



The  
University  
Of  
Sheffield.

SPERI Paper No.7

# Are We There Yet?

Growth, rebalancing &  
the pseudo-recovery.

Craig Berry

---

speri.

Sheffield Political Economy  
Research Institute.

## About the author



### **Craig Berry**

Craig Berry joined SPERI as a Research Fellow in September 2013. He worked previously at the TUC, HM Treasury, and the International Longevity Centre. In 2011/12 he worked as a Lecturer at the University of Warwick. He has also worked at the University of Sussex and University of Manchester, and completed his PhD at the University of Sheffield in 2008.

Craig's book, *Globalisation and Ideology in Britain*, based on his doctoral research into the influence of globalisation on UK foreign economic policy, was published by Manchester University Press in 2011. His work for SPERI focuses on the development of an alternative model for economic growth in Britain, following the apparent failure of the Anglo-liberal growth strategy which emerged during the 1980s. He aims to develop policy proposals to deliver more equitable outcomes in the context of sustainable economic growth.

ISSN 2052-000X

Published in November 2013

---

## Introduction

In 2013, economic growth in Britain started to gather pace, after several years of under-performance. This has led to claims that the British economy is finally recovering and, moreover, that the 'austerity' pursued by the coalition government since 2010 has been successful. Such arguments can and must be closely scrutinised. Evidence of strong and sustained growth is required to justify the notion that the economy has recovered from financial crisis and the subsequent deep recession, rather than simply growing by default. Growth will also mean little to most individuals unless accompanied or even characterised by growing living standards. Furthermore, while growth may now to some extent be apparent, is there evidence of the economic 'rebalancing' that the coalition government deemed necessary in 2010 to deliver a more sustainable form of economic growth?

The paper is presented in two parts. Part 1 establishes the theoretical and historical context. The first section discusses the analytical framework of the paper by exploring the concept of a 'growth model', drawing upon the 'varieties of capitalism' literature through which differences in economic policy between countries are usually understood. The second and third sections outline the 'Anglo-liberal' growth model in evidence in Britain from the 1980s onwards, and the collapse of this model in 2008.

Part 2 contains the paper's main empirical material. It begins by surveying the public debate that has ensued in the wake of the government's lauding of the good economic news emerging in 2013, before examining in detail the actual performance of the British economy in recent years across a range of measures. These measures have been compiled based on the flaws of the Anglo-liberal model identified earlier in the paper, and the critique of Labour's economic record offered by the coalition government. The final main section then reflects on whether rebalancing has been achieved, or is likely to be achieved.

The paper's main argument is that we are witnessing a 'pseudo-recovery'. Some indicators of economic performance are pointing in the right direction – notably, overall output growth, which receives most attention in the national broadcast media. But others, such as levels of pay and investment, provide evidence of very worrying trends that have yet to be addressed. Furthermore, growth appears to have been driven by a recovery in the economic activities which fuelled growth under the pre-crisis growth model. This indicates the failure of rebalancing. But it is also suggestive of a precarious future for the British economy, because some of the key features of the previous growth model, such as the ability of the mainstream banking sector to offer cheap consumer credit, seem unable to reclaim the role they previously played.

## 1. Background and analytical framework

### Varieties of capitalism and economic growth

Capitalist economies tend to grow, yet they do so in different ways. The idea of a 'growth model' implies, firstly, that a given economy has identified or arrived at a particular approach to producing or enabling growth, but also, secondly, that other approaches are possible. In the 1980s a distinct growth model emerged in the United Kingdom and United States which persisted, largely prosperously, until the financial crisis of 2007. Colin Hay (2013) terms this model the 'Anglo-liberal growth model'. The model was founded on the form of capitalist organisation that had developed across the Anglosphere for centuries, but was also the product of a series of strategic decisions taken, over several years, by relevant policy-makers.

