

# Aiming high?

## Assessing the Government's new targets for its growth mission

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In government, priorities matter. And today the Government underscored its key priorities, announcing six 'milestones' for its six missions. When it comes to its mission for growth, there has been a welcome shift in focus towards living standards. Alongside growing GDP per capita, the Government has also committed to raising real household disposable income (RHDI) per person over the course of this Parliament. The inclusion of this measure of income should focus minds in Whitehall on ensuring growth that delivers higher income and, ultimately, better living standards for families.

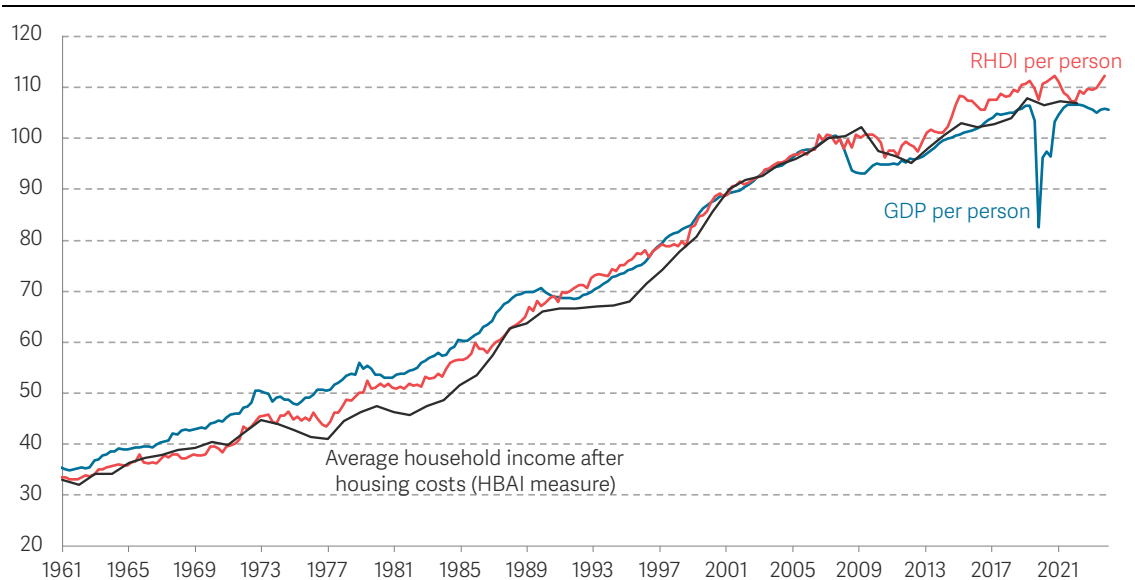
But the Government's milestones lack ambition: RHDI per person has grown in every Parliament since 1955. And GDP per person has grown in all but two. In contrast, the Government's additional commitment to grow GDP per person in every part of the UK looks more challenging. This target would have been hit in only three of the past six Parliaments, making it a meaningful commitment to shared growth across the country. There is also a strong case for the Government to consider the broader question of who gains from growth. It must ensure that increases to higher incomes don't just accrue to richer families but also reach low-and-middle-income households too. Worryingly, it is these households who – based on current projections – are most at risk of seeing falling living standards over the coming Parliament.

### **The Government has made a welcome change to look beyond GDP and add living standards to its growth 'milestones'**

The Government has today announced new 'milestones' for its growth mission. The change here is to focus on increases in living standards, with the Government saying that it will now be aiming to "raise living standards in every part of the United Kingdom". With that in mind, the new target will be to raise [real household disposable income](#) (or RHDI) and [GDP per person](#) over the course of this Parliament, with an additional commitment to grow GDP per person in every region of the UK. Figure 1 shows that these two aggregate measures have [tracked](#) our preferred proxy for changes in living standards (i.e. average incomes after housing costs taken from [Households Below Average Income](#)). This shouldn't be a surprise: higher growth and rising incomes are complements rather than substitutes.

