

Speech: Philip Hammond's speech at the Resolution Foundation

Thank you Torsten, it's a great pleasure to be here with you this morning and I welcome your latest report as a valuable contribution to this debate.

Ten years ago, the world was in the throes of the worst financial crisis since the Great Depression.

The banking system was broken.

The economy was in recession.

People were at risk of losing their jobs and their savings.

Thanks to our economic plan, and the hard work of the British people, we have turned a corner in our long recovery from that period.

The economy has grown now for nine straight years.

The deficit last year was just 1.1% of GDP and our national debt is falling sustainably for the first time in a generation...

...meaning that, going forward as a nation, we once again have genuine choices.

And we have, of course, got a remarkable story to tell on jobs – with the employment rate at a record high and unemployment at its lowest point since 1975.

I am proud of that record – but the job is not yet done.

We are still dealing with the deepest scars of the recession – in the form of weakened productivity growth, and, especially, low wage growth, which remains below pre-recession levels, despite recent improvements.

We have, of course, already acted to address the challenge of low wage growth for those on the lowest pay.

The introduction of the National Living Wage in 2016 gave Britain's low paid the biggest pay rise in 20 years.

When we increased the rate again in April, 1.8 million workers were better off.

The pay of a full-timer on national living wage has risen by £2750 a year since 2016

And the percentage of jobs defined as low paid, as today's Resolution Foundation report shows, is at its lowest level since 1980.

But with around 18% of the workforce still working in low paid jobs, there is

more to do.

Despite the recent good news on wage growth, a decade of low rates of pay increase has slowed the rate of growth in living standards.

And it has also played into a deeper sense of anxiety about our economic system, about our society and our politics.

[Political content redacted.]

The truth is that we have seen a gap open up – in Britain and in other developed countries – between the theory of how a market economy and free trade creates and distributes wealth, and the reality experienced by many ordinary people.

We ignore that gap at our peril because if we do not address it, it will be filled with the reckless promises of the populists.

But that doesn't mean we should abandon our economic model.

As so often is the case, the populists do not have the answers, but they are quick to identify the problems.

So for those, like me, who believe passionately that harnessing the power of market economics is the only way to deliver progress...

...it is imperative that we take decisive action to show that the regulated market model can respond to these challenges;

...to deliver higher wages and higher living standards...

...as well as providing solutions to the great societal challenges of our age.

That means building the homes that the next generation needs;

Supporting people of all ages to embrace technology change through retraining and reskilling, so that technology means higher living standards, not higher unemployment;

It means closing the gap between our regions through sustained investment in infrastructure;

And harnessing market-based solutions to show that de-carbonisation and rising living standards can go hand-in-hand.

But above all, it means delivering rising living standards, through sustainable real wage growth, year after year.

Of course, over the medium term, sustainable real wage growth is only possible through productivity growth.

That's why I have redirected government resources to that goal, through record levels of investment in infrastructure, a renewed focus on skills, and a relentless programme of support for innovation in the economy.

But raising Britain's productivity is a medium-term challenge. And there is some evidence to suggest that the continued availability of flexible, low-cost labour, may undermine the incentive for productivity-enhancing investment.

So if we are going to meet our ambition of making the economy work for everyone, one of the best levers we have is to deliver carefully considered increases to the National Living Wage.

In 2016, we set a target for the National Living Wage to reach 60% of median earnings by 2020 – and we will deliver on that, giving a pay rise to millions of workers.

Now we need to decide where to go next.

And as I said in the Spring Statement earlier this year, we want to be ambitious, with the goal of ultimately ending low pay altogether in this country.

But we do not want to be reckless – taking excessive risks with the employment prospects of the lowest paid, or with our future economic growth.

From my initial conversations with trade union and business leaders alike, it is clear that there is a broad support for that ambitious approach...

...and broad support, too, for a careful implementation of it, avoiding unintended consequences.

We are greatly helped of course in this country in navigating the path to a sustainable higher National Living Wage by the existence of the LPC, a highly respected tri-partite body embracing employers, unions and academics, able to act as an independent and impartial advisor on the rate of progress that is sustainable.

So our task is to set the remit within which the LPC will work – and to ensure they have sufficient flexibility to allow them to deliver it sustainably.

To help us identify how to do that, I asked Professor Arin Dube, as a recognised expert on minimum wage policy, to review the evidence, particularly evidence from international comparators. I'm delighted to welcome him to London this week – and I look forward to receiving his report in the autumn. And, indeed, to hearing from him in just a moment.

Let me finish with one final thought.

Whoever the next Prime Minister is, one of his or her central tasks will be to show a new, and sometimes sceptical, generation that a properly regulated market economy remains the most powerful force available to us for unlocking aspiration and raising living standards.

And bold, decisive action on the National Living Wage, sustainably delivered, will be an important demonstration of the power of that argument...

[Political content redacted]

So that we demonstrate, once again, that the well-regulated market delivers for all our people.

Now, I look forward to hearing the thoughts of Professor Dube and others about how we can turn that vision into a sustainable reality.

Thank you.