The growth model concept inevitably beckons the notion of 'varieties of capitalism'. Peter Hall and David Soskice (2001) coined this term to explain differences in how firms co-ordinate their activities in different highly-developed capitalist economies, distinguishing 'liberal market

economies' from 'co-ordinated market economies'. In the former, 'firms co-ordinate their activities primarily via hierarchies and competitive market arrangements' and, in the latter 'firms depend more heavily on non-market relationships to co-ordinate their endeavours with other actors and to construct their core competencies' (2001: 8). The UK is of course located in the liberal camp alongside other Anglosphere countries, with Germany, Japan and the Scandinavian countries in the co-ordinated camp. Interestingly, Hall and Soskice exclude 'Mediterranean' countries, including major European economies such as France and Italy, from either camp, hypothesising but not studying in detail a third capitalist variety.

The varieties of capitalism approach is essentially a form of institutionalism, in that Hall and Soskice's primary objective is to show how various institutions across spheres such as industrial relations, education and corporate governance complement the character of a certain capitalist variety. Accordingly, firms are offered 'a particular set of opportunities; and companies can be expected to gravitate towards strategies that take advantage of these opportunities' – and therefore 'strategy follows structure'. Like all institutionalisms, the varieties of capitalism approach struggles to explain change. Hall and Soskice refer only to 'external shocks emanating from the world economy in which technologies, products, and tastes change continuously' (2001: 63). They of course repudiate globalisation theory by saying that national-level institutions mediate such shocks, but largely overlook the possibility of change being driven by factors endogenous to the national economy.

Similarly, Hall and Soskice see political action including policy-making as reinforcing existing structures and institutions, rather than (potentially) transformative. Identifying co-ordination between firms as the key to 'overall economic performance' (and regrettably blending the normative and analytical), they argue that policy-makers will seek to improve co-ordination among firms in ways which are consistent with existing forms of co-ordination:

It follows that economic policies will be effective only if they are *incentive compatible*, namely complementary to the co-ordinating capacities embedded in the existing political economy... In liberal market economies, where co-ordination is secured primarily through market mechanisms, better economic performance may demand policies that sharpen market competition, while co-ordinated market economies may benefit more from policies that reinforce the capacities of actors for non-market co-ordination (2001: 45-46; *emphasis original*).

This reference to the influence of existing institutions and practice is clearly a useful 'rule of thumb' for why policy-makers make the decisions they do. The role of policy-makers in the UK economy's pseudo-recovery, which is explored more below, may indeed be testament to this influence (although I argue that continuity of practice is in these circumstances likely to lead to poorer economic performance over the long term, which would contradict Hall and Soskice's expectations). Yet it seems to vastly underestimate the influence of politics, and as such the contingent nature of policy-making, in economic performance, in a way that is inconsistent with political economy as a field of study. Both Colin Hay (2005) and Ben Clift (2012) have criticised the varieties of capitalism approach along these lines, identifying the rational-choice proclivities of Hall and Soskice's understanding of the relationship between economy, institutions and politics. Certainly, this paper starts from the perspective that while both the coalition government's response to the economic downturn, and the macroeconomic policies of its predecessors which led to the financial crisis, bear the hallmark of established economic statecraft in the UK, they cannot plausibly be considered as inevitable products of the country's institutional routines.

This weakness on agency and politics is related to Hall and Soskice's vagueness about economic growth. They point out that '[d]espite some variation over specific periods, both liberal and co-ordinated market economies seem capable of providing satisfactory levels of long-run economic performance' (2001: 21). They highlight innovation as the key to long-term economic success, judging the contest fairly evenly by concluding that liberal market economies are better at radical innovation, and co-ordinated market economies better at incremental innovation. So the goal is simply to better understand two relatively well-functioning economic systems? It is surely the points in time when economies are not well-functioning – Hall and Soskice's 'variation over specific periods' – that are of greatest interest. Hall and Soskice's complacency is probably explained by their work being based on the uniquely benign post-war period that came crashing to an end, once and for all, in 2008. If we didn't before, we now know that even seemingly highly

developed Western economic systems can break down (perhaps beyond repair) or experience prolonged periods of poor performance. Arguably, such conditions were evident even in the immediate post-war histories of many of the countries included in Hall and Soskice's dichotomy, not least during the UK's 1970s 'stagflation'. Did UK policy-makers simply revert to type? It is easy to answer affirmatively with the benefit of hindsight, downplaying the importance of the political and ideological struggles of this period. But, writing in 2013, it is necessary to say also that the choices made by policy-makers then were not only contingent; they in fact created, endogenously, the conditions for further economic instability in the decades ahead.

