

Britain's social elastic is almost at snapping point^[1]

With the gap between rich and poor widening still further, it is painfully apparent that we are not all in this together

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EXCERPTS

How bad will the economic news be today? Estimates predict GDP growth as being somewhere between torpid and stagnant. While any ripple will be talked up by George Osborne, his most successful tactic has been to look grim, warn that things are worse than he thought and claim this shows how right he was that the economy needs a good bleeding. His plan A therapy is not on track to hit his target that "debt should be falling as a proportion of GDP by the year 2015-16", so will voters go on taking this doctor's 1930s prescription? "Too far, too fast" is becoming the common verdict.

Even if today's figure were miraculously good, it will tell most people little about themselves. GDP statistics benchmark "us" against other countries but say nothing useful about "us" because "we" are not all in this together. Failure to grow hits some with savage severity but others not at all. While some swell like pumpkins, others shrivel, the young unemployed most of all. Last week's 2010 ONS figures showed the City paid £14bn in bonuses. Ignoring the chancellor's halfhearted plea, Bob Diamond of Barclays received £6.5m, Stuart Gulliver of HSBC took £9m. What's new? It's business as usual in the City, with few lessons learned and public revulsion unacknowledged. So average GDP growth figures disguise how money has trickled upwards from bottom to top over three decades - the years since the Thatcher insurgency.

A well-timed report from the Resolution Foundation this week laid out the raw figures: of every £100 rise in national income since 1977, the half of the population on average or below average incomes received just £12. Meanwhile, the top tenth received a £14 share. For much of the past 30 years the bottom half did see their incomes rise, so they didn't notice they were falling behind the rest. But since 2003 their incomes have not grown, and this report warns that they may not grow again even when GDP picks up. Is that politically sustainable, and for how long? While everyone has varying ideas about how much inequality is tolerable - usually according to where they stand on the earnings scale - only extreme eat-what-you-kill social Darwinians think there is no limit. Stretch the social elastic beyond bearing, and it will snap at some point. Osborne's purloining of "We're all in this together" seemed to recognise the political embarrassment of a future where half the population falls further behind while the top tenth vanishes into a realm unrecognisable to the 90% of basic-rate taxpayers.

Yet he plainly doesn't get it: how extraordinary that he should drop a hint that as a stimulus he might abolish the 50% tax rate, only paid by the top 1%. That could be the awakening moment that lights the blue touchpaper of public opinion. With food, gas, electricity and petrol prices rising, pay frozen or falling below high inflation, cuts in child benefit and child-care credits, loss of credits and rising prices often hit people hardest with high living costs in the south-east. The squeeze in middle to low income households only needs some trigger to ignite an "us and them" understanding of what's happening.

Gavin Kelly, head of the Resolution Foundation and former member of the council of economic advisers at the Treasury, is making it this thinktank's task to alert the country to stagnating incomes. Since the 70s and the decline in trade union influence, pay is rarely headline news and fewer people know how their incomes match the average. Failing to see the widening gap, richer and poorer alike imagine they are nearer the middle than they are.

Work by the LSE's John Hills shows how badly people estimate what others earn. Without knowledge of who earns what, voters can't make rational judgments on tax and spending, or on how well the country is governed. Back when nearly all living standards rose, people worried less about fairness - but middle to low earners are unlikely to tolerate a permanent zero increase once GDP returns to pre-crash growth.

The Resolution Foundation has set up a Commission on Living Standards, with participants including the head of the Institute for Fiscal Studies, the chair of Lloyds Bank, the MD of British Gas and others in public and private sectors. Looking at the trajectory for pay, it sets out with research showing that 11 million people have seen no income growth since 2003. Gavin Kelly, writing about this research, headlines his comment "Who ate all the pie?" Everyone knows the answer, as Jonathan Portes, head of National Institute for Economic and Social Research, echoes: "The top 1% has taken a hugely disproportionate share of growth while the middle and below stagnated."

All the reasons why middle earnings kept rising until eight years ago have now evaporated. Incomes grew when many more women went to work - but that has plateaued. Labour's tax credits gave family incomes a boost, but those are now in retreat. Debt kept too many households afloat until the crash. Now half the households in the stranded middle have less than one month's income saved and two thirds have no pensions. Most who bought homes had 100% mortgages, in days never to return. Mid-rank jobs are vanishing too, leaving less opportunity and missing rungs between low-paid service work and top-level professions, with only "lousy or lovely" prospects.

What's to be done? That depends on the political will to take action. That, in turn, starts with enough people understanding the figures and refusing to tolerate a future where growth leaves out half the population. Solutions include better pay, affordable child care and elder care so everyone can work profitably, and a strong industrial policy to secure better jobs - all of which begin to push money back down the chain. Iain Duncan Smith and other ministers have skillfully redirected public anger towards welfare scroungers and benefit cheats, but people will not be distracted indefinitely from rising prices in shops and shrinking incomes, as middling households find they can no longer afford things they took for granted.

The "squeezed middle" is not an imaginary political construct of Ed Miliband's, but a reality. This is today's political discomfort, and not only southern. The question is which party can command middle Britain's confidence that it has the answers. Cutting top tax is probably not a winning bid.

- reprinted from the Guardian

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