TOUCH STONE

PAMPHLET#10

Britain's Livelihood Crisis

Thirty years ago, Britain moved from welfare to market capitalism, on a promise of economic dynamism and renewed efficiency. The result has been rather different. While those at the top have become very rich the disappearance of many middle-paid, skilled occupations and an ongoing squeeze on wages has led to a poorer, more divided Britain. This pamphlet deconstructs the different elements that, together, have led to 'Britain's Livelihood Crisis', before setting out the changes that government, business and unions must make if we are to deliver more wealth and greater equality.

About the author

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Foreword

by Brendan Barber, TUC General Secretary

It is now over a year since the end of Britain's most recent recession, but for many households the pain continues. In fact the financial hardship that some families currently face is greater than in the depths of the downturn. The government's own forecasts show that wages will trail behind inflation for several years to come, while household debt will continue to rise.

For those on middle and low incomes who, as this pamphlet shows, were experiencing a wage squeeze before the recession even started, a return to business as usual is unlikely to bring any significant rewards. On the contrary, as stagnating wages are accompanied by tax rises and cuts in the benefits and tax credits available to working families, life is set to become even more of a struggle.

The wages of middle income Britain grew by an average of just 56 per cent between 1978 and 2008, despite GDP increasing by 108 per cent over the same period, and for workers in some skilled trades incomes actually fell in real terms.

While unemployment levels remain below those of the 80s and 90s recessions, close to 2.5 million working-age adults are unemployed and several million more are out of work and want a job. With growth rates held down by government austerity those without work are facing a highly uncertain future.

The crisis is not just happening in Britain's workplaces. People are finding it harder than ever to own their homes. Services and support for children and young people, from Sure Start centres to universities, is being cut back. And as the retirement age rises tomorrow's pensioners are faced with paying more for their care with far less generous workplace pensions. For the first time in many years we are facing the very real prospect of a sustained cut in our living standards.

These problems are not a consequence of the global downturn. The fact is that while a few at the top have seen great benefits the UK's move from welfare to market capitalism has not brought rewards for the majority.

Levels of investment in productive business are low, average growth rates have declined and economic shocks are now more frequent and severe. Before the recession began Britain was a low-wage, high-debt and increasingly unequal nation. Government austerity is now set to make things worse. Without a radical re-think Britain's livelihood crisis will become a permanent way of life. Tinkering won't create the inclusive, productive and high-quality, new economy we need. This pamphlet sets out some of the changes that could start to take us there.

Executive summary

Britain is facing a deep-seated 'livelihood crisis', with a significant and rising proportion of the population denied decent work, pay or pensions and facing growing economic uncertainty. Far from offering expanded work opportunities, the country's brittle and turbulent economy has brought near-record unemployment and a fragile labour market in many parts of the country.

In early 2011 2.46 million people in the UK were unemployed and there were another 2.35 million "economically inactive" people who were out of work and wanted a job. Millions more are trapped in low-paid, low-opportunity, insecure jobs that offer few real hopes for the future. Many households face erratic, static or in some cases falling incomes from a very low base. Large numbers have no real hope of escape from this crisis, of improving their living standards in the medium or even the long term, even if the economy enjoys a strong recovery.

Over the last three decades, Britain has become a much wealthier country; real output has nearly doubled. Despite this, living standards and life chances for many have stood still or in some cases gone into reverse. While rising prosperity could have brought expanded choices and opportunities for all, a significant proportion of the workforce has found itself increasingly squeezed by economic and social circumstances over which it has little control. For a minority, economic and social prospects have actually declined in absolute terms compared with their parents' generation, a decline that set in well before the recession.

This pamphlet will explore the nature, extent and causes of this crisis and possible solutions. It estimates that the crisis currently afflicts up to one-third of the population. For some the crisis has been a temporary experience: for most it has proved enduring or repetitive.

The livelihood crisis has been triggered by the increasing polarisation of the jobs market over the last three decades. As well as spreading joblessness, there has been a rise in the number of well-paid professional and managerial jobs, a decline in the number of middle-paid and skilled jobs, and a rise in the number of routine low-paid service jobs. Alongside this 'hollowing out of the middle' has been a steady growth in the number of 'bad jobs' that offer poor conditions of work, minimal rights and little security.

These trends have been accompanied by an ongoing wage squeeze, with the share of national output accruing to wage-earners falling from a peak of nearly 65 per cent in the mid-1970s to as little as 53 per cent by 2008. Moreover, this collapse in the wage share has been borne most heavily by the middle and lower paid, leading to a sharp rise in earnings inequality. Some unskilled and semi-skilled jobs now pay little more in real terms – and in some cases less – than they did in the late 1970s.

Although these trends have been fuelled by technological change and the rise of a global labour market, their roots lie in a fundamental shift in Britain's underlying economic and political philosophy. From the early 1980s, successive governments subjected the UK economy to an all-embracing economic and social experiment, a switch from welfare to market capitalism.

The post-war commitments to full employment, progressive taxation and inclusive state-provided welfare were scaled back, public services and enterprises were privatised, and trade union and employment rights were withdrawn. The balance of economic power shifted upwards to a new domestic and global financial elite that enforced a new business model – the aggressive pursuit of shareholder value aimed at maximising the short-term rise in the share price.

The experiment in market capitalism led to successive waves of cost-cutting, downsizing, industrial restructuring and short-termism, bringing decades of upheaval for much of the labour force while handing fortunes to the new financial oligarchy on a scale not seen since the late 19th century. The reasons for the upheaval, as set out by its supporters, were clear – to correct for the failings of post-war welfare capitalism, lift Britain out of its tepid entrepreneurial culture and bring renewed economic dynamism. Although the wealth gap might grow, all citizens would be better off through an expanded economic cake.

It has not worked out like that. Finance capitalism has a poorer record on most economic measures than the welfare model it replaced. The new market freedoms have brought slower economic growth, renewed instability and three deep-seated domestic recessions. Far from a more dynamic and entrepreneurial economy, there has been a slump in productive investment, while productivity growth has been lower than in the 1950s and 1960s. Finance and banking created almost no net jobs in the 15 years to 2007, despite the industry's greatly expanded share of the nation's output and profits.

The livelihood crisis and economic instability are now locked together – via soaring inequality – in a dangerous economic vicious spiral. This is because the rising concentration of wealth, driven by the collapsing wage and rising profit share, has not only led to the declining opportunities that underlie the livelihood crisis, but has also contributed to economic fragility. As relative wages fell and purchasing power sank, personal debt soared: as the newly inflated fortunes were turned into giant speculative bets, asset prices boomed. Hence the twin triggers of the credit crisis set in motion by the market experiment.

Despite the scale of its failure, the market model remains the economic orthodoxy, domestically and globally. Yet to tackle the current crisis and reverse the instability cycle requires a radical transformation of Britain's political economy built around a new business and economic model. This does not mean a return to the pre-1979 mix of weak corporatism, state ownership and poorly targeted industrial activism.

What is needed is a 'post-market model' with a re-cast role for the state, business and labour and with an emphasis on wealth and job creation as well as a fairer distribution of the national cake.

First, the state needs to adopt a more central role in both minimising inequality and in promoting productive investment, entrepreneurship and wealth creation.

- Because of the market economy's natural tendency towards excessive inequality, the state should adopt a new operating principle of a bias towards equality.
- It also needs to adopt a much more active approach to industrial policy – including the establishment of a National Investment Bank – along the lines of the successful interventionist strategies adopted by other countries.
- The economy needs to be rebalanced away from its dependency on finance with new controls over the financial excess and speculation that have fed Britain's short-termism and unsustainable asset price booms.

Second, there should be a package of measures designed to encourage a more responsible capitalism with a better balance between market freedoms and the public interest.

- Regulations need to be tightened to ensure that companies are made more accountable to society, with, for example, new government powers to block or restrain on national interest grounds a hostile takeover of a British company by transient institutional investors.
- To counter the dominance of the 'for-profit' corporation and promote the idea of public purpose, alternative forms of more socially orientated business models – such as not-for-profit companies, mutualisation and social entrepreneurship – should be encouraged.
- Legislation is required to ensure that corporations have a responsibility to a wider group than just shareholders, including staff, the local community and the taxpayer.

Third, Britain's flexible labour market needs to be modified.

- The trade union movement needs to play a more central role in workplace decision-making.
- The level of Jobseeker's Allowance (JSA) – pegged in real terms and now among the lowest of any developed country – should be increased to nearer the European average.
- To tackle rising levels of long-term unemployment and greater economic volatility, Britain needs more active labour market policies, recognising that conditionality in the benefits system must be accompanied by improved support for unemployed people.

1. What is the livelihood crisis and who is affected?

Over the last three decades, Britain has faced an increasing 'livelihood crisis' in which a significant and growing proportion of the population face deep-seated economic problems and uncertainties, especially in relation to work and pay.

Joblessness is much more widespread than it was in the immediate post-war decades. The growth of 'hidden unemployment' means that the headline figures for worklessness greatly understate the actual numbers. Work itself is no guarantee of decent pay or economic security. Rising numbers have become trapped in low-paid, low-prospect, insecure jobs that offer few real hopes for the future. As a result, many households – in and out of work – face erratic, static or in some cases falling incomes from a very low base.

Despite the talk of creating an aspirational culture, large numbers of people have no real prospect of escape from this crisis, of improving their living standards in the medium or even the long term. For significant sections of the population, the process of upward absolute social and economic mobility that characterised the post-war boom decades has come to a halt. Income growth for middle- and low-income households has slowed and for some turned negative. As a result, a significant minority of the population faces economic and social prospects that are lower in absolute terms than those of their parents. Although these problems have been accentuated by the 2008–09 recession, the livelihood crisis pre-dates the economic downturn.

This livelihood crisis has become widespread and entrenched in the last three decades. Many of the old certainties – jobs for life, decent occupational pensions, cheap housing – have gone. Today manufacturing employs only 17 per cent of the population compared with a half in the 1960s. In some of the old industrialised regions, from south Wales to the north-west of England, the workforce has become increasingly dependent on public sector jobs and investment. Increasing numbers have turned to debt, while rates of personal insolvency have reached record levels. Although some households experiencing the livelihood crisis may find an escape route, the crisis has become permanent or semi-permanent for many.

The crisis is not confined to those defined as poor (those on incomes below 60 per cent of the median – roughly a fifth of the population). It also afflicts many of those above the poverty line including those in the 'squeezed middle' – those with incomes that take them to the centre of the income distribution. This group has joined those on lower incomes in facing deteriorating life chances compared with the past.

Over the last three decades, with the near doubling of GDP, Britain has become a much wealthier country. As a result, average living standards have soared, with dramatic improvements in health, falls in the number living in sub-standard housing and higher numbers attending university. Many women, in particular, enjoy much wider social and employment choices and opportunities than a generation ago.

Despite this, living standards and life chances for many have stood still or in some cases gone into reverse. While rising prosperity could have brought expanded choices over work, leisure and housing for all, much of the population has found itself increasingly squeezed by economic and social circumstances over which it has little control.

Many of the risks associated with modern living have increased. Economic shocks have become more frequent and more severe, while weaker guarantees have turned Britain into a more economically brittle and fractured society. Since 1979, four million manufacturing jobs that once offered security to skilled and unskilled manual workers have gone. Some big British companies like Rover and Marconi closed. In the 1970s Ford Motors in Dagenham employed more than 40,000 workers, while a significant proportion of the workforce in the West Midlands worked in local car and motorcycle factories or steel mills. In that decade, Stoke-on-Trent was still the pottery capital of the world. Most of these jobs have disappeared in the last 30 years.

The decline in opportunities has not been evenly spread. Although prospects have always been unevenly distributed, the pattern of life chances has become steadily more unequal than in the past. Those with the least skills and qualifications face much more insecurity than in the post-war years. As a result, while some sections of the population have shared in rising prosperity, a sizeable minority has been left behind. For some groups, the economic and social eruptions of the last 20–30 years have brought an absolute decline in opportunities, making the livelihood crisis more frequent, more endemic and more enduring. It now affects a broader cross-section of the population, from low- to middle-income earners, who have been the main losers from structural economic change. When economic crises arrive, there are fewer mechanisms than there were for overcoming them.

Although service jobs have been created in large numbers since 1979, once-prosperous areas in the industrial heartlands have been shorn of decently paid, secure work where households could plan for the future. The best of the new jobs have been concentrated in a small number of prosperous areas – mainly London and parts of the south-east. In other parts of Britain, deindustrialisation has brought decaying communities with whole generations denied much economic purpose in life. In some former industrial areas factories have been replaced by little more than car parks, cut-price retail outlets and warehouses. In Stoke, Staffordshire Pottery is now a B&Q; in the Brierley Hill area of the West Midlands, the Marsh and Baxter's meat processing plant, once the biggest in Europe, is now a shopping centre. In these areas, the jobs that are on offer are often poorly paid and insecure.

The livelihood crisis has been driven by three key, 30-year-long economic and social trends.