David Coates' (2000) study of 'models of capitalism' is far less indifferent than Hall and Soskice to the importance of periods of strong or weak economic performance. Coates adopts a similar typology to the varieties of capitalism approach, distinguishing broadly between market-based economies and those in which institutions are more prevalent. Alas, he does not succeed in showing that one model is superior to others in terms of performance. In dissecting the components of economic growth (and other indicators of economic performance) he shows that different systems are more successful than others at different times, for reasons that are not necessarily predictable. This was presented by Coates, sympathetically, as an important rejoinder to the British centre-left which, as he saw it, had often looked longingly at economies less dependent on the market mechanism such as Germany and Japan (yet Coates concedes that such economies had often been better able to combine strong economic performance with more egalitarian social policies than tend to be evident in market-based economies (see Crouch, 2005)). We should infer from Coates' work not that no one model is better than any other – although that may in fact be the case – but rather that, in examining capitalist variants at the macro-level over a very long period of time, the generalisations required mean it is probably impossible to discern any authentic and sustained triumph for any single model, especially given that they have many similarities as well as differences. But clearly that does not mean we should be indifferent to the merits of different models.

The related literature on varieties in welfare state formation is also important for our purposes. Its genesis is Gøsta Esping-Andersen's (1990) work on the 'three worlds' of welfare capitalism, encompassing liberal (e.g. the United States, Switzerland), social democratic (e.g. the Scandinavian countries) and conservative-corporatist (e.g. Germany, France, Italy) welfare regimes. Liberal regimes favour means-tested assistance, and the public subsidy of privately-organised welfare services for those not able to insure themselves. Social democratic regimes are more redistributive, with generous universal benefits and well-funded public services. Conservative-corporatist regimes neither look to correct market failure nor better distribute the proceeds of growth, but rather displace the market altogether by supporting traditional and occupation-specific forms of welfare provision through the family, voluntarist associations and professions. For Esping-Andersen, welfare states are about de-commodification, yet in these countries many social goods had never been commodified. Interestingly, the UK does not fit as neatly into this typology as it does into the Hall and Soskice typology. The liberal regime is again made up of Anglosphere countries, but there are clearly social democratic influences behind many aspects of the UK's welfare state, such as the National Health Service and the state pension system (although Esping-Andersen's analysis was based on data from 1980 – things might look a little different now). It might instead be seen as exemplary of a distinct 'Beveridgean' regime, of which Esping-Andersen's social democratic regime is merely a variant.

Colin Hay and Daniel Wincott (2013) are critical of the notion that welfare regimes are as distinct as implied by Esping-Andersen's work, and indeed of the data underlying his distinctions. Yet they maintain that 'clusters' of welfare state types are identifiable when different countries are mapped against various dimensions, and that this is useful for examining how welfare states change over time. Hay and Wincott also contest the notion that, although 'there tends to be an acceptance of a common feature shared by all western democracies that drives them to welfarism', we can identify a single motivation (such as de-commodification) underpinning welfarism in all capitalist economies (2012: 45). What it means to provide welfare is very different in different contexts.

