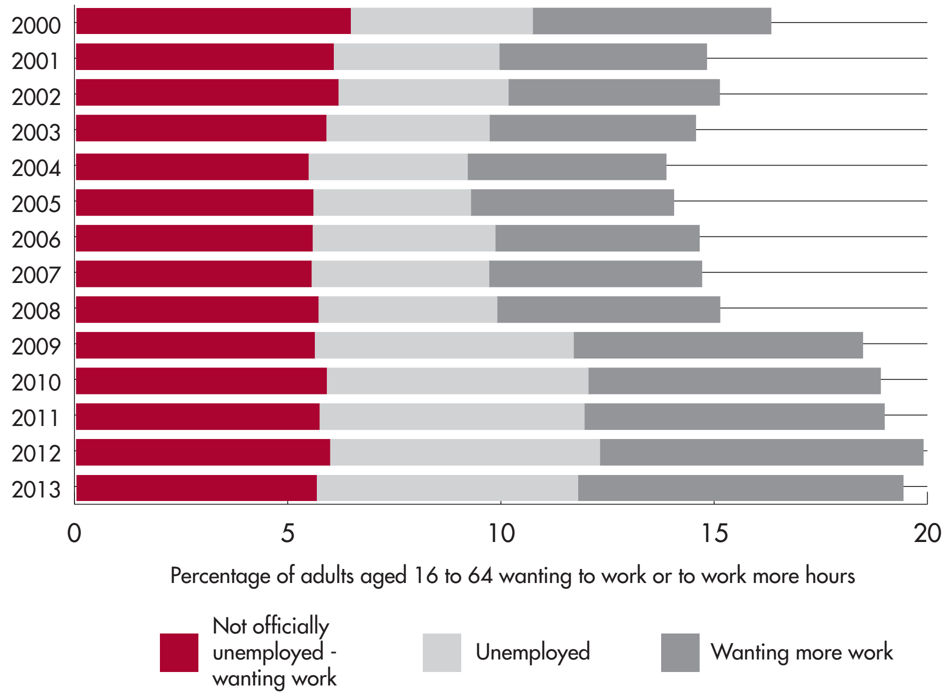
“EMPLOYMENT RATES AFTER THE FINANCIAL CRISIS WERE HIGHER THAN AFTER THE RECESSION OF THE EARLY 1990S”



