Nasty, brutish and (possibly) short(-lived): Putting the UK recovery in context

12/17/2013

Talk of recovery has a hollow ring while many millions of people are suffering real hardships in their lives, writes ***David Spencer****. But as we approach 2014 it is important to keep alive the idea that things can be different. The positive counter-narrative is that somehow the existing consumption-led, debt-fuelled growth model in the UK can be challenged and an alternative put in its place. Different policy choices can and must be made.*

2013 has been a year of slow recovery for the UK economy. Thanks to a revival of household consumption, growth has returned. Yet, the sustainability of the recovery remains uncertain. The fact that growth is occurring in the context of falling real living standards suggests that recovery could be short-lived, at least without a revival in investment and exports. Neither looks very likely at the present time.

There is the real fear that the UK is set to repeat the same mistakes as the past: that the economy is growing due to higher consumption that cannot be sustained into the future. Faced with lower incomes, households are only able to spend more by reducing savings or by borrowing more – neither is sustainable. 2014 may yield further economic growth, but subsequent years may bring another crash, possibly even worse than the last one.

Even with the return of growth, the UK economy remains below its pre-crisis level of GDP. Technically speaking, six years after the start of the crisis, the UK economy remains in a state of 'depression'. Unemployment also remains high. In employment terms, involuntary part-time work has risen and jobs growth has tended to be concentrated in low-waged sectors. In addition, wages have failed to keep pace with inflation, leading to an unprecedented squeeze on real wages. Many in work face poverty.

Behind the statistics showing rising GDP is real hardship. Food-banks have been springing up almost at the same rate as forecasts of GDP have been uprated. It is unsurprising that many people in the UK report not feeling any benefit from economic recovery, even though most are convinced that the economy has returned to growth. This is a recovery with a 'feel bad' factor.

The expectation is that real living standards will continue to fall in the next few years. Hardship is likely to increase still further through the retrenchment of the welfare budget. The government's attempt to reduce the size of its own spending will involve cuts in welfare payments that will hit the poorest in society the most.

Growth, if sustained, will bring down unemployment. The fall in unemployment will at some point help workers to recover some of the loss in their real incomes. Yet, changes in the UK labour market mean that workers will have to fight hard for wage increases. The secular decline in union power, combined with the relative power of large corporations, make it difficult for workers to bargain for higher pay. The fact that many workers are burdened with debt also weakens their bargaining power. A significant fall in unemployment may be required before real wages rise again.

The prospect of an economy growing again but people not getting any better-off is a grim one. Talk of recovery has a hollow ring while many millions of people are suffering real hardships in their lives.

The positive counter-narrative to the above is that somehow the existing consumption-led, debt-fuelled growth model in the UK can be challenged and an alternative put in its place. Let's call that alternative a progressive model of growth based on higher wages and higher investment. It would seek to empower workers not cower them, by offering new training opportunities, it would demand a new role for the state in stimulating economic activity (in effect, a revived industrial policy), and it would entail the reform of finance so that it acted as the servant rather than the master of industry.

This progressive alternative, however, remains a long-shot. The political will for its adoption is simply not there. Nor is there any popular support for its implementation – most people are fighting just to make ends meet. Instead, there is a grim resignation to the current growth model, in spite of its evident flaws.

But as we approach 2014 it is important to keep alive the idea that things can be different. Austerity was a political choice. A recovery accompanied by welfare cuts also reflects the influence of ideology rather than economics. Different policy choices can and must be made. 2014 might just see the renewal of calls for a different policy approach and for a different kind of economy. Now that would be something to look forward to.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

About the Author

David Spencer *is Professor of Economics and Political Economy at the Leeds University Business School.*