AQA

A-level
ECONOMICS

Paper 3 Economic Principles and Issues

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Changing living standards and inequality in the UK

Questions 31 to 33

- **Extract A:** UK living standards since the 2007–2008 financial crisis
- **Extract B:** Selected indicators of UK living standards
- **Extract C:** Growth of the world economy is set to slow in 2019
- **Extract D:** The National Living Wage and living standards

Extract A: UK living standards since the 2007–2008 financial crisis

The standard of living depends on the quantity and quality of the goods and services available to people but is also affected by their health and the environment in which they live. When measuring the economic wellbeing of a country, GDP is the most commonly used indicator. Recent data show that the UK's economy is now 11% larger than it was in the second quarter of 2008. However, real GDP per capita is just 2.9% above its pre-financial crisis peak, whereas in the 50 years leading up to the financial crisis, growth in real GDP per capita averaged 2.4% per year.

On the other hand, unemployment, at 4.0%, is at its lowest rate since 1975. Immediately after the financial crisis, the recovery in employment was driven by the growth in part-time work and self-employment, but recent gains have been more broadly based. Full-time roles comprise 44% of the jobs created since the start of the recession in 2008.

In real terms, average weekly earnings are still £15 below the pre-crisis peak, but the introduction of the National Living Wage in April 2016 has helped to boost the earnings of the lowest wage earners. The bottom 40% of the earnings distribution saw their real earnings grow between 2016–2017 and 2017–2018, whereas the top 60% saw their real earnings fall.

Since 2010, the value of the old-age state pension has been protected and, in real terms, it has risen by 9%. In contrast, over the same period, welfare spending per working-age adult and child has fallen by almost 11% in real terms.

Source: News reports, March 2019

Extract B: Selected indicators of UK living standards

Figure 1: National income and employment

	2007	2009	2011	2013	2015	2017
Index of real GDP (2016 = 100)	91.3	87.1	90.1	93.2	98.2	101.8
Real GDP per capita (£)	29 324	27 558	28 030	28 646	29 717	30 367
Real household disposable income per capita	19 685	20 164	19 143	19 544	20 450	20 138
Unemployment rate (%)	5.3	7.6	8.1	7.6	5.4	4.4
Average hours worked per week (full-time workers)	37.2	36.8	37.0	37.5	37.4	37.4

Source: ONS, 2019

Figure 2: Income inequality

	2006–07	2008–09	2010–11	2012–13	2014–15	2016–17
Gini coefficient	0.347	0.342	0.337	0.333	0.326	0.322
Percentage of households in poverty *	22.85	23.54	22.18	23.72	23.18	22.75

* Poverty = households with an income below 60% of the national median income.

Source: ONS, 2019

Figure 3: Homelessness

	2007	2009	2011	2013	2015	2017
Homeless households **	99 510	64 890	76 270	82 640	85 450	86 050
Number of people sleeping on the street in England	N/A	N/A	2181	2414	3569	4751

N/A = data not available

** Homeless households are those who are sleeping on the street, do not have rights to stay where they are, or who are living in unsuitable accommodation.

Source: ONS, 2019

Figure 4: Life expectancy and the environment

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Extract C: Growth of the world economy is set to slow in 2019

The International Monetary Fund has forecast that world growth will fall from 3.7% in 2018 to 3.5% in 2019, affecting the markets for UK exports. Increasing protectionism risks reducing investment and global trade flows. If all tariffs currently under consideration were implemented by all countries, they would affect about 5% of global trade. Growth in the US has remained strong but economic activity in the eurozone and China has been weaker than expected. With continuing uncertainty regarding the UK's future relationship with the EU, a slowdown in the world economy is not good news for living standards in the UK. Exports are important for UK firms, for employment and people's incomes. However, since 2015, the pound has depreciated against most major currencies and this is expected to boost net trade and make a positive contribution to UK economic growth.

Source: News reports, March 2019

Extract D: The National Living Wage and living standards

The National Living Wage (NLW), introduced on 1 April 2016, led to a substantial increase in the minimum wage for employees aged 25 and over. The government has committed to raising the NLW until it reaches 60% of median hourly earnings in 2020. When the National Minimum Wage (NMW) was first introduced in 1999, it was 45% of median earnings. However, the impact of the NLW on living standards is influenced by a range of other factors such as hours worked, taxes, welfare benefits and incomes of other people in the household.

An increase in the minimum wage may increase unemployment but, so far, the impact on employment does not seem to have been significant. However, minimum wage controls mainly affect employees undertaking routine tasks; these jobs are more easily automated as new technologies are introduced. The Office for Budget Responsibility (OBR) predicted that the higher NLW will lead to 60 000 more people being unemployed in 2020.

The NLW is not particularly well targeted at low-income households. Only 22% of low-wage workers are in the poorest 20% of households. Many of the poorest in society are not in work. For many poor households, cuts in welfare benefits will reduce their incomes by more than a higher NLW is likely to boost them.

The Living Wage Foundation estimated that, in 2018–2019, a realistic living wage in London would be £10.55 per hour and £9.00 per hour in the rest of the UK. However, the NLW is only £7.83 per hour. They believe that paying a realistic living wage is the right thing to do. They also argue that it improves relations between staff and managers, increases motivation, reduces absenteeism, improves the retention of staff and increases productivity.

Since the financial crisis, productivity growth in the UK has been weak; productivity is only between 2% and 3% higher than 10 years ago. Consequently, a higher NLW has meant some firms have increased prices and others have accepted a reduction in profits.

Source: News reports, March 2019

END OF EXTRACTS