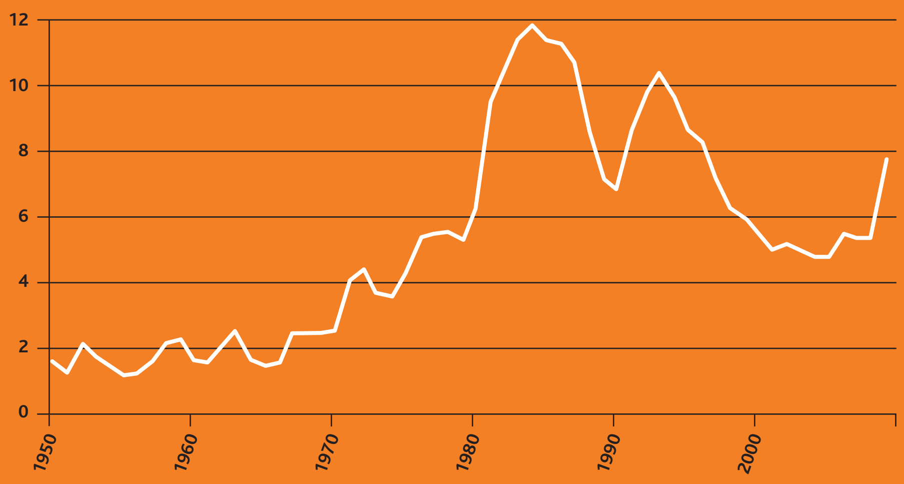
- First, by a steady rise in the level of unemployment. Although the spread of joblessness eased in the boom years from the late 1990s, this reversal was short-lived. Many of the jobs created in the post-millennium years were lost in the 2008–09 recession.
- Second, by a steady decline in the quality of work – a rise in the number of jobs offering poor conditions and prospects together with a sustained squeeze on earnings among the bottom two-thirds of the population.
- Third, by a rise in the level of dependency on debt. Not only has the growth of debt owed to others (indebtedness) put increasing pressure on family finances, it means that there are often greater financial risks associated with the loss of a job or a fall in earnings than in the past.

2. The work-poor economy

In the three decades from 1950 to 1979, the unemployment rate averaged 2.3 per cent a year (Figure 1). This period was a time of near full employment for men, though less so for women. Post-war unemployment hit its low point in 1955 at just 235,000 people – 1.2 per cent of the workforce.

Since 1979, unemployment has soared, averaging 7.8 per cent, more than three times that of the pre-1979 era. Unemployment rose sharply during the recessions of the 1980s and 1990s (exceeding 3 million in 1984 and 1993), fell back in the decade from 1997, and then rose again in the 2008–09 crisis to settle in the third quarter of 2010 at 7.9 per cent – its post-1979 average.

Figure 1: Unemployment rate, 1950–2009, percentages, UK



Source: The data from 1971–2009 is the ILO unemployment rate (series MGSX, second quarter), seasonally adjusted (Office for National Statistics (ONS), Social Trends 40, 2010, data for Figure 4.1). The figures for 1950–70 are provided by the ONS. Because of changes in definitions, the series before and after 1970 are not strictly comparable.

As joblessness fell during the post-millennium boom, there was talk of a return to full employment. We now know that this boom and the falling unemployment that it brought was created by unsustainable credit and soaring asset prices. Moreover, even in these boom years, unemployment averaged 1.7 million, four and a half times the average of the 1950s and 1960s.

Hidden unemployment

These headline figures of registered unemployment also tell only part of the story of the rising tide of joblessness. This is because they do not allow for those of working age who are 'economically inactive' (the definition that ONS uses for those of working age who are not actively seeking a job) but would like to work. These include those who have been diverted onto incapacity benefits (those claiming Incapacity Benefit, Employment and Support Allowance and Severe Disablement Allowance) and others who are not actively seeking employment but would prefer to have a job.

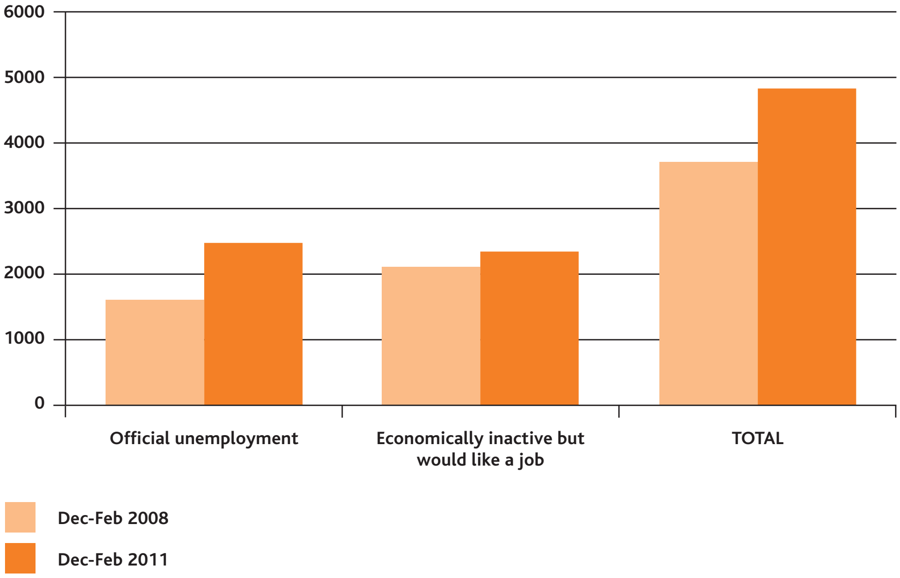
In 2009, there were 2.6 million people receiving incapacity benefits across Britain. The figures started to rise sharply in the recessions of the 1980s and the 1990s when many of those who lost work were encouraged to move from unemployment to invalidity benefit to keep the claimant count figures down and hide the full scale of rising unemployment. Most of these were middle-aged, male workers in badly hit declining industries like mining, textiles and steel. Many have never worked again, resulting in mounting debt and deteriorating health. Although the numbers on incapacity benefits have fallen slightly in recent years, they still stand at nearly three times the level of the early 1970s.

Of the 2.6 million currently claiming incapacity benefit, some are unquestionably too ill to work, though many who would like to work face serious obstacles in finding a job. Researchers at Sheffield Hallam University have estimated that around one million "could reasonably be expected to have been in work in a fully employed economy". They regard this group as the "hidden unemployed".[1]

Apart from those who are economically inactive as a result of sickness or disability there are also other groups who are not actively seeking work but would like a job. These include parents with young children who cannot find work to fit around their childcare responsibilities and other carers who cannot find appropriate employment given their unpaid caring work.

Figure 2 shows the effect of adding all those of working age who are economically inactive but would like a job to those who are unemployed. In the December–February quarter of 2011, the number of those who wanted work stood at 4.83 million, close to double the official figure.

Figure 2: The 'want work' level, thousands



Source: ONS

Not all the unemployed – official and hidden – will face serious financial hardship. Some will have been able to build a reasonable level of savings; some will be out of work for a short time; some will have partners who are still in work. Nevertheless, the financial pressures facing the jobless have increased sharply over time. This is in part because, as shown in section 4, state financial support for the unemployed has been steadily eroded. In addition, worklessness is not just higher than in the past, it has also become more concentrated. As a result a higher proportion of the workless experience squeezed incomes and tight budgets for longer. This is for two main reasons.

- **First, because the unemployed are typically out of work for longer than in the past.** Table 1 shows that, even during the post-millennium boom years, rates of long-term unemployment were much higher than in the 1950s and 1960s. The long-term unemployed are more likely to live on low incomes and also have more heavily blighted employment futures than those experiencing short bouts.

Table 1: Unemployed for longer

	Percentage unemployed for more than 6 months	Percentage of all unemployed for more than 12 months
1950s	20	9
1960s	29	15
1970s	41	24
1980s	58	38
1990s	54	37
2000s	38.9	23
Oct–Dec 2009	49	27

Source: For the 1950s to the 1980s, *Social Justice*, Report of the Social Justice Commission, Vintage, 1994; for the 1990s and 2000s, ONS (though the series for the 1990s starts in 1992). [2]

- **Second, because of the rise of the jobless household – those in which none of the adults in the family below pension age is in work.** In the 12 months to June 2009, there were 3.3 million workless households – 16.9 per cent of all households of working age, containing 4.8 million adults and 1.9 million children. (This is higher than the number of unemployed shown in Figure 2 because it includes the economically inactive not in the labour force such as those caring for children or an adult relative). The comparable proportions for 1975 and 1981 were 6.5 per cent and 11 per cent.[3] This upward trend stems, in part, from the rise in the number of single-parent families. But it has also been a product of the polarisation of work between two-adult households, with a growing number of the unemployed having a partner who is also jobless. It is a trend that has led to a rising income gap between 'work-rich' families (with two or one and a half jobs) and 'work-poor' families with no jobs.

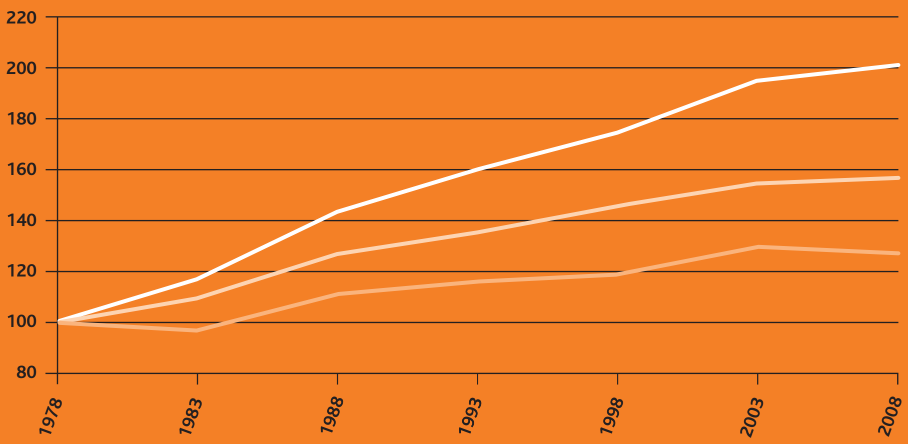
3. The declining quality of work

The livelihood crisis is not confined to workless individuals and households. It has also been affecting an increasing proportion of those in work.

- **First, because of a sustained squeeze on earnings.** The share of national output going to wages has shrunk from close to 65 per cent in the mid-1970s to 53 per cent in 2008.[4] Moreover, this decline was borne almost entirely by the bottom two-thirds of earners. Figure 3 shows the index for the rise in real earnings (for full-time males and adjusted for inflation) at three different points in the income distribution from 1978 to 2008 (1978 = 100). While real earnings at the 90th percentile doubled over the three decades, real median earnings were 56 per cent higher and real earnings at the 10th percentile only 27 per cent higher. Thus, since the end of the 1970s, wages for a significant proportion of the population have been slipping behind general rises in prosperity. It is this pattern that is one of the factors behind the growing phenomenon of the 'squeezed middle'.

Figure 3: How earnings have become more unequal over the last 30 years

Index of rise in gross weekly earnings, full time males, 1978-2008
1978 = 100



Source: Author's calculations from Annual Survey of Hours and Earnings (for 1997-2008), and New Earnings Survey (for 1978 to 1996).
The earnings figures have been adjusted for changes in the retail price index.

Note: The NES covers GB and ASHE covers the UK.

The shrinking of the earnings pool taken by low- and middle-income workers has led to a sharp rise in the extent of low pay. Thus the proportion of employees whose hourly wages are below two-thirds of the median rose from 12 per cent in 1977 to 22 per cent in 2009.[5] In that year, 5.3 million people earned less than £7.28 per hour.[6] While the introduction of the National Minimum Wage in 1999 has built a floor into this sinking process, it has mitigated but not halted this broader trend.[7] As a result, low pay is now the chief cause of poverty, with the proportion of poor children in working households standing at 61 per cent.

This trend has been caused by two factors. First, a shift in the pattern of work, with many of the jobs being created in services in areas like retail and recreation paying less than those they replaced. The last 30 years has seen a steady rise in the number working in well-paid professional and managerial jobs, but a decline in the number of middle-skill jobs paying moderate salaries and a rise in the number of routine low-paid jobs. The jobs market has become increasingly polarised, with the emergence of what has become known as 'the hollowing out of the middle' through the steady loss of middle-paying jobs.[8]

The second factor is an increase in relativities between jobs, with earnings in high-paying jobs rising sharply in relation to those in middle- and low-paying jobs. The last 30 years has seen the emergence of a multi-speed wage economy. Those at the very top (roughly the top 0.1 per cent), a group encompassing financiers, bankers and company executives, have ended up in the fast lane of wage growth, enjoying runaway rises in remuneration. While median earnings have risen by 40 per cent over the last decade, for example, remuneration packages for the chief executives of FTSE100 companies have risen by 343 per cent.[9]

The next group (roughly one-third of the workforce), those working in well-paid white-collar professions outside of the corporate and City super-elite – such as lawyers, accountants, senior public servants, medics and engineers – have also enjoyed much faster rises in earnings than those in non-professional jobs. In contrast, the bulk of the workforce (roughly the bottom two-thirds) – from manual to routine white-collar workers – have ended up in the slow lane of earnings growth.

Table 2 compares real earnings for a range of jobs in 1978 and 2008. The jobs are ranked by their median earnings (for each group) in 1978, with, for example, medical practitioners the highest paid and plasterers the lowest paid of the jobs indicated in that year. The table shows the percentage rise in real median earnings (that is, after adjusting for inflation) for each job category over the 30-year period.

