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Britain's Post-Crisis Political Economy: A 'Recovery' through Regressive Redistribution.

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In the social world, things are often not quite what they seem. The gap between political discourse and other observable socio-economic phenomena is frequently large. The smoke and mirrors generated by Westminster spin-doctors and the shadow play of partisan political point-scoring cloud the public perception of the state of the nation. With a General Election in 2015 looming and the pressures of re-election mounting, the requirement to construct a compelling narrative of economic success grows ever more pressing for Britain's ruling government. The doyens of the Coalition wait on tenterhooks, eagerly anticipating the next statement of quarterly GDP figures and proclaiming, in the wake of supposedly reassuring growth statistics, that the recovery is well on track and that this is, to paraphrase George Osborne, 'good news for hard-working families' (Mason, 2013).

But is this narrative really one that we should take at face value? In this paper, we interrogate the foundations of Britain's much-vaunted economic recovery and seek to puncture the mood of cautious optimism that has followed the return to a modest level of economic growth. In the process, we aim to bring a greater degree of conceptual coherence to our understanding of the post-crisis political economy of the United Kingdom. Challenging the fixation upon GDP as the most suitable metric to adjudicate the scope and depth of the recovery, we draw attention to the underlying regressively redistributive dynamics that have further intensified economic inequality in Britain and, despite a return to growth, left many in our society considerably worse off. These processes, and the empirical indicators which attest to their significance, frequently fall outside of the purview of the dominant GDP metric, which has been established as the major totem of economic aspiration and the global symbol of economic success.

Instead, we argue that Britain's post-crisis political economy is better understood in terms of a 'recovery through regressive redistribution': a socially regressive dynamic of wealth and income redistribution which has worked through two axes at the centre of the supposed 'recovery'. The first axis consists of asset price inflation driven in large part by the pursuit of unconventional monetary policy, or 'Quantitative Easing' (QE hereafter), as it is commonly known. The second axis, centred upon the relative bargaining power of firms and labour, has involved the suppression and retrenchment of real wages and a corresponding erosion of living standards. In combination, these two axes have been central to defining the contours of the post-crisis paradigm of Britain's political economy: characterised by rising asset wealth and income for the few, and falling living standards alongside increasing economic insecurity for the many. The opportunity to change path from the trends of deepening wealth and income inequality that came to define the pre-crisis neoliberal era has not been taken. In fact, the prevailing policy paradigm of the post-crisis period has intensified and deepened the regressively redistributive dynamics at the core of the neoliberal political project.

These two axes do not, of course, exhaust the contours of Britain's post-crisis political economy. Indeed, one could make a very strong case for the inclusion of fiscal austerity, involving the reduction of benefits payments, disability benefits and tax credits to some of the poorest and most marginalised members of our society, as a central tenet of the regressively redistributive recovery. But this dimension of redistribution is more widely recognised, and our purpose here is to illuminate the more discreet (yet in our view equally significant) processes of wealth and income redistribution that lie at the heart of Britain's post-crisis economy. Those trends are in danger of being locked-in by the continuation of regressive policies. It is therefore imperative that progressive political economy seeks to contest and renegotiate the terrain of British economic policy.

The paper is divided broadly into two main sections. In the first section, we draw attention to the monetary policy component of the crisis response. Here we argue that QE has contributed to the regressively redistributive recovery in two distinct yet interrelated ways. Firstly, we suggest that the asset price inflation that has been a stated aim and accomplishment of QE has disproportionately benefited asset-holding segments of society, which are overwhelmingly comprised by the wealthiest percentiles of households. Secondly, QE has facilitated the regressively redistributive recovery through what we term its 'substitution impact': by representing an element of activist policy response to the crisis, QE has stood in for genuinely progressive policy responses and has facilitated the related adoption of fiscal austerity. With the public and the markets demanding that the government and the central bank 'do something' in the face of the crisis, QE has gone some way to meeting those needs. In this second, less widely acknowledged sense, QE has been central to the monetary policy eclipse of the fiscal policy potential for progressive redistribution and expansion. The adoption of QE as the 'active' element of policy response has enabled a deeply damaging pairing between monetary expansion and fiscal contraction that has been at the heart of the government's crisis-response.

The second section then traces how the British recovery has effectively transferred the burdens of economic adjustment *downwards* onto labour, especially onto those workers on low and middle incomes. Four closely linked developments in the labour market are representative of this regressively redistributive process: an unprecedented decline in real wages since the outbreak of the recession, the widespread use of wage freezes and wage cutting strategies by employers, a high proportion of net job creation concentrated in 'low pay' industries and a considerable growth in 'precarious' work in key sectors of the labour market. We compare these developments with recessions from the early 1980s and 1990s, and demonstrate that the current recovery is unprecedented in terms of the severity of its labour market restructuring and the erosion of living standards which has gone with it. While government ministers have often treated this as the inevitable result of the 'depth' of the recession, we emphasise the contingent and politically dependent pre-conditions of this regressive labour market restructuring. In particular, we argue that the longstanding commitment to 'flexible labour markets' – supported by all major parties at Westminster – and the corresponding erosion of the bargaining power of organised labour have made the contemporary attack on living standards and working conditions possible. In this sense the regressive recovery represents a deepening of the political project associated with neo-liberalism in that it has involved a disciplining of labour and a simultaneous upwards redistribution of wealth gains to asset-holders through the stock market.

In a final concluding section, we draw together these two axes of the 'regressive recovery' and demonstrate how the Coalition government's economic strategy is likely to further entrench deep economic weaknesses, which have for a long period of time blighted the British growth model. In the medium term, the regressive recovery is likely to further reduce the share of economic output which accrues to labour and enlarge the proportion which accrues to firms and asset-holders. We highlight how this falling 'wage share' is associated with a series of economic pathologies – including reliance on private debt-led growth, chronic deficiencies of domestic demand and concentration of capital in financial assets as opposed to investment in the productive economy. In conclusion, we argue that reorienting away from this dysfunctional growth model requires that we tackle the regressive recovery head-on. We do this by briefly outlining what a recovery through *progressive* redistribution might look like. This would involve a progressive combination of fiscal and monetary policy measures alongside an effort to drive wage-led growth and lessen the dependence upon private household debt.

QE: an unorthodox policy with orthodox ends

With global financial markets teetering on the brink of a total collapse in the summer of 2008, the world's leading central banks, led by the U.S. Federal Reserve, groped for an appropriate policy response to the deepening crisis. Having reduced the federal funds rate (the key interest rate in the U.S. monetary system) to zero, the Fed was pressed to contemplate additional measures to boost the liquidity of a banking system that had seized up under insolvency fears spawned by the subprime mortgage crisis. The strategy that it selected is commonly known as 'Quantitative Easing'. QE refers to a monetary policy that expands the central bank's balance sheet as a means to increase the level of central bank money in the economy (Joyce et. al, 2011: 114). Through the creation of new reserves, the central bank purchases a range of assets from market actors in an attempt to boost the liquidity of the banking system. Having been adopted by the Fed by late summer 2008, QE was then undertaken by the Bank of England from March 2009 after it had already slashed Bank Rate from 5 per cent at the beginning of October 2008 to just 0.5 per cent by March 2009 (Lyonnet & Werner, 2012: 97).[1] With monetary policy at or near the 'zero-bound' the capacity for a further reduction in rates was exhausted and central bankers began to consider alternative remedies. They opted to inject reserves into the banking system in exchange for a variety of assets.

This massive increase in central bank reserves is an extremely unusual form of monetary policy. It was, in fact, pioneered in Japan during the prolonged deflationary crisis of the Japanese economy throughout the 1990s. Its adoption by the Fed, and then subsequently by the Bank of England, represented a shift in the existing monetary regimes within both central banks. The focus had now moved from regulating the price of inter-bank borrowing, by using open market operations to hit an overnight interest rate target, to adjusting the quantity of funds injected into the system through QE (Lyonnet & Werner, 2012: 95). This move represented an important break from the emphasis that central banks had, since the 1980s, placed upon interest rates as the major tool for implementing monetary policy (Werner, 2005: 49; Epstein, 2005: 2).

But, despite the unorthodox policy *means* of QE, its *ends* are in fact extremely orthodox and represent continuity with the prevailing neoliberal paradigm of central banking that began to take shape during the 1980s. One of the defining features of that paradigm was the increased concern with inflation targeting, rather than the traditional post-war Keynesian goal of full employment. It is this concern with hitting the inflation target, set by the Bank of England's monetary policy committee, which is a key stated objective of QE (BofE, 2013: 55; Joyce et al., 2011: 115). That objective was to be met through a number of distinctive policy 'channels' which are intended to stimulate economic recovery. In general, the framework of QE has been intended to increase broad money holdings through the purchase of financial assets, pushing up asset prices and stimulating increased expenditure through reduced borrowing costs and increased wealth. Central to this policy, then, is the inflation of asset prices as a key objective for stimulating the recovery. This framework is, as we shall see, encoded with a redistributive outlook that has had deeply damaging effects.

The first channel through which QE operates, and perhaps the least significant in its effects, is the 'signalling channel'. By announcing its commitment to purchase bonds, the central bank provides information to markets about the expected future trajectory of monetary policy. In this way, signalling towards loose monetary policy prompts financial markets to lower their expectations as to the level of future short-term interest rates. This then drags down longer-term yields on assets (Christensen & Rudebusch, 2012: 386).

Secondly, QE is intended to work through a 'liquidity premia channel'. This channel boosts liquidity by making it easier for investors to sell their assets. Under stressed crisis conditions, markets experience reduced liquidity, but by boosting demand for private sector assets (such as secured commercial paper and corporate bonds) through its purchasing programme, the central bank can ease liquidity conditions by acting as a market-maker-of-last-resort (BofE, 2013: 59).[2] This channel depends on an active flow of purchases by the central bank in order for it to take effect, so can be expected only to operate during periods of active asset purchases (Joyce et al., 2011: 118).

