Brexit and the British Growth Model

Towards a new social settlement

Christopher Bickerton

Responses by Warwick Lightfoot, Graham Gudgin and John Mills

About the Authors

Christopher Bickerton is Reader in Modern European Politics at the Department of Politics and International Studies, Cambridge University, and a Fellow in Politics at Queens' College, Cambridge. He has published widely on the European Union and European politics, and was the author in 2016 of the best-selling book, *The European Union: A Citizen's Guide* (Penguin).

John Mills is both an entrepreneur and an economist. He has built up a substantial trading company – John Mills Limited or JML – which sells consumer products in both the UK and throughout the world. He has written many books on economics, all focused on why the UK's economic performance – and that of the West generally – has been so relatively poor, and what can be done to remedy this situation.

Graham Gudgin is Policy Exchange's Chief Economic Adviser. He is currently Honorary Research Associate at the Centre for Business Research (CBR) in the Judge Business School at the University of Cambridge. He is also visiting Professor at the University of Ulster and Chairman of the Advisory Board of the Ulster University Economic Policy Centre.

Warwick Lightfoot is Director of Economics and Social Policy at Policy Exchange and was special adviser to Norman Fowler the Secretary of State for Employment 1987-89 and to the Chancellor of the Exchequer 1989-92 for Nigel Lawson, John Major and Norman Lamont. He is the author of *Margaret Thatcher: The economics of creative destruction.*

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Prologue

On the 13th July 2016, at 6pm in the evening, Theresa May made her first speech to the British public as Prime Minister. Standing in front of the cameras at the entrance to 10 Downing Street, the sound of helicopters circling overhead and protesters on Whitehall demanding that she immediately invoke Article 50 of the EU's treaties, the Prime Minister spoke of the "burning injustices" of British society. At the very centre of her speech were "ordinary working-class families" who "just about manage". Mid-way through, she addressed this part of her audience in the first person. "I know you're working around the clock, I know you're doing your best, and I know that sometimes, life can be a struggle". "The government that I lead", she promised, "will not be driven by the interests of the privileged few but by yours."

These words put Britain's faltering economic growth model at the very heart of May's premiership. By saying that "we will do everything we can to give you more control over your lives", the Prime Minister connected the famous "Take Back Control" slogan of the EU referendum to her wider promise of overhauling the economic status quo. She was not alone in doing this. In the aftermath of the vote, many leading public figures said much the same thing. In a speech a few days after the referendum result, at Port Talbot, a Leave-voting steelmaking town on the Welsh coast, the Chief Economist of the Bank of England, Andy Haldane, spoke openly of the ways in which economic growth since 2008 had failed to reach many parts of the country. For too many people, the UK's economic recovery has been "slow and low", "partial and patchy" and "invisible and incomplete" (Haldane 2016:3). In his speech to the Labour Party conference in September 2016, Labour leader Jeremy Corbyn gave his own version. Criticizing Theresa May for talking the talk but not walking the walk, Corbyn declared that "the old model is broken" and that "we're in a new era that demands a politics and an economics that meets the needs of our time".

Two years on from the referendum, this connection between Brexit and the state of Britain's economic model has been lost. Since the end of March 2017, when the UK triggered Article 50, the debate around Brexit has been transformed into an impenetrable set of negotiations between the UK and the EU27. These negotiations have been preoccupied with the complex architecture of a post-Brexit trading relationship between the UK and the EU. Arguments about the integrity of the Single Market, the various trading models the UK could aim for (the Norway model, Canada-plus etc.) and the challenge of avoiding a hard border between the Republic of Ireland and Northern Ireland have dominated negotiations. Closer to home, the on-going legislative tussle between the House of Commons, the House of Lords and the executive, and divisions within the Cabinet and the Conservative Party over the kind of deal sought with the EU, have filled newspaper columns and TV news channels day after day. Brexit has become a technical discussion about the future of the UK's tradeable sectors overseen by a growing army of 'Brexperts'. It is no longer – if it ever was – part of a wider public debate about the state of British society and its economy.

This essay attempts to understand our present economic discontent in a way that reconnects Brexit with the problems of Britain's economic growth model. High degrees of specialization dominate academic writing today, with little movement horizontally across scholarly disciplines. In focusing so much on the individual dots, there is a danger that we forget how important it is to have a go at joining them up from time to time. Written by a non-economist for an audience of non-specialists, this essay is an attempt at joining up some dots. Economists will find much in it to disagree with, but it is hoped the essay can generate some discussion about what sort of questions we should be asking when we think about Britain's economic performance and the prospects for growth in the post-Brexit era. At the very least, an exercise of this kind may help challenge the way clusters of like-minded people, uninterested in hearing opinions that are fundamentally different from or at odds with their own, have come to colonize our public sphere, reducing debate to a polarized dialogue of the deaf.

Executive Summary

We begin by identifying the British growth model – what it is, how it works, and how it compares to other models, particularly those on the European continent. This is not an exercise in "declinism". There is enough miserabilism about already and declinist narratives rarely do justice to what are complex and multi-faceted developments (Tomlinson 1996). This account of the British experience highlights how an orientation towards consumption-driven growth has reshaped British society. Fêted for high employment rates and price stability, this kind of growth has driven apart the worlds of the high- and the low-skilled and introduced new fissures into British politics. The model performed relatively well in the late 1990s and 2000s though principally in relationship to a stagnating Eurozone. Many of the successes were unsustainable. The model's greatest strengths – the "flexible labour market", the embrace of a post-industrial service sector identity, the booming High Streets – contained the seeds of our present difficulties. Though home-grown to a large degree, the British growth model has interacted with wider regional and global trends in destabilizing ways.

We go on to consider the role EU membership in the socio-economic malaise that pervades British society. This matter has become a source of considerable confusion in the post-referendum era, reflected in the lack of ambition and purpose of those negotiating the UK's exit from the EU. We often hear that Brexit will do irrevocable damage to the British economy and that maintaining something as close to the status quo as possible is the best option, short of reneging on the whole notion of leaving the EU. At the same time, there is widespread recognition that the pre-referendum status quo was not working, and its failures explain why the result went the way that it did. Brexit thus appears as both cause and consequences of the problems of the British growth model. In an attempt to simplify the issue, it has become common to think of the vote as a clash between an *economic* argument in favour of staying in the EU and an *identity* argument in favour of leaving. Voters followed either their heads (Remain) or their hearts (Leave) (Reeves 2018:8)[1]. Brexit is understood in this way at the very top of government. In honouring her promise to take the UK out of the EU, the Prime Minister appears as a modern-day Odysseus, steering her way between the Scylla of economic disaster and the Charybdis of English nationalism.

The distinction between economic and identity-based motivations is too simplistic. The blanket assumption that there is no reasonable economic basis for wishing the UK to exit the Single Market and the Customs Union is wrong. It ignores the way the EU's rules on the free movement of people interacted negatively with the UK's consumption-led growth model. Though not responsible for it, UK membership of the EU reinforced and exacerbated the "dualist" quality of the British labour market. This dualism refers to a stark divide between high and low skilled workers. It is matched by an equally stark divide in the country's productivity performance, with a small number of top performing companies dragged down by a "long tail" of low productivity, low wages and low skills (Haldane 2017, 2018; Reeves 2018). Getting employers to invest in training is difficult even with large skill shortages and an overheating labour market. With access to an almost unlimited supply of labour, it has proven an impossible task.

This interaction between national growth models and the EU's single market is not unique to the UK. All EU member states experience the Single Market in a mediated way through the specific features of their national growth models (Bickerton 2018: 132-139). For some, such as Germany, Single Market membership has reinforced their reliance upon export earnings at the expense of domestic consumption and with a strict requirement of wage moderation. For others, such as the Republic of Ireland, it has exaggerated their reliance upon a foreign direct investment-led growth model with asymmetric distributional consequences (Regan and Brazys 2018). For many of the new member states from Eastern Europe, it has meant dealing with the problem of a shrinking supply of labour.

We need to steer British growth away from its reliance upon consumption to allow room for the expansion of other sources of aggregate demand, such as net exports, private investment and government expenditure. Our goal should be to rebalance the components of British economic growth. At the same time, our service sectors need to change radically. Automation for the lowest skilled activities should accompany a fundamental revalorization upwards of the most 'social' of the service sector jobs. Currency depreciation can assist with this rebalancing if embedded within a wider economic strategy.

It is always easier to recommend changes than to implement them. On how to pursue this project of economic rebalancing, we make two recommendations. Firstly, changing Britain's political economy will require a more effective exercise of actually existing sovereign power. The problem of recent decades – in areas such as skill formation or regional policy – has not been over-centralization. On the contrary, it has been the *absence* of the exercise of public power over the private activities of markets. Any effort at rebalancing will meet deep and sustained resistance from some sectors of society, making the political will to implement change more necessary than ever. This recommendation runs against the current preference for more devolution and decentralization generally found amongst those who seek to change the status quo.

Secondly, the UK needs not only new policies but also a new social settlement. This settlement must mediate the relations between individuals, the state and markets such that the whole is more than just the sum of its parts. Without such a settlement, any fundamental shake-up of the British economy will only lead to fragmented support whilst opening up multiple opportunities to resist change. The American historian Christopher Lasch argued many years ago that a properly democratic society should not aim to create a framework for competition where the most able succeed and the others fail (1995: 79). It should aim to raise the general competence of society as a whole. In order to achieve this, we must regain some sense of what 'society' means. Over the last forty years in Britain, as individualist outlooks have prevailed over any belief in collective action, we have lost our sense of society as a collective macro-subject, able to legislate and act in the common interest. This loss is not only at the level of sentiment but also reflects a material transformation in the British economy that has left us without a 'national economy' properly speaking. The pursuit of a new social settlement is a pre-condition for implementing policies that aim at fundamentally rebalancing the British growth model.

The British Growth Model

The birth of the new

The UK economy was once a “corporatist” economy. Relations between labour and capital were coordinated through central government interventions in product and labour markets (Schonfield 1965). As David Edgerton has shown, it was also a “national-productivist” economy, reaching a peak in terms of the share of manufacturing workers in total employment in the 1950s (2018:310).

Throughout much of the post-war era, until the Thatcherite revolution of the early 1980s, the state and the market played a shared role in economic life, without one clearly dominating over the other. In this “mixed economy” (Offe 1983), British economic policy included relatively high tariffs on trade, capital controls, nationalized industries, and nationwide wage settlement rounds. This was the age of “beer and sandwiches” at 10 Downing Street, where macro-economic policy was the product of coordinated actions between government ministers, trade union officials and employer representatives (Gudgin and Coutts 2015: 28).

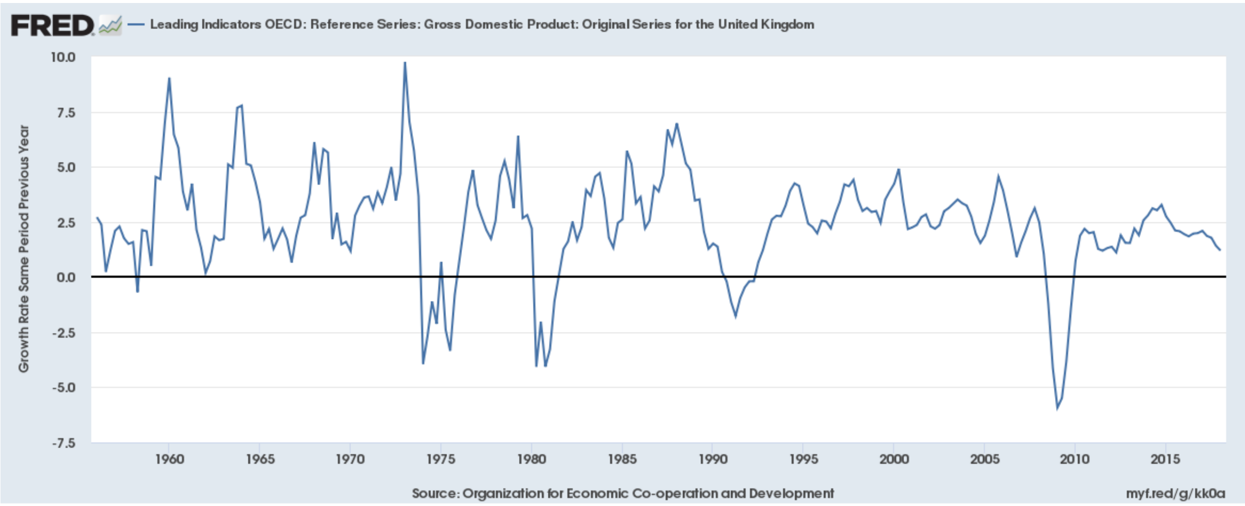
In the late 1970s, the UK began its transition to a different sort of political economy. This involved the deregulation of labour and product markets, financial deregulation, privatization of industries and utilities, and the dismantling of those corporatist arrangements that brought capital, labour and government together. Legislation and the policing power of the state were the main instruments used to reduce the role of organized labour in British economic decision-making. The Employment Acts of 1980 and 1982, the Trade Union Act of 1984, and the Miner’s Strike of 1984-5, dismantled a century-long tradition of industrial relations. A focus on full employment and stimulating the economy through manipulating aggregate demand – the Keynesian approach – gave way in the early 1980s to a determination to bring down the price level even at the cost of soaring unemployment. Over time, as this trade-off weakened, low inflation was considered the best environment for maintaining high levels of employment. Supply-side reforms were the route to long-term growth and competitiveness.

The 1970s was a crisis of a particular model of capitalism. The 1980s and early 1990s was a time of transition to a new model. The Labour governments of 1997 to 2010 consolidated and even accelerated many of these changes. In what follows, we trace the contours of this new model of capitalism. As an attempt to generate growth under a peculiar set of macro-economic conditions, the model had many strengths. However, its reliance upon credit-fuelled consumption made it both unstable and unsustainable, a form of what Wolfgang Streeck has called "buying time" (2014). The financial crisis of 2008 was proof of this instability, but the legacy of the crisis was not to replace it with another model. After 2008, the door to accessing wealth in a consumption-led growth model was shut with a bang on newcomers. Divisions between generations and between the high and low skilled have sharpened dramatically, leaving us in the present state of malaise where assessments of the state of the economy differ wildly depending on who you ask.

Some "stylized facts"

One of the key stylized facts of the post-Thatcherite era is an increasingly stable and benign macro-economic environment. The mid-1990s to 2008 was a period of low GDP volatility combined with low inflation, known as the "Great Moderation".[2]

Figure 1: Constant Price Gross Domestic Product in the UK 1955-2017



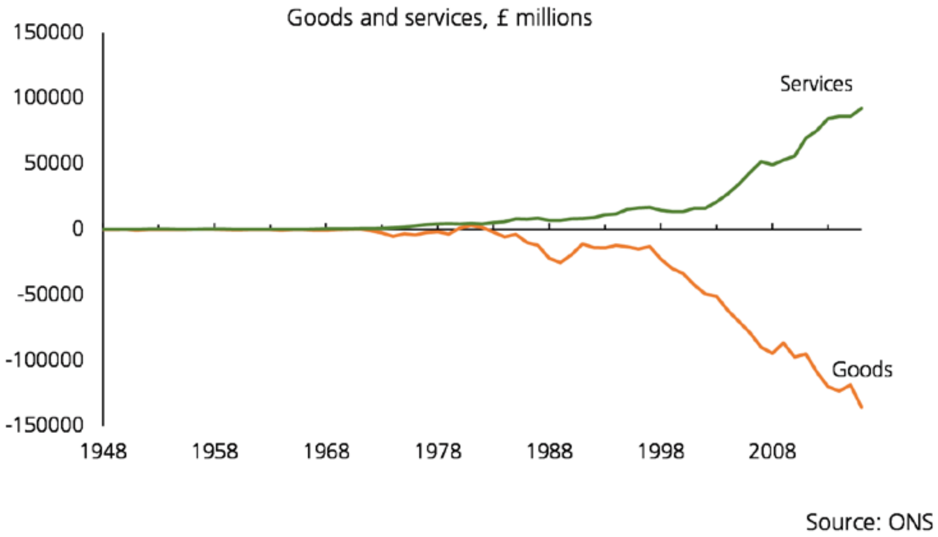
The volatility of the "Stop/Go" era of the 1950s and 1960s in Britain is evident in Figure 1 above, with high peaks in GDP growth followed by steep falls. This volatility falls off after the downturn in the early 1990s, leading to the long period of stability that Gordon Brown famously hailed the "end of boom and bust". Volatility returned – dramatically – in 2008, making it easy to dismiss claims about "the Great Moderation" as mere hubris.

What matters most about this whole period is the wider macro-economic environment, which was the incubator for the development of the UK's consumption-driven growth model. In a recent paper, two British economists outline in detail this macro-economic environment (Carlin and Soskice 2018). Its key features are very low growth of GDP per capita, low core inflation and a real interest rate close to zero, which co-exist alongside low unemployment and historically high employment levels. Of particular importance is the real interest rate, which from the mid-1990s onwards declined across all G7 countries, falling close to zero in the last decade. This post-2008 “secular stagnation” is common to a number of advanced economies but the UK has performed particularly badly in terms of productivity (Carlin and Soskice 2018: 171; Haldane 2017, 2018).

High employment rates in the UK reflect its flexible labour market where it is relatively easy for employers to hire and fire. Low unemployment is a historically significant achievement, particularly in comparison with stubbornly high levels of unemployment in other advanced economies over the same period. This explains why the share of national income going to wages has not changed dramatically, though since 2009 it has fallen from 58% to 53% (Reeves 2018: 25). Job-rich growth has continued as a feature of the last decade, though it should be put into some perspective. Throughout the 1990s and 2000s, high inactivity rates, particularly for men in the former industrial areas, accompanied the low unemployment figures. As one study from 2000 concluded, “the true unemployment rate for men in the depressed regions, and the contrast with the more prosperous regions, is far greater than the headline unemployment figures suggest” (Rowthorn 2010: 14). More recently, Ken Mayhew noted that the ten-year period between 1985 and 1995 saw a near halving of unemployment accompanied by a near doubling of those claiming disability benefits. “Even today”, Mayhew writes, “the numbers on disability benefits are higher than they were in the mid-1980s” (2015: 203).

In terms of sectoral composition, services dominate the British economy. They account for approximately 80% of national economic activity. Once an industrial powerhouse, the UK today has proportionally the smallest manufacturing sector of any OECD country (Gudgin and Coutts 2015: 28). As shown in Figure 2 below, the UK has not had a goods surplus in its balance of payments since 1981. From 1997 onwards, the country has systematically run an overall trade deficit (Gudgin and Coutts 2015: 36). In 2016, the deficit in goods amounted to 6.9% of GDP; the surplus in services in the same year accounted for 4.7% of GDP.

Figure 2: UK Trade Balance, 1948-2016 (source: ONS)



It is common to assume – given the amount of coverage in the media and an entrenched class-based deference to the City of London – that the financial services sector dominates the UK economy, but this is not so (Corry 2015: 50). As a percentage of the total economy, financial services accounted for 5.5% in 1990, falling to 5.1% in 2001, rising to 9% in 2009, and currently at around 6.5% (Rhodes 2018). By comparison, Luxembourg's reliance on its financial sector is the tune of 27% of its total economy. In Switzerland, the figure is 9%, in the US it is 7%.[3] This not to under-estimate the impact the financial sector has on the British economy. As Grace Blakeley has recently argued, the dominance of the City of London leads to a British version of "Dutch disease". This is where a disproportionately large financial sector pushes up the value of the currency, negatively impacting upon other parts of the economy (2018: 20). Financial services are also overwhelmingly concentrated in London, which accounted for half of the total UK financial and insurance sector's gross value added in 2016 (Rhodes 2018: 7).

Much of what we count as services includes hospitality, retail, supermarkets, utilities, social care and childcare, transport and health – an "everyday economy" (Reeves 2018) that employs up to a third of the entire British workforce. This economy is divorced from the tradeable parts of the economy and from the innovation-driven high skills economy celebrated in Whitehall. Some parts of the service sector – such as financial services or higher education – are integrated into an increasingly globalized service sector economy. Overall, however, the shift from manufacturing to services has cemented the long-standing deficit in the UK's balance of payments. Service sectors simply have a far lower propensity to export than manufacturing, given the more locally rooted and locally administered nature of service activities (Froud et al 2017: 16). The UK has recorded a trade deficit in its combined trade in goods and services every year since 1998 (Ward 2017).

The end of the "national" economy?

Another feature of the British economy is the dramatically unequal distribution of economic activity across the country as a whole. As Labour Peer and founder of Blue Labour, Maurice Glasman put it, the UK economy is rather like "Portugal with Singapore in the South East". The Cambridge economist Robert Rowthorn described the North/South divide as proof of the "combined and uneven development" typical of modern capitalism (2010). The *Financial Times* economics writer Chris Giles recently noted that the economy of Westminster is as large as that of Wales, and Islington's gross value added is as big as Manchester's (Giles 2018).

Accompanying these regional disparities is a very uneven distribution of high-value added economic activity and low value-added, with the vast majority of British economic activity taking place under the shadow of very weak productivity growth: "Islands of innovation and huge wealth but a weak economy", as Martin Wolf has put it (2018). Innovation itself is spread across the UK as a whole but the lower tail of low-productivity companies is ubiquitous: "Near-zero rates of productivity growth among the 99%-ers [i.e. those companies outside of the top 1% of the productivity distribution] are a feature of all regions and almost all sectors… Even the best-performing region (London) and best-performing sector (professional, scientific and technical) in the lower tail has mustered productivity growth of only 2% and 4%" (Haldane 2018: 5-6).

Some go as far as to suggest that this degree of geographical unevenness makes it difficult to speak of a "national" economy at all (e.g. Froud et al 2017). Writing in early 2017, the journalist Aditya Chakrabortty recounted an incident during the UK's referendum on EU membership. An academic, speaking at a public event in Nottingham, was outlining the possible impact of Brexit on the UK's GDP. A woman from the back shouted out to him: "that's your bloody GDP, not mine". At one level, this must be wrong. Statistics such as GDP are attempts to capture the aggregate economic activity of the whole economy: unless the relevant unit is changed – to the local or regional economy – then there will be just one GDP for all UK citizens, whether they live in Nottingham, Newport or Aberdeen. And yet, these aggregate figures *do* fail to capture people's own experience. As Andy Haldane has put it, there can be a very large gap between the macro and the micro data, suggesting that different sectors of society and different parts of the UK experience aggregate trends in multiple – and perhaps even opposite – ways (Haldane 2016).

Chakrabortty concludes that "nearly a decade after the crash, and nearly four decades into the devastation of Britain's industrial towns and cities, the UK has become so unequal that it can no longer be talked about as one unitary economy" (2017). This claim has some fit with the pattern of British economic growth over the last decade. Aggregate indicators points to a post-2008 economic recovery. When these figures are disaggregated by region, and also in terms of household income and wealth, the picture is very different (Haldane 2016). Gains are concentrated almost entirely in London and the South-East.

