Quantitative easing and labour market restructuring underline the ‘regressive recovery’

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6/9/2015

A combination of loose monetary policy and sustained wage deflation underpinned the Conservative’s economic recovery in the last parliament. These processes have consolidated rather than overcome weaknesses at the heart of Britain’s growth model, write ***Scott Lavery*** *and* ***Jeremy Green****.*

When David Cameron emerged from 10 Downing Street on the morning of the 8 th May, he proclaimed that he would lead a ‘one nation’ government – one whose guiding aim would be to ensure that ‘the recovery reaches all parts of our country’.

There was nothing particularly new in this rhetorical positioning. Indeed, in the early years of the coalition government, one of Cameron’s most popular refrains was to state that ‘we are all in this together’, whilst the Chancellor, George Osborne, emphasised the need to ‘rebalance’ the UK economy both sectorally and geographically. In reality, over the past five years Cameron has pursued a distinctive ‘two nations’ governing strategy – one which privileges certain segments of society whilst imposing discipline and retrenchment on others.

In an article published recently in *New Political Economy*, we outline some of the distributional implications of this process and argue that the transition from crisis to ‘recovery’ has in fact been underpinned by a distinctive dynamic of ‘regressive redistribution’: a process of state-led economic restructuring that has worked through two axes at the centre of the recovery.

The first axis focuses on Quantitative Easing (QE). The Bank of England opted to begin undertaking QE from March 2009: injecting new money into the financial system by purchasing Treasury bonds from banks and institutional investors. Crucially, the policy was encoded with distributional prejudices right from its inception: it was targeted at increasing the wealth of asset holders in order to boost demand.

While wage earners experienced an unprecedented period of decline in real earnings, asset-holders received a huge wealth boost from the Bank’s monetary policy committee. Stock and bond prices rallied on the back of QE 1 and 2, with the Bank itself calculating that the gains in value amounted to around £600 billion. Picking winners in this way has been central to establishing a two-track recovery where asset-holders prosper while wage earners suffer.

The second axis of the regressive recovery was premised upon wage deflation. Workers’ real average earnings declined by 7.9 per cent four years after the onset of the recession, a trend which compares unfavourably against the recessions of the early 1980s and 1990s. While the Conservative party boasted of an ‘employment rich’ recovery, in reality 77 per cent of net job creation between 2010-2013 was focused in ‘low pay’ sectors, where pay falls below £8 per hour.

On top of this, there has been a regressive re-composition of the British labour market, with growing numbers of precariously employed individuals finding themselves involuntarily in temporary jobs. Wages might be rising marginally once again, but this is taking place after a slump in real earnings which has not been seen since the 19th Century. Indeed, wages are not set to rise to their pre-recession levels until at least 2020, suggesting that this really has been a lost decade for Britain’s low and middle income earners.

This combination of loose monetary policy and sustained wage deflation underpinned the Conservative’s economic recovery in the last parliament. The problem is that these processes consolidate rather than overcome weaknesses at the heart of Britain’s growth model. Firstly, they are likely to contribute further to a declining ‘wage share’ – the proportion of overall economic output which goes to wage earners. This is potentially destabilising as it can lead to shortfalls of aggregate demand which in turn encourages high levels of private indebtedness throughout society.

Secondly, the further concentration of wealth at the top end of society – in part sustained by low interest rates but also ratcheted-up through QE – creates a further glut of income and wealth at the upper end of the income distribution. This can again create demand problems as wealthy asset-holders have a lower propensity to consume than low-middle income earners. Long-standing distributional disparities which weaken economic potential and which entrench social inequities have therefore been consolidated over the past five years.

The Conservative's programme for the next parliament should be understood in this context. Now with an outright majority – and unencumbered by the politics of coalition – the Conservatives look set to consolidate the regressive recovery further. As the IFS have shown, 1.1 million public sector jobs look set to go between 2010/11 and 2019 on current spending plans. Partly in preparation for this, the Conservatives are already pushing through legislation which will further curtail trade union power by imposing minimum thresholds on turnout for industrial action. This will further curtail the capacity of workers to secure wage increases and protect their conditions in the years ahead. In addition, the £12 billion of welfare cuts will primarily hit the poorest hardest; a process which is likely to further entrench inequality and increase levels of poverty throughout society.

Continuing to restore growth through these policies will ultimately entrench a more deeply divided and unequal society than post-war Britain has ever experienced. A recovery built upon these foundations is not only extremely regressive, it is also hugely unstable. The crisis of the Labour Party has dominated the aftermath of the election, but it may well prove that a further economic crisis will be the longer-term result of extending Cameron's regressive recovery.

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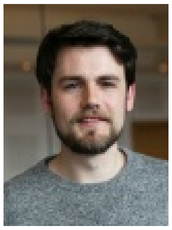
About the Authors

Scott Lavery is a doctoral researcher at the Sheffield Political Economy Research Institute (SPERI) at the University of Sheffield. His research focuses on the uneven development of British capitalism under New Labour and in the post-crisis period.



Jeremy Green is Honorary Research fellow at SPERI and a Lecturer in Politics at the School of Sociology, Politics and International Studies at the University of Bristol. His research focuses on the political economy of Anglo-American development and the politics of central banking.