1. In Britain, the introduction of Quantitative Easing came as part of a wider set of measures that were introduced in order to deal with the financial crisis. Prior to the enactment of Quantitative Easing, the Bank had already introduced a £185 billion 'Special Liquidity Scheme' that enabled banks to swap their illiquid mortgage-backed securities and other toxic assets for more liquid Treasury bills. A Discount Window Facility was also opened by the Bank in order to meet the short-term liquidity needs of troubled financial institutions (Joyce et al., 2011: 122; Kapetanios et al., 2012: 318).

2. Bond prices and interest rates move inversely. As interest rates rise, bond prices decrease as the interest rates that can be earned on new bond issues outstrip of those bonds which have already been issued during a period of lower rates. This reduces the value of the existing stock of bonds. Quantitative Easing boosts bond prices, by increasing demand, and reduces bond yields as interest rates fall.

The final and most important channel for QE, however, is the 'portfolio rebalancing channel'. It is, crucially, through this channel that the regressively redistributive dynamics at the heart of the monetary policy response to the crisis begin to come into sharper focus. The Bank of England's asset purchase programme has been overwhelmingly focused upon buying up Treasury gilts, with most of those purchases targeted towards medium, and long-term maturity gilts. During the first phase of QE, between March 2009 and January 2010, the Bank purchased £200 billion worth of assets. The intention here was to bring down longer-term interest rates. These purchases represented around 30 per cent of the outstanding gilts held by the private sector at that point, and around 14 per cent of nominal GDP. In the process, the Bank's balance sheet expanded threefold relative to the pre-crisis period: a massive and unprecedented expansion (Joyce et. al., 2011: 200).

Crucially, these massive purchases raise the prices of the assets that are being bought and also stimulate increases in other asset prices. The rebalancing effect that is intended, which is central to QE, is described as follows by the Bank of England:

> When the central bank purchases assets, the money holdings of the sellers are increased. Unless money is a perfect substitute for the assets sold, the sellers may attempt to rebalance their portfolios by buying other assets that are better substitutes (Joyce et. al., 2011: 201).

Essentially, what this means is that investors, such as pensions funds and insurance companies that had previously held large stocks of Treasury gilts, will now hold deposits with their banks. These deposits will not match the yields that they previously accrued from holding government bonds. The Bank's own assessment is that gilt yields were depressed by 100 basis points due to QE. The depression of bond yields incentivises asset holders to move their wealth into riskier, higher yielding assets such as corporate bonds and equities. The anticipated effect of this is as follows:

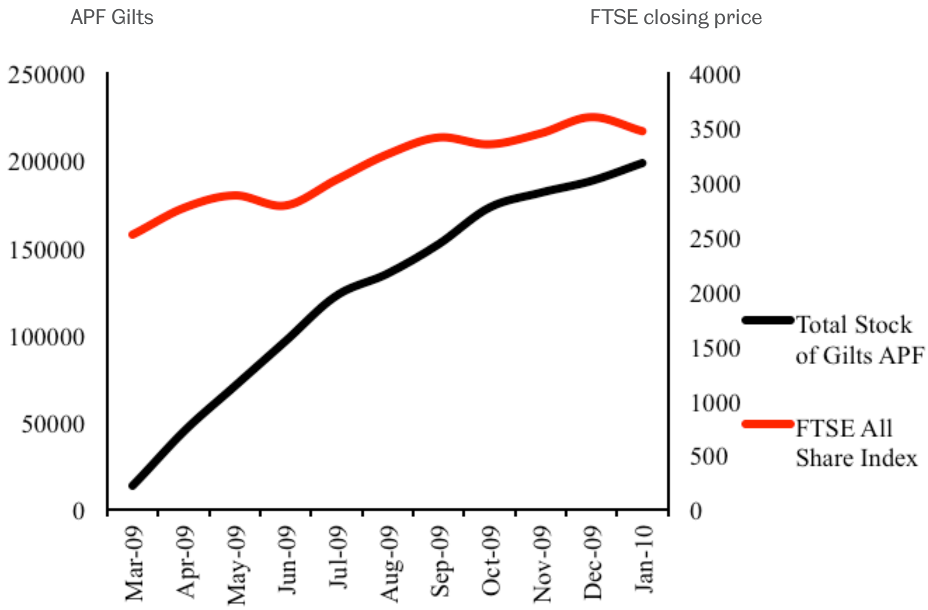
> This process will raise the prices of assets until the point where investors, in aggregate, are willing to hold the overall supplies of assets and money. Higher prices mean lower yields, and lower borrowing costs for firms and households, which acts to stimulate spending. In addition, higher asset prices stimulate spending by increasing the net wealth *of asset holders*' (Joyce et al., 2011: 201, emphasis added).

The crucial point in the above statement from the Bank, for our present purposes, is in the final sentence. By shifting the price of assets upwards, QE is aimed at increasing the wealth of *asset holders*. It is a financialised demand strategy that works through the channel of financial markets to boost demand by increasing spending. By increasing the supply of money and shifting the composition of portfolios, the policy seeks to create an upward asset price spiral in order, from the resulting 'wealth effect', to boost spending and consequently demand. This serves to push up consumer prices and circumvent the threat of deflation. It is thus a monetary policy approach that intentionally privileges those members of society that hold assets, a group that does not rely exclusively upon wages for increases in income and wealth. This is the essence of the regressively redistributive nature of QE and, as we shall see, it has deepened the unequal distribution of wealth in Britain.

The redistributive consequences of QE

One of the principal impacts of QE has been upon stock market prices. This effect, demonstrated in Figure 1.1 below, is part of a broader distributive impact of QE.

Figure 1.1 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Index Closing Price QE1

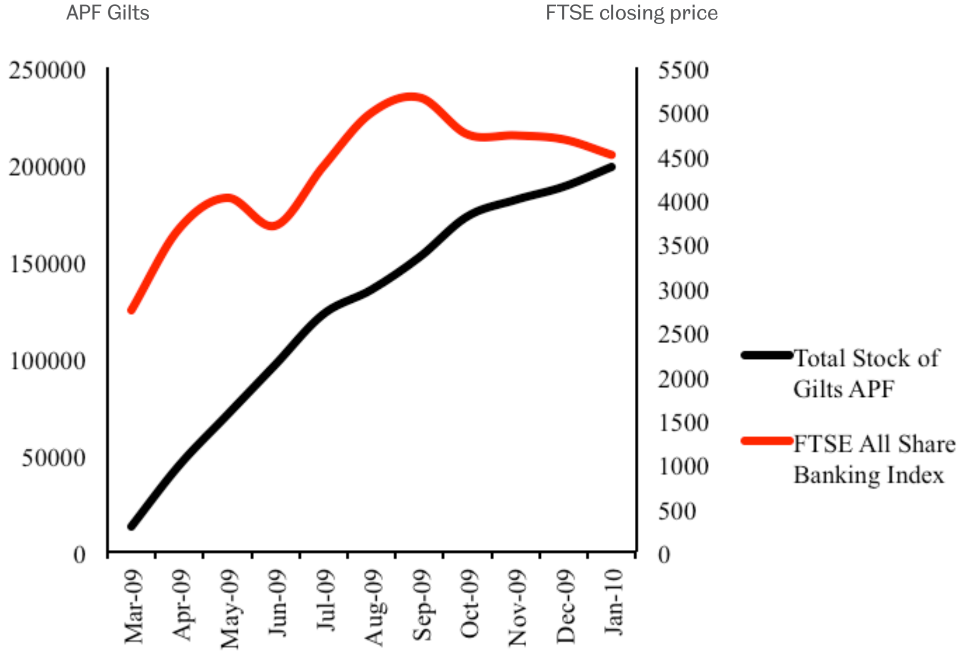


Sources: Bank of England Data Series, YWWB9T9- Weekly stock of holdings of gilts by the Bank of England's asset purchase facility in sterling millions (monthly stock calculated as total stock held in final week of each month); Global Financial Data UK FTSE All-Share Return Index (w/GFD extension).

The above graph demonstrates the relationship between the first phase of QE (QE1) undertaken from March 2009 to January 2010, and the rally in stock market values during this period. During this period the APF increased its holdings of Treasury gilts by 93.5 per cent, with the FTSE 100 share index experiencing a rise of 28 per cent during the same period. Figure 1.1 suggests that QE1 did have a substantial impact upon stock prices. The Bank of England's own research suggests that QE1 boosted equity prices by around 20 per cent and Figure 1.1 supports the claim that QE1 was a driving factor in rising share prices.

Figure 2.1 below shows the same relationship, but this time substituting the FTSE 100 Bank index for the aggregate index. Not surprisingly, the expansionary actions of the APF benefited bank stock prices to a much greater magnitude than for the FTSE 100 index as a whole, with a massive 39 per cent increase in the price of bank stocks during the period.

Figure 2.1 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Bank Index Closing Price QE1



Sources: Bank of England Data Series, YWWB9T9- Weekly stock of holdings of gilts by the Bank of England's asset purchase facility in sterling millions (monthly stock calculated as total stock held in final week of each month); Global Financial Data FTSE All-Share Return Bank Index.

The most interesting feature emerges when we examine the period between the conclusion of QE1 and the beginning of QE2. We might refer to this as a period of QE inertia, in contrast to the activism of the asset purchase phases. Whereas the FTSE 100 Index continued to rise (albeit very modestly) during this interim period of QE inertia, increasing by 5 per cent despite the halting of balance sheet expansion by the APF, the FTSE 100 Bank Index actually fell by 19 per cent during the same period. This goes a long way to explaining why the Bank felt it necessary to usher in a second phase of QE (QE2) from October 2011 to November 2012: in order to restore confidence in the banking sector by continuing to ease liquidity conditions and reinforce reserve positions. Although the FTSE as a whole had stabilised into steady price appreciation after QE1, the price of bank stocks fell precipitously. This would have been of particular concern to HM Treasury given the taxpayer's substantial holdings in RBS and Lloyds (£66 billion altogether).