Something more profound is at issue here, beyond just the yawning gap between dynamic and declining parts of the country. An important feature of the British economy over the last forty years has been its increasingly non-national character. That is to say, the idea of a national economy has given way to something else, to a depoliticized space where economic transactions take place but where nationality as such is of little consequence. As the historian David Edgerton has argued, the post-war decades in the UK were the high-point of a national form of "British capitalism", where national champions, the national ownership of firms and the balance of payments all constituted pillars of an economy congruent with a post-imperial idea of the British nation. "The idea of a national economy, the economic nation", he writes, "became ever less important from the late 1980s" (Edgerton 2018: 466).[4] It would be wrong, as Edgerton reminds us, to associate this process of denationalization with economic decline; in some ways, the reverse is true.[5] But it provides us with an important insight into why, at the present time, our individual economic experiences diverge so much. There is little national coherence to discussions about the current state of the British economy.

Consumption-led growth in Britain

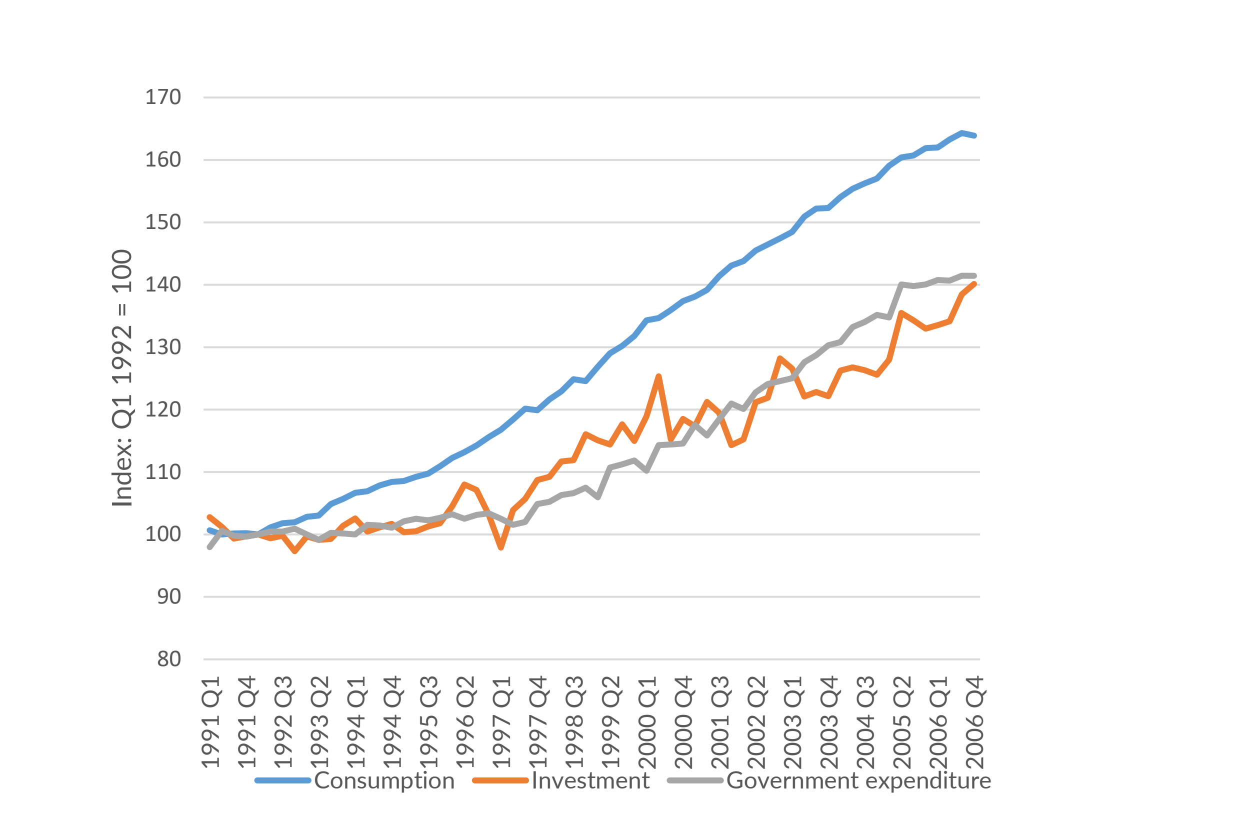
Without an analytical framework of some kind, it is easy to use these "stylized facts" to tell any story. Defenders of the status quo will highlight the robust employment rates, low inflation and low interest rates. Critics will use regional inequalities and the collapse of industrial employment as evidence of the dominance of "finance capital". Moralized defences or critiques of capitalism are as old as capitalism itself but the problems of the British economy are not reducible to the behaviour of individuals within a specific sector. They are structural and tied to the overall workings of the British growth model.

There are many ways to systematize our thinking about British growth. One way is to compare national capitalist systems with one another.[6] Any exercise of this kind will depend upon some sort of theory about how capitalism works and how economic change in capitalist societies occurs. In the "varieties of capitalism" approach, the British macro-economist David Soskice and the American political scientist, Peter Hall (Hall and Soskice 2001) distinguish liberal market economies such as the United States and the UK from "co-ordinated market economies" like Germany. As the basis for their comparisons, Hall and Soskice focus on the supply side of the economy, namely on corporate governance institutions, industrial relations regimes and vocational training systems.

Recently, Lucio Baccaro, director at the Max Planck Institute for the Study of Societies in Cologne and Jonas Pontusson, professor of political economy at the University of Geneva, have revived a more demand-centred approach. How an economy grows is determined by the balance between the different components of aggregate demand (Baccaro and Pontusson, 2016; Hope and Soskice 2016: 220; IPPR 2017:80). If effective aggregate demand is equal to the sum of consumer spending, private investment, government spending and net exports, then we can assess national growth models according to how these components stack up over time.

British growth is consumption-driven.[7] Baccaro and Pontusson estimate that for the UK for the period 1994-2007, household consumption as a proportion of GDP was at 2-3% a year whereas the contribution of net exports to GDP was consistently negative (2016: 188). If we combine government spending, gross fixed capital formation (GFCF) and household consumption, we can see how over a sustained period the latter has been the most important component of GDP by some margin, particularly in the course of the 2000s.

Figure 3: UK by GDP expenditure (source: ONS)

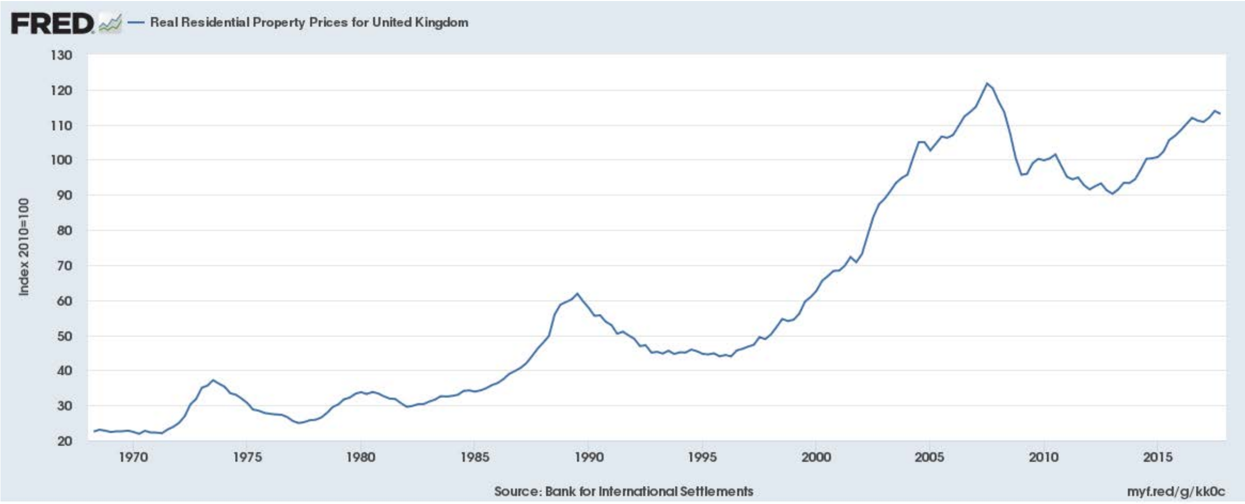


Where does this consumption-driven growth model come from and how does it work? It would be wrong to think of it conspiratorially, as a plot conceived in the mind of some canny politician or civil servant. This British growth model was a structural response to the macro-economic environment outlined above, particularly the historically low real interest rates. The thread that connects low real interest rates with consumption-driven growth is the British housing market.

House prices, and the easy access to credit made possible by financial deregulation, have been central components of the British growth model since the 1980s. The British sociologist Colin Crouch called this reliance on private credit by households to boost aggregate demand a form of "privatized Keynesianism" (2009).[8] The specificities of the British housing market have also been decisive. A minimal set of legal obligations on landlords, for instance, make buy-to-let a viable business model even for those holding down full-time jobs in unrelated sectors. In other countries, the more extensive legal protection given to tenants has served to cool housing market trends.

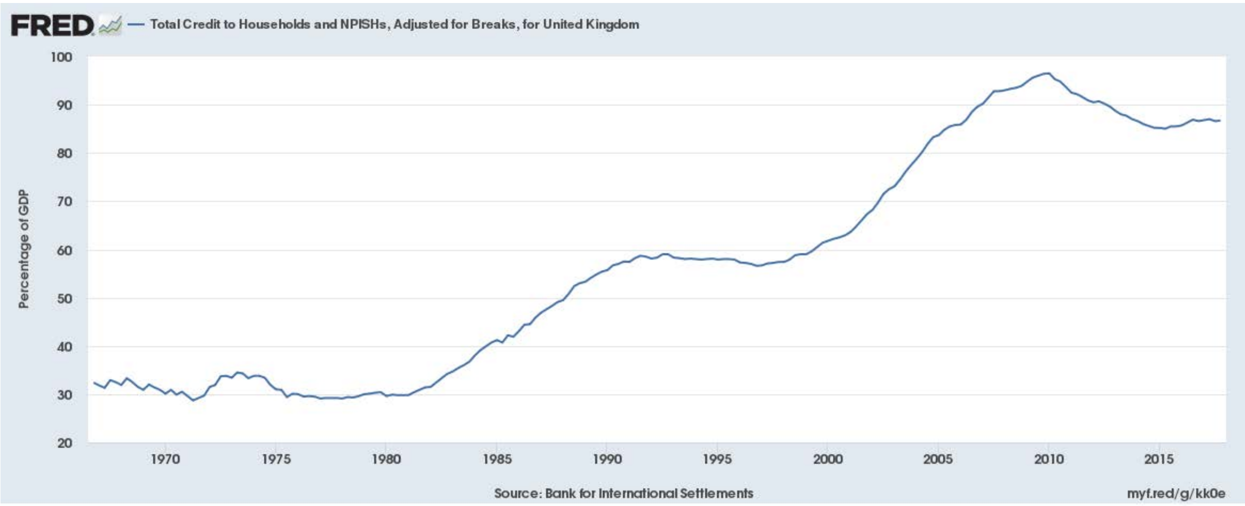
Between 1995 and 2005, real house prices in the UK rose by more than 8% a year on average, far outstripping wage growth (Carlin and Soskice 2009: 87). In figure 4 below, we can see that house prices began their spectacular ascent after the early 1990s recession, where many found themselves in negative equity after buying at the top end of the 1980s Lawson boom. For anyone buying property between 1995 and 2008, the rise in value has been staggering and represents a historical shift of national wealth towards homeowners.

Figure 4: House prices, UK, 1968-2017 (source: Federal Reserve Economic Data)



As houses have become assets as well as just places where people life, banking activity and private credit have evolved to reflect this. In 2017, "loans to UK businesses account for just 5% of UK bank assets, compared to 78% for property loans" (Reeves 2018: 28).[9] The figure below illustrates well the steady rise in household credit, made possible by continuing asset price inflation in the housing market.

Figure 5: Household credit, UK: 1965-2017 (source: Federal Reserve Economic Data)



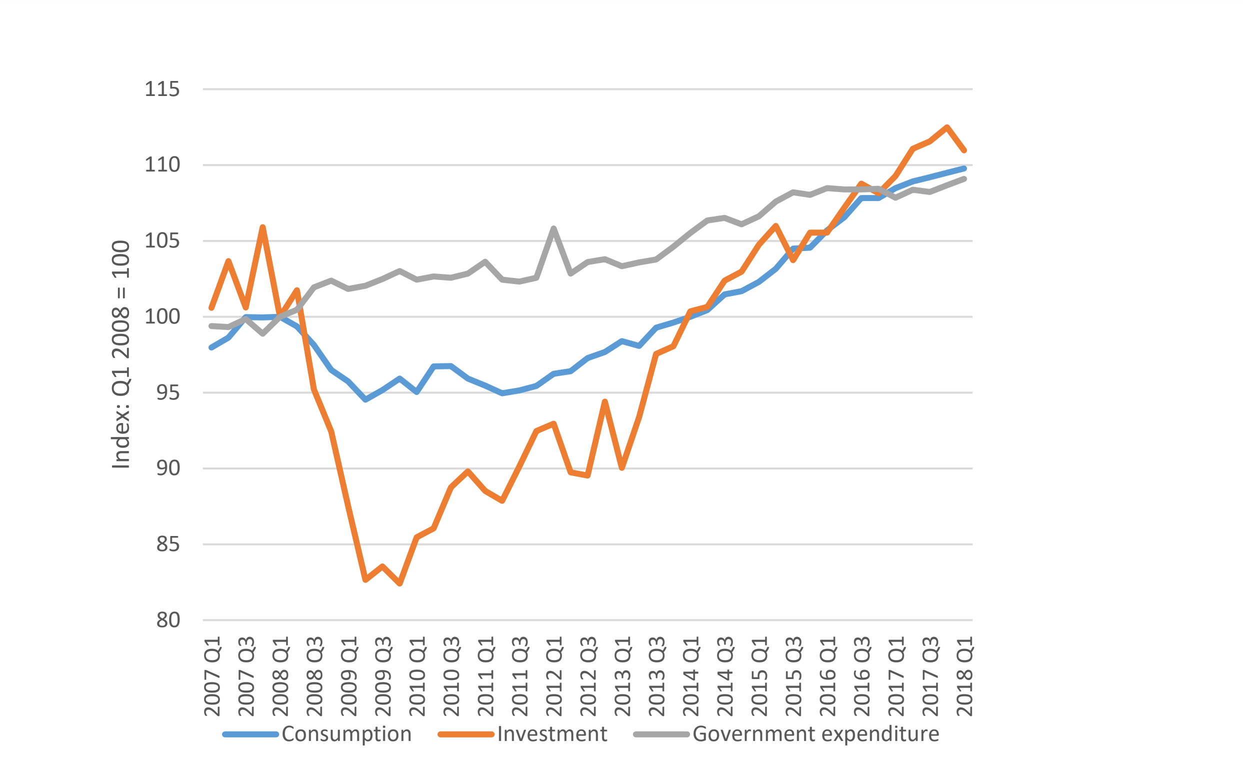
In so far as the UK economy can be characterized through a growth model framework, it is one where aggregate demand is driven by growth in household expenditure. Looking into the category of consumption itself, we find wealth effects stemming from being able to borrow on the back of the rising value of housing as an asset class. The success of this model depends on whether the wealth effects can outstrip the more negative consequences of very high house prices. In the late 1990s and 2000s, this seemed to be the case, though it required government to make extensive subsidies to the low paid at the same time. Over the last decade, the dynamics of the consumption-driven growth model have changed. The exclusionary and negative aspects of this growth model have come to the fore whilst the more inclusive elements have evaporated.

The failure of the consumption-led growth model

Britain's consumption-driven growth model is a nationally specific response to wider macro-economic trends. This is one attempt at generating growth in an age of low inflation, low interest rates and high levels of employment. For a time, the reliance on credit to maintain living standards worked and as a road to prosperity it was wider and easier to travel along than some other models, particularly by virtue of the high levels of employment that it generated. However, the model was not sustainable. Asset price inflation in housing has important wealth effects, but it also has large distributional implications. Over time, the latter limit the future possibilities of consumption-driven growth.

Rising house prices may drive consumption growth they also depress the spending of those cut out of the housing market. For many who pulled themselves up onto the housing ladder at the wrong end of the long property bull market, they are severely over-leveraged and vulnerable to any change in the macro-economic environment.[10] Over the last decade, the internal contradictions of this model have served as important headwinds pulling down economic growth. Figure 6 below shows the components of GDP growth over the last decade. The difference between this graph and the previous one is striking. Looking at post-2008 developments, we see a precipitous decline in business investment (GFCF). The UK continues at present to have - as a percentage of GDP - the lowest level of GFCF amongst all the G7 economies (Office for National Statistics 2017: 5). The British economy pulled itself up after the 2008 crisis on the back of its automatic stabilizers and a steady recovery in household expenditure but there has been no reassertion of the primacy of consumption in the make-up of GDP.

Figure 6: UK GDP by expenditure, 2007-2018 (source: ONS)



If we look more closely at figures 4 and 5, we can see why the British consumption-driven growth model has stalled. Firstly, the housing market has cooled, though without bringing house prices back in line with earnings. Instead of fuelling consumption, the housing market now stands as the symptom of a broken system and is one of the most visible expressions of our divided society. In economic hotspots where there is a greater concentration of high-earning individuals – such as London, Cambridge, Brighton and Oxford – house buying has become impossible for all but those on the highest incomes (Evans 2018). A recent report by the Estate Agent Savills found that in such hotspots, "the average worker can buy 330 sq ft or less, about as big as a typical shipping container". In Kensington and Chelsea, "a worker on average pay with a 25% deposit could stretch to 138 sq ft, which is only slightly larger than a parking space". The problem is not just in the most affluent of London boroughs. Reporting on the Savills findings, *Financial Times* journalist Judith Evans noted that "England and Wales have no regions in which the average worker can afford to buy the average-sized home". By comparison, average house prices in Germany over the decade of 1995-2005 fell by 2%.

At the same time, we have seen a marked drop-off in household credit. Figure 5 indicates almost a decade of decline in household credit in spite of historically low interest rates. This reflects the new restrictions on lending after 2008, intended to stabilize the economic growth model and avert a future crisis based on new asset-price bubbles. These restrictions have hit younger borrowers hardest as they lack the capital needed to get onto the housing ladder and only a minority can rely unthinkingly on financial gifts from their parents.

Since 2008, the benefits from this growth model have been narrowly channelled to those who already own housing assets and any other assets with relatively high rates of return. We see this in the pattern of the wealth gains over the last decade. Of the £2.7 trillion rise of wealth since 2007, two thirds of this has accrued to those over 65 years of age, divided up between pension and house-related wealth gains. Those aged between 16-34 years old have seen their wealth decline 10% over the same period (Haldane 2016:11).

The tension between generations has become palpable, much more so than in the past, but we have not yet seen any outbreak of an inter-generational war. The reason is that new inter-generational disparities tend to reinforce existing class inequalities. The millennial children of wealthy baby boomers are most likely to benefit from the "Bank of Mum and Dad" to get onto the housing ladder. By contrast, poor pensioners are the parents of children priced out of the housing market. Millennials and baby boomers may be at war but there is even more that divides millennials amongst themselves.

Rising standards of living in contemporary Britain depend on home ownership and pension income (Haldane 2016: 7). The route to prosperity is through asset ownership, not through holding down a steady job and relying on one's wage income.[11] The growing exclusivity of assets in the wake of the 2008 crash and the new restrictions on credit have ratcheted up the inequalities of the British model. Therein lies one of the sources of our present economic discontent.

Alternative growth models

This analysis helps us distinguish the UK from other advanced economies in Europe. A reliance upon consumption-driven growth tends to imply in practice a systematic deficit in the balance of payments as spending by consumers draws in imports. If national accounts must balance, then – for any given level of national income – a high level of consumption spending will come alongside a lower level of export-earnings. The reverse is true, helping us understand the German export-led growth model. In Germany, export earnings drive aggregate demand; consumption then accounts for far less as a percentage of GDP growth. We see this very vividly in Germany, where consumer spending is depressed compared to the UK and where savings rates are far higher. This is one reason for German unhappiness with European Central Bank monetary policy. Zero and negative real interest rates have decimated the interest earnings of German savers, whose voice is far more prominent than in the UK. The resultant hostility to the Euro was one of the reasons for the emergence of the Alternative für Deutschland in 2013, a party which later turned its attention to immigration.

An export-led growth model relies on competitiveness in export markets, including price competitiveness. Germany achieved this by overhauling its labour market and bringing down unit labour costs - especially relative to other Eurozone member states to whom it is exporting its products. Wage suppression in Germany has been significant from the early 2000s onwards. Between 1995 and 2015, but particularly in the years between 2003 and 2011, real compensation for hours worked in Germany was relatively low (Carlin and Soskice 2018: 173). Production was the driver of German growth, not consumption. As Colin Crouch put it, producers and consumers were constituted as two different groups. German producers relied on British consumers – and consumers in other importing countries in Europe, the US and China - for their export earnings (Crouch 2009: 385).[12] Consumption has picked up a little in Germany in recent years, as have wages, but not enough to drive Eurozone growth upwards in a sustained fashion. If Germany rebalanced its growth model, meaning that Germans saved a bit less and spent a bit more, then the prospects for the European economy would be different.

The interaction between these different growth models sheds light on the Eurozone crisis and its aftermath. As a recent Financial Times editorial noted, "Germany's policy in the early 2000s to depress the labour share of income bears much of the blame for the financial bubbles in the periphery" (Financial Times 2018). Looking for returns on their assets, German banks channelled German savings into German export markets, what Mark Blyth called a "tsunami of cheap cash" directed at the Eurozone's southern periphery (2013:79). This boosted consumption in places like Greece and Spain. In many of Germany's export markets, consumer spending was high as a percentage of GDP growth prior to the 2008 crisis: 3.0% in Greece, 1.4% in Spain, and 4.5% in Hungary (OECD 2015). This relative austerity of the German consumer also helps us understand the German response to the prospect of tax-payer funded bail-outs for struggling Southern European economies. After years of wage restraint, the average German did not feel wealthy and did not see why they should assist countries that had been spending more freely.

Different growth models need one another to balance themselves out. The consumer boom conditions of some national economies in Europe were a pre-requisite for Germany's export-driven growth model, and vice versa. At the same time, interactions between these growth models exacerbates their own internal tensions. The interaction of national growth models under conditions of extensive economic interdependence can drive regional and global imbalances (Hope and Soskice 2016: 222).

Earnings, incomes and jobs in a consumption-led growth model

What are the implications of the British growth model for earnings and income inequality? Over the period 1994-2007, earnings at the top end increased substantially (mainly due to success of financial services and to the power structure of British companies that privileges managers over workers). An effect of the 2008-2009 economic crash was to narrow slightly the distribution of incomes in the UK, the main reason for the modest income rise for the lowest income quintile being the pensions and benefits system which supports lower income households (Haldane 2016:25). Nevertheless, highly unequal pay ratios remain a constant feature of British life. Average pay ratios between FTSE 100 CEOs and the average pay of their employees dropped to 129:1 in 2016, from a high of 148:1. This remains far higher than forty or fifty years ago. Very high pay differentials are creeping into new domains, such as higher education, where the gap between Vice-Chancellor salaries and average pay has become so large that it is eroding the collegial and self-governing ethos of university institutions, replacing it with a widespread anti-managerial sentiment.