Those in the best paid jobs in 1978 – from medical practitioners to accountants – have enjoyed much higher increases in earnings over the last 30 years than those in middle and lower paid jobs in that year. Thus while the earnings of medics and of judges, solicitors and barristers have more than doubled in real terms since 1978, real earnings in some occupations – forklift truck driving, packing and bottling, and baking – have actually fallen.

Table 2: Rise in real earnings, 1978–2008, full-time male employees

Percentage change in real earnings, after adjusting by rise in index of retail prices

	Change in earnings, 1978–2008 (%)
Medical practitioners	153
Mechanical engineers	34
Electrical and electronic engineers	55
Architects; town planners	36
Judges, barristers, solicitors	114
Accountants	60
Quantity surveyors	65
Secondary school teachers	67
Toolmakers/tool fitters	21
Heavy goods vehicle drivers	19
Sheet metal workers	8
Fork lift truck drivers	-5
Welfare/social workers	60
Bus and coach drivers	11
Carpenters and joiners	30
Skilled motor mechanics	34
Bricklayers	37
Packers, bottlers, fillers, canners	-3
Bakers	-1
Plasterers	30
Median	56

Source: New Earnings Survey for 1978; ASHE for 2008.

Notes: 1978 relates to GB while 2008 relates to the UK. There have also been some definitional changes relating to some individual jobs. These will not alter the broad direction of change. The job categories shown are from those which are common between the surveys for those dates.

- **Second, because of a rise in underemployment – those working fewer hours than they would like.** The rate has not fallen below 6.6 per cent since 2000 while, even in the boom years from 2005 to 2007, an average of two million people were underemployed. By the first quarter of 2010, with many firms coping with contraction by squeezing hours, the figure had risen to 2.81 million (nearly one-tenth of the workforce). Of these, slightly over one million were part-time workers who couldn't find full-time work. There were also some 1.3 million workers classed as full-time who would have liked to work more hours than available, take on an extra job or move to different work with longer hours.[10]

- **Third, because of a decline in the quality of employment across a number of areas of work.** Although there has long been a secondary, peripheral labour market employing workers on relatively poor conditions of work with minimal training and security, the size of this market began to grow in the 1980s and early 1990s with the weakening of trade union powers and workplace rights aimed at creating a more flexible labour market. This process of labour market deregulation has led to what one academic has described as the "re-allocation of risk" from companies to the workforce, with workers bearing a higher cost of industrial restructuring, bringing "reduced job security, lower wages and job intensification".[11]

  A comparison of employment conditions in 2002 and 1992 found that, because of a deterioration in pay, job prospects, training and hours worked, the 2002 "world of work is much less satisfying to employees than the one they were experiencing ten years ago."[12] A more recent study has estimated that, although employment rights improved under Labour, in 2008 some two million people in the UK worked in 'vulnerable employment' – precarious work often characterised by unsocial hours, exploitative working conditions, a lack of training, pervasive job insecurity and minimal employment rights.[13] Such characteristics are particularly prevalent in low-pay sectors like care, industrial cleaning, factory packing, hospitality, security, construction and food processing. Jobs in these industries are often sourced through agencies and come with no contract and a lack of the entitlement to sick pay, paid holidays and pension contributions enjoyed by permanent employees. In the UK, 4.3 per cent of the workforce relies on an agency compared with 2.1 per cent in the USA and the Netherlands and 0.9 per cent in Germany.[14] Of the estimated 1.5 million people working in temporary jobs, three-quarters take the jobs not out of choice but because they could not find permanent work.[15]

  Those most vulnerable to what have been described as 'bad jobs' are the low paid, poorly qualified and unskilled.[16] Such work is strongly associated with multiple spells of unemployment in what the Treasury has called the "low-pay, no-pay cycle", a situation when workers move between unemployment and low-paid, insecure jobs. "Low paid jobs are more likely to act as a blind alley than as a stepping stone to a position higher up the pay distribution."[17] A report from the House of Commons Committee of Public Accounts found that 40 per cent of people moving off JSA into work make a repeat claim within six months.[18] This cycle occurs because low-paid jobs are much more precarious than higher-paid ones. Men in the bottom of the earnings distribution are nearly three times as likely and women twice as likely to leave work within a year as those at the top.[19]

- **Fourth, because of the emergence of downward occupational and social mobility.** An important consequence of these wider labour market trends – the hollowing out of the middle, the earnings squeeze, the spread of bad jobs and the weakness of the labour market in many parts of Britain – has been that the post-war era of upward social and economic mobility has been petering out for many groups. While income growth for many middle- and lower-income groups has slowed since 1979, recent years have also seen rising levels of skills' under-utilisation, with significant numbers unable to find work appropriate to their skills and experience and having to moderate their job and pay aspirations, taking less skilled work on lower pay rates than in the past.[20] Research by the Institute of Education has found that up to one-third of graduates end up in permanent non-graduate jobs, a situation that worsened during the recession. Those most vulnerable to such downward mobility are those aged over 50 and include professionals as well as the skilled working class. Examples include former IT specialists working as airport baggage handlers, ex-miners and skilled joiners cleaning cars, and upholsterers turning to taxi driving.[21]

There is evidence that downward mobility – in terms of earnings and job status – also applies between generations. Although real wages have increased sharply on average over the last 30 years, some offspring are earning little more, or sometimes less, than their parents at a comparable age. In a 2009 survey for the TUC, respondents were asked how they think their job 'compares with the one your father had when he was the same age as you are now'. As many as 27 per cent said it has a lower or much lower status, with those in the bottom half of the income distribution most likely to answer in this way.[22]

Although many of those on low and middle incomes are in white-collar employment (while their parents were more likely to be skilled or semi-skilled manual workers), this has not always brought a rise in status or relative wages compared with the past. Despite a much more educated workforce, significant numbers have stagnated in income terms. Indeed, despite often being relatively less well paid than the jobs of the past, and being relatively menial in nature, many of today's 'middling jobs' require much higher qualifications than their equivalents a generation ago. For those in these high-qualification, middling-pay jobs, and up to a third of graduates, the returns from education will have been small. Although there has been 'more room at the top' through the growth of well-paid professional work in the last 30 years, this growth has largely benefited those in the top two quintiles.

4. The rise of indebtedness and financial strain

The more fragile working environment from the early 1980s – higher unemployment, deteriorating pay and greater earnings volatility – has brought growing vulnerability to financial insecurity, being in debt ('indebtedness') and hardship. The level of personal debt rose from 45 per cent of national income in 1981 to 160 per cent in 2007, a three and a half-fold increase. In 2009, the average UK household non-mortgage debt stood at £9,280, a mix of personal loans and credit card bills. A quarter of the population had unsecured debt of this kind.[23] Soaring debt has led to more insolvency, even during the post-millennium boom years. The total number of insolvencies in England and Wales rose more than fourfold from 25,000 in 1991 to 30,500 in 2002 and 106,650 in 2007.[24]

Although severe debt problems can sometimes be the result of poor money management, the evidence is that the great majority of problems of default arise because of external shocks and a sudden fall in income arising from redundancy, reductions in pay or hours worked, business closure, family break-up or ill-health.[25] Indeed, an important consequence of the growth of indebtedness has been the increased risk of financial hardship associated with worklessness or falls in pay. This risk is exacerbated by the fact that the poorest sections of society have few savings or little in the way of tangible assets. In 2006–08, nearly 3 per cent of the population had zero or negative wealth (defined as all household goods and possessions including cars and owner-occupied houses after deducting financial liabilities), while 10 per cent had less than £7,390. The richest 10 per cent was more than 100 times as wealthy as the poorest 10 per cent.[26]

Table 3 shows that even during the 2001–05 economic boom, 54 per cent of the population suffered some degree of financial strain, while 24 per cent experienced either chronic or recurrent financial strain and a further 14 per cent one long spell in this period. Although this is a fall compared with the recessionary and post-recessionary 1990s, the figure is likely to have risen sharply since the mid-2000s as a result of static real wage growth and the sharp rise in unemployment from the onset of the recession.

Table 3: Financial strain, percentages, 1991–2005

	1991–95	1996–2000	2001–05
Never strained	29.6	39.5	45.7
One short spell	14.4	16.6	16.6
One long spell, recurrent or chronic	56.0	44.0	37.8

Source: M Tomlinson and R Walker, *Recurrent Poverty: the impact of family and labour market changes*, Joseph Rowntree Foundation, Feb 2010, p 13.

Note: Financial strain is defined as respondents stating in answer to how well they were managing financially that they were 'just about getting by', 'finding it quite difficult' or 'finding it very difficult'.

Close to 50 per cent of the population also experienced material deprivation – defined in relation to a lack of necessities – during the same five-year period. This figure had actually risen from some 34 per cent in the period 1991–2005. Those who were most vulnerable to financial strain and deprivation were those with the weakest attachment to the labour market: first, the unemployed or inactive, and then those with the poorest skills and qualifications.[27]

5. Britain's economic experiment

So, what accounts for the spread of joblessness and low pay and the decline in work opportunities? In part they are the result of external events, including rapid technological change, the rise of a global labour market and the transfer of jobs from developed to emerging economies. All advanced economies have experienced intensified competition from low-wage economies in the last two to three decades, though some have withstood this pressure better than others.

Nevertheless, the central driving force has been a radical shift in Britain's underlying economic and business model. From the early 1980s, successive governments subjected the UK economy to an all-embracing economic and social experiment. At the heart of this experiment – a massive economic leap in the dark – was a switch in economic and political philosophy from the managed capitalism of the post-war era to one of market capitalism. By the late 1970s the post-war consensus that combined strong government and a commitment to social solidarity had broken down. Sustained economic success (strong growth, low unemployment and declining inequality) gave way to 'stagflation' (a dangerous mix of low growth, rising unemployment and rising inflation). With the crisis of the 1970s blamed on the failures of managed capitalism, a contrasting governing philosophy emerged that favoured a weakened state and an enhanced role for markets. This economic model quickly came to dominate policy-making in the UK as well as the United States, ushering in a new 'Anglo-Saxon' consensus.

Central to the new philosophy was a belief in efficient and self-regulating markets. For its supporters, it was a philosophy that would solve the apparent weaknesses of the post-war model – that it stifled enterprise and wealth creation.

In the UK from the early 1980s, the commitments of managed capitalism to full employment, progressive taxation and inclusive state-provided welfare were abandoned or scaled back. The central macro-economic priority shifted from job creation to tackling inflation. The state moved to take a back-seat on both macro- and micro-management of the economy. Support for state industrial activism was dropped. International capital markets were liberalised. Successive governments adopted a model of light-touch regulation of the financial services sector aimed at encouraging the inflow of capital from abroad and making the City a key motor of the economy. To encourage flexible labour markets, new constraints were imposed on trade unions and collective bargaining.

The multiple stakeholder model of the corporation was replaced with a new business model – the aggressive pursuit of shareholder value aimed at maximising the short-term rise in the share price and linking executive rewards to shareholder interests. This new approach led to two decades of cost-cutting, industrial restructuring and takeovers. While remuneration levels for executives soared, maximising shareholder value led to downward pressure on wage levels for the bulk of the workforce. Labour was made the scapegoat for the economic problems of the 1970s. As Arnold Weber, Assistant Secretary for Labor under President Nixon, had put it in that decade, big business adopted a strategy to "zap labor".

The economic experiment, embraced most strongly by the UK and US governments, was to have far-reaching repercussions for the global and domestic economies and for large sections of the workforce. In the UK, it was built around three main elements. First, a process of economic restructuring designed to remove the role of the state in enterprise, enhance the power of market forces and increase the speed with which Britain moved towards a service economy. Second, the encouragement of greater private responsibility in the provision of welfare. Third, a shift in the balance of political and economic power in favour of business leaders.

i. Economic restructuring

From the beginning of the 1980s nationalised industries were privatised, trade union powers eroded and government regulations axed, unleashing a whirlwind of upheaval – in working practices, pay and prospects. Indeed, the costs of restructuring initiated by the Conservative governments of the 1980s were borne, not by the state, but mainly by significant sections of the labour force. From 1980, some services provided by central and local government and the health service – including cleaning, catering, refuse collection, bus services and housing maintenance – were contracted out to private agencies. Dozens of former public enterprises, including the public utilities, were privatised.

These changes sought to bring a commercial culture into the provision of public services, aimed at improving Britain's relatively poor record on productivity. But there was another goal, to "substitute individual rights for group rights and an individualistic employment culture for a collectivist one".[28] In this way, the process of outsourcing and privatisation contributed to a wider and highly significant new trend – a steady shift in the balance of power in society away from ordinary people and collective organisations to big corporations and those who run them.

By the end of the 1980s, 800,000 jobs had been moved from the public to the private sector.[29] Once privatised, some jobs were axed, while new jobs were introduced on very different contracts of work, with an increase in the use of fixed-term and temporary contracts. For many, the privatisation process led to a progressive erosion in the terms of employment and pay, mainly affecting those on low to median pay.

In contrast, the sale of public assets proved a remarkable bonanza for directors and senior managers in the newly privatised industries. A few thousand became very rich. This was only in part the product of the great hikes in top pay at the privatised utilities. Public assets were also mostly sold well below their market value. In the sell-off of British Rail in 1996, for example, the Major government sold at a notoriously low price a lot of old BR rolling stock to one of the new train-leasing companies, Porterbrook, run by a management buy-out team. The directors of Porterbrook paid the Treasury £526 million and then, without spending a penny on improvements, sold it to Stagecoach six months later for £300 million more.