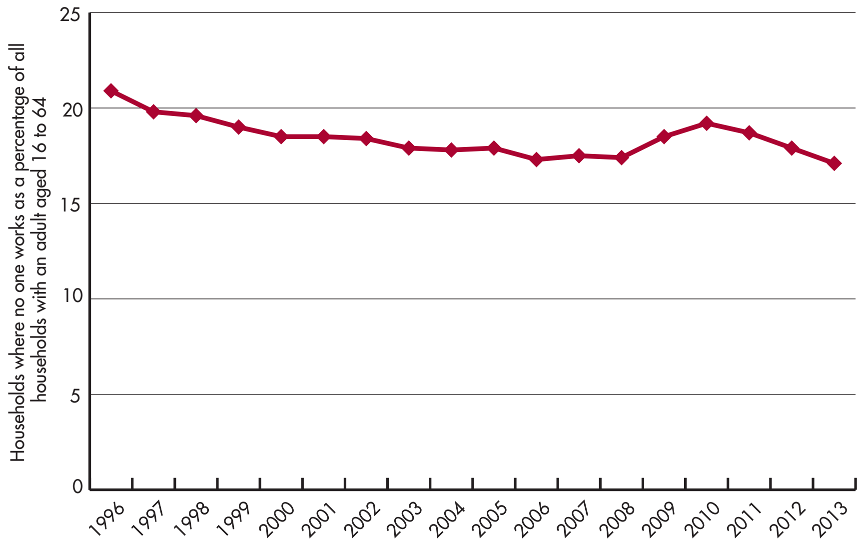
Source: Labour Force Survey

Indicator 16	**GETTING BRITAIN WORKING: (A) WANTING WORK; (B) WANTING MORE WORK; (C) WORKLESS HOUSEHOLDS**
Why?	The UK labour market has been surprisingly resilient in the past five years. But the high overall employment rate and relatively low official International Labour Organisation (ILO) unemployment rate has masked high levels of 'underemployment'. In other words, many people want to work and are not; and many people in work want to work more hours. It is also important to measure the number of households without work, because the social consequences are much greater when no members of a family are working.
Recent trend	• **Wanting work:** 11.8 per cent of adults aged 16 to 64 want work. This compares to a low of nine per cent achieved in 2005 and a high of 12.3 per cent in 2012. Almost all the change has been driven by rising ILO unemployment, as unlike in the 1980s and early 1990s the numbers of economically inactive have not been rising. • **Wanting to work more:** In 2013 7.7 per cent of adults aged 16 to 64 were working but wanted more hours, compared to around five per cent in the early and mid-2000s. In numerical terms this is an increase of almost one million since 2008.[68] As the recovery begins to take hold continuing reduction is a priority. • **Households without work:** At present around 17 per cent of households are without work (3.5 million).[69] This is the lowest recorded level, despite the recession (a slow long-term decline was briefly interrupted by the recession). A similar pattern is observed for children living in households without work.[70]
What is success?	As the economy recovers, simultaneous progress on all these measures is desirable. • On the measure of numbers wanting work and wanting more hours of work the immediate aim should be to return to pre-crisis levels. This may be challenging to achieve because labour productivity is still so low: many employers will be able to increase their output without increasing employment or hours. • With the number of workless households already at the lowest level in recent history there is no similar recent threshold for success. For the time being, a sensible objective would be to continue the current pace of improvement (a decline of around one per cent a year). However, there will always be households where no one works for many good reasons.
Technical details	**Specification:** People wanting work includes people who are ILO unemployed (ie. seeking work and available to take up a job) and others who are not officially classed as unemployed but want a job. People wanting to work more hours is defined as those in work (working less than 48 hours) who want to work more hours. The denominator we have used for these two measures is 'all adults aged 16 to 64'. Households with no one working, with a denominator of 'out of all households' looks only at households with someone aged under the age of 65. All UK wide. **Source:** Labour Force Survey **Frequency:** People wanting work is published monthly. The underlying data for workless households and people wanting more hours is available on this basis but the statistics are published annually. **Breakdown:** Region - yes; sector - n/a **Comment:** This unemployment measure is different from the official ILO measure of unemployment, which has a denominator of those employed and ILO unemployed rather than all adults.

“IN 2013 20% OF ADULTS AGED 18-65 WERE UNDER-EMPLOYED”



Source: Labour Force Survey

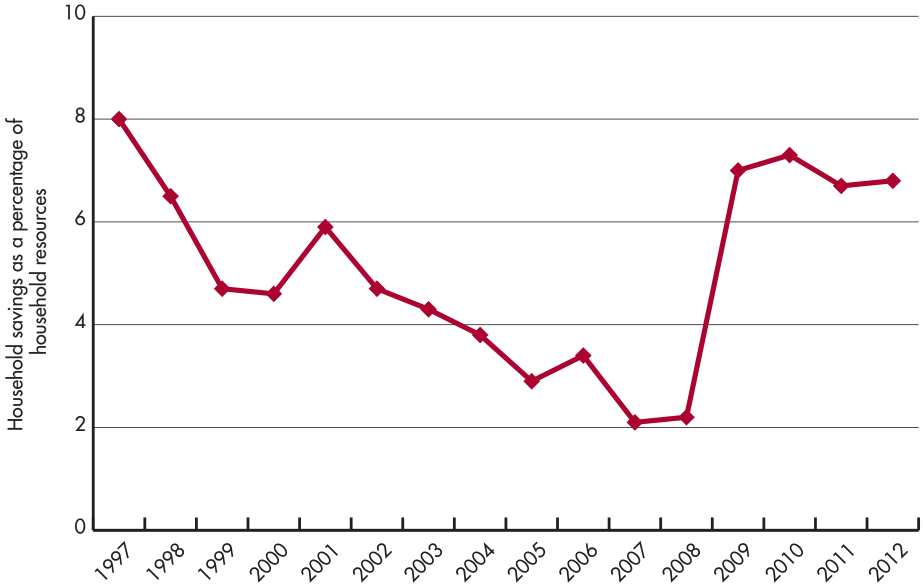


Source: Labour Force Survey

8 WEALTH AND HOUSING

Indicator 17	READY FOR A RAINY DAY: HOUSEHOLD SAVING RATIO
Why?	The overall level of household saving is a key measure of the resilience of families over the long term. It includes all saving, including pensions and investments, less debts such as mortgage borrowing. This measure also has critical implications for the macro economy as it reflects the quantity of lending available to the rest of the economy. A low savings rate is associated with a high level of household consumption and a low level of investment, relative to the size of the economy. This reduces long-term growth prospects. However, in the short term an increase in savings can reduce consumption and therefore GDP growth.
Recent trend	Before the crisis the savings ratio was declining, from around eight per cent in the 1990s to around two per cent in 2007 and 2008. Economists have suggested a range of reasons for this (some more benign than others), but the fall had the effect of increasing household consumption by more than rising income and driving growth in a way that could not be sustained.[71] The savings ratio then increased to seven per cent from 2009 onwards, as an effect of the recession. However, in the early months of 2013 it started to fall, which explains the increase in household consumption.
What is success?	For a long time, the UK has had among the lowest savings ratios in the OECD (alongside the United States), reflecting high levels of consumption and low investment as a proportion of GDP. It will be undesirable for families and long-term economic prospects for savings to sink back to pre-crisis levels.
Technical details	**Specification:** Households' saving as a percentage of total available households' resources. Includes non-profit institutions serving households. **Source:** National Accounts **Frequency:** Quarterly **Breakdown:** Region - no; sector - n/a