If we return to the earlier period of stronger economic growth prior to 2008, the pay of low-skilled workers in the UK out-performed those of low-paid German workers.[13] One reason for this is that a consumption-driven growth model sustains demand for low-skill work (i.e. retail sector, restaurants, hotels, cleaning) whereas an export-driven model such as Germany's relies on wage suppression to maintain the price competitiveness of its exports. As Baccaro and Pontusson put it, in the UK "robust growth of domestic consumption boosted demand for less skilled labour, shoring up real wages at the lower end of the earnings distribution" (2016: 197). The British service sector is in this respect quite literally a sector that administers to the multiple needs of the wealthiest citizens.

The consumption-heavy pattern of GDP growth has impressed itself upon the structure of the British labour market, in the manner in which sustained patterns of aggregate demand growth can over time transform the supply side of the economy. Estimates of low skilled jobs in the UK range from 25 to 40% of all jobs, which amounts to between 8 and 13 million people (Goodhart 2017:148). Goodhart also notes that low skill and low wage work has grown systematically in the UK since 1979: from 13% to around 22% in 1997, to approximately 30% today. A study – based on 2005 figures - compared 6 countries and found great variation in the incidence of low pay work: 8.5% in Denmark, 11.2% in France, 17.6% in the Netherlands, 21.7% in the UK, 22% in Germany and 25% in the US" (Applebaum et al 2009). This increase in low skilled employment has often come as a surprise, given assumptions about the relationship between technological change and rising demand for skilled labour. However, attention has increasingly focused on explaining "job polarization" and the advent of an "hourglass" labour market where a rise in high skilled work is accompanied by a rise in low skilled work, diminishing the role played by middle-level skills (Goodhart 2017: 150; Holmes and Tholen 2013).

Technological change drives some of these changes but patterns of aggregate demand matter also. A consumption-driven growth model implies sustained demand for low-skilled work, which (alongside other measures such as the minimum wage and tax credits) explains the relatively robust pay performance in low skill service sectors (Mayhew 2015).[14] But it also underpins one of the most long-standing problems for the British economy, namely its "inability to generate large numbers of high-skilled, high-productivity jobs outside of a small network of leading firms in services and manufacturing sectors" (Coulter 2018: 211). Goodhart notes that in the UK the number of hospitality jobs has increased by 16% since 2000 and now makes up 7% of the British workforce (2018: 171).

A relatively robust performance at the lower level of the wage structure does not signal a transformation in the British labour market.[15] It merely reaffirms and entrenches its dualist quality. In contrast to countries like France and Italy, where a dualist labour market refers to the competition between "insiders" and "outsiders" i.e. those with jobs and those without, in the UK the dualism is *internal* to the world of work. It is reflected in the changing relations between public and private sector work as out-sourcing has become normalized throughout the British economy. Public and private employers now systematically outsource work to private firms in order to reduce their regulatory exposure and to cut labour costs, for instance by limiting their liability for pension contributions. Out-sourcing can take the form of large employers re-hiring their own employees on a self-employed basis. This practice was given extensive coverage in the British papers when HMRC won a case against a BBC presenter for unpaid taxes. The presenter had not been a BBC employee. She had been hired by the BBC as a self-employed worker on a personal service company contract. The court case revealed the extent to which the BBC had encouraged the move to self-employment amongst its own staff (Sweney 2018). More commonly, we find this off-loading of risk and cost within the 'gig economy'. Self-employed staff take on the full burden of flexible employment, along with the taxpayer who funds the welfare state upon which workers in this sector depend enormously (Reeves 2018: 19).

Since its decline as an industrial power, the UK has yet to find a new economic growth model capable of sustaining high levels of very skilled and well-paid jobs. Innovation hubs are scattered across the country, as are clusters of excellence in regional cities. Generating large revenues, they employ relatively few people. Our post-industrial economy has failed to draw in vast swathes of the British population, from the coastal towns and cities of Norfolk and Suffolk to the former industrial heartlands of the Midlands and the North. Goodhart observes that “eight out of the top ten high-wage low-welfare cities are located in the South East, while nine of the bottom ten low-wage cities are in the North or the Midlands” (2017).

Many parts of the UK that lie outside the South-Eastern London-based bubble became dependent upon state support during the Blair years. As Robert Rowthorn has remarked, the old industrial towns and cities of Northern England have certainly been transformed: “centres have been cleaned up and partially rebuilt; old industrial buildings have been converted into homes and leisure facilities; shopping malls, restaurants, wine bars and clubs abound” (Rowthorn 2012: 375). However, much of this change has come through fiscal transfers from South to North. The difference in public expenditure across regions is very great. Rowthorn observes that public expenditure in 2008-2009 in Wales and the North East was 62.8% and 58% of regional Gross Value Added (GVA) respectively. In London and the South East, the figures were 27.2% and 32.4% respectively (Rowthorn 2012: 376).

Though employment rates remain high in these more depressed parts of the UK, the quality of job creation has been poor. Rowthorn provides some figures relating to the shift from skilled industrial work to low skilled service-based work. The rise of call centre work in the North is a telling example. By 2003, there were 290,000 people working in call centres in the North, with another 160,000 working in these centres in ancillary occupations. This counted for 3.7% of total employment in the North, but also for 41% of the increase in employment in financial and business services that had occurred in the North since 1971. Such jobs have proven to be particularly vulnerable to offshoring and to automation (Rowthorn 2010: 379).

These figures tell us something about the political-electoral coalitions that have emerged in the UK since 1979. The Thatcher and Major electoral coalitions of the 1980s and 1990s brought together business interests and low and medium-skilled workers (Coulter 2018: 212). Blair’s strategy, in contrast, “was to draw together business and socio-cultural professionals through open, pro-market policies while buying off the losers (Labour's traditional working class supporters) through tax credits for the low paid and substantial investment in public services" (2018: 212). The Tory government's austerity drive since 2010 paved the way for the new lines of conflict that have opened up in recent years between high-skilled university graduates and low-skilled school leavers. The debates and conflicts of the UK's 2016 referendum, where the language of Left versus Right gave way to an emphasis on knowledge and education, was no mere blip. Older and more familiar styles of politics are unlikely to return as they no longer correspond to the existing structure of society and its corresponding patterns of thought. The growing gap between the high-skilled and low-skilled is at the heart of our consumption-driven growth model. Unsurprisingly, it has also become a new dividing line of our politics, around which the old political parties will realign in new and perhaps unexpected ways.

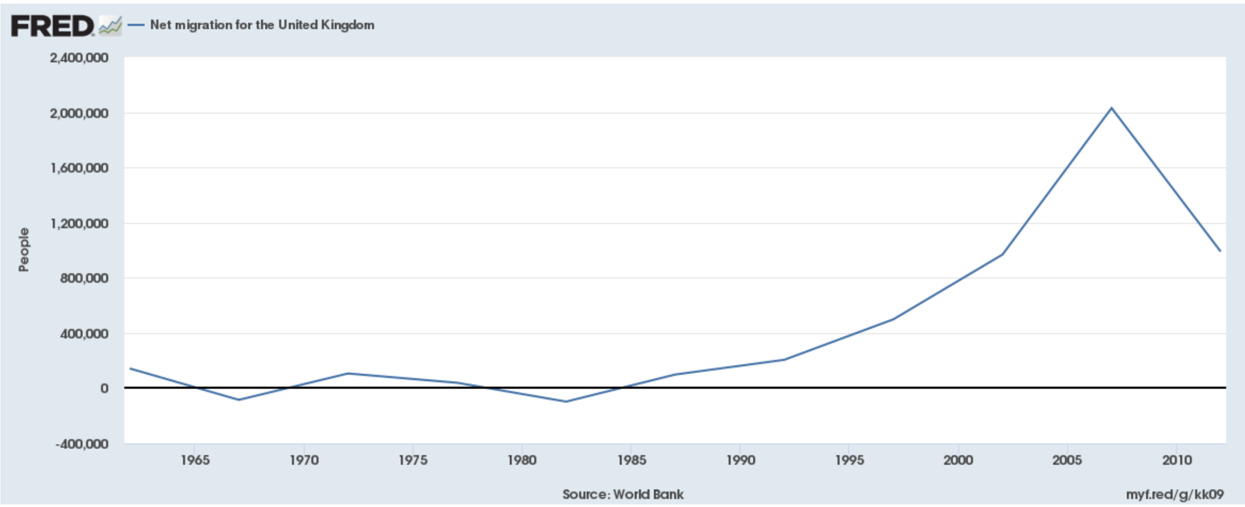
Consumption-Led Growth and Open Labour Markets

Though neither schools of thought address this issue directly, the analytical framework of consumption-led growth models, together with the focus of "varieties of capitalism" on labour market institutions, can help us understand the role of immigration in the UK economy and of EU immigration in particular. We can also use them to connect changes in the British labour market to what has become known as the "productivity puzzle", namely the UK's very poor productivity performance over the last decade.[16]

The puzzle of the British free movement debate

Commentary on immigration in the UK has tended to focus on cultural problems. The story is one of British citizens on low incomes reacting against the cultural impact of EU migrants from Eastern Europe, who arrived in very large numbers after 2004. The UK was one of three countries (plus Ireland and Sweden) who opened their labour markets without putting in transitional arrangement to lessen the impact of free movement. The scale of EU migration into the UK has been considerable, with net migration into the UK reaching just over 2 million at the end of the 2000s.

Figure 7: Net migration for the UK



A reason for the popularity of the cultural account of anti-immigration feelings was that economic studies had failed to show any impact of EU migration on UK wage levels, even at the low-skill end (for a brief summary, see Portes 2016). They had also failed to identify any fiscal burden associated with new arrivals from Eastern Europe. On the contrary, such migrants are more likely to be net contributors in fiscal terms since they pay their taxes and are generally young and fit (and so they do not use the welfare state as regularly as older people do). The Brexit vote has been taken as proof that working-class Brits have become xenophobic and racist, with hostility directed in particular to EU migrants.

This whole analysis presents us with a puzzle. Worries about the number of EU migrants coming to the UK were clearly central to the Brexit vote but there was little evidence to suggest that this could be a straightforward reaction to the downward effect on wages resulting from high levels of EU migration. And yet, to paint the British working class as far more xenophobic than any other in Western Europe is odd given that there is far more evidence electorally of xenophobic sentiment in countries such as France, the Netherlands, Germany and Italy. All these countries have long-standing far right political parties and traditions more present in mainstream political life than in the UK.

The goal here is not to downplay the importance of cultural and social factors as such. As Goodhart has argued, it is often a sense of exclusion from a national story and the priorities set by government that drives opposition to immigration (2017: 121). At the same time, we should not uncouple culture and the economy entirely. There an important material connection between the British growth model, EU membership, freedom of movement and Brexit, though the transmission mechanism is not principally though falling wage levels. Instead, large-scale EU migration has reinforced the dualist character of the British labour market and has exacerbated long-standing weaknesses in skill formation and vocational training.

Though it has not depressed wages in the low wage service sector of the economy, access to EU migrant labour has "capped wage inflation in some sectors", thus removing one of the possible headwinds faced by such a growth model (Holman and Pike 2018). At the same time, the ready supply of labour has affected the growth strategies of firms across different sectors. Rather than invest in capital and in the staff training required in order to realize the gains on that capital investment, firms have pursued recruitment-intensive strategies, seeking to gain competitiveness by expanding their workforce (Holman and Pike 2018). As the IPPR Commission on Economic Justice put it in its 2017 report, "it has become too easy and too cheap to raise output by adding a low-wage worker rather than by investing in new technology or innovating in workplace organization" (2017: 37).

By providing a large pool of labour at different skill levels, EU migration has reinforced the low/high skill division within the British labour market. This division was not caused by EU membership itself. It was the result of deindustrialization, which saw the loss of many skilled industrial jobs, and a historically poor vocational training record (Keep and Mayhew 1988, Fieingold and Soskice 1988). The jobs in industry were not replaced with equally skilled service sector jobs but with low skilled work, in customer service roles, in retail and distribution. When the Longbridge car factory closed in the mid-2000s, one government minister suggested workers could find alternative employment in Tesco (Glyn 2006), a causal remark that captures the kind of de-skilling that came with de-industrialisation.

This dualism in the labour market is a direct product of consumption-driven growth. Demand for low-skill services is very high – in the leisure industry for instance - whilst imports satisfy the demand for high value-added products. Government industrial policy has been oriented overwhelmingly towards investment in high-skill and high innovation sectors. High skill immigration (from the EU and further afield) has contributed to the global success of British companies that are at the cutting edge of technological developments in biomedical sciences, artificial intelligence and other fields. The large low skill segment of the British economy has met its labour needs through EU migrant labour. As Coulter puts it, "a significant influx of low-skilled immigration probably did have a negative effect on the economy and labour market, but its effect operated not on local wage rates but on the incentives of employers, who were presented with a solution to their training problems in the form of cheap workers" (2018: 201). Goodhart writes that

> *whatever the benefits of economic/cultural dynamism and plugging skill gaps [provided by large-scale immigration], the ease with which employers have been able to import trained and motivated workers has also exacerbated a traditional weakness of Britain's economy – a lack of investment in training – and helped to sustain what is called a 'low pay, low productivity equilibrium' (2017: 152).*

Rachel Reeves has made the same argument. In her words, "low paid, low skilled migrant labour enabled government and business to sustain a highly flexible labour market and avoid the costs of both technological innovation and the training of a skilled and productive workforce" (2018: 18).

This transmission mechanism is also observable in other EU member states. In Ireland, the foreign direct investment-driven growth model has many structural similarities to the British model. Regan and Brazys argue that the Irish model has led to "an increasingly segmented labour force, with the top quintile earning high and increasing wages in the FDI sectors, and a mass of low and medium-wage workers who have seen limited improvement in their economic situation" (2018:

224). They add that the economic gains of this model have largely gone to non-Irish EU nationals living in Dublin, whilst the losses have fallen on Irish citizens employed outside of the hi-tech FDI-reliant sectors. Brexit, in their view, is a “clear cut case of a political backlash against this type of growth regime” and that it should “send a warning signal to Irish policymakers (2018:226).

In the UK at least, these economic arguments have failed to shape the EU immigration debate. Findings by economists that wage levels for the lower skilled have not fallen as a result of free movement have become an article of faith, raised whenever anyone suggests that there may be an economic explanation for why EU migration has become a source of concern and anger for working class Britons. As the UK’s negotiations with the EU continue, there is a strong chance that the Government will accept freedom of movement after the UK’s exit from the EU, in exchange for continued access to the Single Market. This means that the impact of a very high supply of labour on the incentives and growth strategies of UK firms will go unchallenged.

Open labour markets, training and productivity

To understand the exact mechanisms at work, we need to consider more closely the operations of the British labour market and how EU migration interacted with a long-standing weakness in skill formation and training in the UK.

Conventional economic thinking is generally positive about open labour markets. They reduce long-term unemployment by cutting recruitment costs for employers. Labour market “churning” is one way of diffusing knowledge across firms and sectors, as a worker carries skills from one company to another, with positive knock-on effects for productivity (Haldane 2018:14). Moreover, if a worker is in too secure a working environment, then they may become too complacent. This implies that job insecurity and productivity are positively correlated. However, there is also a firm relationship between productivity and skill formation, which in recent years in the UK has evolved into something of a mantra about how high skills can solve the UK’s productivity problems (Mayhew 2015). Whilst the relationship between training and productivity is not simple, it is clear that high quality training and investment in skill formation is a necessary (though not sufficient) condition for raising productivity (Keep and Mayhew 1988, 2006).

This presents us with an obvious difficulty as open labour markets produce incentives for employers that mitigate against investment in training. If an employer finds that an employee is not performing well, it is easier and cheaper to fire them than to invest in training to improve their performance. Equally, for an employee, the “flexible” aspects of an open labour market are double-edged. On the one hand, they can motivate an employee to work hard, on the assumption that more security means more shirking at work. On the other hand, job insecurity can seriously affect motivation, lead to alienation at work and disaffection with senior management. “[F]earful workers do not make the hardest workers” (Mankelow 2001:140). The effect of a “flexible” job market on labour productivity is indeterminate, the overall net effect dependent upon specific circumstances.

At a deeper level, training and skill formation presents labour markets based on the buying and selling of wage labour with a fundamental difficulty. Short of forcing an employee to remain within a company – in other words, indentured labour or slavery – it is likely that the costs of investing in training will be lost as an employee moves elsewhere. As Keep and Mayhew observe, “an under-supply of qualified manpower at the aggregate level” is a systematic feature of capitalist labour markets (1988: ii). Wolfgang Streeck makes the same point: “most firms will most of the time have a tendency to invest in less training than they should in their own interest” (1989:93). Skill formation is a collective good which a capitalist economy will always under-provide since privately incurred costs may be rapidly socialized as workers change jobs. Under these circumstances, and given the difficulty of collective goods provision in free markets, firms will always seek alternatives to training and skill formation in their search for competitiveness.

Keep et al note that within the UK’s deregulated and flexible labour markets, firms can compete through “low road strategies based on cost-cutting and work intensification” (2006:550). Over time, this leads to a structural bias towards low skill activities. It has become very common for UK firms pursue growth by expanding their labour force – a form of what we might call “extensive” growth – rather than through investing in new capital or in training for the existing workforce. For this reason, it was always going to be more attractive to tap into a very large European “reserve pool of labour” than to opt for training and skill formation or invest in new capital. In the short-term, this made sense in terms of profitability and a firm’s cost base. Longer term, the systematic under-investment in skill formation was a drag on the productivity of the British economy as a whole, as has been the low levels of gross fixed capital formation. For countries with more developed and robust vocational education and training systems, free movement might have not had such a dramatic effect. But there were very few forces working to prevent British firms from taking the easier road, with knock-on effects for the skill level of the British economy as a whole.

Viewed from this perspective, we can understand better the systematic failures of the British vocational training and education system. Francis Green and others found a few years ago that between 1997 and 2012, “the average training volume per worker declined by about half”. They also noted that whilst training volumes fell for all types of worker, the fall was greatest “among the young, those in the private sector, those in the lowest education groups, and those living in Northern Ireland” (Green et al 2013).

This helps us fit a recent example into a longer-term story. Introduced in April 2017, the apprenticeship levy requires companies with a pay bill of more than £3 million to put aside an equivalent of 0.5% of this towards levy-approved training (Moules 2018). Money not spent on the scheme would be reclaimed by HMRC as tax. Intended as one way of raising the skill level of school leavers entering the labour market, the levy has been used as a new funding stream for business schools. Sensing an opportunity, they created levy-compatible MBA programmes that have proven extremely popular with many senior managers “returning to school” as new “apprenticeships” (Moules 2018). For firms, it has proven far easier to sign off on executive sabbaticals of this kind than to create the proper frameworks and training structures that could absorb the much younger school leaver apprenticeships. An apprenticeship scheme intended to reduce the gap between low and high skilled workers has had exactly the opposite effect. Firms and business schools should be criticized for their short-termism and opportunism. However, given the absence of any labour market pressure to train the school leavers, it is unsurprising that businesses have sought to use the levy to train managers instead.

Whilst the dualist labour market is not a consequence of the UK’s membership of the Single Market, it would be an important step in the current Brexit debate to recognize that way EU membership has interacted with the weaknesses of the British growth model. Free movement has encouraged firms to pursue “extensive” growth strategies that avoid investment in physical or human capital. We are already seeing signs that a reduction in the supply of labour may be a catalyst for higher business investment. Research by the Bank of England’s “Agents” – staff based in the Bank’s 12 regional offices across the UK – has found that because of recruitment shortages and some pay pressure “the focus of many companies is turning to investment in labour-saving plant and machinery to raise productivity and alleviate resource bottlenecks”. Holman and Pike describe this as a “pivot towards business investment to overcome greater labour scarcity” (2018; Giles 2018). They conclude that business leaders seem to have recently favoured capital over labour. “The recent slowdown in labour supply growth”, they write, “may be followed by a sustained productivity recovery". They accept that "many of the technologies being implemented have been available for some time" but argue that "a reduction in the availability of labour is acting as a catalyst for their introduction" (see also O'Connor 2018).

These findings are tentative but suggest it is wrong to assume that xenophobia is what connects EU free movement and the Brexit vote. A complex relationship exists between the UK's open labour market, EU free movement, a poor record in vocational education and training, and the UK's poor productivity figures over the last decade, which would merit more attention. Ending the free movement of labour by leaving the EU is no panacea, as the problem is fundamentally one of collective goods provision within institutional settings dominated by wage labour and profit maximisation. But the connection between free movement and the UK's dualist labour market seems evident. A tighter labour market would force employers to balance the likelihood of rising wages against the costs of investing in new equipment, new production methods and training programs. Restricting the supply of low skill labour might also encourage a move towards automation. We are starting to see this already in sectors traditionally reliant upon low skill migrant labour, such as logistics, hospitality, warehousing and agriculture (Holman and Pike 2018). This would raise productivity and provide an opportunity for people to migrate from low-skilled work to more valuable, more rewarding and higher skill employment. If a large number of British firms were to shift from an "extensive" growth strategies to ones that were more capital and training intensive, the aggregate effect could eventually be felt in the productivity figures.

Rebalancing British Growth

If the British growth model needs to be rebalanced, how might this be done? We suggest that British growth needs to be steered away from its reliance upon consumption, to allow room for the expansion of other sources of aggregate demand, such as net exports, private investment and government expenditure. At the same time, we must transform the existing service-based economy. This means encouraging automation in the lowest skilled activities whilst reinventing the more social service sector jobs – child and elderly care in particular. These should become recognized professions with a higher status that merit investment and a very significant boost to real wages. However, all of these reforms can only succeed if there is also a reckoning with one of the principal effects of the UK's growth model of the last few decades, namely the collapse in the links between individuals, markets and the state which are the basis for conceiving of a national economy in the first place. As Froud et al have put it, the changes we have seen in recent decades amount to the "dismantling of a social settlement" (Froud et al 2017:8). Any solutions need to take into the account the pressing need for a new "social settlement", one which involves building a set of shared expectations around the need to balance the interests of market actors with those of British society as a whole.