The top managers in the new private companies set up to run outsourced local government and health services also paid themselves a good deal more than former public sector managers, while keeping a firm lid on the pay and conditions of their employees. Profitability in the new service firms depended on "the ability to cut pay, worsen working conditions, reduce hours (for example, to avoid social security overheads and the need for meal breaks) and to intensify work."[30] Privatisation and outsourcing was thus to prove one of the drivers of the greater inequality of earnings and the rising income gap that emerged from the early 1980s.

Gradually, the leading firms in these outsourced sectors – such as Serco, Stagecoach and Capita – increased in size. A similar process was at work in other similar industries – such as hotels, catering and retailing – all of which became increasingly concentrated in the hands of large chains paying low wages and adjusting the size and/or hours of their labour force to fit the changing patterns of demand. While the executives of these firms enjoyed generous pay and fringe benefits along with secure employment and promotion prospects, their staff were often poorly paid and part-time, and dependent on insecure temporary or casual contracts with few employment rights.

To remove potential obstacles to change, new measures were introduced to weaken unions, strengthen employers and erode collective bargaining. Wages councils were abolished, employment rights removed and strikes made much more difficult. Trade union membership fell from 13.5 million (53 per cent of the workforce) in 1979 to 6.7 million in 2009, just over a quarter of the workforce. Today only one in seven private sector workers is a member of a trade union.

Deteriorating job opportunities have been deeply embedded in the policy switches arising from the move from managed to market economies. It was later admitted by one of Mrs Thatcher's key economic advisers that one of the intended consequences of the new government's economic strategy was the taming of labour. "The nightmare I sometimes have about this whole experience runs as follows… there may have been people making the actual policy decisions… who never believed for a moment that this was the correct way to bring down inflation," is how Sir Alan Budd, chief economic adviser at the Treasury in the 1980s summed up – in 1992 – the multi-layered assault on inflation and the unions. "They did, however, see that it would be a very, very good way to raise unemployment. And raising unemployment was an extremely desirable way of reducing the strength of the working classes… that what was engineered there, in Marxist terms, was a crisis of capitalism which created a reserve army of labour and has allowed the capitalists to make high profits ever since."[31]

The costs of the recessions of the early 1980s and 1990s – a key instrument of the market experiment aimed at quelling inflation – were borne most heavily by manufacturing and the industrial workforce. Indeed, the period from the end of the 1970s brought an acceleration in the rate of deindustrialisation that had begun in the post-war era. The number of jobs in manufacturing fell by almost four million between 1978 and 2008, from 7,130,000 to 3,154,000.

The decline of manufacturing has been a long-term trend and has been in part inevitable.[32] Some major industries in which Britain once had a comparative advantage such as steel, textiles and coalmining were in long-term decline, unable to compete with newly industrialising countries with cheaper labour. Moreover, post-industrial societies offer some sections of the workforce – especially women and those with a preference to work part-time – more choice (although they often also see significant levels of involuntary part-time employment among those who would prefer to have more work). All industrial nations have experienced a fall in the role played by manufacturing; between 1974 and 2001, manufacturing employment fell by a third across the 19 largest nations that make up the Organisation for Economic Co-operation and Development. What is significant is that the fall in the UK (and the USA) was much steeper than elsewhere.[32]

The drive to finance capitalism hastened the natural speed of deindustrialisation. A more regulated labour market and a less laissez-faire approach to industrial policy could have softened the impact of economic change and slowed the rate of decline. By and large the interests of finance and manufacturing have been at odds. The abolition of exchange controls and the pursuit of a strong pound – policies favoured by the City – both fuelled the decline of manufacturing.

Moreover, the belief – shared by both Conservative and Labour governments – that the promotion of the City could compensate for the decline of Britain's manufacturing base has, as historian Harold Perkins put it, "proven to be a tragic illusion".[34] Indeed, the fear is that manufacturing may have been so damaged by the economic thrust of the last 30 years that it no longer has the capacity to take advantage of today's weaker pound. As consultants Ernst & Young have warned, the growing power of the City has made it the 'cuckoo in the nest', crowding out industries that would otherwise have flourished. This is for three reasons.

- First, the rise of finance has kept the pound higher than would be justified by Britain's economic strength. This over-valuation has been, in part, due to factors outside government control such as the discovery of North Sea Oil, which increased exports. But the high pound has also been an explicit government policy – followed by all governments of the last two decades – to give preference to financial services and their need to attract global footloose capital. Despite the protestations of industry, these huge capital inflows have had the effect of pushing up the sterling exchange rate.

- Second, finance's obsession with short-termism and shareholder value led to the drying up of the long-term 'patient capital' that doesn't demand immediate returns and which is necessary to build the successful, sustainable companies of the future. Funding for training, R&D and innovation slowed as finance could find better returns by industrial restructuring. Between 1991 and 2008, while R&D spending in the USA, France and Germany rose, high-tech investment by British companies fell from 1.0 to 0.8 per cent of GDP.[35]

- Third, the massive rewards available in finance. The City sucked in the pick of Britain's brightest graduates with some of the best young PhD mathematicians and physicists behind the fiendishly complex mathematical formula used

> to run hedge funds and derivative trading. The Governor of the Bank of England warned of the way in which City salaries distort the economy by skewing the pattern of rewards for talent. (Mervyn King – address to TUC Congress, 15 September, 2010)

The twin processes at work – privatisation and deindustrialisation – had devastating consequences for individuals and communities, especially those in the former industrial heartlands who have suffered persistent problems of worklessness ever since. In some towns such as Hartlepool, Knowsley, Blaenau Gwent and Glasgow, the real level of unemployment rose to more than twice the national average even before the onset of the 2008–09 recession. In 2007, a third of towns in former industrial areas had unemployment rates in excess of 10 per cent, while in May 2008 nine towns, headed by Liverpool and Nottingham, saw more than a fifth of the working age population in receipt of benefits.[37]

The risk of unemployment and inactivity has also risen most sharply over time for the lower skilled and less educated, groups that are likely to have been low paid when in work and are thus less likely to have savings and other assets to fall back on. In March 2008, for example, the unemployment rate for those previously working in elementary occupations (the lowest skilled and paid) was more than nine times the rate among managers and senior officials (the highest-paid group). Those with the lowest qualifications are also much more likely to be unemployed or inactive than those with degrees.[38]

ii. The weakening of state safety nets

The problem of disproportionate impact has also been exacerbated by the weakening of welfare support. In the post-1945 era, policy was geared to building a protective floor, imperfect as it might have been. From the early 1980s, as key elements of that floor were weakened or withdrawn, the impact of economic change became much more destabilising for large sections of the population, while the burden of economic restructuring was very unevenly borne.

In the post-war era, most social security benefits were uprated in line with real earnings or prices – whichever was the greater – so that both their real and their relative value was maintained. Indeed, during the 1970s a number of benefits – including child benefit and the basic state pension – rose faster than average earnings.[39] This philosophy – that all groups in society should share in rising prosperity – was effectively abandoned from 1979. Not only would cuts in the level of support deliver necessary savings in public spending, it was argued, they would be an important element in the forging of an enterprise state, forcing greater reliance on individual responsibility and private provision for welfare. As a result many of the safety nets introduced after the war to protect individuals from economic shocks were eroded.

From the early 1980s, the link to earnings was broken. Since then, most benefits have risen only in line with prices and have slowly fallen behind rises in earnings and general living standards. Earnings-related supplements to unemployment (and sickness) benefits were abolished in 1982 and child additions in 1984. In 1996, unemployment benefit (which had been paid indefinitely) was replaced by Jobseeker's Allowance (JSA), which was time-limited to six months, and the job search requirements introduced as part of earlier measures were strengthened. On top of these changes, eligibility criteria were tightened.

Although benefit levels today are roughly the same in real terms as they were in 1980, living standards have almost doubled on average. JSA – £67.50 for a single person over 25 – represents a tenth of average earnings compared with nearly a fifth in 1970.[40] Even if allowance is made for the other benefits the unemployed can claim, Britain's 'replacement ratio' – a family's net out-of-work income as a percentage of in-work income – has fallen sharply over the last 30 years. Benefit levels are well below the OECD average, and among the lowest of any country in the developed world. Thus, for a married couple with two children with average earnings, benefit meets 53 per cent of former net earnings compared with an OECD average of 76 per cent.[41]

A similar pattern applies to pensions. Uprated in line with inflation, the basic pension has fallen sharply in relation to average earnings. The state pension for a single person would have been £158 in March 2010 – rather than £95.25 – if it had been raised in line with earnings. In 1986, the system of State Earnings Related Pensions (SERPS) introduced by the Labour government in 1975 was severely weakened. The scheme was designed to provide adequate earnings-related pensions with a strong redistributive element, with lower-income groups gaining more relative to their contributions than higher-earning contributors. In 1986 the benefits offered by the scheme were reduced and financial inducements were given to people to contract out and adopt private alternatives. By 1993, some five million people had done so.

The erosion of the relative value of the basic pension and the abandonment of SERPS have had dramatic consequences for the livelihoods of pensioners. A key part of the then government's strategy to shift responsibility from the state to individuals and the private sector, the shift has proved a bonanza for the weakly regulated financial services industry but a very poor deal for pensioners and society. Half the population has no pension other than the basic state pension, while those who have poured money into private schemes have mostly ended up with very poor returns. Despite consistently underperforming, the market providers have charged huge fees in a system that lacks transparency. The system of privatised pensions has been dogged by scandal, with widespread mis-selling in which people were encouraged to trade in work-based schemes for inferior private arrangements. Today, according to the Office for National Statistics, almost two-thirds of private sector workers are failing to save for an occupational pension.

Labour from 1997 had a mixed record in trying to fill the gaps and improve social security protection for those vulnerable to the livelihood crisis. On the negative side, it continued the policy of uprating benefits in line with prices rather than earnings, while increasing numbers came to rely on means-tested benefits. It was, however, planning to reinstate the earnings uprating for the basic state pension from 2012, a policy now to be honoured by the present coalition government. Although a string of new measures – the means-tested pensioner credit, the winter fuel payment and free TV licences for the over-75s – reduced pensioner poverty from 29 per cent (2.9 million) in 1997 to 18 per cent (two million) in 2008, there are still two million pensioners living in poverty, while millions more sit on its margins.

On the positive side, as part of Labour's commitment to stem and reverse the rising tide of child poverty from the early 1980s, some aspects of social protection were strengthened. The national minimum wage was introduced in 1999, the real value of child benefit was raised, and the new tax credit system boosted the incomes of lower earners. Without these measures, the livelihood crisis would have been even more serious.

The public spending cuts imposed by the coalition government as part of its 2010 Spending Review will erode the present income support system in a number of important respects. While the basic pension is to be uprated in line with earnings, other benefits are to be raised in line with the Consumer Price Index, which has been rising more slowly than the Retail Price Index used to date. Education Maintenance Allowances, which support young people from lower-income families in 16–19 education, are being scrapped. The level of child benefit is to be frozen for three years. The level of Employment and Support Allowance (formally Incapacity Benefit) is to be limited to one year, while levels of council tax and housing benefit are to be subject to a number of new restrictions. The level of tax credit to working families will fall as a result of a number of changes, including a cut in the childcare element of the benefit and a faster rate of withdrawal as incomes rise. It is too early to assess the impact of the planned replacement of the current benefit system with a universal credit.

While some aspects of social protection have been strengthened since 1997, the effect of the coalition welfare spending cuts will mean a weaker system of support, with many non-working families and low- and middle-earning working families worse off and a continuation of the strategy of shifting responsibility for the risks of economic and social change from the state to individuals and private provision.

iii. The upward concentration of power

Underpinning these trends has been a major shift in the structure of economic power in the UK. Power has been transferred upwards to corporate boardrooms and City offices. As alternative sources of power – from trade unions to town halls – have been weakened, a set of corporate executives, bankers and financiers have become the economic power-brokers of the post-millennium era. As one expert has put it, "...at no previous time in British history have the financial and business elites been as dominant as they are today".[42]

At the heart of this new power elite has been the finance industry. The 'financialisation' of the economy was designed to head the charge to a new entrepreneurial economy and attract the global capital seen necessary to lead an economic renaissance. To this end, finance was given enhanced status – light-touch regulation along with special tax privileges – a strategy also backed by Labour.

While manufacturing industry's share of national output has been sinking (from a third in 1979 to 13 per cent today), finance increased its share from 6.6 per cent in the mid-1990s to 10.1 per cent in 2007. In the three years before the onset of the credit crunch, financial services accounted for a remarkable third of overall

GDP growth and had grown to play a bigger role in the economy than in any other comparable nation.[43]

Yet, far from delivering a 'golden age', much of the economic upheaval of the last 30 years can be traced to domestic and global financialisation. The deregulation of the City through 'big bang' (the result of multiple deregulatory measures that took effect in October 1986), the freeing up of trade and the removal of capital controls greatly strengthened the muscle of the world's biggest corporations, investment banks and private billionaires – a group in control of vast swathes of global capital.