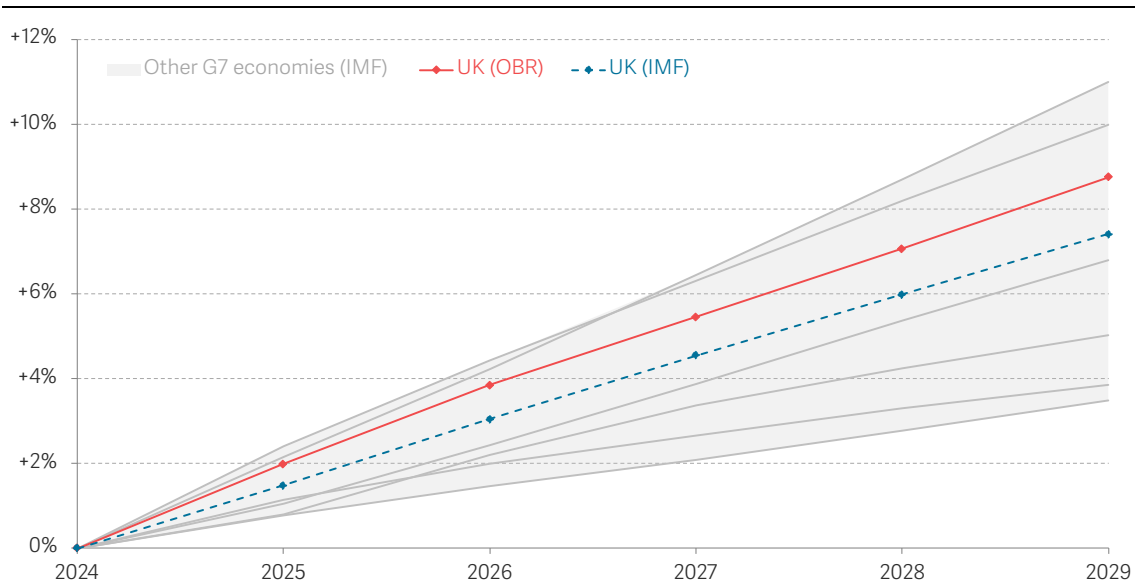
Growth and living standards have slowed considerably since the financial crisis. Indeed, in the 16 years running up to the 2008 financial crisis, annual GDP per capita growth averaged 2.2 per cent; in the 16 years since, it has slipped down to just 0.5 per cent. Over the same period RHDl growth has fallen in lockstep from 2.3 per cent to 0.6 per cent as Britain has become [a stagnation nation](#).

Figure 1 **Growth in GDP per person and living standards track each other over time**  
GDP per person and real average household income after housing costs, index (2007-08 = 100): UK



Notes: Mean annual income is taken from HBAI and is GB prior to 2002-03 and UK since then.  
Source: ONS, National Accounts; and DWP/IFS, Households Below Average Income.

Figure 2 **The UK is set to grow more slowly than the US or Canada**  
Forecasts for growth in the level of GDP, 2024 to 2029: UK and G7 countries



Source: IMF, World Economic Outlook, October 2024; and OBR, Economic and Fiscal Outlook, October 2024.

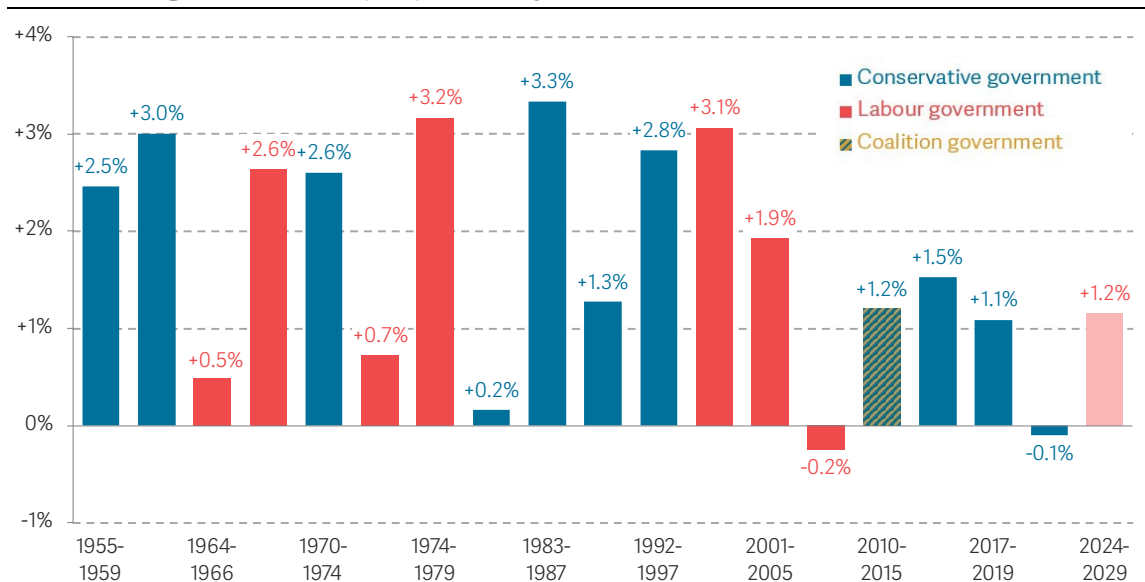
So, the Government is right to target faster growth and to focus on how this translates into increases in living standards. In his [speech](#) today, the Prime Minister shifted the focus away from the UK experiencing the fastest GDP growth in the G7 as its central growth milestone. This is a sensible change not least because achieving this goal is to a large extent outside of the hands of the Government given that it also depends on what happens abroad. Indeed, as shown in Figure 2, according to OBR and IMF forecasts, the UK is set to lag behind the US and Canada as the fastest growing G7 countries.