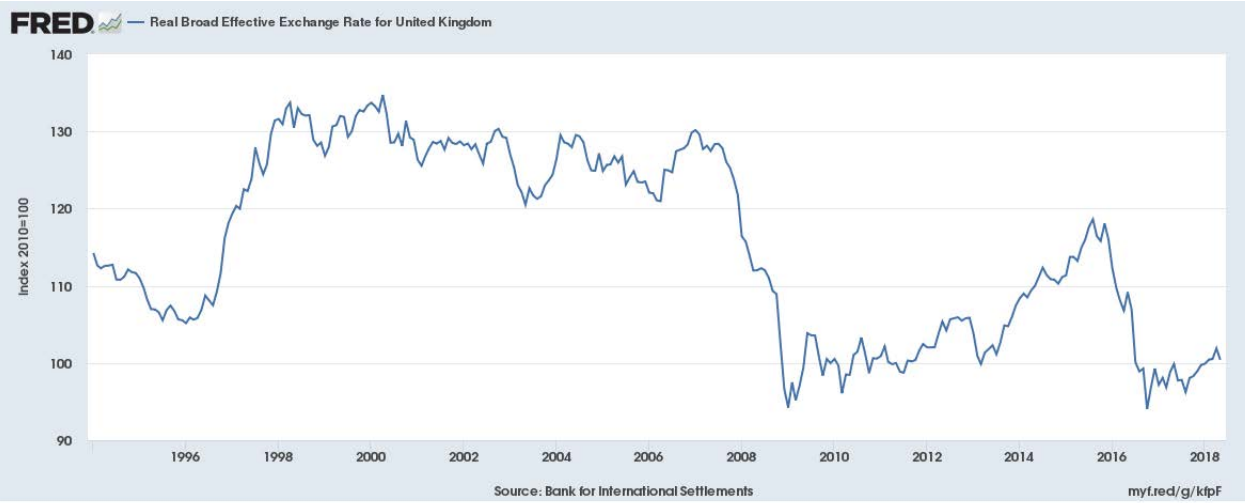
Currency depreciation

An obvious and conventional place to start for any economic rebalancing is the British pound. If the UK is to start exporting goods once more, then a weaker Pound could help (Bootle and Mills 2016). It is also possible that a weaker Pound would incentivise British businesses to invest in capital expenditure, of the kind that can positively impact on productivity. By making sales in export markets more likely, a weaker Pound would make investment in the means to realize these sales more attractive.

Countries with manufacturing sectors in the Eurozone, such as Italy, have good reasons to wish to be in the UK's position. In writing about Italy's economic decline, Martin Wolf remarks that "outside the Eurozone, the relevant adjustments would have occurred, as they did frequently before, through a currency depreciation". This may not be a long-term solution but "it would surely have been better than the social and political damage that has turned one of the most pro-EU countries into what is now one of the most sceptical" (Wolf 2018).

For the UK, currency depreciation is a serious policy option. In past decades – particularly between the mid 1990 until recently – the UK's effective exchange rate has been high. The graph below gives the UK effective exchange rate between 1994-2018. From 1997 through to 2007, an appreciated UK Pound put pressure on British exporters. The value of the Pound then fell at the time of the financial crisis, strengthening once again in the years up to 2016, at which point it weakened again after the UK's vote to leave the EU.

Figure 8: Real broad effective exchange rate for UK



Depreciation is not a silver bullet of any kind. This is particularly so in the UK's case, where an appreciated exchange rate reflects the country's reliance upon inflows of foreign capital to finance its consumption-driven growth model (Blakeley 2018: 12).[17] However, if pursued as part of an overarching effort to rebalance British growth, depreciation could help wean the British economy away from its reliance upon consumption-driven growth by boosting certain kinds of investment spending. However, there are significant obstacles to the depreciation route which need to be recognized.

Whilst a depreciation would represent a price boost for British exports, it would also raise the prices of imports. As many imports serve as inputs into the production of British exports, the net effect could well be to reduce price competitiveness of British goods abroad as producers pass the input price increases onto their customers. A particular feature of British manufacturing is its dependency upon wider supply chains: in British machinery and vehicles, 50% of intermediate purchases are imported (Froud et al 2017: 14). This makes the downsides of depreciation more acute than for economies with larger domestic components industries. Any depreciation strategy would have to be accompanied by measures aimed at domesticating supply chains and boosting the domestic value-added in British exports.

Another problem is that a weaker Pound will raise the domestic price level as many imported goods become more expensive. This will push down real wages further and represent a significant negative shock for consumer demand. For any given level of national income, a rebalancing towards investment coming from a weaker Pound would require some reduction in consumption, which would hit key service sectors – retail, hospitality – very hard.

Currency depreciation is difficult to achieve in practice since a country's exchange rate does not just depend upon its own behaviour or its own economic fundamentals. Much depends on the behaviour others. Any positive effects of depreciation depend upon the state of demand in other economies. There was no sustained advantage for exports gained from the depreciation of Sterling after the 2008 crisis, in part because EU and world demand was weak (Froud et al 2017:15). The post-ERM depreciation of 1992-94 was more successful because the European and global economies were growing at the time (Springford and Tilford 2016: 2). There is no guarantee that a British depreciation would coincide with buoyant world demand for British products.

It is also generally quite difficult for central banks to control currency movements. Switzerland is a useful case in point (Economist 2015; Klein 2017). In the wake of the 2008 financial crisis, the Swiss Franc became a safe haven currency as investors moved out of risker assets. The Swiss National Bank (SNB) feared this would be damaging for an economy where exports of goods and services are worth over 70% of GDP. In September 2011, the SNB declared there would be a hard floor of 1.2 Francs per Euro. It defended this by printing enormous quantities of Francs and using them to buy up foreign currencies. The SNB was successful for a time but its massive intervention in the foreign exchange markets brought about new problems, including domestic fears about the effects of holding such large amounts of foreign exchange. In the end, on the 15th January 2015, the SNB announced that it would no longer commit itself to keeping the Swiss Franc at its desired level of 1.2 Euros.

It would be easy to conclude that the SNB's experience is a warning against any attempts at currency manipulation (Economist 2015). It would be more accurate to say that, when carried out in isolation, it is unlikely that currency manipulation will succeed. Currencies reflect the fundamentals of a domestic economy as well as being vehicles for the play of external forces. If embedded within a wider economic strategy aimed at rebalancing the sources of economic growth, depreciation can play a role. If relied upon as a magic bullet, it is likely to disappoint.

Industrial relations for a post-industrial age

It has become increasingly common to hear that any transformation in the British economy will require devolving powers back down to the local and the regional level (Reeves 2018). If one of the principal weaknesses of the British economy is the entrenchment of a centre-periphery dynamic, with almost anywhere outside of London and the South East considered as part of the periphery, it is understandable why so many are sceptical that change can come from within Whitehall. Politicians and civil servants are often at the very heart of the economic bubble themselves, with their own personal stake in our consumption-driven asset-focused economy.

This call for a more decentralized approach is powerful because it chimes with one of the great ideological legacies of Thatcherism –the belief that any institutional mediation between the individual and the state is likely to transform itself into a rent-seeker. This view drove the onslaught against organized labour in the early 1980s, which hollowed out the political and social framework known as "industrial relations" (Baccaro and Howell 2017). Between 1979 and 1997, trade union membership fell from 13 million to 8 million, whilst union density went from 50% to just over 30% (Mayhew 2015:201).[18] This view lay behind the Thatcher government's attack on local government and on bodies such as wage councils and the Industrial Training Boards.[19] It has also underpinned historical analyses of the post-war British economy more generally (Crafts 2017). The message here is simple enough. British industrial relations – going back to their very origins in the 19th century – were too conflictual. Unions were unable to discipline workers in the ways required for the development of a mass industrial base organized around Fordist principles. Capitalists were therefore reluctant to invest out of fear that unions could not deliver on promises of wage restraint. The class compromise at the heart of the economic boom in France and West Germany after 1945 was absent in the UK. Instead, post-war economic policy was driven by "a political imperative to appease organized labour in an attempt to achieve very low unemployment through wage restraint" (2017: 10).

There are good reasons to be sceptical of this reading of British postwar economic history, not least because of the robust economic record of that period (Gudgin and Coutts 2015; Edgerton 2018). Its principle weakness, however, is that as a political-economic strategy it threw the baby (UK-style industrial relations after 1945) out with the bathwater (any sort of mediated relations between capital, labour and the state). The British economy in the course of the 1980s and 1990s was both de-industrialized and deinstitutionalized; the legacy of both lies heavily upon the contemporary British economy.

The absence of these mediations between individuals, markets and the state are now holding the economy back. Far from being impediments to growth, such mediations are a pre-condition for it. A society founded merely on the pursuit of individual self-interest will systematically fail to generate the kinds of common resources that capitalism relies upon (Streeck 1989). We see this in the productivity figures, where the problem is not one of innovation as such but of the diffusion of technological knowledge throughout the British economy. Haldane describes how the “hubs” of excellence within the British economy – of which there are many – lack the “spokes” that would connect them to the wider economy (2018: 16-17). These “spokes” are precisely the mediating bodies and institutions that could help spread excellence and innovation throughout the economy as a whole. Skill formation is a useful example. Employers are reluctant to invest in skills not only because of the costs involved but also because the shift from low to medium or high skill implies a profound change in the bargaining power of workers. Employers are afraid that skilled workers may “extract rents from the firm with excessive wage demands” (Carlin and Soskice 2009: 69). A number of mediating institutions – from collective wage bargaining to co-representation on company boards – originate in efforts at solving this problem of how to generate collective goods (such as a high-skilled labour force) in a capitalist society. Given the weakness of these institutional mechanisms in the UK (Baccaro and Howell 2017: ch.4), there is no way of striking a balance between the extremes of wage stagnation and rampant wage inflation. Fearing the latter, employers prefer the former.

The solution cannot simply be to bring back the unions, not least because the structure of the British economy has changed so much since it transitioned to a consumption-driven model. Large firms with large numbers of workers are now the exception to the rule. It makes little sense to transcribe a 20th century vision of industrial relations onto a 21st century economy dominated by micro-firms, self-employment, and the gig economy. The answer must be to find new forms of mediation that correspond to the social relations of British capitalism in 2018. Without such mediations, any attempts at changing the British economy will generate intense opposition alongside more diffuse forms of support. This means that, in the end, a project to rebalance the British economy will end in the classical way of all collective action problems, with the interests of the few defeating the interests of the many.

The importance of sovereign power

Creating new sources of mediation between the individual, the market and the state is critical as part of the effort of rebalancing the British economy in a way that spreads the wealth and value-creation more equally. The caveat to this is that we should not forget how much resistance will come from any rebalancing that takes place. Overcoming this resistance will require the exercise of sovereign power, vested in a government drawn from a majority in the House of Commons. This is something that Margaret Thatcher understood far better than her opponents on the British Left. As Andrew Gamble argued many years ago, Thatcher realized her project of free market capitalism only by using and expanding the power of the state (1988).

Contemporary writings on political economy often have a naïve and technocratic attitude towards policy change. They imagine a two-stage process, with stage one the development of the policies, and stage two the implementation of them. Politics comes in only at stage two and is experienced as an unwelcome inconvenience. In fact, political conflict is already at the heart of any ideas that aim to change the status quo. These ideas rest upon a certain vision of society that challenges the existing balance of power between social groups. In our political economic thinking, we need less J.M. Keynes and more Michal Kalecki.

It is a mistake to suppose that in the field of British economic policy, we have had too much sovereignty in recent decades. We have certainly had a great deal of centralized government policy, but sovereignty is about taking ultimate responsibility for the fate of a territory and its people. In this regard, the exercise of sovereign power has been dramatically uneven. Great interest has been taken in the towns and cities that form clusters of innovation, but those living outside of these dynamic hotspots have been left adrift. Sovereignty is not just about encouraging the Cambridge success story of "Silicon Fen"; it is also about raising the standard of living of places outside of the bubble, from Lowestoft and Great Yarmouth on the coast, to King's Lynn, Wisbech and the rest of East Anglia. Regional disparities of this kind are reproduced across the United Kingdom. In a recent survey of economists following the publication of the 2017 UK Government Industrial Policy, a majority supported a radical regional policy that would seek to boost economic activity outside of the South East. However, a majority did not think there would be sufficient political will within government to achieve this. Indeed, though a very large majority supported the idea of a new industrial policy, they were not confident that government could deliver (den Haan et al 2017). Some of this scepticism about the ability of government to deliver on regional policy stems from the way in which regional policy has been conducted in recent years. The regional development agencies introduced in 1999 by the first Labour government pursued a "soft" form of intervention incapable of tackling deep-seated structural inequalities between regions. As Mayhew and Payne have argued, if regional policy is to be successful it must be both actively discriminatory – seeking to improve the chances of the weaker and poorer parts of the UK – and must marshal enough resources to reverse to some degree the "unavoidably uneven character of capitalist development" (2006: 550). This is a very difficult task and one that requires the full power of the central state.

A project of political economic renewal, focused on raising the general competence of society, cannot be pursued without enormous resistance from parts of society currently benefiting most from the status quo. Can we imagine that a transition away from "privatized Keynesianism" would be possible without desperate resistance from all those deeply invested in the property boom for their current and future income? Is it realistic to imagine that a redirection of resources towards training and vocation education would not be resisted by the higher education sector, who rightly would feel that its size and status is being diminished? We have already seen how one of the main messages of the UK's EU referendum – concern about the effects of sustained high net migration into the UK from the rest of the EU – has clashed with those whose interests are aligned with maintaining a virtually unlimited supply of labour. As Froud et al put it, "Westminster politicians must try to reconcile the demands of organized business for market access with a popular vote challenging free movement of labour" (2017:1). At present, all signs point to a victory for organized business in their struggle against a tighter labour market.

The full power of democratically constituted majorities must be exercised against the private power of social and economic interests. Any revival of the mediating bodies that exist between the individual and the state should not come at the expense of the strength of this relationship between political majorities and governmental power. After all, some of the most progressive actions of past British governments – such as the creation of the National Health Service seventy years ago – were expressions of executive power, reliant upon the doctrine of parliamentary sovereignty and attacking entrenched local and private interests. Fundamental change in the economic and social structure of society will only come, at least initially, from directing state power towards this goal.

Towards a More Balanced British Growth Model

In order to achieve the goal of rebalancing the British growth model in a way that raises the general competence of society as a whole, we need new policy solutions. Below are a series of different ideas that could go some way to achieving the above goal. Some of these solutions have been proposed elsewhere by others, some are new. There is nothing exhaustive about the list below, it is intended instead to stimulate debate and new ideas.

It is common to find in such lists of policy solutions headline grabbing macro-economic policies at the top, and then towards the bottom the “softer” institutional or relational policies. The reverse is done here. Without a new social settlement that can bring different parts of British society together, the pursuit of any new policy mix will generate multiple forms of resistance. Without a social settlement as an underpinning of a new growth strategy, powerful sectoral interests will be able to frustrate government efforts.

A new social settlement

- A settlement that builds upon the actually existing social relations of contemporary Britain, with the aim of creating new points of association and identification between different sections of society, and one that is able to articulate a common interest around which different groups can come together

- This social settlement cannot take the form of a blueprint produced by academics or civil servants, nor should it be the reinvention of older traditions, such as that of industrial relations and neo-corporatism of the 1970s

- It can only take the form of a common vision proposed by an existing or new political party, seeking to win over a majority to its account of what a rebalanced British economy can look like and whose interests it should serve

- By definition, such a social settlement must rest upon some notion of society and where the borders of this society should lie

- The external complement of this new social settlement should be a democratic internationalism where solidarity exists between peoples constituted as self-governing national communities

From extensive to intensive growth: investing in skills, expanding production

- The introduction of a statutory obligation for employers to invest a given proportion of their revenue to employee training (Streeck 1988). This training should be done principally *within* firms as they are the best environments for vocational training and education. The traditional British reliance on voluntarism should be replaced with obligation enforceable by law, where in particular it is specified that the recipients of training should be lower-skilled and medium-skilled workers, and not senior managers.

- The introduction of a statutory obligation for firms of a certain size to have worker representation on company boards (Reeves 2018: 36-37)

- The creation of a new Institute of Work, as prestigious as recent research institutes in the sciences (e.g. the new Alan Turing Institute for data science and artificial intelligence), with a mandate to better understand the connection between skill formation, training and labour productivity. It is too easy to blame the skill level of workers for low productivity figures. In fact, this relationship depends upon a complex set of factors, including the ability of management to deploy new skills effectively. The UK's problem of "accidental managers" is an impediment to this (Hill 2018)

- The creation of a Royal College of Child and Adult Care, on the model of the Royal College of Nursing, to improve the quality, status and pay of these vital professions (see also Reeves 2018: 36).

- A soft exchange rate target for the UK Pound that would aim to devalue the Pound enough to encourage investment in industrial production in the UK (Bootle and Mills 2016). This would require instructing the Bank of England to commit to an exchange rate target backed up by a willingness to accumulate extensive foreign exchange reserves

- The use of qualitative (or indirect) capital controls to transform the incentives for importers and exporters of capital (Blakeley 2018:25) and to reduce capital inflows

- An industrial policy focused on domesticating supply chains and raising the domestic value-added for British exports

- New regional banks with credit lines devoted to encouraging local businesses, focused in particular on the creation of new manufacturing businesses and the associated supporting supply chains
- An actively discriminatory regional policy that includes favourable tax regimes for businesses located outside of London and the South East
- Infrastructure spending aimed at boosting economic activity outside of London and the South East

Moving beyond our asset-based society

- The introduction of a land and property tax, using the money raised to invest in a Social Housing Fund with the aim of raising the rate of social housing building to 100,000 homes a year in line with pre-1980 trends (Shelter 2018; de Castella 2015). The Fund should also be used to buy strategically important private land that would be used as accommodation for key workers, in areas where such workers are unable to live close to their place of employment. Existing government assets can also be used for this purpose
- Changes to planning restrictions to encourage house building and to tackle Nimbyism
- A new ratio of mortgage-lending to business lending for banks and building societies, to encourage a shift away from financing house-buying to financing productive investments, with fines levied on banks and building societies unable to comply within a specified time period

Response: Britain – an economy that works

by Warwick Lightfoot

Brexit has already yielded an economic dividend, a welcome revival of interest in economic debate and with it an interest in political economy in the grand tradition. It is particularly noticeable on the left of the political spectrum. An interest elegantly exemplified by Christopher Bickerton's essay as well by John Mills and Roger Bootle's contributions on the role of the exchange rate referred in the essay with approval.

Over the last forty years economic policy has been transformed. Whether it is right to describe this as a growth model is less certain. It is probably better understood as an appreciation of the constraints that governments encounter when they pursue policies of active economic intervention, whether to hinder necessary change or to raise the rate of growth by artificial intervention or whether directed at promoting certain forms of economic activity or engineering changes in the level of consumption, investment and capital accumulation.

The post-war Keynesian Butskellite consensus

This transformation was not the result of entering the EEC in 1973, but was in response to the collapse of the Keynesian welfare model and the particular version of it forged into a policy consensus that prevailed for thirty years from the 1940s. This 'Butskellism' as *The Economist* called it was a commitment to full employment, secured by a framework of macro-economic demand management with an emphasis on the role of fiscal policy. Interest rates and monetary policy played a residual role and there was an assumption that a given level of inflation could be traded for lower unemployment and workers would not notice inflation or respond to it through wage bargaining. Interest rates were kept low to stimulate investment.

This approach to macro-economic policy was applied to a mixed economy with a large part in public ownership. There was an extensive range of regulation of economic activity aimed at restricting competition or protecting particular interests, such as the Dock Labour Scheme, and an unusual framework of trade union law that gave unions an unlimited exemption from the normal operation of tort law when they were engaged in organising industrial action in pursuit of a trade dispute. And there was a comprehensive welfare state that Dame Rebecca West had presciently observed in the 1940s would cost as much as waging war, reflected in a steady increase in public spending as a share of GDP.

Forty years of Blatcherism

This consensus was replaced by 'Blatcherism': a practical consensus about what has to be done that has broadly guided governments in a rough and ready way since the mid-1970s. It has several dimensions. They include a commitment to low inflation and stable prices; an attempt to stabilise the budget balance over the economic cycle with some scope for borrowing to finance investment and temporary non-recurrent expenditures; and the acceptance that incentives play an important role in a market economy and that taxation and regulation should do as little as possible to hinder the operation of product and labour markets consistent with raising revenue and securing public policy objectives such as correcting damaging market externalities.

Macro-economic policy directed at controlling inflation and stabilising output over the economic cycle now places greater emphasis on monetary policy, interest rates and wider monetary conditions. This is reflected in the institutional changes that made the central bank operationally independent in 1997. This ended the master servant relationship between the Treasury and the Bank of England which was created by the nationalisation of the Bank in 1946.

Fiscal policy was increasingly perceived as a less reliable tool of macro-economic regulation, but important for shaping the medium and longer term supply potential of the economy. The principal purpose of taxation has been to raise revenue in a manner that minimises distortion and deadweight cost. Tax expenditures and reliefs have been frowned on and in terms of achieving a given objective, such as increased home ownership, are regarded as ineffective. The tax base has been broadened. This has made it more neutral and enabled the average effective rate and marginal tax rates to be much lower rates than those in place between the 1940s and 1970s.

There is a recognition that there is a real resource cost to public expenditure. Moreover, that real resource cost is greater than its cash cost because of the wider deadweight costs that the taxation needed to finance it involves. This means that the public sector can crowd out the private sector that finances it, when public spending increases at a rate faster than a realistic assessment of the economy's trend rate of growth. In rough terms a ratio of General Government Expenditure to national income of around 40 per cent is financially sustainable, although not necessarily optimal in terms of maximising economic welfare. A ratio of much more than 42 per cent becomes difficult to finance in a reliable way without causing uncomfortably high deficits.

Micro-economic policy should be directed at improving the working of the economy by making product and labour markets more flexible and more capable of responding to changing circumstances. This enables economic agents to adjust to adverse shocks with least cost and to maximise the opportunities that arise from changes in taste, fashion and technology. The ambition to have a flexible labour market where wages can adjust so that instead of a quantity adjustment to an adverse shock (ie a sudden increase in unemployment) there is a real price adjustment (ie to earnings) was central to the new practical policy (as was clearly seen in the response of the UK labour market to the 2008 crisis).

In the 1950s and early 1960s the Butskellite consensus worked well. By historical standards growth was high. The Conservative Chancellor of the Exchequer Rab Butler speculated that living standards could be doubled within a generation. On the left Anthony Crosland in *The Future of Socialism* assumed that the proceeds of growth could be taxed to create a more egalitarian society through higher spending on public services and education in particular. The Macmillan epoch was the era of mass affluence.

The crises of Keynesianism

This comfortable era, however, came crashing down in the late 1960s. There is little exaggeration in describing the 1970s as a period of continuous crisis: an inflation crisis, a profits crisis, a balance of payments crisis, a public sector borrowing crisis and a foreign exchange crisis. The post-war consensus, moreover, was not abandoned because Conservative and Labour politicians thought it was a desirable thing to do, but because change was forced on them, by what Marxian economists would call objective circumstances.

Their initial response to the economic problems they encountered was to resist derogating from the core commitment central to the post-war consensus: full employment. Starting with Harold Macmillan's Government, Chancellors of the Exchequer attempted to use incomes policies (beginning with Selwyn Lloyd's euphemistic 'pay pause') instead of controlling public expenditure and using tighter monetary polices to contain inflation. To get the trade unions to support restrictions on collective pay bargaining, Labour and Conservative governments turned to statutory price controls and dividend controls. These periods of control broke down (essentially because trade union power broke the attempt to control pay increases) and were followed by even faster bouts of wage growth and inflation. The combination of rising pay and enforcing price controls brought about a collapse of profits vividly captured by the aristocratic Marxist Oxford economist Andrew Glyn, who, with his colleague Bob Sutcliffe, wrote *British Capitalism, Workers and the Profit Squeeze*, published in 1972.