Figure 1.2 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Index Closing Price QE Inertia 1

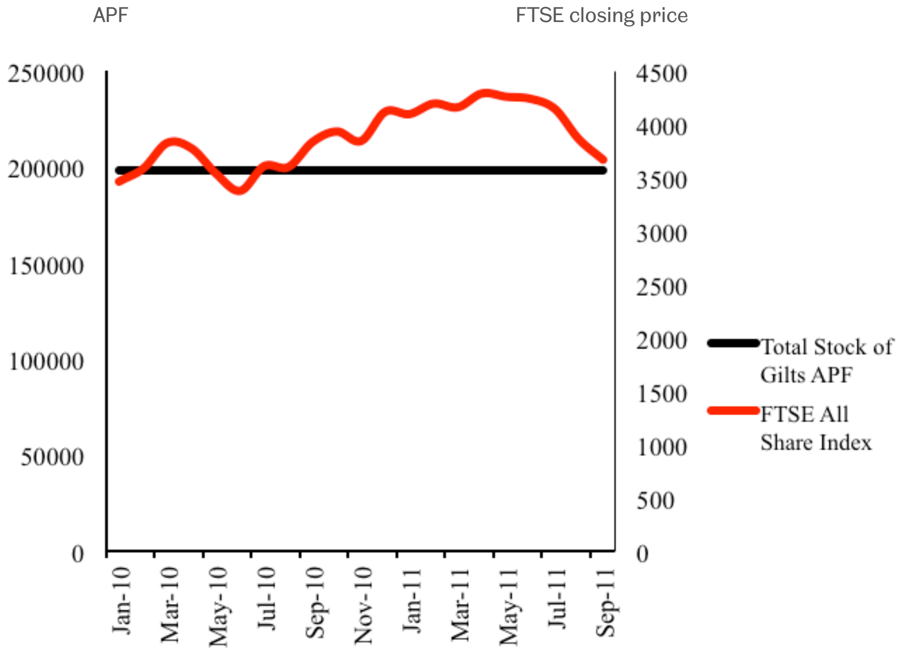
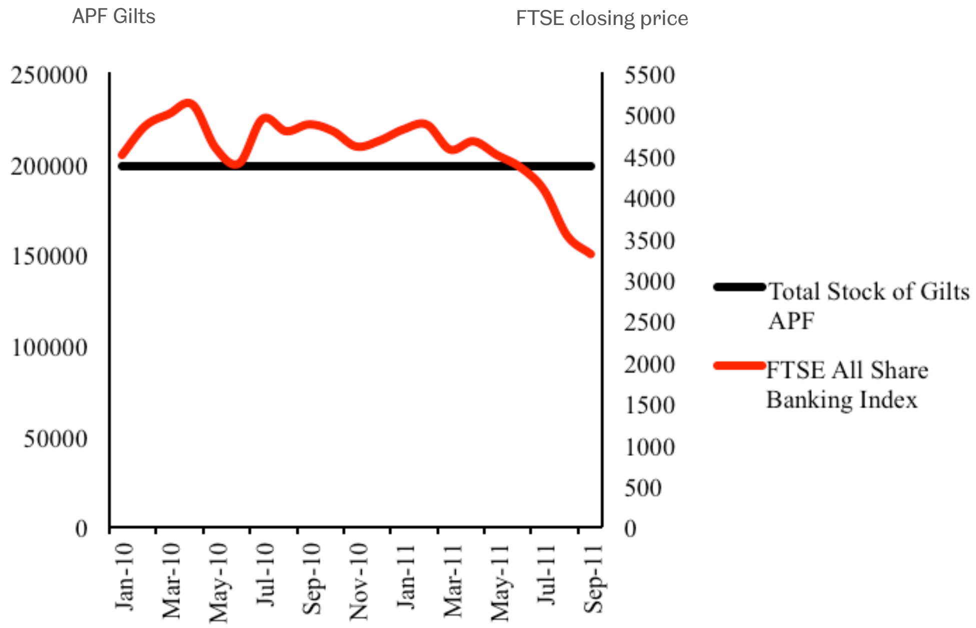


Figure 2.2 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Bank Index Closing Price QE Inertia



This first phase of QE inertia was then followed by QE2, which saw a much more modest expansion of the Bank's balance sheet and a correspondingly lesser rally of stock prices on both the FTSE All Share aggregate Index and the Banking Index as Figures 1.3 and 2.3 below demonstrate. During this period, the APF increased its holdings of Treasury gilts by 43 per cent (compared to an increase of 94 per cent during QE1), while the FTSE All Share Index increased by 12 per cent and the Banking Index increased by 15 per cent. This evidence confirms the view that QE2 exerted a lesser impact upon stock prices when compared to QE1. But, of course, it is important to bear in mind that the magnitude of asset purchases under QE2 was much smaller and we would therefore expect it to exert less of an influence on stock prices than QE1.

Figure 1.3 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Index Closing Price QE 2

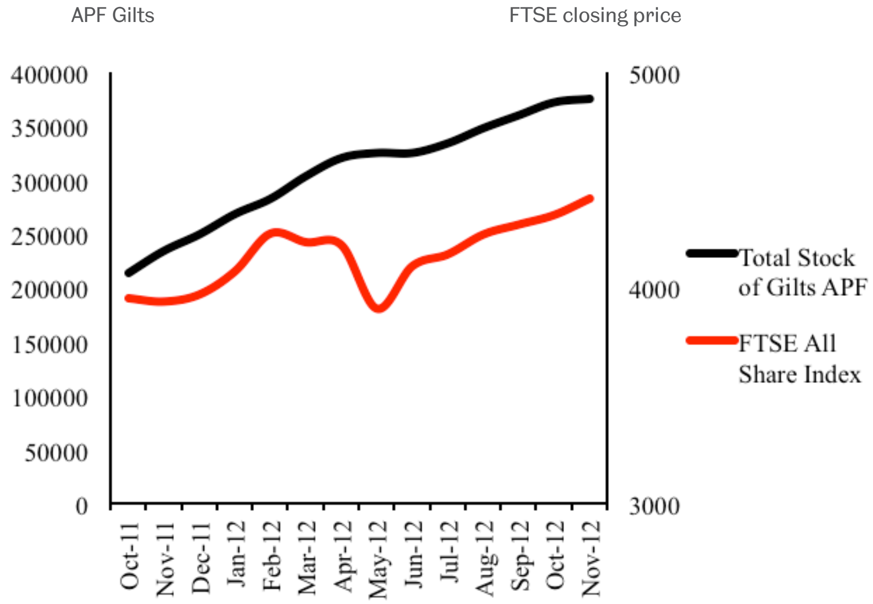
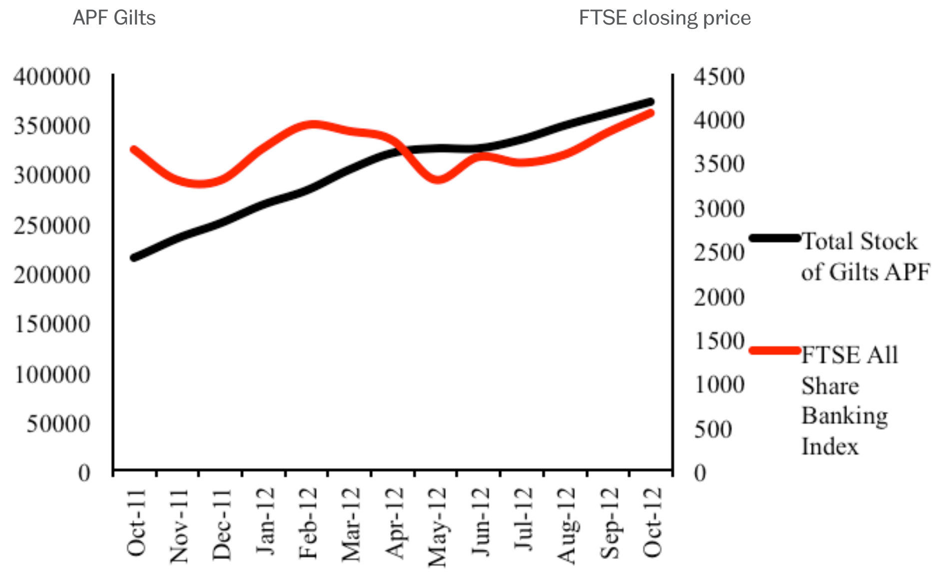


Figure 2.3 Bank of England Weekly Gilt Stock (Asset Purchase Facility) and FTSE All Share Bank Index Closing Price QE 2



Disentangling the domestic impacts of QE entirely from wider global factors is, admittedly, very difficult. Undoubtedly, the adoption of QE by the Federal Reserve has also had a significant impact on global asset prices (Chen et al., 2012: 230). But, as the above graphs clearly demonstrate, QE has boosted share prices, in particular for the banking sector. In this way, QE benefits those who tend to hold such assets - predominantly wealthier and older parts of the population. By keeping interest rates low, the Bank's policy hurts savers, particularly those who are likely to be risk averse and thus less willing to purchase equities. Furthermore, maintaining inflation above the level of real wages is very damaging to the incomes of workers. Indeed, the Bank of England, in testimony to the Treasury, calculated that the value of shares and bonds had risen by 26 per cent (or £600 billion) as a consequence of QE. This represents an increase equal to £10,000 for every household in Britain. But the benefits of this asset price inflation are distributed in a highly unequal manner. In Britain, 80 per cent of financial investments outside of pensions and property are 'concentrated in those over the age of 45 and 40 per cent in the wealthiest 5 per cent of the population' (NEF, 2013: 25). Using ONS data on wealth distribution, the New Economics Foundation estimate that the average boost to holdings of financial assets and pensions of the top 10 per cent of households would be equivalent to either £128,000 or £322,000, depending upon the methodology used (NEF, 2013: 25).