That different welfare states are underpinned by different values and norms is the clearest evidence of this. But we can also question the false distinction between an overarching economic system (a variety of capitalism) and the welfare states residing within that system. It is clearly not

the case that welfare states simply exist to step in where capitalism fails, even if this is how they are presented in policy terms, but rather they are constitutive of the modern capitalist economic system itself. Indeed, it is not an exaggeration to conclude that the origins of UK's welfare state are as Keynesian as they are Beveridgean, with the social security system giving rise to 'automatic stabilisers' during economic downturns, and as such vital to macroeconomic management. As discussed further below, the New Labour era in the UK saw the further entanglement of welfare provision (albeit using novel policy tools) and a particular economic policy strategy, in the form of 'asset-based welfare' (see Finlayson, 2009; Watson, 2009).

The term used here to characterise UK economic policy and practice in the period before the financial crisis – and indeed to frame inquiries into where policy and practice is heading post-crisis – is 'growth model' (the overlap with David Coates' terminology is inadvertent). As suggested by the discussion of Coates' work above, this is in part inspired by a different answer to the 'levels of analysis' question than offered by the varieties of capitalism approach. The UK growth model evident from the 1980s onwards can be seen as consistent with the liberal market economy capitalist variant to which the UK generally belongs (although I would not accept the typology, and certainly not its ontological assumptions, verbatim), but it is viewed here over a shorter timeframe and at a lower level of granularity. The concept of a growth model allows us to see in more detail choices being made by policy-makers attempting to shape the economy to deliver prosperity, within the context of historical and institutional constraints.

Yet my departure from the varieties of capitalism approach is more complete than simply adopting an alternative level of analysis. Firstly, I am interested less in whether the choices made by policy-makers conform to type, and more in judging the character of the choices made in their own terms. That Western capitalist economies tend to go through periods of increased prosperity, downturn and recovery may be an established pattern in the post-war era, but this makes understanding the specific circumstances of each instance no less important – not least because we cannot assume the pattern will persist. The adoption of certain growth models appears not simply to reinforce existing systems, but also to expose them to new risks. Secondly, although I recognise the importance of institutions to capitalist organisation, and would not dispute the strong evidence of continuity within capitalist variants, in adopting a political economy approach it is deemed axiomatic here that the decisions taken by policy-makers and actions taken by wider political forces matter. They do not simply embroider the inevitable outcomes of established institutional routines, but can also represent deliberate attempts to alter such routines in order to restore or improve economic performance.

In a sense, the growth model concept brings the 'capitalism' back into varieties of capitalism and, as employed here, shares Tony Payne's (2013) intuition that growth models can be usefully understood as models of capitalist development. All economies change, and it is not unreasonable to assume that the period of relative stability in the post-war era among Western economies will come to be seen as an historical oddity. As discussed below, the nature of the measure means we are not about to see the end of economic growth in the Western world. But it may be that the varied ways in which capitalism delivers growth will increasingly be replaced as an object of inquiry, even among so-called developed countries, by the question of whether the growth that we do experience leads to improved well-being in any meaningful sense.

### The Anglo-liberal growth model

This section addresses an important challenge outlined in the first section: accounting for the politics behind economic policy decisions in the UK, and the resulting impact on economic performance. It does this by examining the Anglo-liberal growth model which emerged in the 1980s, and persisted through to 2007/2008. It is of course not assumed that any single political actor or set of actors consciously pursued a particular model for delivering economic growth, and certainly not one they labelled 'Anglo-liberal'. Rather, the model was formed through the complementary impact of many strategic decisions taken by policy-makers during this period – with their options invariably shaped by the legacy of previous generations of policy-makers.



How did policy-makers in this period seek to improve and sustain the economic performance of the UK economy? The Anglo-liberal growth model's basic element was the use of debt and the housing market (as booming housing prices enabled the release of equity) to fund private consumption. The liberalisation of credit markets and historically low interest rates facilitated this process but were also necessary to sustain its momentum. This situation had various implications, including increasing household indebtedness and a house price bubble – both introduced risks to individual well-being and economic stability, but could not be dampened without undermining consumption (Hay, 2013: 25). Colin Crouch (2009) has labelled the model 'privatised Keynesianism' to signify the importance of debt to fund consumption, albeit private debt rather than public – yet this is not merely an alternative version of Keynesianism, rather its polar opposite, given that debt funds consumption which is pro- rather than counter-cyclical. As Crouch explains, due to the preponderance of private debt, 'the dependence of the capitalist system [in the UK] on rising wages, a welfare state and government demand management that had seemed essential for mass consumer confidence, had been abolished' (2009: 392).