To try and make these policies work both parties took great political risks. Harold Wilson and Barbara Castle did so with the White Paper *In Place of Strife* - an attempt to reform trade unions so that nationally agreed wage polices could be made to stick in the work place. In a different way, when headline unemployment hit one million people in 1971, Ted Heath abandoned the radical free market platform, the Selsdon Manifesto, on which he had recently been elected. This had promised an end to the support for lame-duck industries, deregulation and the abolition of statutory prices and incomes polices. Heath failed to carry out the manifesto, abandoned its central propositions relating to failing industries and prices and wages policy. Rising unemployment resulted in the last full-scale Keynesian reflation when Ted Heath and his Chancellor Anthony Barber, went all out for growth, leading, inter alia, to an acute balance of payments crisis.

The post-war consensus abandoned by a Labour Chancellor and a Labour Prime Minister in 1976

If 1974 was the nadir of the post-war consensus, 1976 was the year that it was abandoned. The rate of inflation rose to 26 per cent and Lord Rothschild speculated in an extended article in *The Times* that Britain's high and unstable inflation threatened to turn into full blown Weimar hyperinflation. The first decisive break with the Keynesian consensus was the 1976 *Public Expenditure* white paper. It set out planned cuts to government spending as unemployment rose. The second was the decision to set targets for domestic credit expansion as part of the conditions the IMF set for assisting the UK in December 1976, and the use of high interest rates to curb inflation. Shortly before accepting the terms of the IMF loan, James Callaghan the Prime Minister told the Labour Party conference that the government could not spend its way to full employment.

Disinflation, the role of monetary policy and low inflation

In the twenty years that followed 1976 the UK radically changed policy. Monetary policy was put at the centre of macro-economic management both in terms of controlling inflation and stabilising output. There was a sustained period of disinflation that brought the rate of price change down to two or three per cent through a series of policies that evolved through monetary, foreign exchange and inflation targets. The supply performance of the economy was nurtured by measures designed to improve the working of markets and to extend the role of relative prices across the economy, exposing it to greater competition and challenge.

Trade union reform: restricting the immunity from tort law

A central part of this was the systematic reform of the labour market. This involved the radical reform of trade union immunities in law. Industrial relations and the labour market were regarded as the Achilles' heel of the British economy throughout the post war era. Trade union power in manufacturing industries had vitiated management's capacity to run enterprises in a competitive and sustainable way. National collective bargaining meant that pay was poorly aligned to the circumstances of individual plants and local labour markets. Trade unions were guided by notions of a "going rate" that had nothing to do with the circumstances in a particular sector or in the wider economy. A regular feature of company life in the 1970s was the announcement of a pay rise accompanied by a set of redundancies. The result was a secular rise in the rate of unemployment. Over the economic cycle unemployment rose at each peak and it was higher in each trough.

Wider structural reform of labour and product markets

Reform of the labour market's institutions – the replacement ratio of benefits to wages, the testing of conditions for receiving benefits and the rules governing employment protection and the operation of employment tribunals, led to an expansion of employment and a labour market that adjusted to changing circumstances and which weathered recessions such as that in the early 1990s much better than in the 1980s and 1970s.

These changes improved the performance of the British economy. In the post war years while growth was good compared to previous experience, it was not as good as that of other advanced economies. Not only was growth slower, but the UK experienced higher rates of inflation and experienced major shocks such as the ending of the Bretton Woods exchange regime and the quadrupling of oil prices more strongly than other economies. In the 1970s, the UK exhibited rising and unstable inflation and rising unemployment. The division in nominal GDP between real output and price change became heavily weighted towards inflation. It was increasingly clear that necessary change in manufacturing and regional economies was delayed by the combination of devaluing the exchange rate, low real interest rates and direct industrial intervention to prop up failing business and sectors. The result was an accumulation of unavoidable change and structural adjustment that at some stage was bound to happen.

North Sea Oil, the exchange rate and consequences for manufacturing and the traded goods sector

The combination of the impact of North Sea oil, which unavoidably raised the exchange rate, the commitment to lower inflation through the Medium Term Financial Strategy and exceptionally high real interest rates between 1979 and 1981 resulted in a huge transformative shock. Labour's White Paper *The Challenge of North Sea Oil* (Cmnd. 7143) in March 1978 recognised the exchange rate implications for the British economy and the adjustment that was inevitable. 'The market rate for sterling may be stronger than would otherwise be justified by the underlying competitive position of United Kingdom industry.'

In effect fifteen years or more of change were telescoped into a five or six year period. This had the effect of accomplishing a rapid restructuring of the British economy. It came at a high social cost. Despite huge efforts to attract inward investment and genuine effort over many years to offer training as part of active labour market measures that were judged to be among the most effective in the OECD, the UK has been better at clearing away firms that needed to go, than generating private sector activity to replace them in many regions that were traditionally centres of manufacturing.

Part of the explanation is that the public sector was not exposed to the same agenda of reform in the 1980s as that the rest of the economy. National collective pay bargaining still shapes public sector pay. This means that pay and pensions for public sector employees in many local and regional economies is completely detached from local circumstances. Transfer payments to people of working age take no account of local labour market conditions. The result is local employment markets that do not clear and cannot generate self sustaining private sector activity that is competitive in contested national and international markets. Dennis Snower and Christian Merkl in an article in the *American Economic Review* in 2006 *The Caring Hand that Cripples* explored a similar phenomena in the East German Länder after unification in 1990.

Stable macro-economic framework and structural change to improve supply performance

The post-war, Keynesian collectivist welfare consensus was replaced by a set of propositions that continue to shape the approach to policy. Inflation should be contained at something less than around 4 per cent (this is based on what actually happens in terms of action taken rather than whatever policy or targets may be announced). The public finances should be run so that there is rough balance over the economic cycle and the stock of public debt should be contained at a level no greater than about 40 per cent of national income. Instead of a mixed economy of nationalised industries with a high degree of industrial intervention through subsidy and direct control, combined with an extensive welfare state, there is a market economy with limited industrial intervention and an extensive, but better focused welfare state. There is a recognition that only so much can be done for a person over their lifetime and most individuals have to make a significant contribution to their own welfare in the long-term through saving in terms of housing wealth, pensions and other direct savings such as cash and equities held in ISAs. There has been a shift in the balance of taxation from taxation of income and wealth towards expenditure taxes and expenditure tax treatment of savings. The top marginal income tax rate and the basic rate of income tax have fallen by almost a half. In practice, since the mid '70s, whichever party has been in power, macro-economic policy and important decisions about the tax and benefit system have been very different from those of the '50s and '60s.

The UK performs like a normal advanced economy with a flexible labour market and a capacity to adjust to change

The UK has reversed the period of post-war relative economic decline. The UK is estimated to enjoy a trend rate of growth that is half as great as that of the euro-zone. Much of that can be attributed to improvements in the supply-side of the economy. At the heart of those changes was the reform of trade union law that transformed British industrial relations in the private sector. What was previously the Achilles' heel of the British economy had by the millennium become one of its strengths.

The test presented by the Great Recession

The advanced economies between 2008 and 2010 experienced their biggest cyclical shock since the Great Depression. The UK suffered a six per cent fall in GDP. This was one of the largest falls in output experienced by any country in the OECD. Yet following the Great Recession the UK experienced one of the strongest and most consistent recoveries in output and employment among advanced economies. A distinguishing feature of this cycle was how little employment was lost given the fall in GDP and how strongly employment rose during the recovery, notwithstanding a prolonged fiscal retrenchment that lowered pubic sector employment. The employment rate at 75.6 per cent is now at its highest since 1971.The rate of unemployment is at its lowest since 1975, forty years after the Oxford economist Maurice Scott rhetorically posed the question *Can We Get Back to Full Employment?* in a book published in 1978.

Household income and how to spend it

Economies are about opportunities to consume. An interesting feature of the UK recovery has been the way that real disposable household income has increased and income inequality has fallen slightly over the last ten years. The share of income within national income has not only been maintained in recent years but has increased. The IMF has pointed out that the UK is unusual in exhibiting a constant and even slightly growing share of national income going to labour.

Figure 9: UK Labour share over the long term

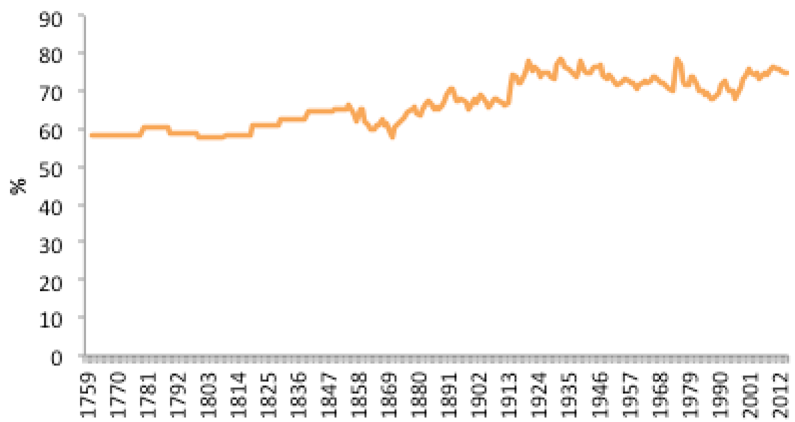
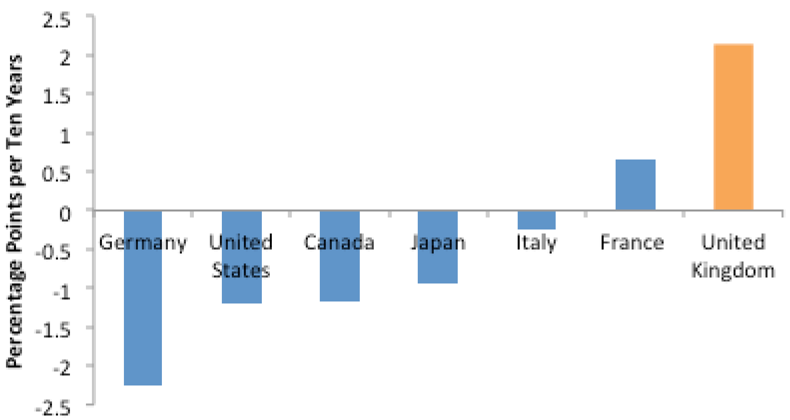


Figure 10: Trend change in labour share, 1991-2014 (IMF)



This reflects the UK's flexible labour market that enables people to get into jobs that contribute to household income. This has been a consistent feature of the UK economy in recent decades. Research by the Pew foundation shows that from 1991 to 2010 the number of households scored as being 'middle income' rose from 60 per cent to 67 per cent. This contrasts falls in the same period of households scored as 'middle income' in the US, from 62 to 59 per cent; in Germany, from 78 to 74 per cent; and in Spain, from 69 to 64 per cent.

Figure 11: Gini coefficients for original, gross and disposable income using the Living Costs and Food Survey, financial year ending 2008 to financial year ending 2017

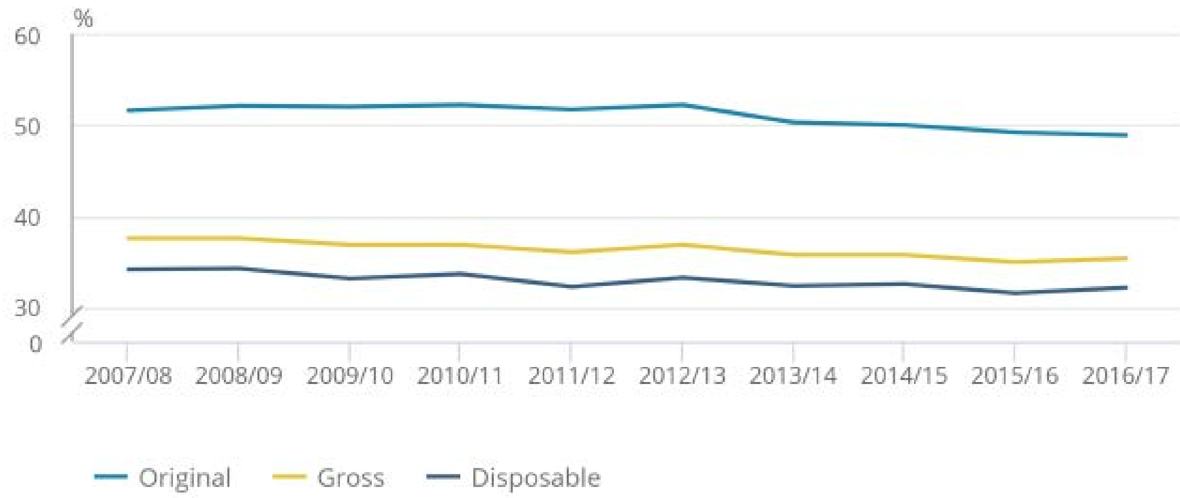
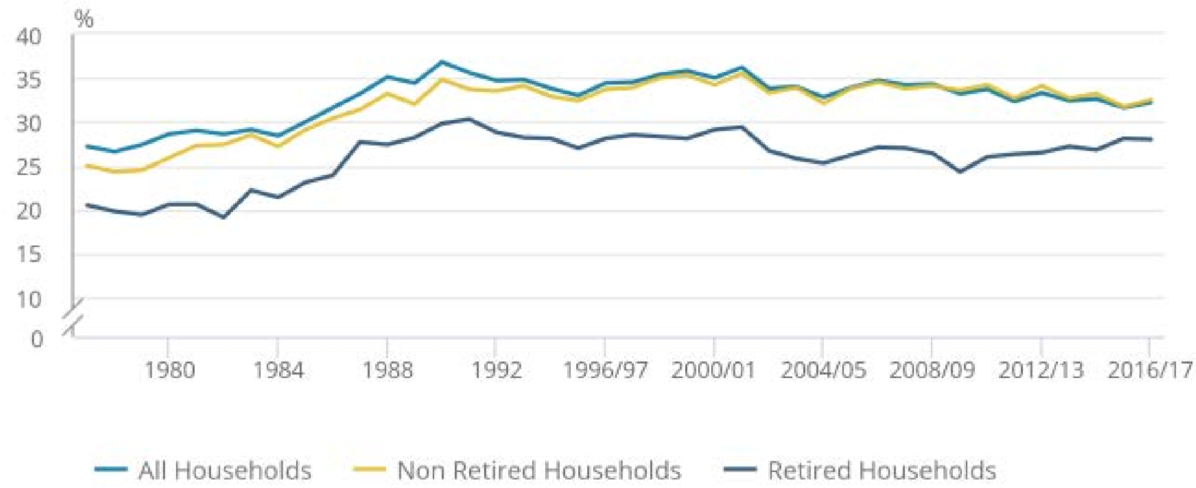
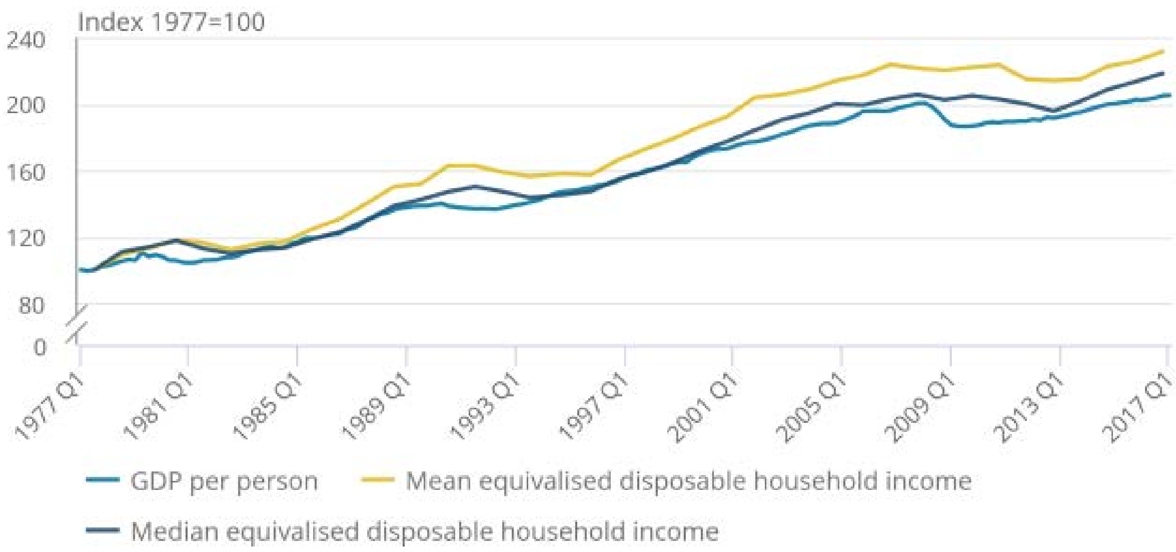


Figure 12: Median equivalised disposable household income by household type, financial year ending 2017



Median household disposable income in 2017 grew in line with its forty year trend. The increases in median income are mainly the result of increases in average income from employment. This reflects increased income from both wages and higher employment levels of people living in households.

Figure 13: Growth of median (and mean) household income and gross domestic product per head



The ONS Head of Well Being and Inequalities, Glenn Everett reports that 'households have more disposable income than at any time previously. However, compared with their pre-downturn levels the incomes of the poorest households have risen nearly two thousand pounds, but the incomes of the richest are only slightly higher. Overall, income inequality has slowly fallen over the last decade'.

What alternative approach could be taken?

The present approach has emerged from the practical constraints that policy makers have encountered. Periodically different economic approaches have been explored. Not least the Alternative Economic Strategy associated with Francis Cripps and Dr Stuart Holland in the 1970s. This drew heavily on the New Cambridge approach developed by Professor Wynne Godley and its distinctive approach to the balance of payments, managed trade and import controls. The papers in this collection offer two significantly different approaches to the broad approach that has been developed over the last forty years. Christopher Bickerton proposes changes to labour, product and capital markets to favour investment and the role of insiders in jobs over employment generally. John Mills advocates a radical monetary policy directed at stimulating the economy through a lower exchange rate to both stimulate capital formation in the manufacturing sector and to correct the UK's balance of payments challenge.

The challenge of Knightian uncertainty and imperfect knowledge

A policy based around a strong *a priori* view about the right balance between the use of labour and capital in an economy is likely to yield disappointing results. Policy makers do not have sufficient information about the present structure of the economy, the manner in which it is changing in response to technical innovation, and the evolution of incentives and the character of the competitive challenges that it is encountering. Economists and policy makers operate in conditions of Knightian uncertainty. However hard they try to get an accurate purchase on these questions they are inevitably wrong no matter how hard they work or accomplished they may be because of the inherent challenge of understanding them. Economists have been taken by surprise by the changing pattern of productivity for more than twenty years. Pessimism about disappointing productivity growth was overtaken by surprisingly good productivity in the 1990s and the optimism generated by that surprise did not prepare them for the disappointment surrounding productivity over the last ten years or more.

What can happen when policy is biased against employment to favour capital investment

Deliberately embarking on a course of action designed as its purpose to raise the price of labour and to increase the quantity of capital carries serious risks for both employment and output growth. These risks will only be properly exposed in the event of a malign shock to output. Over the economic cycle unemployment would rise and the labour force participation rate would fall. This was the story of the UK labour market in the 1960s and 1970s. Powerful unions raised wages, employment protection legislation that created 'property rights in a job', social security benefits and taxes reduced the incentive to take work, and the conditions were set for reservation wages and actual wages to be set permanently above the marginal revenue product of workers.

Certain forms of employment were periodically identified as being of particular merit - such as manufacturing - while other sectors, such as employment in services, were discriminated against. One of the most direct examples of economists influencing public policy was Lord Kaldor's advocacy of Selective Employment Tax. This tax was applied to services in the 1960s in order to subsidise manufacturing employment. At the same time generous capital allowances were introduced into the corporation tax regime and other subsidies were given to various forms of publically funded investment. The consequences were a tax, benefit and regulation system that was biased against employment and biased in favour of the use of capital. This departure from policy neutrality did not turn out comfortably. Over the economic cycle each peak and trough in economic activity was distinguished by a steadily rising rate of unemployment.

Rigid labour market institutions are recipe for structural unemployment

The shocks to the economy in the 1970s resulted in unemployment and inflation. The shock to output in the 1980s resulted in rising unemployment and high permanent levels of structural unemployment. This was aggravated by high levels of long-term unemployment, youth unemployment and the permanent exclusion of people with weak attachment to the labour market, such as former members of the armed services, women returning to work when their family responsibilities changed, and ex-offenders leaving prison.

Labour markets in many members of the Eurozone exhibit the same structural problems as the UK did in the 1970s. Over the last twenty years regardless of the state of the economic cycle unemployment, long-term unemployment and youth unemployment has been high. The cycle has some impact but these structural challenges have been broadly impervious to the state of activity in the economy. The same economies have had higher rates of public and private investment yet relatively disappointing results in terms of overall growth, unemployment, employment, living standards. Their social safety nets are neither as well targeted nor as comprehensive as those in the UK. They often exhibit higher levels of productivity that is generated not as artefact of an efficient use of resources but as a result of defective labour markets that encourage the displacement of workers by capital.

Christopher Bickerton regrets the suspicion that policy makers have about the rent seeking role of trade unions in the economy and the potential that other forms of collectivist mediation may play. In 1978 an American journalist Bernard Nossiter described the UK's collectivist institutions in the optimistically entitled '*Britain: A Future that Works*'. He recognised that the UK had to change its industrial structure and was confident that the unions would play a responsible part in facilitating it. This turned out to be an optimistic assumption. The union leaderships that he praised went on to display dogged resistance to change in the steel, car and mining industries and in the ports. Today the remaining locus of trade union power is the public sector.

Many of the reasons why public services cannot be effectively reformed are the result of continuing trade union presence in health, local government and schools. That presence makes it difficult for public sector managers to manage and is central to the disappointment and poor productivity that resulted from the years of higher spending under New Labour between 1998 and 2010. One of the reasons why many UK regions fail to make relative economic progress is that labour markets continue to be distorted by high national terms and conditions that have little connection to local labour market conditions. These are the sort of national bargaining arrangements that Christopher Bickerton expresses with an implied nostalgia. If they were extended to the private sector they would aggravate these difficulties. Among Anglo-Saxon political scientists there is much interest in economic models that employ co-ordinating institutional features such as Germany that he refers to. Yet that co-ordination has not prevented protracted period of structural sclerosis, the entrenched economic and social problems in the former GDR, and did not enable Germany to avoid a programme of structural labour market reform at the start of this century. In his discussion of the challenges in the regional economies of Britain he does not explicitly explore relative prices, market clearing wages and the framework of price signals that are central to a functioning market economy.

Devaluing to prosper?