The Bank's own report into the distributional impacts of QE, a rare acknowledgement of the differential social benefits of monetary policy, confirms this analysis.[3] Although stressing the benefit of QE to the economy as a whole, the Bank did concede that the benefits of increased asset prices are 'heavily skewed' towards the top 5 per cent of households that own 40 per cent of these assets (BofE, 2012: 254). The larger the share of assets such as equities and corporate bonds within a households portfolio, 'the greater the boost from QE relative to reduced interest payments on money held in the form of deposits'. Because wealthier households tend to hold a larger share of their savings in riskier financial assets, the benefits of asset price inflation have accrued predominantly to those households. This has reinforced already existing divisions of wealth within British society that have deepened considerably over the period of dominance of the neoliberal paradigm of the last thirty years. Additionally, QE is likely to have propped up housing prices by preventing a deeper recession and a more dramatic fall in employment (BofE, 2012: 258).

By implementing a monetary policy strategy that differentially privileges asset holders, the Bank is perpetuating a trend of redistributive monetary policy and a disaggregation of inflationary preferences that predates the onset of the global financial crisis.[4] As Matt Watson (2003: 286) has stated in regard to New Labour's policy project, inflation must be viewed as a 'distributional, and therefore highly political issue'. Understanding the political basis of inflation requires us to disaggregate the headline inflation figure captured by the Consumer Price Index or Retail Price Index. These headline inflation figures serve to cloak radically different price trajectories throughout different sectors of, and inputs into, the economy. Crucially, as Watson (2003: 286) asserts in relation to New Labour, but which is equally if not even more relevant to understanding the Coalition's contemporary strategy:

> The decision to allow certain assets to experience rapid price inflation within a generally benign inflationary environment should be understood as an integral feature of the government's wider political strategy.

3. The uneven distributional impacts of monetary policy regimes tend to fall outside of the common approach to analysing central banking (Epstein, 2005: 6).

4. This policy orientation mirrors the monetary stance across the Atlantic, where since the early 1980s the Fed has shifted from concern with real wages to concern about asset prices. As Palley suggests (2007: 25), 'whereas pre-1980 policy tacitly focused on putting a floor under labour markets to preserve employment and wages, now policy tacitly puts a floor under asset prices'.

Labour's electoral strategy relied upon targeting specific constituencies that would benefit from government policies that inflated share and house prices. Viewed in terms of this broader policy lineage, QE perpetuates the prevailing neo-liberal monetary policy framework in Britain and its redistributive impact, by enabling substantial price inflation in certain sectors (benefitting asset holders) while maintaining an overall institutional framework that ensures price deflation in others (particularly real wage deflation). Colin Hay (2009: 461) has summarised the disaggregated inflationary preferences of the pre-crisis Labour government in terms of the mantra, 'retail price inflation bad, house price inflation good'. In the post-crisis era, a slightly recalibrated formulation offers a better fit to capture the prevailing cleavage within the government's inflationary preferences: 'asset price inflation good, wage inflation bad'. It is not only house price inflation that is now encouraged, but also a broader inflationary dynamic that has pulled up the value of financial assets. Furthermore, we need to disaggregate a little further the concern with retail price inflation. In a context of unstable global commodity and energy prices the principal contributory factor singled out for control is in fact wage costs, as indicated by Mervyn King in 2011 (BofE, 2011: 6):

> Further rises in world commodity and energy prices cannot be ruled out…Attempts to resist their implications for real take-home pay by pushing up wages would require a response (from the Bank's monetary policy committee).

Here King offers a coded threat to unions not to push for higher wages within a context of mounting inflation. The message is clear: we may not be able to control world commodity and energy prices, but we certainly can take measures to discipline a domestic wage-push. While QE ensures asset price inflation, continued attacks on trade union rights and the promotion of labour market flexibilisation provide the broader political context within which wage inflation is held in check.

Crucially, this shifting architecture of asset prices and the benefits accruing to owners are not registered within the GDP figures. GDP only shows transactions involving currently produced output and does not, therefore, reveal the substantial 'non-GDP' transactions involving sales of existing financial assets and property. Despite the substantial importance of asset transactions to economic activity and wealth distribution, they are not included in the GDP statistics (Palley, 1995: 145; Werner, 2005: 183). Although we have returned to growth, the post-crisis period has actually led to the deepening of wealth and income inequality, a process that QE has played a key role in driving. Rising GDP means very little to those who are being left behind by asset-holding segments of the population that have benefited from the prevailing monetary policy regime. At a time of deepening inequality, aggregate measures of GDP growth tell us little about the real living standards of ordinary British workers. Indeed, acting in tandem, the growing ecological challenges that we face and the deepening inequality within Western societies are gravely undermining the suitability of GDP as a metric of economic progress.

The substitution impact of QE

The regressive consequences of QE have not, however, been confined to the impact upon asset prices and wealth distribution. Equally important, but unacknowledged, has been its substitution impact: its role in standing in as a form of 'policy activism' that meets popular demands for a crisis-response strategy. In meeting this need it has occluded and subordinated other, more progressive, potentials for a fiscal and monetary policy response to the global financial crisis, which we discuss in the final section of this paper.

In keeping with the ideological contours of neoliberalism, QE has steered the crisis response in an overwhelming pro-market direction, providing a financialised demand strategy that is intended to boost spending and consumption through the 'wealth effect' that it exerts upon asset holders. This is what Amit Bhaduri (2014: 4) defines as 'vulgar' demand management, bereft of the traditional Keynesian underpinnings that counsel for an expansionary rather than austere fiscal stance during recession. We might have expected (or perhaps hoped for) fiscal expansion and the extension of public investment and employment in response to the crisis. Instead, the dominance of the business agenda has gone unchallenged and has actually been reinforced through labour market policies and attacks on benefits claimants that exert discipline over the unemployed, intensifying the insecurity and immobility of those already in work by undermining the capacity to selectively and temporarily 'drop out' of the labour market: the choice of unemployment seems increasingly unpalatable. A welfare state under attack provides the broader socio-political context within which firms feel little pressure to increase wages.

An opportunity to re-legitimise the public sector and expand public sector employment and investment has been missed, occluded by the monetary activism associated with QE. This amounts to a monetary eclipse of the potential for progressively redistributive fiscal policy, measures that might have engaged the enormous and interlinked problems of corporate tax evasion and the recession simultaneously. Today's dominant political parties lack the courage and conviction to break from the prevailing ideological orthodoxy. By making a concerted effort to clamp down on tax evasion at the international level, targeting growth in after-tax incomes and job creation through large fiscal policy actions (Fullwiller & Wray, 2010: 2), leaders of the major capitalist states might have redressed many of the deeply damaging phenomena that have emerged during the neoliberal era. Instead, that framework has been entrenched, monetary policy has continued to be privileged over expansionary and progressively redistributive fiscal actions and the trajectory of deepening inequality and social dislocation looks set to continue. Thus, while the Bank of England's balance sheet has been allowed to expand threefold relative to GDP when compared to the pre-crisis period, the fiscal remedy served up has been contractionary and premised upon the necessity and probity of austerity. We are left with fiscal belt tightening and monetary loosening, with radically different distributive consequences attendant to the two facets. While fiscal austerity has squeezed the benefits of the poorest and most vulnerable groups within society, monetary loosening has boosted the wealth of entrenched asset holders.

The irony of the twinning between monetary expansion and fiscal austerity at the heart of the Coalition's economic policy is that it disguises the *blurring* of the boundaries between monetary and fiscal policy that has emerged as a consequence of QE's unorthodox policy means. Although EU legislation prevents the government from allowing the Bank of England to purchase newly issued government bonds, or 'monetise' public debt, as the procedure is known technically, these restrictions have been fogged during QE (NEF, 2011: 5). The most notable example of this is the treatment of the Bank of England's 'Asset Purchase Facility'. The APF is indemnified by the Treasury, which is held responsible for any gains or losses accruing to it. Because of its holding of gilts, the APF has been accruing interest payments from the Treasury. But, as of November 2012, these coupon payments have been transferred from the Bank's account to the Treasury. The move has been passed off as a matter of economic efficiency and a means to bring the practices of the Bank in line with the Fed and the Bank of Japan (BofE, 2012). What the move signifies, however, is the way that the prevailing orthodoxy of accounting practices and the ambiguous delineation between monetary and fiscal policy has been clouded by QE (NEF, 2012: 50). The Treasury is now effectively earning back the interest that it pays to holders of its debt (in this case the Bank), and then using this to pay down its existing debt load, demonstrating the circularity of debt-funding operations under QE. The figures here are substantial, with £35 billion having accrued to the Treasury in this manner to date.

At a time when the Coalition professes that the economy simply cannot afford to maintain the current spending burden of the welfare state, shadowy government accounting operations give the lie to public professions of iron fiscal discipline. Crossing this line between monetary and fiscal policy 'substantially undermines the Bank of England's claim to independence' (Warner, 2012). Politicising the Bank's role and, indeed, restoring democratic power over monetary policy rather than continuing to permit what is, increasingly, a veneer of independence, should be central aspirations of a progressively redistributive response to the crisis.

Labour market restructuring and the regressive recovery

The Bank of England's asset-purchase programme has not worked alone in Britain's regressive recovery. The upwards transfer of wealth associated with QE has been paralleled by a *downwards* transfer of the burdens of economic adjustment onto those lower down the income scale. Labour market data suggest that those who have been largely excluded from the wealth gains associated with asset-price inflation – namely workers on low and middle incomes – have also experienced an unprecedented period of wage deflation over the past six years (Taylor et al., 2014). The TUC, for example, has shown that, by March 2013, British workers had experienced a drop in real wages of 8.5 per cent relative to September 2010 (TUC, 2013). This trend is supported by other studies which have shown that real gross wages fell by £1,600 per year in broadly the same time-frame (Phillips, 2013: 13).