As implied by the greater engagement of individuals with financial services, the growth of the financial sector was integral to the model (Gamble, 2009: 16). Financial sector 'innovation' in fact enabled greater volumes of 'sub-prime' lending and high loan-to-value ratios, as debt obligations were securitised and traded, and high street banking was subsidised by the expansion of banks' investment activities (consumer borrowing was also essentially subsidised by the state, as low interest rates improved the interest rate spread). Investment by banks was of course not primarily into productive activities, but rather into novel and high-yield debt-based securities (Hay, 2013: 27).

Financial sector growth is identified by Helen Thompson (2013) as central to the growth model, and indeed to its inherent risks, as its expansion was itself fuelled by borrowing, especially for investment banks. Thompson is sceptical, however, of the emphasis placed by Colin Hay, and others such as Matthew Watson (2008), on household consumption facilitated by a housing market boom. She argues, firstly, that housing construction was more important in the United States and Spain than the UK and, secondly, that rather than deteriorating in the run-up to the crisis (as they accumulated debt to fund consumption) the net financial position of UK households improved between the mid-1990s and 2007. Thompson's third argument is that household consumption's role in UK economic growth before the crisis was 'undistinguished'. The first and second arguments are not hugely relevant to Hay and Watson's outline of the growth model. The under-construction of housing does not challenge the importance of the housing market to the model, and in fact probably helped to sustain the boom in prices. Furthermore, that housing market gains were not used solely to fund consumption, but also to re-invest in property as prices continued to accelerate, does not mean that the housing market did not play a vital role in funding consumption (relative to, for instance, income from employment), among other things.

Thompson's third argument is more salient, but still somewhat misleading. She acknowledges the growing importance of household consumption to the economy from the 1970s onwards – not the immediate pre-crisis years, but still part of the period in which the growth model in question operated. Growth in household consumption after 1997, when New Labour came to power, may have been less remarkable, and even declined in terms of its contribution to overall growth after 2004, but the proportion it contributed to GDP still increased significantly between 1997 and 2004. Furthermore, the idea that household consumption declined even after this period can be questioned. It still grew faster than GDP – only not as fast as some other contributors to GDP in terms of expenditure, such as exports (largely fuelled by financial services trade, underlining the importance placed on this sector by Thompson) (ONS, 2013). Moreover, the stagnating wages (discussed below) were by this time acting as a significant drag upon household consumption – not undermining the version of the model outlined by Hay and Watson, but rather demonstrating the model's struggle to pacify its own contradictions. The key aspect of the model in this regard was that the high level of household consumption that was evident, having grown in the 1980s and 1990s, was only sustained in the 2000s by household debt – which Thompson acknowledges

was higher in the UK than any other G7 country (and Spain). Nevertheless, Thompson's research is valuable in that it highlights the significance of financial sector debt alongside, and arguably ahead of, household debt in the growth model. Both forms of debt are relevant to considering the strategy pursued by policy-makers, but the former is perhaps more relevant (certainly by 2007) when considering the overall structure of the economy that had been fashioned by the growth model since the 1980s.

High public spending was also evident in the growth model. This was not necessarily by design in the 1980s and early 1990s, yet benefit expenditure grew in response to recessions, and of course the social impact of moving fairly swiftly away from an economy based on manufacturing and public ownership. Under New Labour, public spending was more focused on investment in public services, which had the benefit of increasing wages in the public sector – money that was invariably invested in the housing market (Hay, 2013: 25). Public spending was not sustained by formal borrowing, however, as Gordon Brown's 'golden rules' eschewed fiscal activism. Instead, it was sustained by private finance, through the Private Finance Initiative (essentially off-the-books borrowing by government) and increasing tax revenues from the financial sector (Coates, 2009: 425).