**But the new milestones lack ambition**

These targets, unfortunately, only provide a bare minimum for increases in living standards. As shown in Figure 3, GDP per capita has risen across almost every Parliament since 1955, bar those in 2005-2010 and 2019-2024 (when it fell by 0.2 per cent and 0.1 per cent, thanks to the financial crisis, and the Covid-19-cost-of-living double whammy, respectively).

Figure 3 **GDP per capita has increased in all but two Parliaments for which have data**

Annualised growth in GDP per person, by Parliament: UK

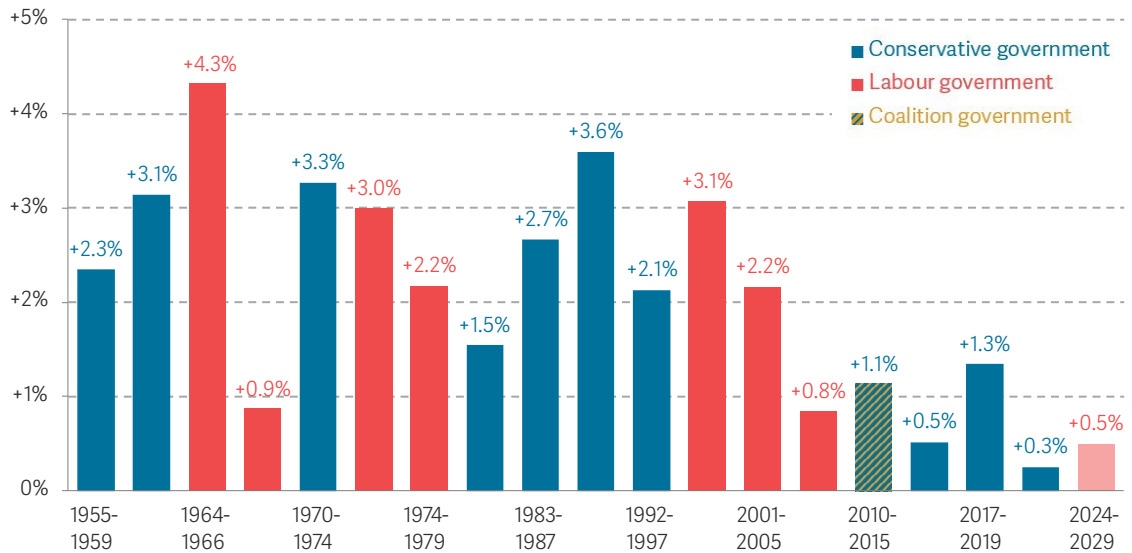


Notes: Based on election dates and quarterly data.  
Source: RF analysis of ONS, National Accounts; OBR, Economic and Fiscal Outlook, October 2024.

And, as shown in Figure 4, RHD<sub>I</sub> has increased in every Parliament on record, albeit with growth in the most recent Parliament averaging just 0.3 per cent a year – a post-1955 low. (However, we should note that both the GDP and RHD<sub>I</sub> per person figures for the last Parliament may be revised down in the light of recent upwards revisions to estimates of net migration). The previous Prime Minister was criticised for setting targets that were already expected to be hit at the time they were announced. Figure 4 also shows the latest forecast for RHD<sub>I</sub> from the OBR, which is for it to rise by 0.5 per cent a year over the current Parliament. This would get over the bar for the Government’s new milestone, but if that was

all that this Government could achieve, then it could hardly be counted as a success by historical standards.