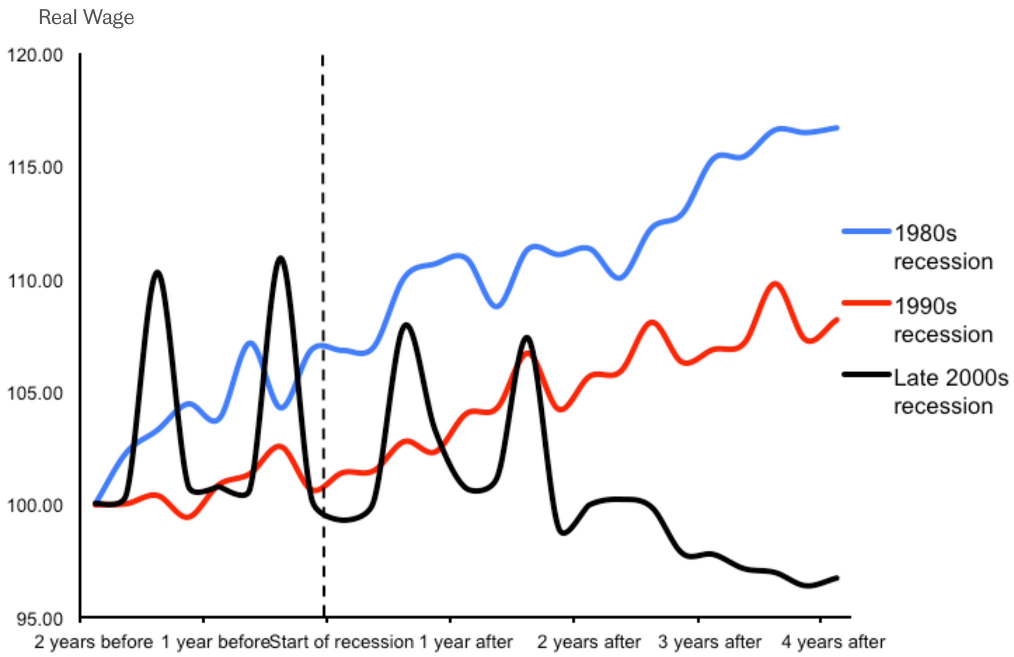
An emergent policy literature has identified the real wage stagnation as part of a wider crisis of 'living standards' (Cribb et al., 2013; Diamond, 2013; Taylor et al., 2013; Pennycook, 2012; Plunkett, 2011; The Resolution Foundation, 2012). While this literature provides detailed analyses of key *changes* which have occurred in the British labour market throughout the post-crisis period, it tends not to adequately conceptualise the marked *continuities* which have underpinned this restructuring process. The contemporary labour market restructuring, alongside the regressively redistributive impact of QE, should be viewed as the continuation of a distinctively *distributional* project which, through strategic state intervention, has served to privilege key economic interests for over three decades in Britain. In what follows we identify four key components of the regressive recovery as experienced by low and middle-income earners. These are (i) an ongoing stagnation of real wages, (ii) an increasing concentration of jobs in 'low pay' industries, (iii) an aggressive use of 'wage freeze' and wage-cutting strategies by firms, and (iv) a rise in 'precarious' employment and 'atypical' working practices. Drawing on statistical data we show that, in comparison to previous recessions in the early 1980s and 1990s, the 'downwards' wage push has been unique to the recession of the late 2000s and the present 'recovery'. Throughout, we emphasise the key role that institutions of the state have played in authoring and ordering the recovery and its regressive impact upon labour.

Real wage stagnation

As outlined above, a substantial body of literature has detailed how the post-crisis period has led to a deep repression of real wages Britain. While there are a number of ways to measure living standards, across a wide variety of indicators the evidence suggests that the Britain's 'recovery' has involved a substantial transfer of the burdens of economic adjustment onto those who are reliant on wages as their principal source of income. In order to emphasise the distinctiveness and the scale of Britain's labour market restructuring, it is useful to place the contemporary experience of wage stagnation in comparative context.

In the early 1980s and 1990s, the British economy went through two periods of recession. The graph below charts the trajectory of real wages across these periods. In each case, the wage rate two years prior to the onset of the recession is taken as the base year. The graph then follows the evolution of real wage growth through each recession, finishing at the point four years after the end of each respective downturn.

Figure 3.1: Real wage trajectory over British recessions of 1980s, 1990s and late 2000s



Source: Office for National Statistics (ONS). Real wage calculated by taking average weekly earnings and deflating by RPI index. For each period, the quarter two years before the onset of each recession is taken as the base year. Average weekly earnings backdated series used for 1980s and 1990s recessions, using Whole Economy VAR for nominal wage. Average weekly earnings whole economy KAB9 used for late 2000s recession.

Looking at the graph, it is immediately apparent that in the 1980s and 1990s recessions, workers' real wages did not undergo a significant period of stagnation. Rather, during each recession real average weekly earnings actually continued to rise, albeit at a relatively modest rate. In the case of the recession of the early 1980s, the graph shows that between the period one quarter prior to the onset of the recession (December 1979) and the period one year after the recession (March 1982), average weekly earnings grew by over 4.1 per cent in real terms. The trend line then continues on an upwards trajectory such that, by March 1984, four years after the onset of recession, real average weekly earnings were 9.2 per cent higher than what they were at the beginning of the downturn. Similarly, in the 1990s recession, whereas real average weekly earnings amounted to £159.33 one quarter before the onset of recession, one year after the downturn they had risen by 5 per cent, to £167.29.[5] Again, by September 1994, four years after the onset of recession, real wages had grown by 6.7 per cent. In both the recessions of the early 1980s and 1990s, therefore, the data demonstrates that workers managed to maintain their living standards in spite of the overall decline in output, primarily through securing above-inflation wage increases.

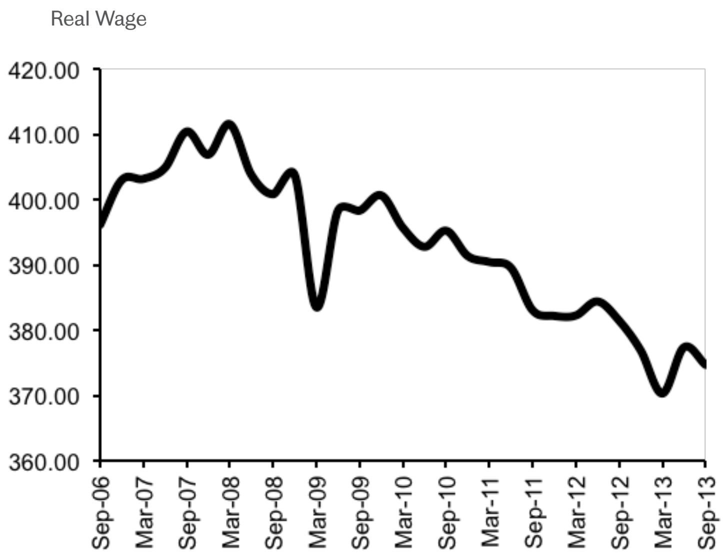
The data for the recession of the late 2000s tells a very different story.[6] Using the same time-frame as in the previous two examples, we can see that real average weekly earnings four years after the end of the most recent downturn had in fact *declined* by 7.9 per cent compared to March 2008, one quarter prior to the downturn. Real wage growth continued to flat-line

5. Values expressed in 1987 prices.

6. The 'spikes' in average weekly earnings are due to bonuses in the financial services sector which are paid-out in the first quarter of each year. This suggests that the short upturns in average weekly earnings have been concentrated in the top decile of the income distribution and that wage repression for low and middle income earners has been even stronger than the graph might suggest.

throughout the post-crisis period, with inflation persistently outstripping low rates of nominal wage growth. This trend of stagnant real wages remains in place today, with average nominal wage increases still below the rate of inflation as late as December 2013 (BBC, 2013). Figure 3.2 demonstrates the decline in the real wage across the late 2000s recession and 'recovery'. It shows that against CPI – a measurement which tends to under-state price rises in the economy – the overall downwards trend of the real wage is clearly evident.

Figure 3.2: Real average weekly earnings decline over the 2008 recession



Source: Office for National Statistics (ONS). Real wage calculated by deflating nominal average weekly earnings KAB9 by CPI overall index where 2005=100.

Even in comparison to the rest of Europe, where peripheral countries have implemented austerity packages with the explicit goal of reducing unit labour costs, British real wages compare unfavourably (Lapavitsas, 2012; Hall, 2012). Recent figures demonstrate that Britain has experienced the fourth largest decline in real wages of any EU 27 country from 2010-13 (CIPD, 2013). These figures confirm that Britain's 'recovery' has been built-up upon a major erosion of living standards relative both to previous recessions within Britain and relative to comparator economies outside it.

Recent forecasts suggest that an above inflation rise in earnings is widely anticipated to return as overall output grows once again. The Institute for Fiscal Studies has forecast, for example, that by mid-2014 real earnings will begin to overtake inflation (IFS, 2013). But a return to real wage growth will not signal the end of Britain's low-pay problem. As the graph indicates, the severity of wage stagnation in the downturn means that real wages have a long way to go before they can return to their pre-crisis 2008 peak. Indeed, recent studies have cautioned that real earnings are not likely to reach their pre-recession peak until at least 2020 (Monaghan, 2013; The Resolution Foundation, 2012). Even when real terms wage growth does return, this 'recovery' remains the longest period of real wage decline since the late 19th Century (Mohun, 2013). The implications of this long stagnation are extremely significant for the growth prospects of the British economy in the years ahead, a matter which we address in the concluding section of this paper. The key question to be answered now, however, must be: *why* has the contemporary economic downturn and recovery had such a negative impact on labour?

The politics of the real wage stagnation

The post-crisis period may seem on first sight to have involved a long period of grinding economic inertia. In the first few years of the Great Recession, popular accounts of Britain's economic predicament reflected this perception: the economy had 'ground to a halt', with financial commentators speaking of the emergence of a semi-permanent 'new normal' of low output to which Western economies would have to adjust (Sentance, 2012). As outlined above, real wages have been stagnant for over six years. For half a decade after the recession, GDP barely grew at all, while productivity levels declined substantially. Consumers and businesses simultaneously withdrew funds from consumption, each rushing to pay down their debts and increase their saving ratios (Blyth, 2013). The rapid decline in aggregate demand which this precipitated throughout Western economies led to a further freezing-up of investment, as lenders took flight into liquid assets in order to escape exposure to a market which was widely perceived to be highly volatile.