John Mills has taken a long interest in the role of macro-economic demand and the exchange rate in influencing manufacturing and investment. He has made a thoughtful and stimulating contribution to the debate with distinguished collaborators such as Bryan Gould and Roger Bottle. The challenge that advocates of a systemically weaker exchange rate have is how such a policy can be sustained in the long-term without an increase in relative price inflation that erodes the competitive advantage that the weak exchange rate may in certain circumstances confer.

The challenge of sterilising the long-term domestic monetary consequences of a managed exchange rate

In the short-run it is possible for the central bank to sterilise the effect of the exchange rate on domestic monetary policy, but in the long-term it is difficult to maintain an exchange rate regime in conflict with the requirements of domestic monetary conditions and the wider economy. This was the problem at the heart of the UK's encounters with EEC and EU exchange rate regimes in the 1970s, 1980s and 1990s. When sterling was in the EEC 'snake within the tunnel', UK domestic monetary conditions were too loose and inflation was too high to keep sterling there. When the UK 'shadowed' the Deutchemark in the mid-1980s, sterling was artificially held down and interest rates were cut at a time when domestic monetary conditions needed to be tightened. The result was an unsustainable increase in output and higher inflation that eventually approached ten per cent. This was followed by a necessarily tight monetary squeeze with interest rates reaching 15 per cent to contain the inflation and a recession. Much of the Asian crises in the late 1990s turned on economies that had used a growth model based on an exchange rate fixed to the dollar that was too low. This resulted in very low interest rates, a huge expansions of domestic and international borrowing and an over accumulation of capital resulting in very low and sometimes negative rates of return on investment. The exchange policy itself became a source of micro-economic misallocation of resources in the economies involved.

Ludwig Ehard's economic miracle and the West German exchange rate.

The classic case of an economy that benefitted from a permanently undervalued exchange rate was West Germany in the 1950s and 1960s. The Ehard economic miracle was partly attributed to the exchange rate. The position is more complicated than that. It was based on three things: the 1949 price reforms, the creation of an independent central bank charged with currency stability, and a commitment to orthodox monetary and fiscal policy at a time when most advanced economies such as the UK embraced Lord Keynes's rich intellectual legacy. The result was that Germany became progressively more competitive within the framework of the Bretton Woods' fixed parity exchange rates and, helped by important structural changes such as the shift from agriculture to industry, its economy took off. In the long-run, exchange rates are driven by differences in price level. To maintain the Bretton Woods parity to the dollar, West German policy makers would have been forced to accept higher US rates of inflation. Karl Schiller - the SPD economics and finance minister in West Germany - led the campaign to raise the value of the Deutsch mark against the dollar and the franc, which was at heart of the collapse of the Bretton Woods fixed parity regime in 1971.

Both Christopher Bickerton and John Mills are interested in raising the level of investment and increasing the role of manufacturing within the economy. It is not clear that a series of active policy measures designed to stimulate investment and manufacturing investment in particular would result in a faster rate of growth and increased levels of overall economic welfare. The key question is the rate of return on investment. Simply acquiring capital assets regardless of their purpose does not guarantee a return on the higher investment. When the UK deliberately encouraged investment through active policy measures the results were disappointing. Over the last twenty years share of GDP devoted to fixed capital formation in the UK has been 26 per cent lower than the main comparable economies in the Eurozone (France, Germany and the Netherlands), and 47 per cent lower than in Spain. Yet the UK is projected to have a trend rate of growth of 1.5 per cent compared to the assumed trend rate of growth projected for the euro-zone. It is not at all clear that simply increasing the ratio of GDP spent on investment from around 16 per cent to something closer to 20 or 25 per cent would result in faster economic growth.

Conclusion: realism about striking a balance between the public and private sectors

Far from having been dismantled over the last forty years the welfare state has become better focused on helping households in difficulty and better at getting them into work. The strong employment performance has contributed both to household income and to maintaining labour's share of national income in recent years in contrast to the evolution of factor shares in other advanced economies.

The pragmatic conclusion to be drawn from these episodes of post-war economic history is that modern economies function best when they strike a realistic balance between the efficiency of private markets and collective provision through the public sector. That realism has to be grounded in a recognition that in a market economy price information is critical and that high and unstable inflation confuses the information that prices yield increasing transactions costs. That realism has to extend to both the real resource and dead weight costs of public spending and its capacity to crowd out private sector activity and with it the tax base it depends on for resources. Productive capacity is elastic. It contracts and expands in response to changes in incentives. A fundamental criticism of Christopher Bickerton's essay is that it is framed around a static economy where inevitable changes and adjustment is by implication perceived as a matter of regret. Governments should be cautious about blunting incentives and distorting the allocation of resources within the economy between sectors or by function and purpose. Policy should aim to promote private markets that are competitive and open and should be framed as neutrally as possible between the priorities given to consumption, saving and investment. Along with neutrality, economic agents benefit from consistency and simplicity.

Response: Why we need a new growth model for the UK

by Graham Gudgin

For many years it looked as though the Thatcher 'free-market reforms' had worked to improve a UK economy which appeared to have run in to the sand in the 1970s[20]. After a painful decade of reform in the 1980s, with high unemployment and dire labour relations, the UK moved into a period that economists describe as the 'great moderation'. Inflation was tamed, industrial relations improved, and job creation was reasonable. For a decade and half there was no recession.

As we now know this all came to a grisly end in 2008 with a banking collapse and the deepest recession for a century. Even more worryingly, UK economic growth has settled on a low path, and in the decade following the banking crisis the UK economy has limped along, growing at a rate well under half its pre-crisis rate. The main measure of average living standards, 'per capita GDP', is a miserly 3% higher than a decade ago.

Most economists have been short-sighted about what is happening. They recognise that minimal growth in labour productivity is a severe problem. Their response has been to give it a name, 'the productivity puzzle', but not much else. As the name implies the economics profession has few clear insights into the causes of near-stasis in productivity. This is not a surprise. Economists have long had little insightful to say about productivity, with modellers often preferring to regard it as outside their models, or in the jargon as 'exogenous'.

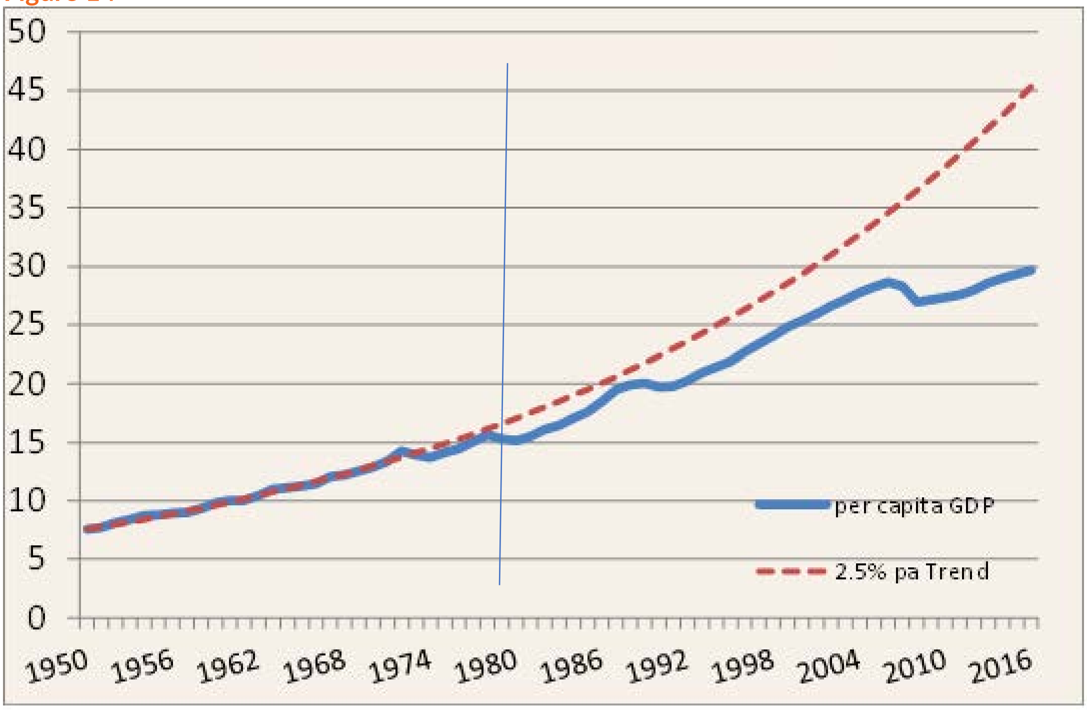
To put it bluntly, the economics profession does not know what has gone wrong. The most prolonged economic slowdown in a century or more is largely beyond their comprehension. Having become immersed in rigorous mathematical modelling, too often based on unrealistic assumptions, too many economists have lost touch with a real-world that no longer fits their worldview. Promotion within universities depends on publishing articles in top American journals and the gatekeepers of these journals insist on mathematical rigour, even at the expense of realism.

To take one example, the profession had little to add about the banking crisis in the UK. Most of the analysis came from journalists. Few articles or letters from academics reached the national press. The contrast of Cambridge economics in the 2008 crisis with the Cambridge of Keynes in the 1930s could not have been greater. The large number of foreign-born economists in Cambridge and other economics departments may have contributed to a limited interest in UK macro-economic policy, but trends in global macro-economic analysis are more important.

What has been missed is that the Thatcher free-market reforms did not accelerate economic growth in the UK (or USA). The chart below using official UK data shows that per capita GDP grew at just under 3% per annum in the three decades prior to Mrs Thatcher, but under half that since then. There was some slowdown in most advanced economies after 1979 but part of this was due to similar policies elsewhere and especially in the USA. The period since 1980 also of course largely overlaps with UK membership of the EEC/EU and using the USA as a benchmark there is no sign that membership has coincided with any improvement in growth of per capita GDP.

What the Thatcher Government did was to cow the labour market and hence to put downward pressure on wage inflation. The method was crude. Extremely high unemployment for a decade, combined with legislation to limit trade union rights, helped to eventually bring down inflation. Again, this was an international phenomenon and some permanent drop in UK inflation may have occurred even in the absence of domestic labour-market repression.

Figure 14



Many of the reforms, including the privatisation programme, had little macro-economic impact. The most important reforms were two-fold. Continued liberalisation of finance allowed banks to create money and credit on a huge scale. Household debt which had traditionally been around half of household disposable incomes soared to three times incomes. The ability to spend in excess of incomes led to a persistent balance of payments deficit, which has been in the red every year but one since 1980. Much of the additional lending was in the form of mortgages, propelling home ownership and high house prices to the centre of the British economic model.

The other important reform was the abolition of capital controls, the first act of the new Conservative Government in 1979. With employers newly able to get capital out of the UK, it was hardly surprising that firms simply moved the bulk of low and mid-skilled manufacturing out of the UK to countries which combined low wages with hard-working, disciplined and often reasonably well-educated workforces, sometimes with low standards of labour regulation. As factories disappeared, so too did their trade unions and membership slumped by half. Trade union membership is now largely a public-sector affair, with little over 10% of private sector workers represented.

Employers producing in the Far-East for UK markets led to two major impacts. Firstly, profits soared and the UK stock-market more than quadrupled in inflation-adjusted terms by 2007 (but has gone no-where since then). Secondly, reliance on imports to supply what had been previously made in Britain contributed to the persistent balance of payments deficit. How these deficits have been financed is unclear but selling-off the family silver, including most large infrastructure firms, is part of the story.

Soaring stock-markets and repressed wages have of course led to a more unequal society. Even the Institute for Fiscal Studies (IFS) representing the most sensible end of economic analysis in the UK, delights in pointing out that inequality is not rising and has not risen for quarter of a century. What they tend to omit is that the great rise in inequality occurred in the Thatcher decade of the 1980s. Since then it has neither risen further nor fallen significantly. Under Thatcherism, the UK became a much less equal society, and it has stayed that way.

Once virtually all of manufacturing that could be relocated had been moved, the focus switched to the service sector. Some jobs could be, and were moved to emerging economies, for instance call-centres to India, but the experiment was never fully successful. More important was the movement of low-wage labour into the UK itself. Lax migration controls under Labour from 1997 were magnified when the same Government decided to allow free movement from Eastern Europe after the accession of the A10 countries in 2004.

The UK business model came to be one creating large numbers of low-paid jobs for immigrants. In the decade and a half from 2002, a record four million jobs were created, coinciding with an increase of three million foreign-born workers. For UK companies, Eastern Europe provided what Marx had termed a 'reserve army of labour'. Not surprisingly the indigenous working classes objected, registering their displeasure in the Brexit referendum, while the profession elite in the UK had failed to notice the problem.

Male employment rates, which had been close to 100% in the early 1950s had fallen to 88% by 1979 as more males entered higher education and more females entered the labour market, fell sharply in 1980 and have never subsequently risen much above 80%. Only perhaps a quarter of this long-term decline can be ascribed to higher and further education. Labour conditions have moved against males for a range of reasons including the decline in manufacturing.

The lack of analysis of these trends by economists leaves the field open to political scientists and others who have more to say. The essay by Chris Bickerton is an important example of this genre. 'Rebalancing the British growth Model' rehearses the trends described above, albeit not always in a completely systematic manner although with a wealth of detail. (One of the strengths of empirical economic analysis has been a reliance on long runs of annual data which can emphasise long run changes without the complications of shorter swings. To clearly identify the dramatic changes wrought to the UK economy by the adoption of a strongly free-market model requires a consistent view of all decades since WW2).

The essay claims to consider what role EU membership has played in the socio-economic malaise that has come to pervade British society. Although it does not do this systematically it is none the worse for that. It is rather a critique of the UK growth model with some radical and sensible suggestions for reform. It does though bring out the importance of migration and in this way links to EU membership and to the Brexit referendum result. Bickerton echoes David Goodhart and others in asserting that:

> *large-scale EU migration has reinforced the dualist character of the British labour market and has exacerbated long-standing weaknesses in skill formation and vocational training. Rather than invest in capital and in the staff training required in order to realize the gains on that capital investment, firms have pursued recruitment-intensive strategies, seeking to gain competitiveness by expanding their workforce.*

The core of the argument is that:

> *We need to steer the British growth away from its reliance upon consumption, to allow room for the expansion of other sources of aggregate demand, such as net exports, private investment and government expenditure. Automation for the lowest skilled activities should accompany a fundamental revalorization upwards of the most 'social' of the service sector jobs.*

This is perhaps true, even if it is not really correct that consumption has crowded out exports, investment, or government expenditure[21]. Firms' reliance on a reserve army of labour permitted a simultaneous expansion of all of these. Certainly, the low level of company investment in the UK, which is close to the lowest in the world, must be increased. Migration control needs to be part of this since low cost labour clearly displaces some capital investment. Fruit-picking machines are, for instance, uneconomic at current wage levels. Less easy access to foreign labour may mean higher fruit prices but also higher wages and higher productivity.

Bickerton discusses two main reforms and makes a range of detailed suggestions. He recommends a depreciated currency but views it as difficult to achieve and involving complicated impacts alongside the gains of greater competitiveness for exporters. In any case, Brexit has achieved a useful 15% depreciation and the key is not to reverse this through higher interest rates.

He is also realistic in discussing a revival of trade union power. The unreformed 19th-century system that lasted into the 1980s cannot return, he says. Instead, 'a new social settlement' backed by state power is recommended, but there is little detail on the form this might take.

Ideas for inducing employers to provide more training are useful. They include a new Institute of Work and a Royal College of Child and Adult Care to raise the status of workers in this sector. The importance of controlling migration in increasing training (and raising workers' power) is however underplayed. Without removing alternatives to training, employers (including the NHS) will usually find ways around even well-meaning schemes like George Osborne's apprenticeship levy.

Other ideas include a land tax to fund social housing and new regional banks plus tax breaks to stimulate economic growth outside the South East. There is no mention though, of the devolution of corporation tax to the regions as has happened in Northern Ireland under the initiative of Owen Paterson. This has underpinned the huge economic success of one part of the British Isles, the Republic of Ireland, albeit at the cost of becoming a tax haven.

It seems unlikely that these measures add up to a completely new growth model, but they certainly move in the right direction. This report may not be the last word, but it is certainly a stimulus to further discussion. Private conversations with a range of conservatives suggest to me the time is ripe for a thorough national debate on forms of capitalism. Our century of lukewarm efforts on vocational education must be replaced by an energetically pursued effective system. Above all, migration must be controlled until a more balanced UK strategy can be brought in. Naturally, this will take decades, and it is difficult to imagine that it would have been achieved inside the EU.

Response: The demand-side solution

by John Mills

There have been numerous proposals for getting the UK economy to perform better and they nearly all have a common characteristic. They tend to concentrate heavily on supply rather than demand side solutions, as does Chris Bickerton's carefully considered contribution. Is this, however, the right approach, particularly as the record of achieving significant improvements in our economic performance this way seems to have been so patchy?

Supply side remedies tend to fall into two camps, neither of which have produced very satisfying or convincing results. Broadly speaking, the left tends to favour industrial strategies entailing such remedies as more education and training, better access for funding for businesses capable of expanding, governance changes to produce less "short termism", more expenditure on infrastructure, and a positive role for the government. The right tends to feel happier with lower levels of taxation, more privatisation and competition, deregulation wherever possible and a smaller rather than a larger role for the state. Could it be, however, that the relatively poor performance of the UK economy reflects the fact that both these suites of remedies have missed a crucial point? This is that the fundamental weaknesses of the UK economy derive not from supply side failures but from demand policies which have produced all the wrong incentives. If so, could this explain why our economy grows so slowly, why it is so unbalanced, and why, whatever the outcome of the current Brexit negotiations, we need a radical change of approach to how our economic affairs are run?

The starting point is to recognise how pressing a need there is to get the UK's economic growth rate up - and not just because most people clearly want this to happen. Failure to achieve this goal also has numerous other undesirable consequences. It promotes widening divisions in the country; it undermines trust in our political leadership; it reduces our status in the world; and it leaves support for the liberal democracy which underpins our way of life increasingly under threat. For all these reasons, it is of key importance that we get the rate of economic growth in the UK up from where it is now and that we find ways of tackling our problems which are going to work.

At present there are few people who believe that the UK economy is likely to grow during the coming years at a rate greater than somewhere between 1.5% and 2% per annum. Indeed, there is a fair chance that the average growth rate over the next few years, whatever happens to the Brexit negotiations, may well be at the lower end of - or even below - this range. If this is the case, most people, who have seen no increase in their real wages for the last ten years, will be no better off in ten years' time than they are now. At the same time, the rich look set to become wealthier, the inequalities between generations are likely to increase and the gap in living standards between London and the rest of the country will probably widen still further. This is an exceedingly gloomy prognosis economically, socially and politically. It is a future which we need to avoid if we possibly can.

Why will real incomes for most people stay static if the economy is growing at, say, 1.5% per annum? It is because the same forces will be in play as those that explain why the median income has not grown for the past ten years. Our population is growing at about 400,000 per year, diluting down GDP per head by about 0.6% per annum[22]. At the same time, our huge balance of payments deficit is siphoning some £30bn[23] every year away from the total sum available for UK incomes; the share of wages and salaries as a percentage of GDP is slipping down; and those with sharp elbows tend to collar what little increase in the total income pot there is. There is no sign of any of these trends reversing. If real wages for most people are to start rising again - and we are to stop falling behind the rest of the world - we will therefore have to do much better than we are now. Specifically, to get the UK economy to grow fast enough to be sure that we can raise real wages for almost everyone, we need to get the UK economy to grow cumulatively at somewhere between 3% and 4% per annum. Is this possible? The text which follows argues that it is, but only with a radical re-think of how economic policy is formulated and executed in the UK.

Investment

The reason why the UK economy performs as poorly as it does, compared with much of the rest of the world, is that in a number of respects it is extraordinarily unbalanced. For a start, investment in the UK currently accounts for just less than 16% of GDP according to the Office for National Statistics (ONS)[24] - 17% in IMF publications[25] - compared with a world average of 26% and about 45% in China[26]. The figure of 16% - which was 19% as late as 2008[27] - includes investment in intangibles which the Office for National Statistics (ONS) designates as "intellectual property". Excluding this component, tangible investment accounts for no more than 12.6% of GDP[28]. As depreciation is running at almost the same rate[29], after taking this into account, practically nothing is left. Further analysis shows the situation to be even worse than these total figures might suggest. In particular, investment in "Other machinery and Equipment", which covers the most highly productive forms of investment in terms of productivity growth, has fallen by 25% as a percentage of GDP – from 3.6% in 2008 to 2.7% in 2017[30].

This is by far the most important reason why productivity in the UK is virtually static, particularly when the key characteristic of various different types of investment is taken into account. Some sorts of investment have a much larger impact on the growth rate than others. In particular, there are three types – mechanisation, technology and power – whose emerging salience 250 years ago provided the foundation for the Industrial Revolution, generating much faster economic growth than had ever been seen before. Their key characteristic is their ability to vastly increase output per hour, typified by a bulldozer replacing a shovel, a computer being used instead of a multiplication table, a lorry/truck being employed instead of a wheelbarrow, a combine harvester replacing a sickle, or a new machine being installed which produces a multiple per hour of the products compared to the one it replaces. The benefits derived from investment of this type are then diffused through the economy as increased wages, better and cheaper products, higher profits, and a larger tax base – all building up to produce a social benefit as opposed to just a private total rate of return.

Total returns to the economy from different types of investment can then be quantified. Most public-sector investment – in road, rail, schools, hospitals, public facilities and housing - however important it is in social terms, has a low social rate of return and does not contribute much, if anything, to increases in GDP. The same is true of much private sector investment – in office blocks, shopping centres, new restaurants and IT installations to support financial and legal services. Mechanisation of technology and power, on the other hand, can produce much higher social rates of return, typically running at 50% per annum or even more. The Social Rate of Return is defined here as the ratio, calculated over a reasonable length of time, between the increase in GDP and Gross Expenditure on Investment over the same period. Gross Investment as a percentage of GDP multiplied by the Social Rate of Return equals the Growth Rate.

Table 1: Gross Investment, Social Rates of Return and Growth Rates for Selected Countries and Periods

Country	Period	Gross Investment as a % of GDP	Average Social Rate of Return	Average Growth Rate
UK	1934-1941	14%	37%	5.2%
USA	1939-1944	7%	144%	10.1%
Japan	1953-1970	29%	35%	10.1%
China	2002-2012	37%	25%	9.1%
Korea	2005-2016	30%	12%	3.5%
Singapore	2005-2016	26%	20%	5.3%
UK	2005-2016	17%	8%	1.4%
World	2005-2016	26%	14%	3.5%

NB the Gross Investment figure for the USA for the period 1939 to 1944 covers private investment only, so the average Social Rate of Return for the US economy as a whole must have been lower than 144%.

