

How to boost the wage share - which is the pre-requisit...

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The TUC has [published a new Touchstone pamphlet](#) by my good friends and colleagues Howard Reed and Stewart Lansley:

As Christine Lagarde, Head of the IMF said in January this year:

I believe that the economics profession and the policy community have downplayed inequality for too long ... Now all of us have a better understanding that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies.

She is right. The share of wages in the overall income of our country has fallen for more than thirty years (this diagram comes from the pamphlet):

The result is a lack of purchasing power for ordinary people, growing inequality and a profound sense of social injustice. As a result Howard and Stewart argue that:

Increasing the wage share is one of the key economic policy challenges for the next decade. A rising wage share will underpin higher living standards and allow growth that is more sustainable and not reliant on consumer debt. This study looks at what practical steps policy makers could take from raising the minimum wage through to an active industrial policy in order to boost wages.

That is what we need. We do not need more profits for business to stash unproductively in tax havens and to leave unused when real investment in the economy is needed, as this diagram shows:

We need people who have the money they need to live lives of dignity.

I argued on air yesterday [when discussing MP's pay](#) that people joining unions and demanding fair pay for themselves, just as MPs were doing, was part of the solution to this problem, and I am convinced it is. Having any major political party that took the needs of working people seriously would also help but it goes beyond that. As Howard and Stewart also argue:

Rebalancing the economy towards a higher overall and 'lower half wage share', a reduced dependence on low pay and a smaller pay gap would lead to stronger growth and less economic turbulence. While stemming and reversing the trends of the last 30 years will be far from easy, and will have to be secured gradually over time, the evidence is that doing so is a necessary step for achieving sustained economic health.

Achieving this rebalancing requires, above all, a new social contract with labour, or what President Obama has called a new 'basic bargain' — one underpinned by a new set of governing rules between the state, the workforce and business. In the UK, the current contract has broken down. Growth no longer automatically delivers improved living standards, while a large and growing proportion of the workforce is being denied secure work and decent pay.

The elements of this new social contract should be:

- measures aimed at raising the earnings floor for those currently in work*
- measures aimed at capping excessive rewards at the top*
- measures aimed at increasing the extent of collective bargaining and workplace participation*
- a new central commitment to policies that create full employment*
- longer term measures aimed at reversing the recent trends towards a low pay economy.*

Rebalancing the economy in this way requires a mix of short-, medium- and longer-term measures. These would aim first to raise wages in the bottom half of the distribution and narrow the pay gap among the existing workforce. A second group of longer term and more fundamental measures would then aim to alter the structure of the workforce by reducing the economy's dependence on low paid sectors.

This is precisely the sort of thinking we need from the TUC right now. It is what Labour needs to hear.