Figure 4 **RHDI has increased in all Parliaments for which have data**  
Annualised growth in Real Household Disposable Income per person, by Parliament:  
UK



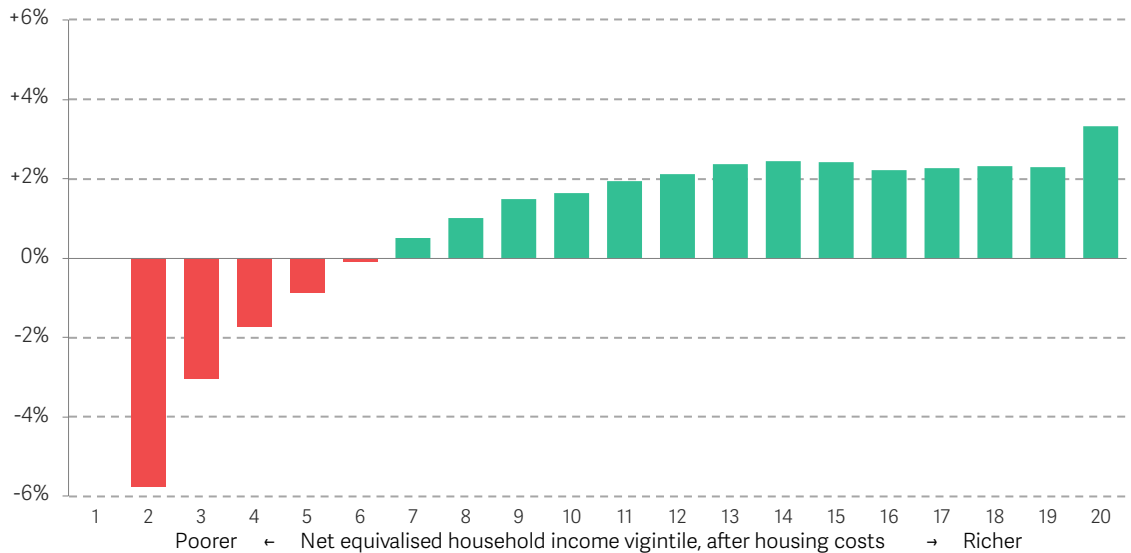
Notes: Includes non-profit institutions serving households (NPISH). Based on election dates and quarterly data.  
Source: RF analysis of ONS, National Accounts; OBR, Economic and Fiscal Outlook, October 2024.

Securing growth in GDP per capita across every region of the UK is a higher hurdle, however: the Government's new target would have been hit in only three of the past six Parliaments. Growth was negative across multiple regions in 2005-10, in the West Midlands in 2017-19, and, although data is not yet available for the whole of the most recent Parliament, it is highly likely to have fallen in multiple regions again given the weak level of growth across the UK overall. So, the commitment to ensure that growth is shared across regions is a meaningful one. That said, one challenge is that at present data on regional GDP comes with a long time-lag: 2022 data only became available in April 2024, for example.

### Aggregate measures do not take into account how the *distribution* of living standards is changing

One drawback of targeting either RHDI or GDP per capita is that they are both aggregate measures of economy-wide growth, say nothing about who is gaining. The Government must ensure that increases in RHDI reach low-to-middle-income households, and don't just flow to richer households. It is concerning that [our most recent projections](#) for the distribution of growth over future years found that the incomes of poorer households in particular are at risk of falling over the course of this Parliament, should the Government proceed with the policies they inherited from the previous government, and not be able to improve the economy's underlying performance.

Figure 5 **Lower-income families are currently not expected to see income growth**  
 Projected total real growth in non-pensioner equivalised household disposable income, after housing costs, by vigintile between 2024-25 and 2029-30: UK



Notes: We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group. Projection taken from A Clegg & A Corlett, *The Living Standards Outlook 2024*, Resolution Foundation, August 2024. Source: RF projection including use of the IPPR Tax Benefit Model; ONS, Wealth and Assets Survey; ONS data; Bank of England forecasts; OBR forecasts.

This is particularly worrying in the context of [very weak living-standards growth at the bottom of the income spectrum](#) in recent years, with concerns emerging about trends in poverty. However, some comfort can be taken from the fact that the RHDl target will be complemented by the upcoming Child Poverty Strategy, which will be [guided](#) by the metric of relative child poverty (after housing costs) and therefore means that distributional questions will receive extra attention.<sup>i</sup>

### Overall, today's announcements are a welcome refocussing of the Government's growth mission

The new targets of raising RHDl and GDP per person over the Parliament at both a national and regional level are a welcome move that should focus minds of policy makers across Whitehall about the need to make sure faster growth translates into rising living standards. But these targets – particularly the aggregate targets – provide only for bare minimum increases in living standards it will be important to make sure they are complemented by policy action to ensure that the benefits of growth are felt by poorer families too.

<sup>i</sup> Additionally, in theory the UK Government is committed to the UN 2030 Sustainable Development Goal target 10.1 of achieving growth for the bottom 40 per cent that is above the national average