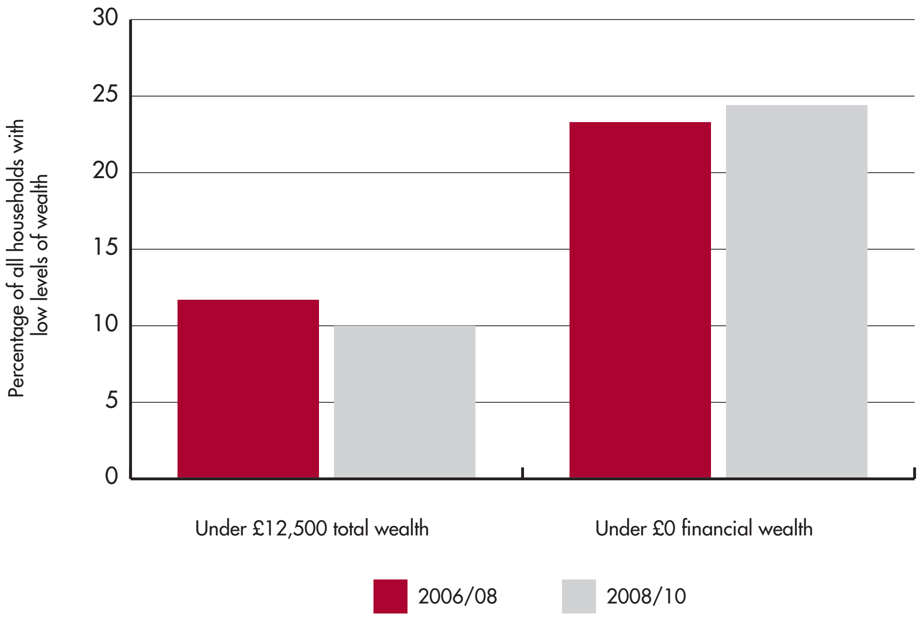
“BEFORE THE CRISIS THE UK HAD AMONG THE LOWEST SAVINGS RATIOS IN THE OECD”



Source: National Accounts

Indicator 18	**ON THE BRINK: HOUSEHOLDS WITH LOW WEALTH (A) TOTAL ASSETS (B) FINANCIAL WEALTH**
Why?	Low levels of wealth are more closely linked to social disadvantage than low levels of income.[72] Wealth includes money, physical goods, property and pension savings; it is usually measured net of debts. It is desirable for people to have a financial cushion but many people also wish to own their own home and every worker should be building pension assets. So owning less than around £10,000 of total net wealth (ie. after debt is taken into account), reflects significant financial disadvantage. People with negative financial wealth (ie non-mortgage debt that exceeds their non-pension financial assets) face significant pressures.
Recent trend	Reliable data has only become available recently and so far it tells a different story for overall wealth and net financial assets: • **Total net wealth:** the number of households with very low levels of overall net assets (under £12,500) declined from 11.6 per cent to 9.9 per cent between 2006-08 and 2008-10.[73] • **Financial net wealth (excluding mortgages and pensions):** the number of households with net financial liabilities increased from 23.2 per cent to 24.3 per cent between 2006-08 and 2008-10.[74]
What is success?	A steady reduction in the number of households with low levels of overall net wealth is desirable. For non-homeowners this can be achieved by reducing debt, supporting auto-enrolment into pensions and promoting saving accounts. What is 'good' with respect to net financial assets is harder to specify as affordable debt can be positive. Additionally, overall levels of debt can be expected to rise as a consequence of more people having significant student loans. However, a steady increase in the number with net financial liabilities, excluding mortgages and student loans, would be undesirable.
Technical details	**Specification:** Total net household wealth is the sum of property wealth, financial wealth, physical wealth and private pension wealth, less liabilities. The Wealth and Assets Survey reports a threshold of low net wealth of £12,500. Net financial wealth includes all informal and formal financial assets and liabilities, including student loans but excluding mortgages and pensions. Great Britain only. **Source:** Wealth and Assets Survey **Frequency:** Every two years, with a significant delay **Breakdown:** Region - no, available in principle; sector - n/a **Comment:** The measure of financial assets should be tracked both with and without student loans, since the growth of student debt is a long-term structural change.