While economic output did undoubtedly drop massively as a result of the Great Recession, viewing the recovery as a process of 'regressive redistribution' problematises the notion that the post-2008 context was one of economic inertia. Rather, the recovery has been secured through an intense process of state restructuring and regressive wealth redistribution, as key interests at the heart of the state have sought to channel funds into privileged sectors whilst imposing deflation upon others. This re-ordering of the income distribution is at the heart of the regressively redistributive recovery. While GDP growth may have effectively ceased for half a decade in the aftermath of the Great Recession, the distributional politics associated with neoliberalism have continued unabated.

The transformation of Britain's post-crisis political economy has been mediated through strategic intervention by key institutions at the heart of the British state. The tax-payer funded recapitalisation of the banking sector offers perhaps the most obvious example of an economic breakdown in the 'private' sphere being quickly socialised onto the public finances, and thereby 'displaced' onto the political form of the state (Habermas, 1979). Similarly, the role of QE as a monetary policy response to the crisis reveals that state institutions have played an active role in authoring the framework within which the wider recovery has taken place. In each case, the state and its disaggregated agencies have remained crucial actors in the stabilisation and reproduction of the economic sphere.

How might these reflections on the state be related to the question of the great wage stagnation? We can identify key moments of decisive state intervention which have directly led to real wage repression. It is important, however, to distinguish between 'direct' and 'indirect' state interventions. For example, it has been widely recognised that the Bank of England's counter-inflationary mandate serves to institutionalise a framework through which wage-growth and retail price inflation can be effectively curtailed (Burnham, 2001; Watson, 2003). Throughout New Labour's hallowed 'boom' years, this allowed the party to present itself as a 'credible' custodian of the public finances, while deflecting blame for potentially unpopular macroeconomic policy decisions – such as raising interest rates – onto the 'technocratic' decision-making body of the central bank (Buller and Flinders, 2006). However, the 2008 recession and its aftermath have demonstrated that the utility of monetary policy as a tool of inflation management and wage discipline is not without its limits.

Alongside QE, the Bank of England's pursuit of 'loose' monetary policy has involved the largest and most sustained drop in interest rates in the Bank's history (*The Economist*, 2009). This has meant that, even in the face of inflationary pressures, the Bank has been reluctant to instigate a rates rise, for fear of pitching the economy further into a recessionary trough. This suggests that, while the Bank's loose monetary policy has successfully underwritten the liquidity of the banking system, the efficacy of interest rate rises as a tool through which to discipline labour has been compromised. This places the monetary authorities on the horns of a distributional dilemma. In the absence of central bank-instituted monetary discipline, the perceived imperative to hold down wages must be undertaken 'outside' of the putatively 'de-politicised' sphere of central bank policy. In other words, in the absence of monetary discipline, other agencies of the state have been activated to secure the downwards wage push.

Perhaps the clearest direct state intervention in this sense has been the pursuit of fiscal austerity itself (Blyth, 2013; Gamble, 2009). The implementation of widespread spending cuts has resulted in the loss of over 631,000 jobs from the public sector with the Office for Budget Responsibility (OBR) predicting that a further 400,000 jobs will be lost by 2015 (GMB, 2013). This has taken place alongside a massive reduction in public sector pay, with 63 per cent of public sector workplaces having imposed either a wage freeze or wage cuts on their staff in the post-crisis period (WERS, 2013: 7). Spending cuts have also had further 'multiplier effects', meaning that 'para-state' employment - those jobs which are not funded directly by the state, but which are reliant on state expenditure for their existence – will have declined substantially in the post-crisis period (Buchanan et al., 2009: 18; Engelen et al., 2011: 215). In addition, we could point to the active governmental promotion of 'workfare' programmes, alongside attempts to further undermine trade union rights through legislative means, as further evidence of direct state interventions which have served to secure Britain's downwards wage push.

While the direct impact of public sector retrenchment on real wages is relatively easy to identify, it is important to note that state power is often expressed in nuanced and indirect ways. It is often only by looking at what the state has not done, and at the policy options which were at its disposal which it has not utilised, that we can understand the efficacy – and the contingency – of state power. The 'substitution impact' of QE identified earlier represents one instance of this, where the perceived imperative for the state to 'do something' has resulted in an 'activist' strategy of regressively redistributive monetary policy which has served in turn to obscure the possibility of alternative, more progressive economic strategies.

The most important political preconditions of the regressive recovery are not to be found in direct interventions of the state, but rather in the manner in which state *in*activity has served to reproduce unequal relations between employer and employee in the labour market. It is this context which has ensured that the negative impact of the recovery has been felt primarily by low and middle income earners. The institutionalisation of 'flexible' labour markets has not been an achievement of the Coalition government, although it has consistently identified flexibility as one of the British economy's principal virtues (HM Treasury, 2011). Rather, the 'flexibility' of British labour markets has been achieved through a bipartisan consensus on the need to curtail the power of organised labour (Jessop, 2007; Hay, 2001; Heffernan, 2000). Britain has some of the weakest employment protections in Europe, with minimal collective bargaining rights and some of the most draconian anti-trade union laws in the Organisation for Economic-Cooperation and Development (OECD). It is this wider context – and the disproportionate power of capital over labour that it serves to deepen – which has created the conditions for the massive downwards wage push we see today. The state's role in securing this framework and entrenching it further is the backdrop to a context in which private firms have been able to transfer the burdens of the recession onto labour to an unprecedented degree.

Wage freeze strategies

One of the key responses of firms to the economic downturn has been to engage in a large scale programme of wage-cuts and wage-freezes. The Workplace Employment Relations Survey (WERS) reveals that 42 per cent of workplaces engaged in such strategies in response to the recession, a figure which is far greater than in previous downturns (WERS, 2013: 7). As established earlier, throughout the 1990s recession real wage growth remained positive, in spite of the overall decline in output. This maintenance of average weekly earnings growth above the rate of inflation cannot be explained by an appeal to 'economic' variables alone. Rather, real wages were maintained due to the relative strength of organised labour in key sectors of the British economy and the perception on the part of employers that, in many cases, negotiating incremental wage increases would be preferable to facing the threat of protracted industrial action (German, 1993). Attempts to impose wage freezes and wage cuts were therefore effectively resisted, particularly in highly unionised branches of the manufacturing sector (Bonefeld and Burnham, 1994; German, 1993).

The contrast between the experience of the early 1990s and today's crisis is striking. Union representation in workplaces today has dropped from 45 per cent to 35 per cent in the space of a decade (WERS, 2011: 15). Trade union membership has also declined (Machin, 1997; Weeks, 2007), and once powerful industrial bases for the labour movement have evaporated further with the on-going decline of Britain's manufacturing base (Coates, 2000: 45; Lansley, 2011: 63). This brief comparison between the recessions of the 1990s and the 2000s might suggest that the principal factor which determines whether real wages will decline or not is the balance of power between capital and labour, conceived as the relative bargaining position between employer and employees in the workplace. However, it is important to recognise the key role that the state plays in the regulation and reproduction of the wider political terrain within which such distributional struggles take place.

Through mobilising popular discourses and through utilising its distinctive institutional capacities, the state has played a key role in controlling wage growth in both downturns. In the late 1980s and early 1990s, for example, the government's difficulties in dealing with wage-push inflation led to new strategies to curtail the bargaining power of labour. Britain's membership of the European Exchange Rate Mechanism (ERM) was seen as a means through which politicians could institutionalise counter-inflationary principles into the fabric of the state while deflecting the politically unpalatable results that this might have (Bonefeld and Burnham, 1994; Kettell, 2008). The monetary authorities would seek to retain a broad parity with the Deutschmark, a currency which was seen to be stable and backed by the tough anti-inflationary instincts of the Bundesbank. An explicit political commitment to this goal would mean that wage-bargainers and key units of industrial capital would both recognise that barriers to accumulation would not be resolved through devaluation of the currency or through inflation-inducing interest rate cuts. Rather, firms would have to resolve their difficulties through direct confrontation with their workforces, while trade union officials, it was hoped, would constrain their attempts to agitate for wage rises on account of the government's explicit commitment to price stability. In this way, the previous Conservative government led by John Major sought to impose discipline on labour and key sectors of industrial capital, while deflecting blame for this potentially unpopular strategy onto the seemingly exogenous demands of the ERM mechanism.

This demonstrates that the state can, somewhat paradoxically, *enhance* its power to achieve key economic goals through promoting situations which appear to actively constrain its policy-making capacity. In Britain's contemporary downturn, the possibility of achieving discipline through effectively pegging sterling to an 'external' mechanism such as the ERM has clearly not been an option. Indeed, as we have argued, the pursuit of 'loose' monetary policy has effectively rendered any such wage deflation strategy through monetary discipline quite unfeasible by ruling out the weapon of monetary austerity. Rather, the British state has secured wage deflation through adherence to a set of *internally* instituted rules which serve to constrain public expenditure and embed a fiscally contractionary environment within the economy. A whole series of reforms to the institutional landscape of economic policy-making in Britain have served to deepen counter-inflationary practices into the fabric of the state. To take but two examples, the independent Bank of England's inflation target and the OBR's remit to hold the government's finances to account - in line with an orthodox 'balanced budget' conception of credibility - have both served to rule out the possibility of expansionary fiscal policy as an alternative crisis response. These represent clear institutional barriers to policies which might have otherwise promoted wage growth, progressive taxation and a reduction in inequality as alternatives to the regressive recovery.