The destination for household consumption was increasingly the labour-intensive but low-wage services sector; alongside the growth of financial services, this provides the context for the continuing decline of manufacturing. The dilution of employment rights and decline in trade union membership helped to smooth the UK's path to becoming a low-wage economy. The architects of the growth model were fervently supportive of what they perceived to be 'free' markets (the model emerged alongside neoliberal ideology, although whether New Labour can be defined by this term remains arguable). This led to the deregulation of the labour market and the financial sector, but also facilitated the establishment of new regulatory mechanisms, both to oversee the newly privatised national industries and to modify monopolistic private sector practices. Changes to policy-making structures made during this period were arguably as important as the policies themselves – and may help to explain the model's apparent persistence despite its catastrophic failure.

Welfare provision was also important to the growth model evident in this period. However, while a number of novel policies emerged from the 'asset-backed welfare' and 'financial inclusion' agendas, such as the Child Trust Fund and Basic Bank Accounts, none were hugely significant in terms of expenditure or impact. These agendas are probably best conceived as indicative of a new governmentality of welfare, rather than as policy programmes, in which individuals were encouraged to take responsibility for their own financial security through employment and property investment (and to some extent pensions saving) as traditional welfare arrangements were retrenched (see Watson, 2009). The establishment of means-tested tax credits was undoubtedly the most important change in UK welfare provision during this period – with tax credits largely going to people in work, therefore subsidising low-wage (and often precarious) employment (Standing, 2011).

A final point that must be addressed is why the model is designated '*Anglo-liberal*', rather than simply 'liberal'. Hay applies this concept to both the growth model and the underlying capitalist variant of which it is broadly representative. We can explain the prefix in negative terms; that is, it is rather arrogant to assume that Anglosphere countries have a monopoly on liberalism, so '*Anglo-liberal*' designates a form of liberal political economy most prevalent traditionally in the UK and the United States. In more positive terms, however, there is also something distinctly Anglo-Saxon about the form of capitalism evident in these countries. In a recent paper David Coates (2012) explains this with reference both to the fact that the UK and the United States developed into capitalist economies before the rest of the world, and that both have sought and achieved hegemonic global dominance. For Coates, this context helps to explain features, such as the weakness of business regulation, the moderation of labour movements and the role of the financial sector, in both countries. The growth model evident from the 1980s onwards accentuates such features, meaning the UK moved away from the moderation of the immediate



post-war era (especially in terms of welfare provision) and closer economically to the United States (Gamble, 1994; 2003). The political sociology of the growth model is relevant here too: Crouch explains that, whereas Keynesianism mark one was borne by the strength and organisation of industrial workers, privatised Keynesianism represented the particular interest of 'a class of finance capitalists' that was transatlantic in identity (2009: 389).

This does not mean the UK and the United States followed identical economic strategies during this period. Nor does it mean that the Anglo-liberal growth model was confined to these countries. It was of course replicated in large part throughout the Anglosphere (Ireland, Canada, Australia, etc.), and to some extent Eastern Europe and countries such as Spain. American hegemony means the model was promoted more widely via multilateral institutions, such as the World Bank, and via trade agreements, and countries such as China were in some ways dependent on the Anglo-liberal growth model even if their own domestic economies were very different to the UK or the United States. Furthermore, the fact that the financial crisis which originated in the Anglosphere had a severe impact in most European economies demonstrates not only the extent of financial integration throughout the Western world. It also signifies the extent to which these economies had imported features of the Anglo-liberal growth model in the years before the crisis – an inter-breeding that would be impossible to discern from within the confines of the varieties of capitalism approach.