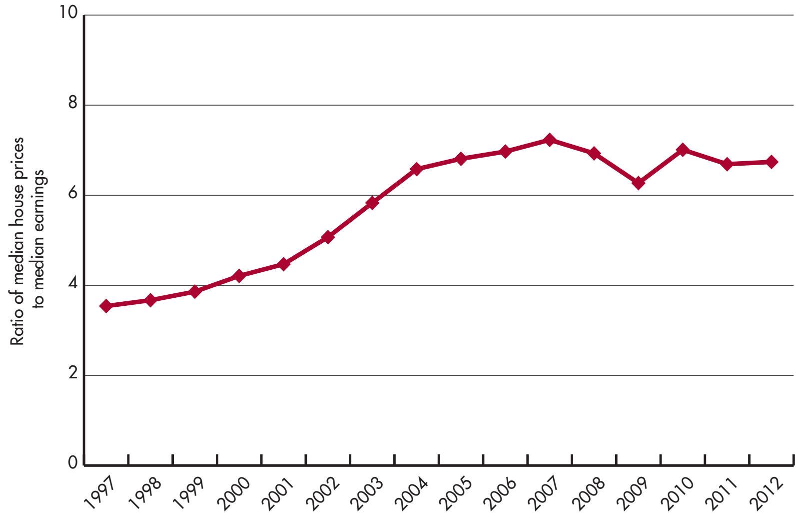
“THE DATA PAINTS A MIXED PICTURE, WITH A RISE IN THE NUMBER OF HOUSEHOLDS WITH FINANCIAL LIABILITIES GREATER THAN THEIR FINANCIAL ASSETS ”



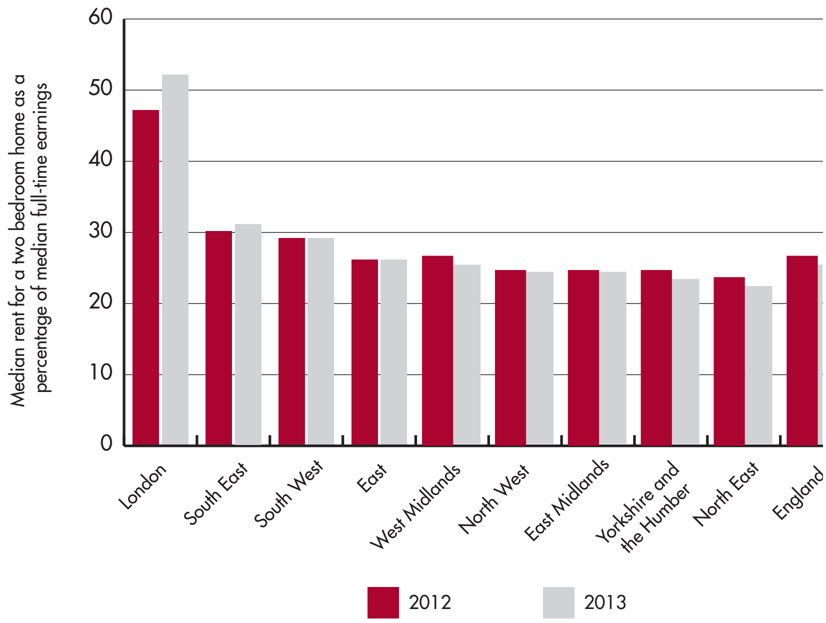
Source: Wealth and Assets Survey

Indicator 19	**AFFORDABLE HOMES: RATIO OF (A) HOUSE PRICES (B) PRIVATE RENTS TO EARNINGS**
Why?	The UK is suffering from an acute housing crisis, with far more demand than supply, particularly in the case of affordable homes for those who struggle to meet housing costs. Many people are now priced out of homeownership, and even in the private rented sector housing costs can be significant proportion of average incomes. The trend is reflected in the recent decline in owner occupation, either outright or with a mortgage: a fall from 69 per cent of households in in England and Wales in 2001 to 64 per cent in 2011.[75]
Recent trend	• **Homeownership:** In 1997 in England a median home had a value 3.5 times greater than moderate median earnings. By 2012 this ratio stood at over 6.5, having only dipped slightly after the financial crisis. In London the ratio has moved from 3.9 in 1997 to almost 9 in 2011.[76] • **Renting:** In 2013 median private rents account for 25 per cent of median full-time earnings in England, a very slight fall from 2012. However, in London median rents increased from 47 per cent of median earnings to 52 per cent in the same period.
What is success?	With rapidly increasing property prices simply stabilising the homeownership affordability ratio would be an achievement of sorts. However, the aim should ideally be for this measure to decline towards levels seen a decade or more ago. There is no time series data for the affordability of renting, so again the first goal should be to prevent affordability deteriorating further.
Technical details	**Specification:** Homeowners: ratio of median house prices to median earnings; Private renters: median private rent for a two bedroom home as a percentage of full-time median earnings. England only. **Source:** Land Registry, Valuation Office Agency, Annual Survey of Hours and Earnings **Frequency:** Annual **Breakdown:** Region - yes; sector - n/a **Comment:** The Valuation Office Agency has only recently started publishing a private rent time series and there is not an official measure of affordability. The charity Shelter proposes a measure of median rent for a two-bedroom home as a percentage of median full-time earnings.[77]