Perhaps more important, however, has been the government's wider 'narration' of the crisis as one of 'public debt', where the cause of the economic downturn has been diagnosed principally as one of an over-extended state 'crowding out' private investment (Hay, 2011, 2013). This in turn has served to legitimise a 'politics of austerity', where the principal goal of economic policy is to restore credibility through reducing the structural deficit through a mix of fiscal tightening and welfare retrenchment (Hay, 2013; Gamble, 2009; Blyth, 2013).

While the Coalition government's diagnosis of the crisis has been widely recognised and critiqued elsewhere, less attention has been paid to how this discourse has been mobilised in the case of declining living standards. The government has been reluctant, unlike its European neighbours, to explicitly identify a downwards wage push as necessary to securing Britain's future economic competitiveness. Rather, the decline in living standards has been presented as a temporary blip which has as its cause the depth of (Labour's) crisis and recession. The implication is that, if the government is left to focus on the wider macroeconomic picture in order to 'sort out' the public finances - an area where it polls strongly in the eyes of the public relative to the opposition - then rising living standards will necessarily follow (Diamond, 2013). In the same way that in the 1990s the ERM was invoked as an external constraint which served to 'constrain' the actions of government, the 'depth' and 'severity' of the recession have been invoked as the causes of the living standards crisis. As a result, the Conservative-led government hopes to (i) deflect blame for the decline in living standards onto an 'exogenous' economic mechanism and (ii) draw attention to the importance of its own rule-based macroeconomic strategy as the fundamental precondition of securing the basis for future prosperity. In both cases, we can identify a depoliticised statecraft at work, whereby contingent 'economic' outcomes are presented as necessary, if not desirable, to the wider public imagination. However, as we have sought to demonstrate, the downwards wage push has far more to do with contingent political factors – namely, the imbalance of power between firms and labour and strategic state interventions which have served to maintain this context - than it has to do with any 'inevitable' market logic.

Job creation in low pay sectors and the growth of precarious employment

One of the stated aims of the Coalition government has been to 're-balance' the economy away from public and private debt and towards export-led growth (Berry, 2013a; Froud et al., 2011). In line with this goal, George Osborne promised a 'march of the makers' – a rise in manufacturing output and job growth in 'high skill', 'high productivity' jobs (HM Treasury, 2011). This has been complemented by a wider shift within some branches of the British government, where one can identify the beginnings of new 'coordinative discourse' which has advocated a new industrial strategy for Britain (Craig, 2014). However, analysis of the recovery suggests that the renaissance of 'value-added' manufacturing has not materialised. Indeed, the trade deficit has since increased under the Coalition, in spite of a 15.4 per cent Sterling devaluation against the Euro and 24.4 per cent against the dollar since 2008 (SPERI, 2013a). Simultaneously, pay in manufacturing has fallen further behind finance and real estate, suggesting that manufacturing export sectors are not being supported by Britain's recovery (SPERI, 2013b).

A crisis does not just involve the reordering of pre-existing elements of a system; it is also a period of creation and renewal, where new economic trajectories and path dependencies are set in motion. A recent study from the Trade Union Congress (TUC, 2013b) demonstrates that the recovery has involved the creation of a high proportion of jobs in 'low pay' industries. Defining 'low pay' industries as sectors which pay on average below 25 per cent of the national median wage, the report demonstrates that 77 per cent of net job creation in Britain has been concentrated within these industries. These jobs are predominantly concentrated in the low productivity services sector in industries such as retail, the care sector and the food and beverage sector (TUC, 2013b).

These trends suggest that the *quantitative* reduction in real wages throughout the recovery has taken place alongside a *qualitative* re-shaping of the labour market. The high level of net job creation in low-pay industries outlined above forms one component of this process (Weldon, 2013a). In addition to this, 'non-standard', 'atypical' and 'precarious' jobs have continued to rise throughout the post-crisis period. The intensification of precarious employment in Britain is perhaps most potently symbolised by the escalation in the use of 'zero hour' contracts as an employment practice over the past decade. These contracts place employees on a company's payroll, but do not offer them any guaranteed minimum number of hours work.

Two recent trends relating to these contracts can be identified. Firstly, while the exact number of 'zero hour' contracts in the British economy is not known with certainty, it is broadly accepted that since the mid-2000s their number has increased significantly.[7] In 2005, official figures estimated that 54,000 people in Britain were on 'zero hours'; by 2013, the figure was put at 250,000 (ONS, 2013: 6). However, this figure has been strongly contested on the grounds that

7. It is widely recognised that the number of 'zero hour' contracts in the economy is under-reported, due to ambiguities in the definitional criteria is the fact that many workers are not aware that their contracts fit into this category.

it is overly conservative and grossly underestimates the extent of 'zero hour' employment. One study, for example, shows that in the catering industry alone 300,000 'zero hour' contracts were in place in 2013 (Grice, 2013). Adding weight to this position, a widely cited report released by The Chartered Institute of Personnel and Development put the number on 'zero hours' at 1,000,000 (CIPD, 2013). Whatever the exact figure, it is clear that a significant rise in zero hour work has taken place during the recovery.

In addition, 'zero hour' contracts are not located in some 'informal', shady sector of the labour market. On the contrary; they are increasingly used as an essential component of corporate business strategy. Well-known companies which use them include Sports Direct, JD Wetherspoons, TESCO and Boots. The generalisation of these work practices – such that nine out of ten of McDonald's employees are on a 'zero hour' contract – suggest that employers have utilised the recession to extend 'atypical' work throughout their workforces (Neville, 2013). In addition, 'zero hour' contracts have been associated with low pay and poorer working conditions. While someone on a standard contract is paid on average £482 gross weekly pay, a worker on a zero hours contract is paid on average £236 (The Resolution Foundation, 2013a: 9). Pay for 'zero hour' workers is therefore on average half that of those on standard contracts.

The rise of 'zero hour' contracts is but one facet of the growing precariousness experienced by workers in Britain.[8] Other aspects have included a marked growth in part-time work, a massive rise in involuntary 'underemployment' and an overall growth in temporary as opposed to permanent work (Grice, 2012).Together, these qualitative shifts suggest that the 'recovery' period has involved a re-ordering of the nature of work in Britain, as well as an overall reduction in real wages for workers and their families.

The regressive re-structuring of the British labour market and the 'logic of discipline'

A clear 'logic of discipline' has underpinned the restructuring of the British labour market throughout the 'recovery' period (Roberts, 2010). Indeed, employment relations in capitalist society are always fundamentally underpinned by the question of power (Kalecki, 1943). The four elements of the regressive recovery identified above – real wage stagnation, wage-freeze strategies, job creation in 'low pay' sectors and the increasing precariousness of work – suggest that the British labour market has undergone a process of 're-composition' throughout the post-crisis period (Weldon, 2013a). But these qualitative changes are not merely 'economic': they are embedded within a wider social context which, as we have argued, has served to privilege key economic interests whilst imposing discipline and retrenchment on others. Monetary indiscipline – the stoking of asset-prices, 'loose' monetary policy and the slashing of the Bank's base rate – has gone hand-in-hand with a ratcheting-up of fiscal contraction and attempts to control real wage growth. Take the issue of 'zero hour' contracts. Whilst these are presented as providing 'flexibility' to both employer and employee, in reality any refusal to take work on the part of the worker can lead to the threat of being 'zeroed down', a situation in which all offers of work are rescinded. The effect this threat could have in disciplining the labour force is clear.

Indeed, whereas in the past recessions have been customarily accompanied by a growth in unemployment, today's 'employment rich' recovery has rested on an internalisation of discipline into the fabric of the employment relation itself. Precarious, temporary work has proliferated; trade union rights have been further eroded; and the relative weakness of organised labour has allowed firms – often sitting on huge financial surpluses – to pass the burden of economic adjustment onto their workers (Grice, 2012). This, alongside 'direct' state interventions through fiscal austerity and public sector retrenchment, has two principal implications for the future trajectory of the British economy.

Firstly, the reordering of the labour market has had clear distributional consequences. The recovery has been secured at the cost of stagnant living standards and real wages. Rather than placing responsibility for this solely with the Coalition government, however, it must be recognised that this distributional process has been at the heart of the whole neoliberal project since its inception (Duménil and Lévy, 2002; Harvey, 2007). Tackling the distributional question

8. For an overview see: Standing, 2011, Tucker, 2002, McKay, 2012.

– and thereby addressing the political imbalances which have allowed income inequality to grow so rapidly over the past few decades – must be at the heart of any alternative economic strategy. Secondly, it is crucial to recognise that the downwards wage push has not been the result of impersonal 'economic' forces. Rather, changes in the employment structure have been instituted by social actors who have successfully utilised key agencies of the state in contingent – and therefore contestable - ways. In the concluding section we draw together the two 'axes' of the regressively redistributive recovery and suggest how an alternative politics premised upon a progressive redistribution might be enacted.

Conclusion: Towards recovery through progressive redistribution

In the period before the 2007-8 crash, the British economy was built upon a series of features which, under benign economic conditions, helped to secure a period of relatively modest but stable GDP growth (McMorrow and Roger, 2007). Easy access to credit, underpinned by low interest rates and 'light touch' regulation of the financial services sector, encouraged high levels of borrowing across the income distribution. In this period, house prices rose by an average of 12 per cent per annum which, in turn, allowed for high levels of 'equity release', where the value stored-up in British homes was increasingly drawn-upon in order to fuel consumption (Engelen et al., 2011; Hay, 2011, 2013; Watson, 2010: 418). At the same time, unsecured consumer debt grew rapidly across Anglo-America (Montgomerie, 2007). These trends were facilitated by, and contributed to, a rapid growth of the financial services sector in the British economy (Thompson, 2013).

Britain's debt-led growth model was characterised by persistent current account deficits (Stockhammer, 2011: 3). In the absence of a solid export base, aggregate demand was increasingly propped-up by a 'privatized Keynesian' growth dynamic, whereby expanding access to credit formed the core engine of domestic growth (Crouch, 2009). However, these debt relations also proved to be the model's Achilles heel. While the 'Anglo-liberal' growth model proved 'virtuous' in New Labour's decade of growth, in a context of credit restriction, debt deleveraging and recession, the debt-cycle quickly turned vicious, leading to a decline in growth and corresponding fiscal difficulties for the state (Hay, 2013).