The notion of an Anglo-liberal growth model is not impervious to theoretical interrogation, but nevertheless serves as a useful analytical device for this paper's purpose, which is to consider whether the UK economy has genuinely eradicated the flaws which caused the financial crisis. The varieties of capitalism approach, in contrast, offers few analytical tools by which to account for the introduction of systemic risks into an economic model. It assumes that economies tend to grow unproblematically, irrespective of type, albeit at different paces at different times. The coalition government's apparent reversion to a pre-crisis growth model – detailed below – might therefore seem inevitable, and even wise, from this perspective. But the Anglo-liberal growth model is about more than simply promoting the primacy of the market as a co-ordination mechanism; it is about promoting certain forms of economic activity within the broad framework of a market economy, in order to achieve *exceptional* economic performance.

The growth model concept starts from the premise that this is what economic policy-makers seek to do, drawing upon existing practices but not simply endeavouring to reinforce them. As such, they act strategically – in terms of politics as well as economics – and in doing so may choose the wrong course. Below I argue that this is precisely where we are now: beholden to an economic strategy (chosen to some extent based on political calculations) that is designed to create exceptional economic performance, but which is unlikely to be successful. Before that, however, it is necessary to reflect briefly on how we got to where we are, that is, the financial crisis and the ostensible failure of the Anglo-liberal growth model in the UK.

### The financial crisis and the UK economy

Following the emergence of the crisis in 2007 – triggered by a dramatic increase in sub-prime mortgage defaults in the United States, manifest in the UK initially through the spectacular failure of Northern Rock – economic growth slowed to 0.1 per cent in the final quarter of 2008 and first quarter of 2009. The deepest recession since the Great Depression officially began in the second quarter of 2008, with the economy shrinking by 0.9 per cent, then 1.4 per cent and 2.1 per cent in subsequent quarters. Results initially worsened in 2009 (-2.5 per cent growth in the first quarter) before finally stabilising towards the end of the year, although growth remained essentially flat until the first half of 2013, when two consecutive quarters of growth were recorded for the first time since 2011.

The crisis and subsequent deep recession can be explained with reference to both the internal contradictions of the Anglo-liberal growth model, and the model's inherent vulnerability to external shocks. Underlying demand weakness in the UK economy started to manifest in the mid-2000s as wage stagnation placed an unsustainable weight on debt-fuelled consumption. Inflationary pressures generated by oil price rises also led to interest rate rises which adversely affected consumer and mortgage borrowing.

The inevitable slowdown in the housing market quickly turned catastrophic as mortgage-backed securities became toxic in 2007. What Andrew Gamble calls the 'inverted pyramid' of the Anglo-liberal growth model, in which the debts of the least credit-worthy borrowers were used to create triple-A rated bonds through bundling and securitisation, had been ruthlessly exposed by the market itself (Gamble, 2009b: 21). Confidence in such assets had been assured by the credit rating agencies, yet it is not clear that they surveyed to any extent the underlying income stream (i.e. mortgage repayments) on which these products were based (Gamble, 2009b: 22; Hindmoor & McConnell, 2013: 544; Seabrooke & Tsingou, 2010: 314-5). Leonard Seabrooke and Eleni Tsingou (2010) refer to the dangerous mix of an over-supply of innovation and an under-supply of regulation. The Titanic analogy is wholly appropriate: policy-makers appeared to believe that financial sector innovation had made the economy unsinkable by diluting risks, yet it was precisely this security system that made it so vulnerable to systemic shocks (see Gamble, 2009a: 454-5).

The first casualty of the ensuing crisis was inter-bank lending, which quickly dried up when banks' balance sheets came under intense scrutiny. The dependence of the banking sector on wholesale debt finance meant they were essentially rendered insolvent and, crucially, inter-bank lending had underpinned liquidity more generally, creating an almost instant spillover to the real economy. This adds weight to Helen Thompson's identification of financial sector debt as the key feature – and flaw – of the Anglo-liberal growth model. However, it was the dependence of the growth model on consumer debt and the housing market that turned the financial crisis into a deep recession.