“SINCE THE 1990S, HOMEOWNERSHIP HAS BECOME MUCH LESS AFFORDABLE FOR MEDIAN EARNERS”



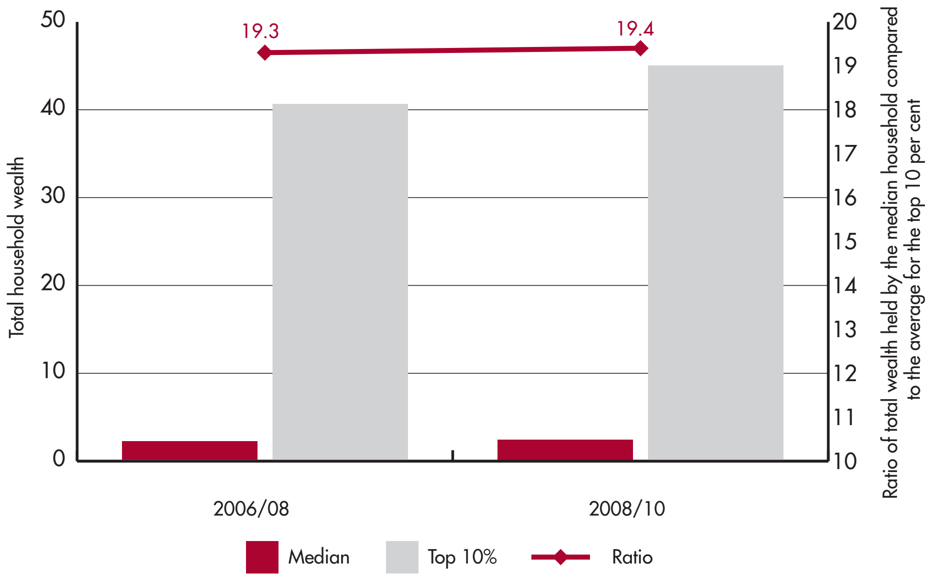
Source: Live Data on Housing Market and House Prices, HM Government



Source: Valuation Office Agency, Annual Survey of Hours and Earnings

Indicator 20	**SHARE THE WEALTH: ASSET INEQUALITY (MIDDLE TO TOP)**
Why?	Wealth is much more unequally distributed than income and the rising gap between the wealth of typical households and those at the top of the distribution is a key concern for economic performance and social justice.[78] Increases in wealth at the top of the distribution have been caused by widening inequalities in incomes and high asset inflation.[79]
Recent trend	In 2006-08 the average net assets of the top 10 per cent of households was 19.3 times higher than the net wealth of the median household. By 2008-10 the ratio had increased to 19.4.[80]
What is success?	As with other measures of wealth, the first aim should be to stabilise an increasing gap.
Technical details	**Specification:** Total net household wealth is the sum of property wealth, financial wealth, physical wealth and private pension wealth, less liabilities **Source:** Wealth and Assets Survey **Frequency:** Every two years, with a significant delay **Breakdown:** Region - no, available in principle; sector - n/a **Comment:** This indicator considers the gap between households at the median and the richest 10 per cent of households. Data is not available for the top one per cent which would probably show a sharper increase in inequality.

“ASSET INEQUALITY HAS SLIGHTLY INCREASED”



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MEASURE FOR MEASURE |

ECONOMIC INDICATORS FOR A FAIR AND PROSPEROUS SOCIETY

Andrew Harrop & Robert Tinker

The global financial crisis of 2008 did not just reveal the structural defects in our economy. It also laid bare the inadequacy of how government measured success. Even as bankers at some of the world's leading financial institutions were clearing their desks, our main headline indicators provided almost no warning signals of the catastrophic events that were unfolding.

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