

## About the recovery in the UK

By Bob Hancké, LSE

For those of us who maintained that austerity would not lead to economic growth, the deflationary depression settling into the euro-zone is comfortably bad news. Compound austerity has kept growth rates well below what they have normally been in the past, especially after serious recessions. Unemployment has remained high, and debt (which is what this was supposedly all about) has crept up almost everywhere as a result of low growth rates.



The UK Chancellor George Osborne has engineered a recovery built on sand

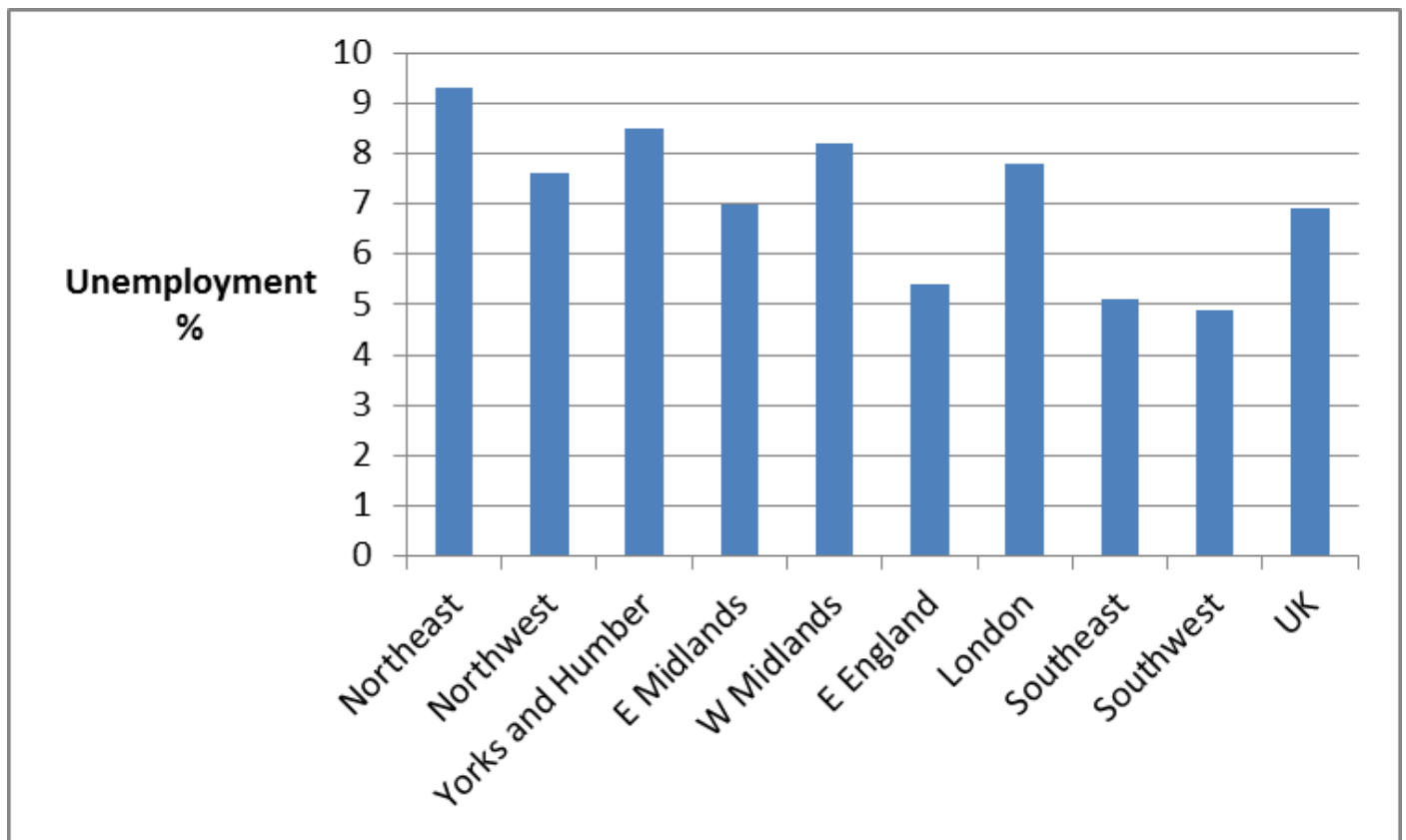
But don't mention the UK in that sort of company. There, austerity has, or so it seems, led to economic growth and low unemployment. George Osborne, the UK Minister of Finance, has taken a gamble... and won. If anything is wrong with the rest of Europe, it has to be membership of that most reviled of arrangements, the single currency.

A few facts about the recovery might be helpful. **Robert Skidelsky wrote a very thoughtful piece in the New Statesman** on the actual economic

performance of the Conservative-led coalition government of David Cameron. Growth may be back, but it is very late, relatively modest and, most of all, does not make up for the lost six years behind us. GDP is scheduled to overtake the 2008 level (the peak before the crisis) in June of this year. A massive drop in economic activity, followed by stagnation for several years has been the profile of the UK since the summer of 2008. That should be read against a background of remarkably high inflation during that period, with highs of 4-5%. Some estimate that wage earners lost between 10 and 15% of their purchasing power since the onset of the economic crisis.

The growth we witness today is very unbalanced: the south of England, around London, is humming along very well. In fact, with the exception of a few quiet months in 2008, when the restaurants appeared slightly less packed than a few years earlier, the crisis has come and gone in London before the locals were even aware of it. But once you enter the Midlands, about 100-150 km north of the capital, the picture changes dramatically. Unemployment is dramatically higher here than in the south apart from London, which has pockets of deprivation of its own (see table below). Even those with jobs are much more likely to be part-time or on short term contracts. Productivity is lower even than the UK's dismal average.





A country of two halves: unemployment remains high outside the south of England

The recovery, such as it is, is unbalanced in another fundamental way as well. Instead of being based on a 'healthy' purge of nasty elements (capitalism always had a strong Protestant streak, as Weber reminded us), the UK is growing on the back of another fast-inflating asset bubble. Housing prices everywhere, but especially in London (where they had not really fallen much to begin with) are rising faster than ever. (Now you know where all that quantitative easing money went.) Meanwhile the UK's trade balance is still negative. The only points of light there are, somewhat ironically, the financial services, one of the UK's leading export sectors. But not manufacturing or anything else that might provide the basis for a more sustained and sustainable economic growth model.

From capital to labour, then. Employment has held up, yes, but the [Guardian](#) today reports two uneasy facts. One is that self-employment has gone through the roof in recent months: people are not offered new jobs, but hope they come into being when they offer their labour. The other is that zero-hours contracts, already quite a scourge of workers in the UK (they are literally what it says on the label: a contract with zero contractual hours, where workers are permanently on call) have become mandatory for job seekers: if offered a zero-hour contract, John has to accept it or lose several months of unemployment benefits.

Taking everything together, that recovery is really somewhat weaker than most of us would like it to be. And, most importantly, it is probably also something that most of us would not want. Austerity really does not create growth and jobs.

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