Banking and finance should play a vital role in any economy, ensuring that savings get translated into productive investment and that there is sufficient liquidity to fund expanding world trade. Without this role, economies would quickly grind to a halt. Yet the volume of global financial transactions now greatly exceeds the amount necessary to facilitate economic trade. Around three-quarters of the $4 trillion worth of currency trades undertaken each day – three times the 2001 level – are unrelated to the buying of goods and services.[43] This turnover has been estimated to be at least five times the level needed to finance global trade flows and productive investment. This excess is accounted for by an increase in aggressive currency speculation, much of it carried out by hedge funds. This expansion has been largely uncharted territory. As management guru Peter Drucker reflected in 1987: "We have no theory for an international economy that is fuelled by world investment rather than world trade. As a result, we do not understand the world economy and cannot predict its behaviour or anticipate its trends."[45]

Before the credit crunch, the UK's finance industry made big claims for its expanded role. First, to have vastly increased the liquidity of financial markets – thereby enabling a higher level of national and world economic activity. Second, to have created new instruments that reduced the level of risk, thus improving the efficiency with which resources are allocated. So persuasive were these claims that Britain's financial institutions achieved a remarkable level of political backing that came close to canonisation.

As the then Chancellor of the Exchequer Gordon Brown told his City audience at the annual Mansion House lecture in 2007: "I congratulate you on these remarkable achievements, an era that history will record as the beginning of a new golden age for the City of London... I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created."

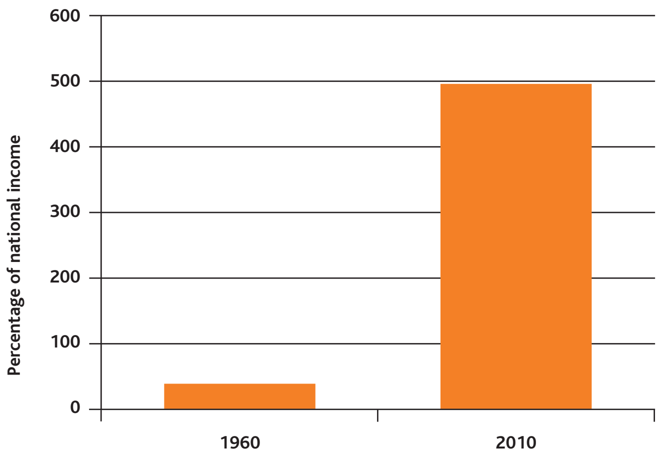
The convulsions of 2008–09 exposed the reality behind these claims. Far from managing risk more effectively, what emerged was a pattern of reckless and self-serving lending that led to the drying up of liquidity and a sweeping global credit crunch.

One of the City's main roles should be to provide medium- and long-term capital for business development, contributing to the patient organisation-building on which enduring companies and long-term wealth creation are founded. Yet finance has a poor record in encouraging productive investment, with a very small proportion going to new business start-ups or helping small and medium-sized firms expand and too much going to commercial property, shopping malls and financial speculation.

This is not because the banks have been on a lending strike; far from it. Indeed, in the last 20 years the level of leverage – lending in relation to banks' capital base – has been rising sharply. Before the crash, investment banks were lending between 20 and 50 times their capital base. According to one account, they "looked more like hedge funds than banks".[46] While such 'leverage' is one of the oldest tricks in the banker's book, what emerged from 2000 was a form of 'super-leverage', with loan to deposit ratios at unprecedented highs. The reliance on such 'super-leverage' (permitted by the regulatory authorities on both sides of the Atlantic) became a key source of the rising profits and bonuses across financial services from 2000, as well as fuelling the build-up to the subsequent meltdown.

In this way, finance came to exert an increasingly powerful grip on the global and British economy. "Here is an elite of the elites," according to the *Financial Times*, "whose power has grown to a dimension that is truly imperial in the modern world."[47] Between 1989 and 2007, the stock of global financial assets held by banks rose four times faster than the growth of world output.[48] This was especially so in the case of the UK. In 1960, the assets held by the top 10 banks (see Figure 4) were equivalent to 40 per cent of national income. By 2010, they had grown to almost five times the size of the economy.

Figure 4: The size (assets) of the top 10 UK banks, 1960 and 2010



Source: Mervyn King, *From Bagehot to Basel and Back Again*, Bank of England, 25 October 2010.

Such expansion might have been beneficial if it had improved the productive base of the economy. But most of this growth was spent on retail, property and speculative financial activity rather than infrastructure and enterprise, creating an increasingly unbalanced economy and sowing the seeds of the subsequent crash. Thus, while the value of domestic banking loans going to manufacturing stayed roughly constant from the mid-1990s to 2007, they fell as a share of all loans from 7.9 to 1.6 per cent over the period.[49]

In contrast, there were sharp rises in the shares going to mortgages and property and a very mixed bag of financial activity. By the end of 2007, around 40 per cent of all bank and building society lending went on residential or commercial property. This amounted to little more than a highly misguided bet that property prices would continue to rise much faster than prices. A further 30 per cent went to financial intermediaries. In 2007, while banks were investing some £50 billion in manufacturing, close to £800 billion went on a variety of financial transactions, mostly involving complex products such as derivatives which, as became clear, greatly increased the fragility of the financial system. As *New York Times* columnist Thomas Friedman observed in 2008, the derivates bubble was unlike previous bubbles in that it left no legacy of infrastructure like a railway network or the internet.[50]

Investing in companies of the future – which can take years to bring a return – has become an increasingly fringe activity. The rising volume of global footloose capital has gone increasingly on short-term, 'fast-buck' deals that involve moving money around at speed in search of the quickest return. "The financial sector has become almost completely detached from the real world," according to Angus Tulloch, partner at First State Investment.

"Financial markets are more interested in the short run than the long," according to Nobel Laureate Joseph Stiglitz. "They pushed policies that may have made the accounts look better in the short run, but which often weakened the economy in the long-run. They pushed policies that served their own interests more than the general interests; in some cases these policies increased instability and actually decreased long-term growth."[51]

Far from creating wealth and jobs and building the new sustainable companies of the future, the explosion of financial activity has been highly destabilising for domestic economic management, employees and existing companies. It has contributed to the growth of the livelihood crisis in two main ways.

The first is through the impact of financial decisions on jobs. Chief executives found themselves under increasing pressure to sign up to the new 'slash and burn' policies being encouraged by management consultants and investment bank advisers. Having tasted the mounting personal rewards that followed from the introduction of stock options in the booming share market of the 1990s, most executives were only too happy to let finance call the tune. Matthew Barratt, who became chief executive of Barclays Bank in early 2000, announced the wholesale closure of high street branches and the transfer of former face-to-face customer services to call centres. While this was deeply unpopular with staff and customers, its potential to cut costs and improve profit margins "went down a storm" in the City.[52]

The great City and Wall Street led booms in private equity and merger activity of the last two decades also had a big impact on jobs. Between 1985 and 2007, the volume of merger and acquisition activity in the UK grew nearly twentyfold. Both are forms of leveraged financial and industrial restructuring that nearly always end in downsizing and big job losses. This is the way such deals generate the savings to pay off the debt incurred to finance them. Indeed, shedding jobs has been a central objective of such restructuring, necessary to pay for the costs incurred and to drive the promised productivity gains. When the insurance giant Aviva paid £1.1 billion for RAC in 2005, it led to the eradication of 1700 jobs at the car rescue firm. A year later, the merger of Boots and Alliance UniChem involved the loss of at least 2,250 jobs at Boots.

The loss of jobs can be especially heavy in the case of the scores of British companies taken over by overseas buyers in recent years. When it comes to the crunch, head offices in France, Germany or China are more likely to put domestic factories first. When the American firm Kraft bought one of the UK's iconic companies, Cadbury's, in 2010, it borrowed close to £11 billion – much of it provided by British banks and hedge funds at a time when smaller, successful companies were being starved of credit. Despite a promise to keep open Cadbury's plant at Somerdale in Bristol and save 400 jobs, days after the takeover was agreed Kraft reneged on its days' old commitment. The merger was also to result in the loss of 150 jobs at Cadbury's head office in Uxbridge.

While workers on the factory floor faced new uncertainties over their futures, Cadbury executives pocketed millions in cash and shares from the sale. Todd Stitzer, the Cadbury chief executive, received about £20million and Henry Udow, the chief legal officer, close to £8 million. In 1993, Kraft had swallowed up another iconic British chocolate company, Terry's and, in a wide-ranging rationalisation of its European operations, cut over 2,500 jobs, nearly 10 per cent of the European workforce. Despite a promise not to move its York headquarters, by 2005 Kraft had closed Terry's factory at York – where it made the chocolate orange – with the loss of 316 jobs, all moved to cheaper facilities abroad.

Far from adding to the size of the economic cake, an increasing proportion of financial activity has been geared to the transfer of existing rather than the creation of new wealth. All mergers and acquisitions, for example, involve a transfer of ownership and a re-arrangement of existing wealth, always upwards. Most forms of speculative activity do the same. Both private equity and takeover deals, for example, bring big fees, profits and bonuses for the City and corporate 'marriage brokers' who arrange them and have been one of the key sources of the great personal wealth boom of recent times. Yet these activities have a very poor record in adding economic value. As Bank of England Executive Director Andy Haldane has shown, the gross value added of the financial sector in recent decades has been massively exaggerated.[52]

Most of the gains from such activity – funded by the expansion of corporate debt – have accrued to the dealmakers, while most of the costs have been borne by workforces. Whatever the medium-term outcome of the deals, their architects hang onto the inflated fees and bonuses paid for organising them. Where deals go badly wrong, as in the case of the restructuring of Marconi and ICI, the penalties are borne only by staff and investors; post-mortems don't happen. "Every year in the City is year zero," as one insider put it. "Nobody takes responsibility if a merger fails. As soon as one is executed and the fees are banked, it's onto the next."

The second main way that this financial activity has contributed to the livelihood crisis is its organisation of deals in a way that squeezes the economy's tax base. Not only does leveraging multiply the number and scale of deals, it brings big tax savings. As the interest on the debt acquired for restructuring can be offset against profits for tax purposes, the high levels of borrowing in private equity have often reduced corporation tax payments to zero. Before Debenhams was taken over by a private equity consortium in 2003, it paid annual corporation tax of some £40 million. Because of the £1.37 billion the consortium borrowed to finance the deal, the department store chain stopped paying corporation tax altogether in the time it was under private ownership.

Before it was taken over in a massive private equity deal in 2007, Boots used to pay between £120 and £150 million a year in tax. Since the take over it has paid virtually no corporation tax, in part by offsetting the costs of financing the deal and in part because the new owners relocated the company's ownership to Switzerland. It now seems that Cadbury's new US owners are planning a similar move, to shift parts of the 186-year old company to Switzerland, less than a year after they concluded the takeover.

6. The impact of the new political and economic settlement

The upheaval wrought by the Anglo-Saxon economic experiment has been justified as necessary to boost entrepreneurialism and economic prosperity. The short-term pain of restructuring, it was argued, would be more than matched by the long-term benefits. Even though higher pay at the top would lead to more inequality, all citizens would be better off than otherwise because they would benefit from an expanded economic cake through a process of trickle down.

So have the new market freedoms brought improved economic growth, greater stability, and enhanced productivity growth? Have they led to a surge in the rate of job creation and increased the size of the cake from which we have all benefited?

i. An end to boom and bust?

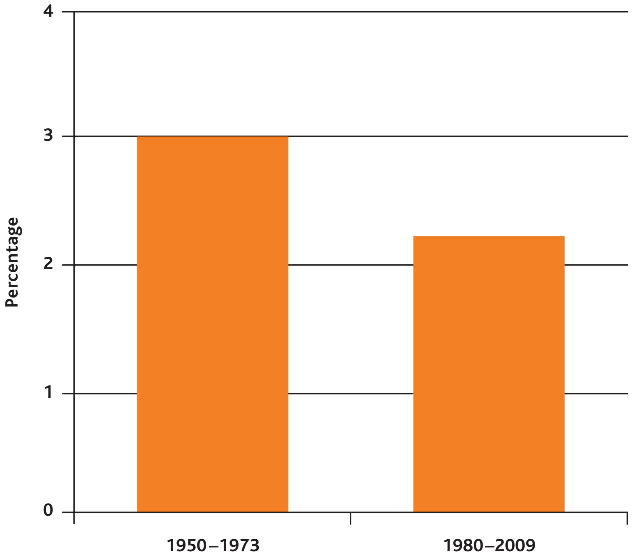
The market experiment promised an end to boom and bust and a more dynamic economy. Indeed the leading advocates of free markets – a group that still dominates the international economics profession – have long argued that the recession of 2008–09 was an event that could not happen in countries like the USA and the UK, which adopted extensive deregulation. As the American economist Robert Lucas, Nobel Laureate and one of the high priests of the new philosophy, said in his 2003 Presidential Address at the annual meeting of the American Economic Association, "the central problem of depression-prevention has been solved, for all practical purposes".

In fact, the evidence is that the market model has been weaker than the welfare model it replaced on most key measures of economic performance. While low inflation has been a feature of the post-1980s era, on all other counts the economic record of market capitalism has been inferior to that of the immediate post-war model. Growth and productivity rates have been lower, unemployment levels higher. As the proceeds of growth have been very unequally divided, inequality has soared – without the promised pay-off of improved economic progress. Financial crises have become more frequent and more damaging in their consequences.