Evidence of much higher social rates of return than those being currently achieved in the UK is readily available To take some extreme examples, illustrated in the table above, Japan achieved a 35% average annual social rate of return on all its gross investment for the whole of the period 1950 to 1970, with physical investment accounting for just under 30% of GDP[31]. No wonder the Japanese economy expanded by 10% per annum cumulatively over these two decades. The USA had an extraordinary period between 1939 and 1944 during which its economy doubled in size. This was achieved because relatively modest amounts of investment - heavily concentrated in manufacturing – produced an average social rate of return which appears to have been in excess of 100%[32]. The UK also had a golden period from 1934 to 1941 when the average social rate of return was 37%, with 14% of GDP devoted to physical investment, producing a cumulative growth rate between 1934 and 1941 of 5.2% - a much better growth performance than has been seen at any time before or since[33].

Moving to more recent times, the huge expansion in the Chinese economy has been driven by both high social rates of return and a high proportion of GDP being devoted to investment. Over the period between 2002 to 2012 China's social rate of return averaged 25% while the proportion of GDP devoted to investment averaged 37%[34], producing a cumulative growth rate of over 9% per annum. Also showing what can be done, between 2005 and 2016, the

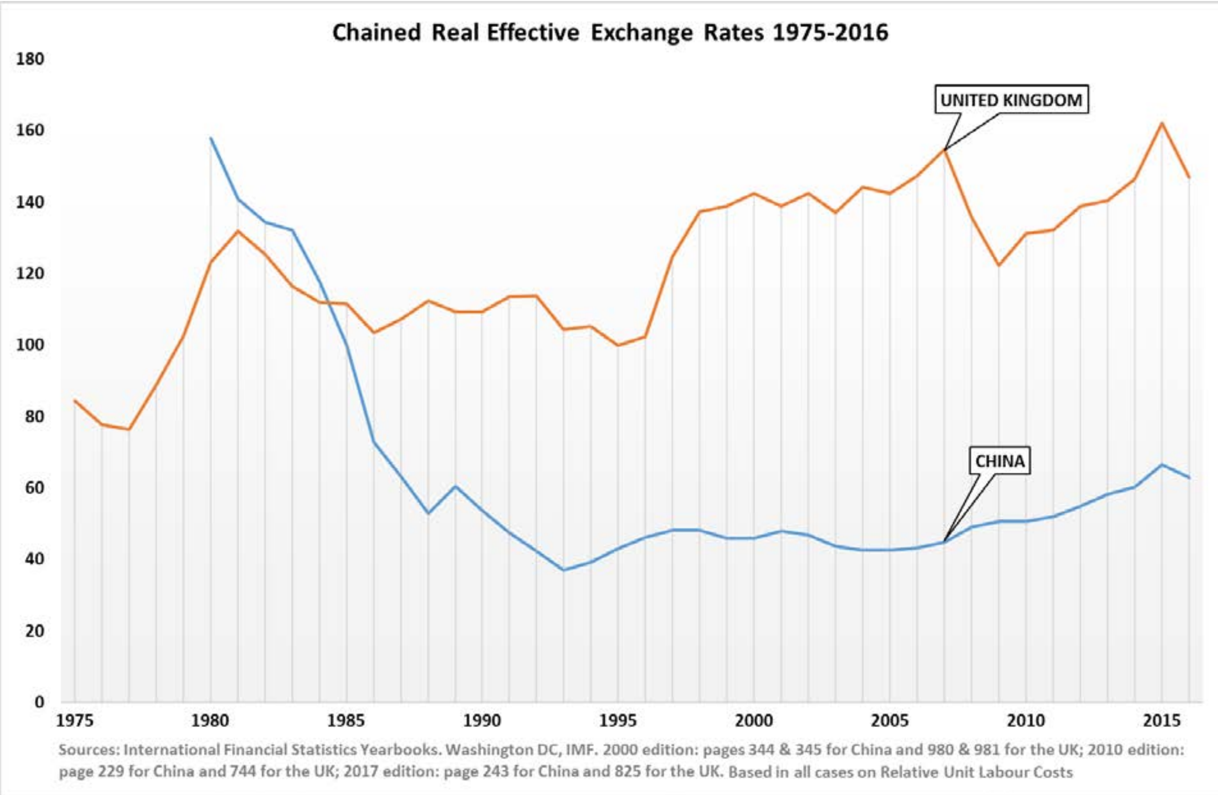
Singaporean economy grew cumulatively by 5.3% per annum with a social rate of return of 20% and 26% of GDP accounting for investment[35]. South Korea, by contrast, grew over the same period by an average of 3.5% per annum with a social rate of return of 12% but with 30% of GDP going into investment[36]. In the UK, at the same time growth averaged 1.4% per annum, the social rate of return was 8% and the proportion of GDP devoted to investment, including IP, was 17%, falling to barely 12% if IP is excluded[37].

Measurements of gross investment inevitably include large outlays on types of investment which we know have low social rates of return. Furthermore, gross investment figures take no account of depreciation. It is impossible then, to avoid the conclusion that to achieve the average figure that the statistics show, in the right circumstances the social rate of return on the most productive investment must be comfortably in the 50% per annum region – and higher still in the most favourable cases.

Most of the investment which has these very high-powered characteristics tends to be found in the private rather than the public sector, pre-eminently in light industry although some is in the service sector. It will therefore only materialise if there is a reasonable chance of it being profitable. The problem in the UK is that the exchange rate has for many decades been much too high for this condition to be fulfilled. This is why we have deindustrialised to the extent we have.

Below is a graph showing movements in the real exchange rate between the UK and China – which is a reasonable proxy for what has happened between most of the West and most of the East over recent decades. The UK economy was none too competitive in the late 1970s when the advent of monetarism, which then morphed into neoliberalism, hugely raised interest rates – with base rates – let alone market rates – peaking at 14.875% in 1989, with another peak at 13.875 in 1986[38]. The exchange rate rose by over 60% in real terms between 1977 and 1982[39] as the battle to control inflation took centre stage, while any collateral impact on UK competitiveness of the policies adopted to control price rises was simply ignored. Worse, however, was to follow. Following some respite after 1992 when the UK fell out of the EU's Exchange Rate Mechanism (ERM), sterling strengthened again as the economy was liberalised in terms of capital movements to an extent unrivalled anywhere else in the world. The result was huge capital inflows as vast swathes of the UK economy – our ports, airports, energy companies, utilities, football clubs, large sections of what was left of our manufacturing base, and much else – were sold to foreign interests. Between 2000 and 2010 net sales overseas of UK portfolio assets – shares in existing companies, bonds and property but excluding direct investment in buildings and machinery – are reported by the ONS to have totalled £615bn[40]. No wonder that, as a result, the pound soared again until by 2007 it was worth more than $2.00[41].

Figure 15 Chained real effective exchange rates, 1975-2016



Because the world market for goods is very competitive, it is hardly surprising that UK industry reeled under this onslaught. On average, about one third of total manufacturing costs consist of machinery, raw materials and components, for which there are generally world prices[42]. All the other two thirds of charges – for direct labour, management and all other overhead costs including interest and a provision for taxation - are incurred in sterling and the rate at which they are charged out to the rest of the world is directly reflected in the real exchange rate. As a first approximation, therefore, the 60% increase in the real exchange rate in the late 1970s and early 1980s added two thirds of 60% - i.e. 40% - to the underlying costs of UK exports, while making imports correspondingly cheaper. This produced all the wrong incentives as investment; manufacturing and exporting became increasingly difficult and importing ever more attractive.

If we are going to get the economy to grow more rapidly, therefore, we have to change the economic incentives available to both existing companies and to new entrants. We have to make investment, especially of the high-powered type, profitable enough to attract resources, so that we can make it materialise on a much larger scale than it is now in the UK. If this can be done, however, the prospects for lifting the growth rate from 1.5% to 3.5% become much more promising. Essentially what needs to be done is very simple, it is to shift around 4% of our GDP out of consumption and into investment with a 50% social rate of return. 4% x 50% provides the 2% difference between 1.5% and 3.5% growth per annum.

Deindustrialisation

The second major imbalance in the UK economy is that our manufacturing base has been allowed to diminish to an extent which surpasses what has happened to any other major developed nation. It is true that there is a tendency for all advanced economies to see their service sectors expanding at the expense of manufacturing. This is partly a price effect as the cost of manufactured goods falls while those of services rise. It is also the case that the borderline between manufacturing and services is sometimes blurred. Making full allowance for all these factors, however, does not alter the fact that the UK has deindustrialised to a much greater extent than anywhere else. Even as late as 1970, about 32% of UK GDP[43] came from manufacturing. Now the percentage is 9.7% and still slipping downwards[44].

Table 2: Growth, Manufacturing and Investment as a Percentage of GDP in Various Countries

	China	Korea	Singapore	Germany	Holland	USA	UK
Growth in GDP, 2006-2016	136%	39%	59%	19%	9%	9%	14%
Growth in Population, 2006-2016	5.6%	3.9%	21.9%	0.5%	3.3%	2%	8.%
Growth in GDP per head, 2006-2016	124%	33%	30%	19%	6%	5%	3%
Manufacturing as a % of GDP	29%	29%	20%	23%	12%	12%	10%
Investment as a % of GDP	45%	29%	27%	19%	19%	20%	17%

Sources: Various tables in *International Monetary Statistics Yearbook 2017*. Washington DC: IMF, 2017. Manufacturing data from the World Bank website. This data relates to 2016 as does the IMF data on Investment as a % of GDP.

The extreme case of deindustrialisation from which the UK suffers is a major drawback for the economy for four separate but overlapping reasons. The first is that productivity is much easier to achieve in manufacturing than it is in services, so the smaller manufacturing is as a percentage of GDP, the lower the growth rate is likely to be. Above is a table which shows the high correlation there is across a range of economies between those which have strong manufacturing sectors and strong growth rates and those that do not. The major reason why productivity growth tends to be higher in light industry is because mechanisation, technology and power, the most productive forms of investment in terms of added output per hour, tend to find a natural home in this part of the economy.

The second reason why manufacturing is so important is that it provides regions of the UK outside the South East of England with output to sell, so that they can pay their way. At present, large swathes of the UK run huge deficits with the rest of the world. If London runs a balance of payments surplus, which it does, the rest of the country has to share out the UK's balance of payments deficit. Clearly some cities – Oxford, Cambridge and Bristol, for example - are doing reasonably well, but this means that perhaps three quarters of the economy – about £1.5bn per annum in total – is sharing out a deficit which is probably as high as £150bn, implying that about three quarters of the UK is running at an average deficit of something like 10%. No wonder that there are such huge disparities in Gross Value Added per employee as the statistics show – an average in 2015 of £44k in London and £18k in Wales and £19k in the North East[45].

Third, there is substantial evidence that on balance manufacturing employment provides a more satisfying job environment than much service sector employment. This is partly because there may be intrinsic satisfaction to be gained from making things but also because the pattern of employment in manufacturing tends to be more evenly spread across skill and ability levels than in services, which are more inclined to produce large numbers of jobs which are either highly skilled or relatively unskilled, with a gap in the middle. Despite the cavalier way in which manufacturing has been treated in the UK, average wages there are still substantially higher than they are on average in services – with a gap in manufacturing's favour currently running at almost 20%[46].

Finally, producing manufactured goods is key to the ability of the UK – or any other advanced and diversified economy – to pay its way in the world, and because our manufacturing base is so weak, we have a very large deficit on goods - £135bn in 2017[47] – of which £98bn was manufactured goods[48]. Although the UK does well on net export of services, with a surplus in 2017 of £107bn, this still left a substantial trade deficit gap of £29bn, contributing to our next major problem, which is our balance of payments deficit.

Balance of payments

On its own, a trade deficit of around £30bn for an economy with total GDP of approximately £2bn should not be too big a problem. Unfortunately, however, as the table below shows, the UK's foreign payments position is much weaker than this. We are in this position because of two other major factors.

One is that we have a large and increasing negative net income from abroad. As recently as 2011, we had a surplus, but the balance has deteriorated sharply since then, the underlying reason being that every year we have a current account deficit and we have to borrow from abroad or sell assets to foreign interests to finance it. All the time we do so, the interest and profit remittances we have to pay abroad go up, increasing our negative net income from overseas. The other additional burden on our balance of payments deficit is in the form of net transfers abroad. About half of these are net payments to the European Union, with the remainder being split roughly equally between net remittances abroad by immigrants to the UK, and the cost across the exchanges of our aid programmes.

Table 3: UK Balance of Payments Breakdown – Net Figures in £bn

Year	Goods balance	Services balance	Trade balance	Net income	Net transfers	Balance of Payments
2007	-89.9	51.8	-38.1	-7.2	-13.1	58.3
2008	-94.4	49.3	-45.1	-14.6	-13.2	-72.9
2009	-86.4	53.0	-33.5	-11.5	-14.8	59.8
2010	-97.2	56.0	-41.2	1.1	-19.6	59.7
2011	-94.8	69.6	-25.2	6.5	-20.3	38.9
2012	-108.7	75.3	-33.4	-17.8	-20.4	-71.6
2013	-119.8	84.4	-35.4	-36.4	-25.3	97.0
2014	-123.1	86.3	-36.8	-37.8	-23.4	98.0
2015	-118.6	86.3	-32.4	-42.9	-22.8	98.1
2016	-135.5	94.8	-40.7	-50.4	-22.5	113.6
2017	-135.6	107.0	-28.6	-33.3	-21.0	-82.9

Source: Time Series Dataset. London: ONS, March 2018

It is simply unsustainable for the UK to continue indefinitely running a balance of payments deficit every year of about £100bn, which is roughly 5% of our GDP[49]. The rest of the world is not going to support for ever the British people enjoying a standard of living 5% higher than they are earning. Sooner or later, the markets are going to realise that the current dispensation cannot last, and that sterling will have to become weaker to take the strain. We need to catch this situation and to take advantage of it before we get forced into a damaging and pointless retreat, while the defensive action we take to keep the pound stronger than it should be means years more of pointless and unnecessary austerity and low growth.

Two other issues to do with our balance of payments deficit are worth pointing out. One is that all our deficit and more is with the EU27[50] and not – in aggregate - with the rest of the world, where we have a small surplus[51]. Although it does not really matter with which countries we have a surplus or a deficit if the total balances are within tolerable limits, the fact that all our foreign payments deficit is with the EU27 is clearly a factor which ought to bear on our current Brexit negotiations, although this important topic is barely – if ever – mentioned. The other is that the exchange rate has a big influence on the size of the net income from abroad element of our deficit. The stronger sterling is, the larger the sterling returns from the UK economy to foreigners become and the smaller is the sterling value of profit remittances and interest payments from abroad. A weaker pound would thus not only make our exports more competitive and reduce import penetration. It would also reduce he scale of our negative net income from abroad.

Debt

There has been a staggeringly large increase in debt within the UK economy since the turn of the century. By 2016 the total monetary base in the UK economy had grown to almost 15 times the size it had been in 2000[52] – a period when the economy grew in real terms by no more than 32%[53]. There are two interlocking reasons why this has happened, and both involve heavy distortions and mismanagement in the way the UK economy is structured.

Table 4: UK Net Lending (+) and Net Borrowing (-) by Sector in £bn

Year	Public Sector	Corporations	Households	Rest of the World	Totals
2008	-76.4	-25.3	29.1	72.6	0
2009	-159.6	18.3	81.8	59.5	0
2010	-150.3	4.1	85.7	60.4	0
2011	-123.6	23.5	60.4	39.7	0
2012	-138.5	3.7	62.6	72.2	0
2013	-97.6	-46.3	45.8	98.2	0
2014	-103.9	-36.6	40.6	100.0	0
2015	-81.0	-75.8	56.6	100.1	0
2016	-64.5	-62.4	20.2	115.3	8.6
2017	-44.4	-30.2	-12.1	84.2	-2.4

Source: Time Series data supporting ONS Quarterly National Accounts 2017 Q4. London: ONS, March 2018. Figures for 2016 and 2017 are still being reconciled by ONS and the net totals will also be at or very close to zero when this process is complete.

The first is that over the years since 2000, the UK has sustained balance of payments – usually large ones – almost every year. The total accumulated deficit between 2000 and 2017 came to just over £1trn[54]. The table above shows how this impacted on borrowing and lending within the UK economy between the more recent years 2008 to 2017.

The crucial take from this table is that it highlights that all borrowing and all lending – and all surpluses and all deficits – have, as an accounting identity, to sum to zero. Unless completely implausible assumptions are made about borrowing and lending by corporations and households, therefore, a substantial balance of payments deficit – represented in this context by lending to the UK from the rest of the world - is bound to leave the government with a large deficit, which is exactly what has happened. This means that reducing the government deficit by cutting expenditure or raising taxes - however, intuitively obvious it may seem that this must be the right way to bring government borrowing down – is built on a fallacy of composition. This is the assumption that what might make sense for an individual would be equally appropriate for the economy as a whole. It may well be the case that individuals living beyond their means need to reduce their expenditure or to increase their incomes to bring their finances under control. If the state does this, however, its impact is not to reduce its borrowing but to tip the economy towards a recession – as austerity policies have done – as social expenditure goes up and the tax take falls, leaving the deficit substantially greater than it was before. The reality is that the only way to bring the government deficit under control without plunging the economy into a recession is to reduce the foreign payments deficit – something which successive governments, Labour, Coalition and Conservative, have done little or nothing to try to achieve.

If any government is nevertheless determined to reduce its deficit to zero by cutting expenditure and raising taxes whatever it took, it could succeed, but at huge cost. This is what happened in Greece over the period 2008 to 2014. Deflation took place on a sufficient scale to reduce imports to match Greek exports, eliminating the previous balance of payments deficit and thus bringing the government budget back into balance. The result, however, was to reduce Greek GDP by over a quarter in real terms[55]. This is hardly a recipe for running a successful economy in the interest of all its citizens. The UK government has had to run a large deficit because, unless we had done so, we would have suffered from the same problems as Greece.

The reason why our huge balance of payments deficits have inflated the money supply, as well as encouraging austerity, is that the fiscal restraint which has been attempted in cutting back public expenditure has had to be offset by relaxing the money supply to stimulate expenditure to avoid the economy sliding backwards. This has been done by massively increasing the monetary base via Quantitative Easing, reaching a total of £435bn[56], accompanied by rock bottom interest rates. This has made it easier for those who were already credit-worthy to borrow more. The result has been a massive increase in asset prices, which in turn has increased consumer confidence and led to consumer expenditure-based increases in demand. Consumer expenditure as a proportion of UK GDP, at 84%, is substantially higher than in almost any other country in the developed world%[57].

The risk that we now face is that the large amount of corporate and household borrowing which is shown in the table above melts away as confidence falls, leaving the public sector with no alternative but to massively expand again the deficit on which it operates. This will leave the government facing another huge increase in its borrowing requirement, further destabilising the country's national finances. Instead, we need to pay our way in the world, to live within our means and to pay off some of our debts instead of carrying on as we are, constantly putting off the evil day until reality catches up with us by borrowing more and more.

Inequality

The final major imbalance in the UK economy concerns inequality – with three main dimensions. These are disparities in living standards and opportunities between London and the South East and the rest of the country; the gap which has opened between the achievements and prospects between millennials and those born a decade or two earlier; and between those who are wealthy and those who have not been so lucky. All countries have inequalities and those living in democracies are usually sufficiently realistic to realise that there are always going to be differences in living standards, prestige and esteem between some people and others. Furthermore, it is easier to accept that some peoples' living standards are rising faster than others if almost everyone is experiencing some improvement. A much less acceptable situation is reached, as is now the case in the UK, when at least half the population have static or falling real incomes, while a privileged but not particularly deserving minority are clearly doing very much better.

Reference has already been made to the huge disparity there is between Gross Value Added (GVA) per employee in London compared to poorer regions such as

Wales and the North East. It is not just these static comparisons, however, which are so worrying. It is the direction of travel. There is no sign of the gap narrowing. On the contrary, over the past few years, the disparities have widened. It now seems hard to believe that until about the 1960s the north of England was richer than the south[58] and there was a time not so very long ago when Bradford, now one of the poorest places in the country, was among the most prosperous cities in the UK[59].

What has happened, particularly recently, is that average living standards in London have risen in line with GDP while in poorer regions they have fallen back. Between 2007 and 2013 in the North East they fell by about 9% and in Wales by 10%, whereas in London they more or less held their own[60]. This happened because these relatively disadvantaged areas of the country simply do not have the capacity currently to pay their way in the world. This is why they depend on grants, transfers, loans and asset sales to cover the gap between what they earn and what they spend and in a climate of austerity there is never enough to reverse the remorseless underlying trends towards cut-backs to try to make the books balance.

The inter-generational inequality problem is a new one, at least on anything like the scale which is now apparent. It centres round the inability of so many young people either to obtain satisfactory employment, earn a reasonable wage or salary for a fulfilling job, or being able to buy a house or flat to provide a secure base for raising a family, thus frequently having either to stay with their parents or renting at exorbitant cost. Some of the problem on the income side has been caused by the hollowing out of the labour market as jobs, especially in the service sector, as remuneration polarises at either end of the income spectrum. Part comes from the heavy bias there is in the education system towards academic rather than vocational training, leaving students, often weighed down with heavy debts, struggling to find reasonably paid employment which matches their qualifications. Part comes, especially outside London, from poor employment prospects generally.

The collapse of house-building since the 1960s[61] has generated a massive shortage of accommodation as the number of housing units has expanded far more slowly than potential household formation. During the 1960s, the UK constructed an average of just over 300,000 units of accommodation a year. By the 2000s this performance had fallen to less than 150,000 per annum, with local authorities building only a derisory average of 224 units per year compared to 147,000 in the 1950s[62]. This situation has been aggravated by the major banks lending far more liberally for house purchase than for any other types of loans, driving up prices beyond the capacity of large sections of the population to pay them. The result is pessimism and discontent – and distrust in the way the country is being run – among large sections of the rising generation.

The distribution of income has actually become slightly more even over the last decade, partly because the really huge bonus payments paid in financial services during the run-up to the crash have fallen out of the income profile and partly because of the impact of rising minimum wages. The same cannot be said, however, for wealth and life chances generally. Low interest rates and Quantitative Easing have produced an enormous boom in the value of assets and a huge increase in wealth and life-chance inequalities as these conditions have benefitted those already well off far more than those not so fortunate. Examples of this happening are that the average value of housing in the UK as a whole rose between March 2009 and November 2017 by 46% and in London by 96[63]. Since the lowest point during the 2008 crash until January 2018, the FTSE 100 index has risen by 119%[64] As the economy stabilised after the crash, total wealth held by the top UK decile rose between 2010 and 2014 from 25 times what was held by the bottom decile to 34 times[65].

There are solutions to all these problems, but all of them require higher levels of investment, better job prospects, reindustrialisation and a higher rate of economic growth. There is little doubt that the regions of the UK outside London would be much more prosperous than they are at present if the proportion of UK GDP accounted for by manufacturing rose sharply, enabling them both to raise living standards directly and to pay their way in the world, thus making them much less dependent on subventions from elsewhere. Rebalancing the UK economy towards manufacturing more generally would make our foreign payments position much more manageable and sustainable as well as producing better job prospects and productivity increase generally, leading to higher rates of economic growth. The millennial generation would also benefit from new job opportunities, especially if they were allied to better and more appropriate training for new employment prospects which faster growth would open up. If much higher levels of investment included a major housebuilding drive, as it should, there would be some light at the end of the tunnel for those desperate to get on the housing ladder. A huge amount therefore turns on getting the economy to perform better. How can it be done?