In Britain's post-crisis political economy, it appears that a very similar growth dynamic is being re-engineered through the Coalition government's economic strategy (Berry, 2013c). Policies such as 'Help-to-Buy' have helped to stoke housing market growth, at the risk of blowing up another housing bubble (IMF, 2013); levels of household debt are rising again, currently at above 150 per cent of income (Smith, 2013); and the financial service sector retains its role as the dominant node in the British economy. The recovery has essentially placed Britain back on the same pathological trajectory as it was prior to the crash of 2007-8.

However, reflecting on the 'recovery' as a period of regressive redistribution suggests that the return of 'Anglo-liberal' growth is more than just a case of 'back to business as usual'. It is important not to treat the intervening period between the 'pre' and 'post' crisis growth models as a vacuum. This was not a period in which, in the absence of any identifiable 'paradigm shift', the economy merely 'flat-lined' under the false auspices of austerity. Rather, the two 'axes' upon which the recovery was secured – QE-facilitated asset-price inflation and an unprecedented period of wage deflation – have together served to deepen distributional cleavages at the heart of the British economy. The political implications of the regressive recovery as we have identified them – the continued channelling of wealth upwards to asset-holders and the weakening of labour – are likely to entrench further the high levels of inequality which for so long have haunted Anglo-liberal societies (Atkinson et al., 2010). 'Privatized Keynesianism Mark II' will take place in a context of deepened inequality and a significantly weakened bargaining position for labour, a direct result of the re-ordering which has taken place in the interregnum of the 'recovery'. As a result, the British economy is likely to face further crises and pathologies in the near future.

Over the past thirty years, the wage share – the proportion of economic output which accrues to labour – has declined substantially. While the wage share in Europe was 72.5 per cent in 1982, by 2007 it had fallen to 63.3 per cent (Stockhammer, 2009: 9). These trends have been particularly pronounced in Britain, where successive decades of vanguard neoliberal reforms have meant that the country now has one of the most polarised distributions of wealth in the OECD (OECD, 2011). While the 'wage share' has shown some signs of further decline (Onaran, 2012), the overall trend has been - for now - one of stagnation. Since the 'wage share' is measured as a proportion of GDP, and since productivity has dropped so dramatically in the post-crisis context, the wage share has remained relatively level throughout the recovery. However, as growth builds pace, it is likely that the share of output which accrues to labour will drop further due to the processes of the 'regressively redistributive' recovery which we have identified above.

This distributional imbalance at the heart of the British economy is economically dangerous and is likely to undermine growth in the short-to-medium term. Wage stagnation and the further entrenchment of low-pay, low-productivity work will deepen the chronic weaknesses in aggregate demand which have long been a structural feature of neoliberal growth (Crotty, 2000; Lansley, 2011; Stockhammer, 2012). As workers' incomes decline further as a proportion of overall output, the demand for goods and services will be met only insofar as credit continues to be extended to households on a large scale. The implication of this is that private debt is likely to continue to rise as a direct result of the regressive recovery. As a result, Britain will continue to be exposed to the threat of financial crisis and imbalance in the years ahead.

The flip-side of the declining wage share has been the growing concentration of wealth at the top of society. As Keynes demonstrated many years ago, when the income share is disproportionately skewed towards asset-holders, the likelihood that speculative, rent-seeking behaviour will destabilise the economy is much higher. This happens because the asset-rich tend to consume a lower proportion of their income than those lower down the income scale, meaning that more funds are available for speculative investment in complex and high-yielding financial instruments. In the pre-crisis period, the huge surpluses which accrued to corporations and wealth funds were increasingly recycled through high-yielding financial instruments, rather than ploughed into productive investment. As Stewart Lansley (2011: 184) has shown, in the lead up to the crash, banks invested only £50 billion in manufacturing, compared to £1000 billion in property investment. The lesson is clear: a high profit share does not automatically translate into socially useful and growth-enhancing investment.

Today, British firms sit on corporate surpluses of over £600 billion (Weldon, 2013b). In 2010, at the height of the economic crisis, the wealth of the top 1000 individuals increased by one fifth (Lansley, 2011: 250). In spite of GDP increases, the 'crisis for growth' remains a central element of Britain's political economy (Hay, 2013). However, we need to be clear about how this crisis of growth has been disaggregated socially in a highly uneven fashion. As we have shown, the burdens of economic adjustment have been regressively redistributed downwards, primarily onto low and middle income earners. The emergent British growth model is therefore intrinsically linked to questions of distribution and inequality; more than this, it is also fundamentally linked into questions of ownership and social control. We need to put this - the distributional question - at the forefront of our analysis if we are to tackle the on-going pathological development of the British economy head-on. Against the regressive recovery, progressives should be offering an alternative social and political programme, based on addressing the distributional imbalances at the heart of Britain's economy. Here we offer some suggestions as to what such a recovery through progressive redistribution might look like.

We need to challenge the fiscal/monetary divide that has been central to post-crisis policy. Critics of the post-crisis policy regime have focused (NEF, 2013: 1) upon the need to re-direct QE towards strategically significant growth sectors of the economy within a more general shift towards a 'far more selective and strategic channelling of the supply of credit' (Hay, 2013: 35). This would undoubtedly bring growth benefits to Britain, but redirecting expansionary monetary policy still leaves too many neoliberal predicates intact.

Unless central banks are rendered democratically accountable in a much more direct sense, rather than formally independent and unelected, these measures will continue to channel the post-crisis policy response overwhelmingly through the deeply undemocratic filter of central banking. In this sense, calls for the unification of fiscal and monetary policy under the operation of an institution that is within the democratic process, namely, the Treasury, or the development of enhanced parliamentary oversight credentials for the Bank of England's operations, are well placed (Werner, 2005: 339; NEF, 2013: 51).

Focusing upon monetary policy as the route out of the crisis has reproduced a longstanding neglect of a more activist and progressively redistributive role for fiscal policy. It was this neglect of activist fiscal policy, centring upon progressive taxation and public investment, that was key to the growing macroeconomic balances during the pre-crisis era, with spiralling household debt levels standing in for jobs and income growth (Fullwiller & Wray, 2010: 13). During the post-war era, economists realised the need to move beyond a simple reliance upon monetary laxity to stimulate growth, emphasising the need to target more directly the level of investment and demand in the economy (Robinson, 2009: 25). But these lessons have been selectively unlearnt over the past three decades.

A central political battleground for the enactment of such a strategy should hinge upon taxation. Given the massive levels of inequality that we now witness, the justification for the financing of fiscal expansion through taxation, rather than deficit spending, is strong. Rates of corporate taxation and personal income for high earners have decreased markedly since the 1980s (Cronin & Radtke, 1987; Stark, 1989). Corporate tax evasion has become a hugely important issue with widespread popular anger at the scale of tax evasion by massive Multi-national Corporations (MNCs). The mounting problem of offshore tax evasion, with total global offshore wealth estimated at $21 trillion by the Tax Justice Network (2012: 42), should be at the top of the political agenda, not buried beneath concerns about benefit fraud. The crisis should have presented an opportunity to address this issue at the international level. The best foundation for progressive redistribution hinges not upon the promise of a greater share in future productivity gains (which are increasingly uncertain), but through the political enactment of progressive taxation in the present. These funds could be use to strengthen public finances and facilitate expanded programmes of public investment and employment. Indeed, in the light of the volume of offshore tax evasion the 'wealth effect' emphasis of QE is revealed as a perverse response to the crisis: it stimulates precisely those economically privileged sectors of society that have benefited most from the deeply damaging neoliberal paradigm.

In addition to changes to the tax regime and the organisation of central banking, a key feature of a progressive recovery must involve the strengthening of the bargaining position of organised labour. The long-established trend whereby productivity increases continually outstrip growth in real wages must be reversed. This will require more than just a repeal of anti-union laws. Rather, new democratic structures that recognise the legitimacy of labour as a key element in the organisation of economic production will have to be established. The goal of such a re-orientation of labour market relations should be to institute a sustained period of 'wage-led growth' (Stockhammer, 2011; Onaran and Galanis, 2011; TUC, 2013). A growth in real incomes - through the institution of a 'living wage' for example - would wean Britain off its reliance upon debt-fuelled consumption.

To recap our argument, the prevailing post-crisis policy paradigm has engineered a recovery premised on the regressive redistribution of wealth and income towards asset holders and business at the expense of labour. QE has boosted asset prices, rewarding and further entrenching already deeply divisive concentrations of wealth in Britain. Its efficacy as a crisis-response mechanism must be judged not only by its impact upon the balance sheets and liquidity of the banking sector, but also by its consequences for society as a whole. Judged on these terms, the conclusions are grave. Behind the technocratic justifications for QE lie serious questions of distributional justice. Similarly, the repression of real wages has been neither desirable nor inevitable, but a product of a social context where the burdens of adjustment can be passed relatively seamlessly onto labour. As we move forward into a future that will most likely be characterised by lower growth, these distributional questions will be drawn increasingly to the fore.

Working in combination, expansionary monetary policy and the political suppression of wages have been at the heart of a political-economic project that has deepened, intensified and prolonged the debilitating deficiencies at the heart of Britain's pre-crisis economic model. In doing so, the recovery through regressive redistribution has entrenched a neoliberal policy paradigm that should have been rendered intellectually and morally bankrupt in the wake of the global financial crisis. Future generations may well look back on these years after the crisis as a great opportunity lost, one in which our economic future was moulded into a form that locked out progressive potentials and entrenched inequality. The task of progressives is to make sure that the opportunity to recast the political-economic terrain is not lost nor the task abandoned. If the regressive dynamics underway in the post-crisis period continue unabated, the prospects for a cohesive, just and equitable society will be bleak. Restating the progressive case is needed now more than ever.

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