This is made clear by dividing the post-war era into two distinct periods. The first is the 23 years from 1950 to 1973, the year of the first OPEC oil shock and the one that perhaps best marks the end of the post-war boom. The second is the 29 years that covers 1980 to 2009, beginning with the first full year of the new economic experiment.*

Figure 5 shows that growth averaged 3 per cent a year in the UK from 1950 to 1973 – a period dubbed the 'golden age' by economic historians because it was characterised by higher and more sustained growth, less unemployment and lower inequality than earlier pre-war periods.[54] While 3 per cent was low by international comparisons – Germany, Japan and France all did better – it was high by historical ones. Since 1980, in contrast, the growth rate has fallen to an average of 2.2 per cent a year.

Figure 5: The record on UK growth, 1950–2009



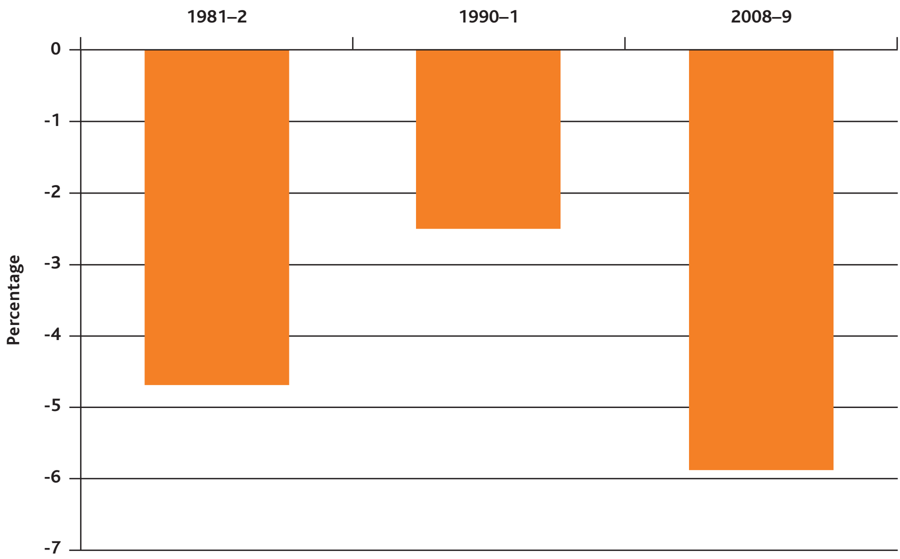
Note: Annual change in GDP, chained volume measure, seasonally adjusted (ONS series ABMI) .[55]

This fall in the rate of economic progress has had a big impact on the life chances of significant sections of the population and has been an important factor in the rise of the livelihood crisis. Although the British economy experienced a number of exchange rate and stop-go crises in the two decades from 1950, leading to some quarters of slow or zero growth, GDP (adjusted for inflation) *fell* only in a handful of quarters. Indeed, this period experienced only one very shallow and short-lived recession (defined as two successive quarters of negative growth). In 1961, output fell by 0.2 per cent over two quarters.

* Although it misses 1974-79, this period was a special case that saw the first serious recession of the post-war era, one ushered in by the OPEC shock .

In contrast, the period since 1980 has brought more frequent and more severe economic shocks and three deep-seated recessions – in 1980–01, 1990–01 and 2008–09. In 2008–09 output fell by close to 6 per cent compared with 2.5 per cent in the early 1990s and 4.7 per cent in the early 1980s (figure 6).[56]

Figure 6: The post-1980s UK recessions
(Percentage fall in GDP from peak to trough)



Source: ONS, *GDP and Unemployment, Recessions Compared*, 17 February, 2010; based on quarterly GDP at market prices (series YBEZ)

This pattern does not apply just to the UK. The last three downturns have all been global in nature. As well as these recessions, the last two decades have seen a number of global financial crises – from the Latin American and East Asian crises of the 1990s to the dot-com bubble at the turn of the millennium.

Market liberals argue that the recession of 2008–09 is not a product of the failure of markets, but of failed monetary policies, especially the loose fiscal and monetary policies carried out by Alan Greenspan, chairman of the Federal Reserve, who allowed the credit bubbles to get out of hand. An alternative view is that the recession can be traced to the deep-rooted economic, social and political upheavals ushered in by unrestrained finance capitalism.

Central to this explanation of the crash and the wider economic instability of the last three decades is the rise in domestic and global inequality, a trend closely related to the collapse of wages and the hiking of profits. In the UK, the share of national output accruing to wage-earners fell from a peak of 64.5 per cent in the mid-1970s to as little as 53 per cent by 2008, with the slack taken up by soaring profits that reached a near post-war peak in 2008. Similar falls in the wage-share occurred in other developed economies, especially in the USA.

The declining share of national output taken by wage-earners, and especially by middle and low earners, fed rising instability in two main ways. First, the squeeze on real wages fuelled a sharp rise in personal debt. Without the political sanction to approve a great hike in personal lending, consumption and the economy would have slumped much earlier. Second, swelling profits fuelled the remarkable personal wealth boom of the last two decades, with personal fortunes soaring to levels not seen since the twentieth century. According to the annual Wealth Reports published by Merrill Lynch Capgemini, the value of funds invested by the global rich with investable assets of more than $1 million more than doubled in the decade to 2008 to reach over $40 trillion. Far from triggering a boom in productive investment and improving economic potential, most of this rising pool of wealth was invested in speculative activity (commercial property, hedge funds, private equity, commodities and takeovers) and at heavily leveraged rates, thereby creating the unsustainable asset bubbles that triggered the credit crunch.[57]

The livelihood crisis is the mirror image of the increased upward concentration of wealth of recent times. The mechanisms that produced inflated fortunes simultaneously unleashed new forces of economic uncertainty and insecurity. The more wealth became concentrated at the top, the greater the financial upheaval imposed on the poorer half of the population. In turn, this process of upward redistribution simply sowed the seeds of an economic vicious cycle, one of sinking purchasing power and soaring debt, the twin triggers of the instability set in motion by the market experiment.

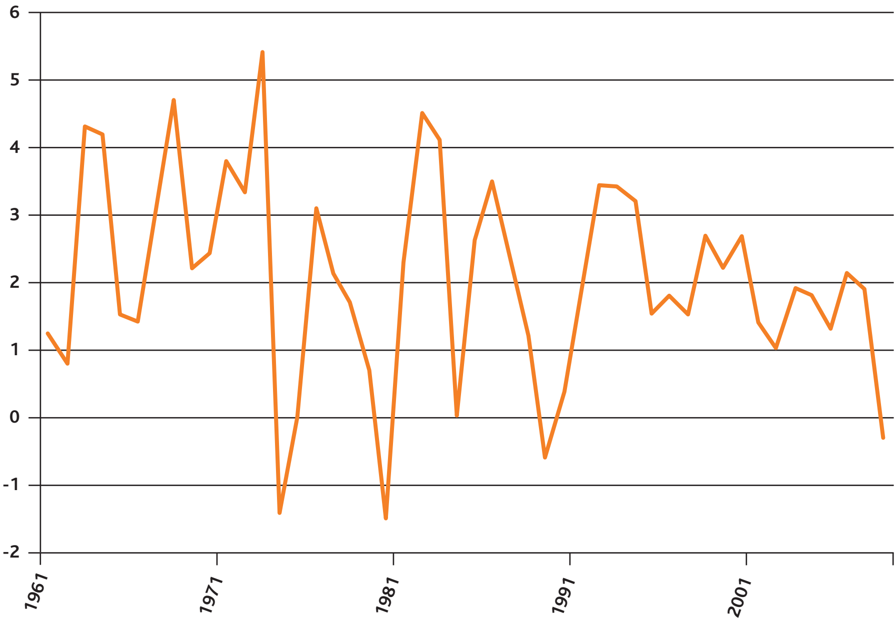
ii. A more enterprising economy?

What about the creation of a more enterprising economy? Have freer markets, hands-off government and the downgrading of industrial activism unleashed a new entrepreneurial culture, generated higher rates of private investment and brought a more productive economy? Again the picture is not supportive of the liberal case.

In some ways Britain is more entrepreneurial. Business schools are booming and entrepreneurial aspirations have grown. Yet these aspirations have yet to be translated into an improvement in the quality of entrepreneurship. New business start-up rates have marginally improved and there has been a steady rise in the number of businesses. But the rate of business failure has remained pretty static. Britain remains low on the international entrepreneurial league, with one in twenty-five of the population starting a business compared with one in ten in the USA, though we are slightly above the European average.[58] The nation fell from seventh in the world competitiveness rankings (compiled by the World Economic Forum) in 1997 to thirteenth in 2009.[59] The UK also has a relatively low rate of innovative activity within firms compared with France, Germany and Spain.[60]

Britain's weak record on enterprise is reflected in its productivity performance. As American Nobel Laureate Paul Krugman once said: "Productivity isn't everything, but in the long run it's almost everything." Although productivity rates improved sharply in the 1980s and early 1990s in parts of manufacturing, this was largely because of the mass shedding of jobs at the time. Privatisation also led to improved productivity in several industries such as steel.[61] Overall, however, productivity growth has deteriorated since 1980, averaging 1.9 per cent a year to 2008 compared with an annual rise of 2.95 per cent from 1961–73 (Figure 7).[62]

Figure 7: The productivity record
(Growth in UK productivity for whole economy per annum, percentages)



Source: ONS, output per job for whole economy (series LNNP). Comparable figures are not available pre-1961.

Internationally, the UK has slightly closed the productivity gap with its main competitors over the last two decades, but still lags well behind the USA, Germany and France. According to the Economic and Social Research Council, the reasons include "a relative failure to invest, failure to innovate, poor labour relations, trade distortions attributable to Empire, antagonism towards manufacturing, 'short- termism' among business leaders and financial institutions, technological backwardness, lack of entrepreneurship, an overly-instrumental attitude to work among employees, and the rigidities of the class structure."[63]

According to the ESRC, the gap with France and Germany can largely be explained by two factors: first, under-investment over decades (investment per worker is 40 per cent higher in France and 60 per cent greater in Germany than in Britain); second, a lack of skilled workers (whereas 20 per cent of German workers and a third of those in France are characterised as having low skills, this applies to 55 per cent of the UK workforce).

iii. Job creation

A third goal of the post-1980 economic experiment was the promotion of job creation through strengthened incentives. Here again, the record offers only limited support for the Anglo-Saxon experiment.

Table 4 shows total levels of employment for a number of years since 1979, also broken down by full- and part-time workers. This shows that the numbers in work have increased by some 3.7 million since 1979, with most of this growth occurring since 1997, the numbers increasing by 1.3 million from 1979 to 1997 and by 2.4 million from 1997 to 2009. This time pattern is largely because of the impact of deindustrialisation, which led to the hemorrhaging of jobs in the industrial heartlands throughout the 1980s and early 1990s.

Table 4: UK employment trends, seasonally adjusted (000s)

	1979	1992	1997	2007	2009
Total in employment	**25,159**	**25,535**	**26,494**	**29,212**	**28,876**
Employment rate	**74.0%**	**70.9%**	**72.8%**	**74.6%**	**72.8%**
Full-time	**NA**	**19,528**	**19,817**	**21,796**	**21,290**
Part-time	**NA**	**6,008**	**6,677**	**7,415**	**7,586**

Source: ONS, *Labour Force Survey*; www.statistics.gov.uk/statbase/TSDdownload2.asp

Notes: NA = not available. Figures relate to the period May–July in each year; employment rate is the percentage of all those of working age in work; figures for full- and part-time are not published before 1992 on a comparable basis.

Although an extra 3.7 million jobs looks impressive, the headline figures overstate the degree of success. First, the size of the labour force has also risen, with the result that, as shown in Table 4, the employment *rate* has actually fallen slightly since 1979. In the last quarter of 2009, the number of unemployed people as a ratio of the number of vacancies stood at 5.3, its highest level for a decade, and over a year after the end of the recession during the December 2010–February 2011 quarter, the ratio remained high at 5.0.

Second, a significant proportion of the new jobs created in recent decades have been part-time. Figures are not available prior to 1992 but, of the 3.34 million extra jobs created from 1992, only 53 per cent were full time. Since the start of the recession, most of the jobs that have been lost are full time. Indeed, the number in part-time work rose between 2007 and 2009. This means that the actual number of full-time equivalent jobs created since 1979 will have been somewhat less than 3 million. While many of those working part-time do so by choice, the growth in part-time work has contributed to the rise of under-employment with, as shown earlier, just over a million working part time who would prefer a full-time job.