Solutions

The fundamental problem with the UK economy is that overall it is uncompetitive. We charge out all our sterling based overhead costs to the rest of the world at too high a price. We can get away with doing this in services and indeed also in most high-tech manufacturing because these sectors are all relatively price-insensitive. Our services also enjoy substantial natural advantages – our language, our geography, our legal system, our universities and where we have concentrated our skills – from which they strongly benefit. This is partly why they provide us with a services trade surplus. The problem is that most of our international trade is not in services but in in goods, where we have no clear natural advantages, and we do not sell nearly enough goods to the rest of the world every year to cope also with our other heavy foreign payment commitments. The only way out of this dilemma is for us to dramatically improve our net trade balance in manufacturing.

And the only way to do this is to make manufacturing in the UK more price competitive, which requires action on both the demand and supply side of the equation. On the demand side, we need a much lower exchange rate, which is contentious, and on the supply side we need to mobilise all the components of the industrial strategies and the need for encouraging open markets and competition on which there is broad agreement. How low would the exchange rate have to be to make such a policy work? Essentially it would have to be low enough to make it worth siting new manufacturing facilities on a broad scale in the UK instead of elsewhere, and this takes us to the overall sensitivity of exports and imports to changes in the price at which they are offered.

Exports – in particular – react to price changes in two separate ways. If the exchange rate goes down and demand increases, manufacturers' first reaction is to squeeze more production out of existing facilities. Their ability to do this is, however, inevitably constrained by the spare capacity they have available. To go on expanding supply new plants have to be installed and the crucial determinant as to whether this will materialise in the home economy or elsewhere is whether there are reasonable expectations that keeping production local will pay off in the medium to long term. If decision-makers think that the exchange rate is going to strengthen again as soon as the government can make this happen, or if the lower exchange rate, even if likely to be maintained, is not sufficiently competitive to make it worthwhile to install new production capacity in the domestic economy, it will not materialise.

Viewing competitiveness in this light shows that there cannot be just one constant value for any economy for the elasticity of demand, for either its imports or exports. On the contrary, the elasticities are bound to change in value as the exchange rate alters. If any economy has an exchange rate which is either very high or very low, relatively small movements in it are unlikely to make any difference to where it is worth siting most new production facilities. They will be located in the under-valued exchange rate economy and not in the one where it is over-valued. If, on the other hand, considerations are more evenly balanced and even a relatively small movement in the exchange rate would tip the balance as to where new production facilities should be located, and thus from where world demand will be met, the sensitivity of total exports to exchange rate changes will be much higher. In other words, the elasticity of demand for exports and imports does not take the form in graphical terms of a straight line. It is more in the form of a bell-shaped curve. The goal in policy making terms, to get maximum benefit from a devaluation with minimum relative impact on inflation, is then to pitch the exchange rate at what is estimated to be the highest point on the bell-shaped curve. Where would that be? Calculations not exhibited in this paper but available if required indicate that the level at present would be roughly with £1.00 = $1.00 or about €0.85.

If a devaluation of this magnitude would put the economy in the best position on the elasticity curve, there is then plenty that can be done on the supply side to lift the curve upwards to make the responsiveness of the economy - and hence its price elasticity - greater. We could have major changes made in the availability of finance for manufacturing, flooding potential manufacturers with easy money as was done extremely successfully in Japan after World War II. Local authorities could implement training schemes to make sure that well qualified labour was available to expanding industry. Planning regulations could be rejigged to make it easy for new manufacturing plants to be established. Infrastructure improvements could be put in place. At national level, trade liberalisation efforts would be much more likely to bear fruit if the economy had competitive exports to offer the world than if they were overpriced. An environment with plenty of new profitable opportunities would attract into manufacturing a whole new generation of entrepreneurs, lifting the average quality of management.

The objective over a transitional period of perhaps five years would be to get the proportion of UK GDP coming from manufacturing up from its current rate of barely 10% to around 15%. It would not need to be so high as the 20% or more achieved in successful economies such as Singapore, Switzerland and Germany – let alone China or South Korea – because they do not have the 5% of GDP services export surplus which we enjoy[66]. If our manufactured exports – currently running at a rate of about £275bn per annum including re-exports[67], rose pro rata with our increased manufacturing output, thus rising by 50%, our export earnings would rise by £275 x 150% to a little over £400bn, an improvement of about £125bn. If one third of this sum was taken up by imports of machinery, raw materials and components, this would improve our balance of payments by potentially about £80bn a year. This would easily bring our foreign payments position into a manageable long-term condition, even allowing for some slippage. If, instead of having a social rate of return of 8% and investment as a percentage of GDP at 17% with an average growth rate of 1.4% per annum - as we have done for the last twelve years - if we had an average social rate of return of 14% with 25% of our GDP devoted to investment, we would have had an average growth rate of 3.5% a year.

Once policies along these lines had raised the growth rate and very substantially reduced the constraints on expansion currently presented by our balance of payments deficit, it is easy to see how our other imbalances could be addressed. Much more economic activity outside London and the South East would go a long way towards reversing the current increases in regional disparities in income and wealth. Reindustrialisation would raise productivity, provide better job prospects where they are most needed and relieve our balance of payments constraints. This, in turn, would take away the reason why the government has to run the economy with a large borrowing requirement. We would no longer need Quantitative Easing to sustain and stimulate the economy as the impetus for doing this would shift away from consumption to net trade and investment. Better economic performance all round would greatly improve the work, training and housing prospects for younger people as more investment provided resources for residential construction. It would be considerably easier to introduce measures to make inequality of wealth and life chances less extreme if the economy was doing well and it would make the country more content if almost everyone was enjoying rising living standards. Why, then is there so much resistance to adopting these kinds of policies? It is because no programme of this sort is without risks and problems, some more real and serious than others, and these all need to be addressed.

Problems

The problems which need to be overcome to get the UK economy to grow at about twice its current speed fall into number of categories. Some are relatively easy to dismiss; some are real and need carefully considered solutions; and some, particularly potential increase in inflation, need be carefully managed to minimise their deleterious impact.

Obstacles which are not likely to cause serious difficulties include retaliation, a lower pound making us all poorer, and discovering that a much lower exchange rate does not make any difference because there are no UK entrepreneurs willing to come forward to take advantage of new profitable manufacturing opportunities. On retaliation, the UK manifestly has an unsustainable balance of payments problem and, in the end, there is no alternative solution to a lower pound. The chances of retaliation taking place, therefore, are much smaller than they would be if we were in a stronger international financial position. There was no retaliation when we came out of the Exchange Rate Mechanism in 1992 and sterling fell by about 15% against the dollar about the same on a trade weighted basis[68], nor when sterling fell from about $2.00 to the pound to $1.50 between 2007 and 2009.[69] We do have obligations to the G7 not to go in for competitive devaluation but, bearing in mind the size of our deficits, these should be manageable especially if we continue running a small deficit instead of a surplus.

The argument that we make ourselves poorer by devaluing is true if the UK GDP is measured in US dollars, but this is irrelevant because UK shoppers almost exclusively spend pounds instead of foreign currency. If, because of a lower pound, the economy expands faster than it otherwise would have done, GDP per head must go up, so there is an important illogicality to the impoverishment case. It is true, however, that a lower pound and a smaller balance of payments deficit would make most people worse off at least temporarily, probably in the form of prices rising faster than disposable incomes, unless countervailing action is taken. It is important that this should be done, as is explained below.

As to the argument that the UK is no good at manufacturing and ought not to try to rebalance our economy towards industry, there is no evidence whatsoever that that the UK lacks entrepreneurial people who would be willing to take advantage of opportunities for making money out of reindustrialisation, provided it was clear that the required conditions were there to stay. The notion that the nation which invented the Industrial Revolution completely lacks people who will respond positively to the same economic incentives that have led to industrial success all over the world is just not credible.

A more serious problem is how to engineer a sterling depreciation by as much as about 30% from its present level of about $1.35 to the pound[70]. We have, of course experienced devaluations of this order in the past – for example, when we came off the Gold Standard in 1931, devaluing by 28% against the US dollar and by about 25% against all currencies[71] and by 22% on a trade-weighted basis between 2007 and 2009[72] and by a lesser amount – 15% - when we came out of the ERM[73]. All these events were largely market driven, without much initiative from the government.

This time the government would have to be much more proactive. It would have to announce an exchange rate target and to convince everyone of its determination to maintain it. The Bank of England would need to be charged with running monetary and interest rate policies consistent with this objective, with a mandate to interfere in the foreign exchange market – if necessary by selling sterling on a major scale – to keep the exchange rate where it needed to be. These moves could be reinforced by taking action to bring down the capital inflows which have driven the pound up to its present over-valued condition. This could be done by discouraging the sale of UK assets to foreign buyers, for example by introducing a much tougher public interest hurdle for foreign take-overs of UK companies, and by discouraging the purchase from abroad of UK property assets. The strongest evidence that all this would be possible is provided by the many successful countries, such as Singapore, Germany, China, South Korea and Switzerland all of which – with far less justification than in the UK's case – have kept their exchange rates where they wanted them to be, to ensure that they remained competitive.

Another serious problem is that, to increase the proportion of GDP going to investment instead of consumption could potentially put a squeeze on household expenditure. If we need to switch about 4% of GDP to high-powered investment to raise the growth rate by 2% per annum, and we need to match this with a comparable increase in social and private investment with much lower social rates of return, this will mean raising total investment as a percentage of GDP by some 8% - from 16% or 17% to around 25%. This produces a problem with three overlapping dimensions. There would be a requirement for a real resource shift from consumption to investment; there would be a need for saving across the economy to increase by 8% as a percentage of GDP; and the money to pay for much larger volumes of investment would need to be available.

The challenges flowing from the need to increase investment require careful and well thought through responses. The transition to another 8% of GDP going to investment would have to be phased over a period of perhaps five years. The increase in saving could be spread roughly equally across the four main sectors of the economy – the government, corporations, households and – at least temporarily – the foreign payment balance. Perhaps the most crucial problem over the transition to faster growth, entailing so much more expenditure on investment, would be the need to avoid depressing household expenditure as this process takes place. The solution here, especially at the beginning of the transition, has to be to concentrate as much as possible of increased investment in the types most likely to produce high rates of return quickly – and at least initially to give this top priority over increases to investments with lower rates of return. Careful calculations show that avoiding depressing consumer expenditure in absolute terms should just be possible provided that the annual increase in GDP was sufficient to offset the reduction in the percentage of GDP going to investment rather than consumption.

Inflation

Perhaps the greatest concern which most people would have about the strategy set out above is that a deliberate devaluation on the scale proposed would trigger off an inflationary spiral. This might both depress incomes and potentially negate any initial increase in competitiveness which had been achieved, leaving us no better off in growth terms than we were before, but with a worse inflationary problem. These fears however, are very unlikely to be well founded.

The table below shows what happened to inflation after all the major downward movements in sterling since we came off the Gold Standard in 1931. Despite the inevitable rise in the price of imported goods and services, there is little evidence of overall inflation being a serious problem. This is because, while the rise in import costs pushes up the price level, other factors associated with a devaluation tend to bring it down. Taxation and interest rates tend to be lower; production runs are longer thus reducing costs; domestic sources of supply take over from those abroad as local production becomes more competitive; and if the economy expands more rapidly the wage negotiation climate improves. When, from our historical experience, inflation did rise at all significantly after devaluations, there were clearly other factors involved, such as rearmament around 1950 and the rash of strikes which erupted in 1968, which pushed up inflation independently of anything to do with changes in the exchange rate. In general, to an extent which may be surprising to many people, it appears that devaluations overall have relatively little impact on changing the rate of inflation from what would have happened anyway. The UK experience is mirrored by similar outcomes where devaluations have taken place in other developed countries.

Table 5

Year of Devaluation	Overall Devaluation percentage	Inflation previous year	Inflation devaluation year	Inflation devaluation year + 1	Inflation devaluation year + 2	Inflation devaluation year +3
1931	25%	-1.7%	-10.1%	-9.9%	-6.6%	+5.5%
1949	31%	5.1%	2.4%	2.7%	9.9%	6.3%
1967	16%	3.9%	2.7%	4.8%	5.4%	6.3%
1992	15%	5.9%	3.7%	1.6%	2.5%	3.4%

2008	22%	2.3%	3.6%	2.2%	3.3%	4.5%
2016	9%	0.1%	1.3%	2.6%	2.4%	

Sources: *One Hundred Years of Economic Statistics* by Thelma Liesner. London: Facts on File and the Economist, 1989, and successive editions of *International Statistics Yearbook. Washington DC, IMF*. Combined with data from the Office for National Statistics and https//inflationdata.com

Even if there was a relatively small increase in inflation, however, most people might well be prepared to accept this as a price to pay for much faster growth. In the end it is the standard, not the cost of living which counts. Crucially, however, the figures in the table – or those from international experience elsewhere - show no evidence at all that increased competitiveness secured by a lower exchange rate will automatically be eroded away by higher inflation than would otherwise have occurred. There are simply no examples of this to be found in the history of any of the reasonably competently run economies in the world. If making our economy more competitive is the secret to getting it to perform better, there is no evidence at all that policies to achieve this objective will inevitably be invalidated by excess inflation caused by the exchange rate coming down.

Conclusion

No major policy change is without risk and the proposals set out above share this condition. The risks entailed in using a more competitive exchange rate to trigger faster growth may, however, be a good deal lower than might be expected. The success of what might fairly be described as a Competitive Exchange Rate Strategy in the end depends, apart from inflation not being excessive, on too major variables being having roughly the right values. One is the social rate of return which can reasonably be expected to materialise from the most productive forms of investment, especially at the margin. It needs to be in the region of 50% per annum, and there is plenty of evidence to suggest that this is achievable. The second key metric is the responsiveness of exports and imports to a lower exchange rate. Given the right circumstances, would this be large enough to carry the costs of a transition to the much higher levels of investment which are the key to longer term sustained growth? Again, the evidence is strongly in favour of this condition being met, especially if policy steps are taken to reinforce the attractions of exploiting the trading opportunities created by a more competitive economy. Of course, it is also a key requirement that rising inflation does not derail the prospects for much better performance and the risks in this regard also appear to be low enough to be borne with equanimity. A key conclusion is that all these three key metrics – the social rate of return, the elasticity of demand for import and exports and the rate of inflation - involve variable non-linear responses to policy inputs. And all of them can be manipulated to give stronger positive feed-back by the adoption of policies designed specifically to support their impact on getting the economy to perform better,

The relatively low risks associated with this strategy need to be compared to what is likely to happen if the UK continues for another decade or more with no real wage increase for most people while the rich get richer, disparities between London and the rest of the country widen and a whole generation is deprived of the job opportunities and housing prospects which their parents enjoyed. Sometimes risks are worth taking – and adoption of the Competitive Exchange Rate Strategy outlined above looks like being one of them.

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Endnotes

1 Rachel Reeves writes that "One third of Labour voters voted Leave because they valued national sovereignty and democracy more than membership of the EU. It was an expression of a deep anger at the way the governing class had ignored them and belittled their concerns about their national culture and identity. Those of us who voted Remain… put the economy ahead of identity" (2018: 8).

2 According to Nicholas Crafts, the term the "Great Moderation" was coined by James Stock and Mark Watson in their 2002 paper, 'Has the business cycle changed and why?', published as a working paper by the NBER (no.9127). Bernanke used the term in a 2004 speech given to the Eastern Economic Association in February 2004. It has since entered into common usage. See Crafts, Nicholas (2008) 'Profits of Doom?', *New Left Review*, 54, Nov/Dec, p51.

3 By comparison, in both Germany and France the figure is 4%. Rhodes 2018: 8.

4 Edgerton gives the example of the Balance of Payments. "In a nationalist political economy the Balance of Payments was talked of as if it were a national profit and loss account. In the new internationalist political economy, it was merely a record of the net flow of one kind of money, necessarily balanced by inward flows in the capital account" (2018: 470).

5 According to Edgerton, "Whatever it did ,the program of Thatcher, Major and Blair did not revive a decaying British national capitalism, but rather brought the benefit of international capitalism to the United Kingdom" (2018: 474).

6 This academic tradition is associated with the likes of Andrew Schonfield, British journalist and writer and author of *Modern Capitalism* (1965), a seminal text in the field of comparative political economy. In France, a similar comparative ambition was pursed by the "Regulation school" of Robert Boyer, Michel Aglietta and others, where the interest was in constructing a theory of accumulation regimes (e.g. Aglietta 1999).

7 In this essay, we look at both the components of aggregated demand and the changing institutional apparatus within which economic growth takes place. There is no presumption that the analytical unity of these approaches corresponds to an actual unity of outlook or practice in economic matters, one that we can call "British". As noted above, the emergence of this British growth model coincides with a dismantling of the corporatist and "national-productivist" institutions and practices of the post-1945 era.

8 Privatized because household spending was driving aggregate demand instead of government (public) spending.

9 Lending to the corporate sector by UK banks is estimated to be 6% of their assets, which is a third of the equivalent of German banks, according to Haldane 2018:16.

10 My thanks to Charles Brendon for a very usual discussion on this point.

11 This has generated a debate about the merits and dangers of "asset-based welfare". See Lowe et al 2011. See also Montgomerie and Büdenbender (2015).

12 And, in reverse, British consumers relied on the savings of German producers, which where channeled to the UK in the form of capital inflows (Blakeley 2018:2).

13 Carlin and Soskice find that real wage remuneration in the UK was above that of Germany, the US and significantly above that of Japan even after 2008, though since the crisis the gap has closed particularly with the US and Germany. Carlin and Soskice 2018: 173.

14 Ken Mayhew notes that with the introduction of the Working Family Tax Credits in 1998, "the government subsidized low pay with a benefit top-up". By the time Labour left office, he writes, "spending on tax credits was about 2% of GDP, higher than in most… developed countries" (2015: 207).

15 Though it does explain why the UK tends to perform relatively well in many inequality indicators.

16 This section develops an argument already made in Bickerton, Chris and Tuck, Richard (2017) *A Brexit Proposal*, November, pp37-41.

17 As Grace Blakeley puts it, "By selling assets to the rest of the world via the financial account in order to finance our current account deficit, the UK is building up substantial liabilities to foreign investors. Like any build up of debt, if this is used to finance productive investment that creates growth over the long term, then it is not necessarily something to worry about… However, instead of investing to boost the economy, we have been borrowing to fund current consumption, financed against assets such as real estate" (2018: 12).

18 A trend reinforced by a battery of legislation. Key acts include: 1986 Wages Act, 1986 Sex Discrimination Act, 1988 Employment Act, 1990 Employment Act, 1993 Trade Union Reform and Employment Act. See Mayhew 2015.

19 Wage councils were abolished in 1993 having been much weakened in 1986. The Industrial Training Boards, which emerged out of the corporatist training body, the Manpower Services Commission, were abolished in 1981.

20 Nigel Lawson included figures in his 1990 autobiography, 'The View From No. 11', to show that economic growth had been negligible over the 1970s. However revised official data now show a strong recovery in the late 1970s from the recession induced by the quadrupling of oil prices in 1974.

21 The old Bacon and tis argument on crowing out relied on high interest rates as a consequence of inflation induced by over-full employment. However in recent years low wage inflation and low interest rates have accompanied full employment.

22 www.worldometer.info website

23 ONS code IKBJ. ONS Dataset published March 2018. London: ONS

24 ONS code NPQT as a percentage of YBHA. London: ONS 2018

25 Page 829 in *International Statistics Yearbook 2017*. Washington DC: IMF, 2017

26 Ibid, page 86

27 ONS code NPQT as a percentage of YBHA. London: ONS, 2018

28 ONS codes NPQT minus EQDO divided by YBHA. London: ONS, 2018

29 Consumption of fixed capital in the UK in 2016 was 12.9% of GDP. Page 829 in *International Financial Statistics Yearbook. Washington DC: IMF, 2017*

30 ONS code DLWO divided by YBHA. London: ONS, 2018.

31 Table J.1 in *Economic Statistics 1900-1983* by Thelma Liesner. London: *The Economist* 1985

32 Ibid, Table US.1

33 Ibid, Table UK.1

34 Calculated from tables in *International Statistics Yearbook 2017*. Washington DC: IMF 2017

35 Ibid

36 Ibid

37 Ibid, including some ONS data

38 Bank of England website

39 Page 980 in *International Statistics Yearbook 2000*. Washington DC: IMF 2000

40 Table 7.1, page 66, in the 2011 Pink Book. London: ONS, 20111.

41 Page 745 in *International Statistics Yearbook 2010*. Washington DC: IMF 2000

42 Page 7 in *Economic Review March 2014*. London: ONS, 2014

43 www.economicshelp.org/blog/7617/economics

44 Calculations based on ONS codes ABMI and YBEX. London: ONS, December 2017

45 ONS Regional GVA Income Approach. ONS. London: ONS, 2016

46 Data from Trading Economics website. At the end of 2017 wages in manufacturing averaged £595 per week compared to an overall average of £510.

47 ONS code BOK!. London : ONS, 2018

48 ONS codes ELBH plus ELBI. London: ONS, 2018

49 ONS code HBOP divided by YBHA. London : ONS, 2018

50 ONS code L877. London : ONS, 2018

51 ONS code L871. London: ONS, 2018

52 Tables in successive editions of *International Monetary Statistics Yearbook*. Washington DC: IMF.

53 Ibid

54 The total was £1.057trn. ONS code BOKI. London : ONS, 2018

55 Page 80 in *International Monetary Statistics 2017*. Washington DC: IMF, 2017

56 Bank of England website.

57 Page 88 in *International Statistics Yearbook 2017*. Washington DC: IMF, 2017.

58 Poverty and wealth across Britain 1968 to 2005. ERF website.

59 Wikipedia entry on Bradford.

60 Calculated from ONS NUTS2 data

61 Table 224 in House building permanent dwellings completed by tenure historical calendar year series. London: ONS, 2015

62 Ibid,

63 BETA house Price Index

64 FTSE 100 Historical Data

65 Distribution of total wealth for Great Britain and London (July 2010- June 2014). London: ONS, 2015.

66 Country tables in *International Monetary Statistics Yearbook 2017*. Washington DC: IMF, 2017

67 ONS codes BQAV and BQBU. London: ONS, 2018

68 Page 981 in *International Monetary Statistics Yearbook 2000*. Washington DC: IMF, 2000.

69 Page 745 in *International Monetary Statistics Yearbook 2010*. Washington DC: IMF, 2010.

70 The US$/sterling exchange rate was £1.00 = $1,33 in June 2018. Bloomberg website.

71 Table UK.15 in *Economic Statistics 1900-1983* by Thelma Liesner. London *The Economist* 1985

72 Page 745 in *International Monetary Statistics Yearbook 2010*. Washington DC: IMF, 2010.

73 Page 981 in *International Monetary Statistics Yearbook 2000*. Washington DC: IMF, 2000