What about the contribution of the private sector to job creation? It is not possible to get a reliable breakdown of public and private sector jobs going back to 1979, but a study by Manchester University has looked at the record for the economic boom years (1998–2007), when the private sector might have been expected to make a major contribution to job creation. The study adjusted official figures to allow not just for public sector jobs but also for jobs in the private sector that are dependent on public funding and which are allocated in the official figures to private business services. Such 'para-state' jobs would include cleaning and refuse disposal contracted out to private employers, those in the construction industry working on investment in schools and hospitals and those working in education or the health service working for private subcontracting companies. The study found that state and para-state employment combined accounted for 57 per cent of the overall increase in employment over this nine-year period, with 43 per cent coming from autonomous private activity.[64] As the study concluded, "if the UK has a 'leading sector', it is the state".[65] Another study, by the Work Foundation, found that more than 70 per cent of all net new job creation outside of London, the south and the south-east came from the public sector.[66]

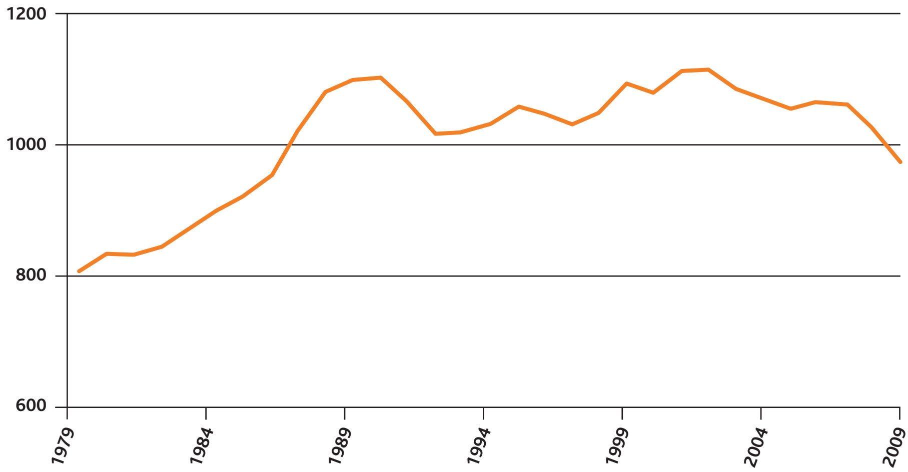
Despite the post-millennium economic boom, there are still many parts of Britain – from Hastings and Belfast to Swansea, Dundee and Barnsley – where the private sector has played a weak job creation role. In each of these towns, more than 35 per cent of jobs are in the public sector. In 2007 Barnsley had 274 VAT-registered businesses per 10,000 adults, while Liverpool had 241 and Plymouth 233. This compares with a national average of 415.[67] The Manchester University study found that in the Midlands the state and the para-state accounted for 73 per cent of all new job growth in the decade to 2007. In the north of England it was 64 per cent. Only in London and the south did the private sector outstrip the public.[68]

In the 1970s, one of the key arguments used for cutting the public sector and creating a market economy was that the public sector was 'crowding out' private investment and jobs. Yet, while one of the central aims of economic policy from 1980 was to eliminate such crowding out, the evidence is that, despite the freeing up of markets, cuts in business taxation and the deregulation of the labour market, the private sector's response on job creation has been relatively anaemic.

Indeed, as is argued in section 5(i), crowding out may operate quite strongly in the British economy, but it is happening between parts of the private sector. Some private activity, particularly in finance, is causing private job losses elsewhere. One of the arguments for financialisation is that it would become the central motor of wealth and jobs – the 'golden goose' of the economy. Yet, as shown earlier, the effect of finance on wealth creation across the economy has been highly questionable and may even have been negative.

What about jobs? Figure 8 shows that the number employed in financial services stood at 807,000 in December 1979. Ten years later in 1989, the figure had risen by just over a third to 1,099,000 – the result of 'big bang' and the deregulation of the industry. The initial impact then petered out and eventually turned negative. The number employed actually fell by 17,000 during the finance-led boom between 2000 and 2007.

Figure 8: Number of employees working in financial services, thousands, UK, seasonally adjusted



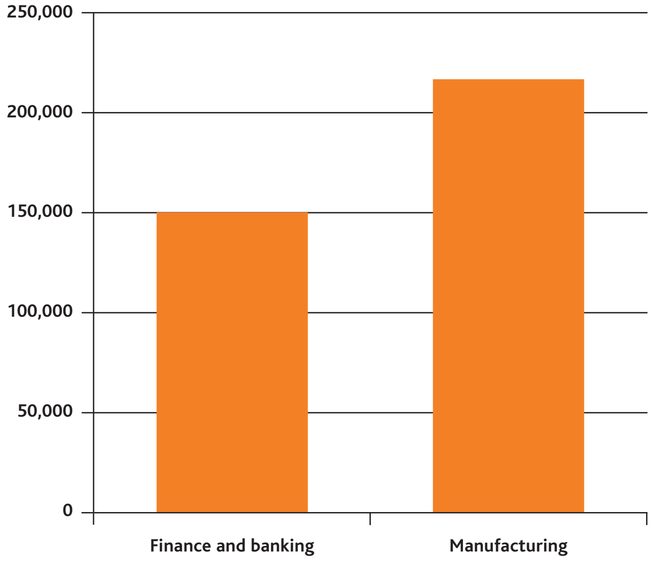
Source: Series UK SEAS1 and UK SEASBAK2008 provided by ONS; SIC 2003, category J 65-67.

This poor record on job creation is largely the product of the aggressive pursuit of the shareholder value business model and its commitment to downsizing. The retail banks have been shedding jobs over the last decade as part of an ongoing cost-cutting drive in branches and back offices. Wholesale banking tends to employ a relatively few highly paid employees who generate very high profits, a product of the inflated rates of return available to financial activity. High profits have been used to reward existing staff rather than create jobs that benefit society more widely. Indeed, the investment banking industry operates a near-50 per cent compensation ratio in which close to a half of net turnover is returned to staff in the form of bonuses. Much of this bonus pool is spent in a way that fuels asset prices, especially in property, rather than contributing to wider wealth creation.

Even if allowance is made for those jobs created indirectly from the increased demand from finance, it has been estimated that this accounts for only an extra 500,000 jobs (in areas like law and accountancy), bringing the total employed in finance directly and indirectly to just over 1.5 million in 2007.[69] This is little more than half the number employed in manufacturing (2.82 million).

Finance and banking have created almost no net jobs over the last 15 years, despite the industry's greatly expanded share of output and profits. While finance accounted for a tenth of national output in 2007, it provided only 6 per cent of national employment (after allowing for spin-off jobs). In contrast, manufacturing provided 13 per cent of output, but around 11 per cent of employment. Manufacturing therefore generates 44 per cent more jobs per unit of output than finance (see Figure 9). If the economy had been more balanced, with a smaller role for finance and less of a contraction in manufacturing, the economy would thus have been able to sustain a larger number of jobs.

Figure 9: Number of jobs created for every 1 per cent share of national output



Source: Author's calculations

7. Policy recommendations

The 30-year-long market experiment, one backed not just by Conservative but also by successive Labour governments with only minor modifications, now lies in ruins. It has failed to deliver its promises on growth, efficiency and jobs. It has left the global economy with the deepest recession since the 1930s, while transforming Britain from a high wage, low debt and relatively equal society into a low wage, high debt and deeply unequal nation.

The post-war era has generated two colliding economic and political models. While the first of these – welfare capitalism – was highly successful for its first 20 years, its own rigidities made it ill-equipped to cope with the combination of the first great oil shock and rising inflation. The second model – one based on markets, easy credit and a dominating finance sector – has brought higher levels of joblessness, a collapsing wage share and a growing wealth gap.

Yet, despite the scale of its failure, the market model remains the economic orthodoxy, domestically and internationally. The dominant business model of shareholder value remains intact. Although there have been some new banking regulations, the financial markets have emerged from the crisis of the last three years with, if anything, a greater stranglehold over the world's nation states. As the Governor of the Bank of England, Mervyn King, admitted in a remarkably frank speech in New York on 25 October 2010: "Of all the many ways of organizing banking, the worst is the one we have today."[70]

The short-to-medium-term impact of the recession and the coalition government's economic strategy – to attempt to eliminate the fiscal deficit by massive cuts in public spending – will be to intensify the livelihood crisis. Those most likely to have lost their jobs during the downturn have been those on low and middle earnings.[71] With a two-year freeze on public sector wages, and similar freezes in parts of the private sector, real wages have been falling sharply – imposing the deepest squeeze on living standards since the 1920s. In contrast, corporate profitability has held up well.[72] As the latest Bank of England forecasts show, the next few years will be marked by sluggish economic growth, rising personal debt and falling real living standards, as wages stay flat while inflation, charges for public services, pension contributions and VAT all rise.

Yet while real wages will be squeezed, profits have already recovered. Some of Britain's biggest companies have accumulated large cash piles during the recession. By the middle of 2010, Vodafone had built a cash pile of $14.3bn, BP $12.8bn and AstraZeneca $10bn – the product of slashed costs, worker lay-offs and dividend cut-backs.

The gains from post-recessionary growth thus seem likely to continue to be very unevenly shared. A study by the Resolution Foundation has shown that working households on low to middle income (between £12,000 and £30,000 a year) – a third of the working age population – will be £720 poorer on average in 2012 than they were in 2009. This is because of a 'triple crunch': their earnings will rise at half their recent pace; inflation will stay high; and state support for working families will be cut back.[73] On top of this, the public spending cuts will be regressive in impact, hitting those on low and middle incomes most heavily.[74] The Institute for Fiscal Studies has shown that the combination of sluggish economic growth and cuts in benefits and public services will lead to a rise in both absolute and relative poverty by 2013/14.[75]

The government's hope is that the private sector will generate more jobs than are being lost by cuts to the public sector. Indeed, while the Office for Budget Responsibility forecasts a loss of 330,000 public sector jobs by 2015, other forecasters, including the Chartered Institute for Personnel and Development, put the figure above this. Moreover, as shown in earlier sections, the private sector has a poor record in recent decades in creating long-term, secure, decently paid jobs. As the TUC has shown, it took the Major and Blair governments more than nine years to create two million jobs after the recession of the 1990s.[76]

The risk is that recovery will be weak when it comes to jobs, and that unemployment will stay well above its post-millennium rate for several years. At the end of 2010 there were 5 unemployed people for every vacancy, a figure that had remained at this level or higher throughout the year. This compares with 2.2 before the downturn. The evidence from previous recessions is that long-term unemployment rises more quickly during the slump and then falls much more slowly than overall unemployment during recovery. In the year to April 1994, for example, unemployment levels fell by 9 per cent, while the numbers out of work for more than a year fell by less than 3 per cent to stay above one million. The numbers unemployed for more than two years actually rose.[77] While unemployment levels rose by 46 per cent between the 2nd quarter of 2008 and the final quarter of 2009, the number out of work for more than a year rose by 60 per cent.

To tackle the livelihood crisis requires a radical transformation of Britain's political economy and the adoption of a new business and economic model. This does not mean a return to the pre-1979 mix of weak corporatism, widespread state ownership and poorly targeted industrial activism. What is needed is a 'post-market model' with a re-cast role for the state, business and labour and with an emphasis on wealth and job creation, an end to wealth diversion and a fairer distribution of the national cake.

The role of the state

All economies have to achieve an appropriate balance between state regulation and free markets. In the last 30 years, this balance has shifted sharply in favour of the market. Yet predominantly freely operating markets, with weak political oversight, have a tendency towards economic instability and inequality, with highly damaging consequences for much of the population. As light-touch regulation has failed, contributing to Britain's mounting livelihood crisis, the state needs to take a more assertive role, concentrating on tackling market failure and making markets work better, minimising inequality and encouraging productive investment, entrepreneurship and wealth creation.

- Because of the market economy's natural tendency towards inequality, Labour presided over a rise in the level of inequality, while ensuring a small fall in the level of relative poverty. To stem and then narrow the growing wealth gap, the state needs a new operating principle – *a bias towards equality*. This means reasserting the former commitments to full employment and a progressive tax system while ensuring that the degree of wealth and income inequality does not exceed the level that is consistent with economic and social stability. Britain is currently well above this level. To secure the vital goal of greater equality, key economic and social policies should be tested for their impact on inequality while an Equality Commission needs to be established with the following brief:
    - to set an appropriate minimum household income level and advise on the most effective means of guaranteeing such a minimum to all sections of society, thereby strengthening the floor under insecurity
    - to advise on the limit to the degree of wealth and income inequality that is compatible with economic and social stability and the measures needed to ensure that limit is not breached
    - to advise on the policies needed to ensure that the proceeds of growth and rising prosperity are evenly shared and not secured, as in the past, by a small and powerful economic elite.
- During the last 30 years, the state has retreated from industrial activism. It has allowed the transformation of the British economy to one dominated by a surge in takeovers and private equity, a shift to short-termism and from, in Peter Mandelson's phrase, "real to financial engineering". It has sat by while finance traded in dangerous financial instruments rather than supporting industry, enterprise and innovation. Yet the international and historical evidence is clear that governments can play a key role not just in wealth distribution but in wealth creation as well. To overcome the widespread problem of low and shrinking pay, Britain needs a strategy that moves the UK up the international value chain. Developing a more dynamic and sustainable economy aimed at improving Britain's record on productive investment and job and wealth creation requires a much more active role for the state:
    - Even in the 1960s and 1970s, Britain never fully signed up to the strategic planning of industry through 'managed reconstruction'. This weak approach was then downgraded in favour of market-led restructuring, with government spending on trade and industry cut accordingly. Although Britain had a mixed record of 'picking winners' in the 1960s and 1970s – with failures such as Concorde and British Leyland – other countries, from Korea and Taiwan to Finland and Norway, have successfully used financial support and selective industrial intervention to help build sustainable global corporations that would otherwise have foundered. Nokia was supported for many years by the Finnish government to establish its electronics division and emerge as one of the world's leading mobile phone manufacturers. In

Korea, the giant POSCO steel company and Hyundai shipbuilders were set up and sustained by government initiative.[78] France and Germany have invested heavily in creating a skilled workforce. "An economic strategy linked to an industrial strategy has been difficult to articulate in Britain for some time," according to Nigel Whitehead, managing director of BAE Systems, one of Britain's biggest manufacturers. "But it is absolutely central to the economic growth of this country." Before it lost office, Labour flirted with the idea of a 'new activism' towards industry, albeit on a modest scale. It dripped cash into areas like UK-based offshore wind turbine production, and advanced manufacturing. The coalition government, in contrast, has drastically cut the budget for such support.

- To strengthen this new activism, one of the current publicly owned banks should be converted into a state National Investment Bank, as called for by the Engineering Employers' Federation and the Institute of Civil Engineers.[79] Its role would be to provide affordable loans and grants for infrastructure projects, social entrepreneurs and sound small and medium-sized businesses. Potential targets would include low-carbon technology, alternative energy and the knowledge economy. This could be modelled on the German KFW banking group, which was founded in 1948 to help rebuild Germany's economy, and would aim to fill the growing funding gap left by the private banking system. It could be financed through a mix of market funding, higher taxes on the banks and the profits made when the government sells state-owned shares in the bailed-out private banks. While the government's planned Green Investment Bank (GIB) is a welcome move in this direction, the initial capital of a promised £3bn is disappointingly small. To ensure it can achieve the rates of investment in renewables, new nuclear capacity and clean coal and gas that are necessary to achieve a clean energy future, the GIB should be capable from day one of issuing Green ISAs to link individual savers to their investments in the low-carbon transition.

- Critical to the success of the policy of industrial intervention is the need to rebalance the economy away from its growing dependency on finance. This requires much tougher policies aimed at shrinking the size of finance, new controls over the financial excess and speculation that has fed Britain's short-termism and unsustainable asset price booms, and measures to increase financial transparency. Although banks are intermediaries with many important social functions such as providing savings schemes, pensions and mortgages, they have often conducted business in a way that fails these basic goals. As a key element of the economy that has failed to act in the interests of society as a whole, financial services need to be much more tightly regulated. What is needed is a mix of policies that: reduce the excessive fees charged by investment banks (through a Competition Commission Enquiry); impose higher taxes than the annual £2.5bn levy from 2011; cap pay and bonuses in a way that links them more closely to long-term performance; extends the role of the Bank of England to tackle emerging asset bubbles as well as inflation, including powers to control the flow and character of credit creation and mortgage lending; ensures much greater transparency over the activities of hedge funds, private equity houses and derivatives trading.

The role of business

Enshrined in the model of shareholder value is the idea that large corporations have responsibilities only towards shareholders. As the economist Milton Friedman has put it: "There is but one 'social responsibility' for corporate executives: they must make as much money as possible for their shareholders."[80] Yet corporations do not operate independently of wider society. They depend on public services – such as transport and education – and the largest of them wield great power over staff, consumers, small shareholders and even governments. Yet that power is mostly exercised without regard for the harm it may cause to people, communities and the wider economy. In pursuit of the maximisation of profits, companies often impose damaging costs (or 'externalities') that are paid for by wider society, individuals or the government.

While regulations exist to tackle these externalities, many are weak and not properly enforced. Some important externalities – such as the fall-out from outsourcing and takeovers – are not regulated at all. When a firm outsources its production overseas, for example, there is a heavy price in lost employment at home – a price paid by those made unemployed and the taxpayer in paying unemployment benefit. The failure to regulate such activity allows a transfer of wealth and income from individuals and taxpayers to company executives and shareholders. If the company were forced to 'internalise' these imposed costs by paying for them themselves, the business decision might be very different.

There are plenty of instances from the past and the present of highly successful companies taking a broader view of their role. In the 19th century, several highly successful entrepreneurs – from Joseph Rowntree to William Lever – adopted a business philosophy that accepted that wealth and privilege came with responsibilities, especially to the welfare of their workers. This did not stop companies like Cadbury, Lever Brothers and Rowntree becoming highly profitable and competitive companies that have lasted more than a century.

Although shareholder value remains the dominant business model in the UK, there are plenty of other forms of profitable private enterprise, both small and large, that operate a different value system that recognises the wider implications of corporate behaviour and its effects on employees and society. The mutually owned building societies represent highly successful and longstanding business models that embrace a very different mutual value system which aims to serve the interests of staff and customers. Attacking the finance industry for its "glaring absence of ethics", Angus Tulloch, partner at the fund management firm First State, has called for a fundamental change in values in the way financial services are delivered, including the adoption of a new Hippocratic Oath. This should include the promise not to "allow the pursuit of personal gain to cloud my fiduciary role". This is in sharp contrast to most financial institutions, where socially acceptable behaviour mostly takes a back seat over the interests of clients and executives.

Some medium-sized companies have chosen to maintain production in the UK even though they could have increased profits by moving overseas. The Emma Bridgewater Pottery in Stoke, which employs 180 people, manufactures all its output in the UK, for example. Another family-run Stoke pottery, Dudson, which specialises in tableware for the hospitality sector and includes the Houses of Parliament and Virgin Trains among its clients, manufactures most of its products in the UK.

There is a long history of successful intervention by government to restrict corporate freedoms when they impinge too heavily on ordinary citizens. President Roosevelt's New Deal measures involved regulatory reforms that greatly curbed the freedoms and powers of American big business, a model of intervention that brought economic success for the USA for close to half a century. The post-war Labour government accepted, like President Roosevelt (and contrary to the belief of Milton Friedman), that the profit motive can be in conflict with the public good, and embarked on a programme of reform that sought to protect citizens from the impact of the market by bringing a better balance between the public interest and private profit.

In the last 30 years, many of the constraints on business introduced by the New Deal and the post-war Labour reforms have been swept away. Deregulation has helped to drive the rising profits share while accentuating the livelihood crisis. What Britain now needs is a package of measures designed to encourage a more responsible capitalism that ensures a better balance between market freedoms and the public interest, a fairer distribution and more productive use of profits, and a move away from leveraged financial engineering towards genuine innovation and sustainable production.

- The current system of regulation needs to be tightened to restore the checks and balances that have been withdrawn and ensure that companies are made more accountable to society, with external costs properly allowed for in company decision-making. Regulations need to be extended to cover the impact of major decisions on jobs and the national interest, with tighter restrictions on financial engineering. New government powers should be introduced to block or restrain a hostile takeover of a British company by transient institutional investors on national interest grounds – for example, where it would lead to large job losses or such a substantial increase in borrowing as to threaten future levels of investment. The threshold of shareholder support needed to approve potential takeovers of strategic companies could also be increased from the present 50 per cent of shareholders. New measures could also be introduced to withdraw the right to vote from speculative share purchasers by setting a minimum length of ownership and to prevent executives being paid excessive remuneration that bears no relation to performance, with tougher penalties when regulations are breached.
- Twenty-first century capitalism has become dominated by the 'for-profit' corporation, "programmed solely to advance the private interests of its owners".[81] What is now needed is the development of a multiple stakeholder model of the corporation. In the eighteenth and early nineteenth centuries, for example, corporations were formed largely for public purposes such as building the canals and the railways. To offset this dominance, and promote the idea of public purpose, alternative forms of more socially orientated business models – such as not-for-profit companies, state-owned enterprises, social entrepreneurship and mutual societies, along with greater employee participation and employee ownership – should be encouraged.[82]
- Because profits are very unequally distributed, the bulk of wage-earners have suffered badly from the ongoing shift of wages to profits over the last 30 years. To correct this imbalance, some of this rise in the share of profits needs to be tapped to promote job-intensive social ownership. This could be done through

the creation of a state investment fund, perhaps adapting the model of the Swedish wage-earner funds that operated until the early 1990s.

- These new measures should be enshrined in a new Companies Act. To prevent legal action against companies that take a broader view of their responsibilities, the Act should include a clause that recognises that corporations can have responsibility to a wider group than just shareholders, including staff, the local community and the taxpayer.

The role of labour

One of the most significant tenets of market fundamentalism has been a belief in flexible labour markets. In the last 30 years, trade union powers have been withdrawn, workplace rights weakened and the balance of industrial power shifted sharply in favour of employers. Yet the gains from this more flexible labour market have been muted, while the belief in self-regulating markets has not stood the key test of economic experience.

While badly thought-out regulation can be harmful, the evidence is that it is possible to achieve successful economic outcomes (low unemployment, high employment participation and growth) with strong social and workplace protection. Measures such as maternity leave and policies to limit and mitigate dismissal have significant social benefits without serious detriment to job creation and economic innovation. If generous unemployment benefits are combined with limited duration and strong job search incentives, they are not associated with higher unemployment.

Trade unions have no significant negative consequences for labour market outcomes, and may have positive effects in promoting workplace cohesion and social justice. While a degree of wage flexibility is important for economic dynamism, coordinated and responsible bargaining systems are associated with lower unemployment.[83]

Labour allowed a modest re-regulation of the labour market – through the introduction of the national minimum wage, the right to ballot for trade union recognition and improved maternity and paternity leave – without detriment to employment creation or any evidence of serious additional rigidities. That protective measures need to be strengthened is now being accepted at the highest levels. In October 2010, Juan Somavia, Director-General of the International Labour Organisation, told the IMF that: "Minimum wage setting and collective bargaining systems should aim to ensure that wage increases do not lag behind productivity."

A number of smaller European countries have both highly interventionist policies and a strong record on employment generation, labour force participation and growth. The most successful labour market model – the Scandinavian/flexicurity model (including Denmark, the Netherlands, Norway, Finland and Sweden) – embraces strong collective bargaining, high levels of employment protection, generous welfare benefits and stringent job search requirements and time limits on the durations of contributory benefits. Moreover, while the Anglo-Saxon model is characterised by widespread earnings inequality and high levels of in-work poverty, the flexicurity countries have combined high employment and good growth rates with a much lower levels of wage inequality and in-work poverty.[84]

Despite the new measures under Labour, Britain's levels of social protection, employment rights and collective bargaining fall well short of those in place in most European countries, with the result that Britain remains towards the lower end of the international regulatory league table.

Given the strength of the evidence that it is possible to achieve both social and workplace justice and economic dynamism, Britain should move towards the flexicurity model by adopting the following measures:

- The trade union movement needs to play a more central role in the workplace and should have much wider representation on committees of enquiry and official organisations such as the Takeover Panel. Union membership in the UK is low, especially in the private sector, while collective bargaining covers only 35 per cent of the workforce compared with over 80 per cent in countries such as Austria, Denmark, Belgium and Sweden. Unions are mostly frozen out of decisions that can have major implications for the national workforce. Yet the empirical evidence is clear – and acknowledged by the OECD – that strong and responsible unions can play a very positive role not only in creating greater workplace fairness but also in improving innovation and productivity.
- The level of Jobseeker's Allowance (JSA) should be increased to nearer the European average. In the UK, the unemployment benefit replacement rate has fallen sharply to one of the lowest among developed nations. Yet, as the OECD has acknowledged, unemployment benefit – buttressed by job search requirements – is an essential 'safety-net' in times of high unemployment.
- To tackle rising levels of long-term unemployment and greater economic volatility, Britain needs stronger active labour market policies, recognising that conditionality in the benefits system must be accompanied by improved support for unemployed people. Although Britain has developed a more responsive active labour market strategy in recent years, Britain's proportionate spending in this area is only half the OECD's average. To prevent the further growth of long-term unemployment, Britain should accept the widely backed proposal for a new 'universal job guarantee scheme' available to all adults who have been unemployed for more than 12 months (in fact, some elements of this programme, including the Future Jobs Fund offering state-guaranteed work for 18–24 year olds, have gone in the first round of post-election spending cuts). As unemployment has risen in the UK, benefit payments have acted as important automatic stabilisers – but it is also vital that spending on active labour market responses increases during recessions, promoting a quick reintegration of job losers into employment and preventing the risk of them sliding into long-term unemployment and inactivity.

Conclusion

At the dawn of the neo-liberal revolution in the UK, Mrs Thatcher and her followers promised ordinary working people a new era characterised by greater affluence, freedom and dignity, free of social division. Thirty years on and the real outcomes of her vision have been laid bare. A significant proportion of the population faces severe job insecurity or unemployment, low wages and high personal debt. The recession has exacerbated and widened this livelihood crisis and the austerity programme will only make it worse. Most importantly, this crisis is not something that simply afflicts the poor but has tightened its grip on middle earners and even some higher up the income scale. By any measure, such a situation reveals what an abject failure neo-liberal policies have proved to be.

It is surely now time to openly acknowledge the failings of the last 30 years and fashion more pragmatic and nuanced policies that recognise that markets can indeed be powerful drivers of growth and wealth, but that without significant corrective measures they consistently fail to provide for all in a fair and humane way.

Unrepentant neo-liberals may caricature such sentiments as presaging an inevitable return to the post-war days of economic planning and state ownership of large swathes of industry. This is a simplistic critique. As this pamphlet's policy proposals display, it is perfectly possible to construct a new agenda that could reverse the corrosive economic division and hardship built up over the last three decades without returning to the days of Attlee and Macmillan. A pro-active and smart industrial policy, greater corporate accountability to wider stakeholder concerns, more diversity in ownership models, and more active labour market policies would do a great deal to counter the livelihood crisis. And far from taking the country back decades, these measures would actually mean nothing more than emulating policies that have been applied for years by our nearest competitors in Europe, most of which have fared far better during the crash and recession than the UK.

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