The trends associated with 'asset-based welfare' had created intimate connections between households and the fortunes of the private sector. Watson (2008) explains that while New Labour did not create the housing boom, at least not deliberately, it was certainly comfortable to saddle the beast in order to facilitate the retrenchment of traditional welfare provision. In fact, this not only exacerbated the financial crisis but created the conditions for instability by encouraging policy-makers to ignore the risks inherent in banks' investment strategies so that the housing market was not held back by a lack of affordability (see Watson, 2013). Furthermore, when it came to rescuing the financial sector from total collapse in 2008, the Labour government advanced a sense of 'moral panic' among middle-class homeowners that their responsible financial behaviour would be punished without a bailout for the banks, which of course primarily benefited the banks themselves, and their shareholders (Watson, 2009a).

It is important to be clear that the financial crisis emerged first in the United States, which had a large sub-prime mortgage market and more direct subsidisation of mortgages by the state. It would, however, have hit the UK eventually anyway even without financial contagion (i.e. the exposure of UK banks to toxic American assets) because of the nature of the British growth model. Hay argues that the UK was lucky that recession hit the United States first, as it dulled inflationary pressures by depressing global oil markets. A UK-only recession would not have had the same impact on oil prices; a return to 'stagflation' would in all likelihood have produced a run on sterling (Hay, 2013: 38).

The 'credit crunch' which began in 2008 in the UK was not the trigger for recession, because by this time demand for consumer and commercial lending had already fallen away. By the same token the banking bailout was not a response to the credit crunch; both were symptomatic of the same dynamic, that is, the unravelling of an economic strategy which relied on the ability of

the financial sector to offer cheap credit through innovative risk management. For Colin Crouch, this strategy had solved 'the great puzzle of the period' – sustaining consumption despite stagnating income from employment – but had in time been proved illusory (2009: 391).

The exposure of many banks throughout the world to Anglosphere housing markets meant financial contagion quickly turned an Anglo-American problem into a global crisis, exacerbated by the monetary policy constraints of Eurozone membership for many of the countries most affected. Even those economies spared the initial waves of the crisis were drawn in through trade interdependence, as global demand for exports receded. Given its monetary policy autonomy the UK might otherwise have benefited in 2009 and 2010 from the Eurozone's weakness (the cost of borrowing from the bond markets remained relatively low for the UK government), but it had of course become dependent on exports to the Eurozone, and policy-makers largely eschewed the opportunity (especially after the coalition government came to power in May 2010) to boost demand through public investment domestically.

## 2. Interrogating the recovery

### The recovery story

The next section presents an empirical analysis of the UK economy's performance in recent years, focusing on particular of evidence of 'rebalancing'. It would be useful to begin here, however, by surveying what the coalition government promised to do about the economy – and how economic commentators have responded to the government's record in this regard.

In the middle of 2013, an intriguing story started to emerge in the UK about the economy, with the Chancellor of the Exchequer George Osborne its chief narrator. He was aided by a mainstream broadcast media seemingly content to report on certain measures of economic outcomes to a regimented timetable, without seriously questioning either the significance or meaning of slight changes in key measures, and certainly not the validity of the measures themselves.

The central plotline boils down to one key statistic: the UK economy is growing. GDP in the second quarter of 2013 was 0.7 per cent above the previous quarter; the first time there had been two consecutive quarters of growth since 2011, following 0.3 per cent growth in the first quarter, and the highest quarterly growth recorded since the third quarter of 2007 (with the exception of the third quarter of 2012, where growth of 0.7 per cent was attributed to the Olympics).<sup>1</sup>

In a speech in September 2013 George Osborne claimed 'the UK recovery has strengthened rapidly over the last six months', and that 'the evidence increasingly suggests that our macroeconomic plan [the austerity agenda] was the right one and is working'.<sup>2</sup> Yet economists and other commentators have been very quick to challenge the importance of these GDP results. Even if there were signs that the economy had found a sustainable path to recovery (which I argue below is not the case), these limited results do not provide sufficient evidence to conclude that the economy is finally 'healing'. It would be very difficult to find any expert who argued that the economy would never grow again following the financial crisis and its aftermath; the issues were the timing and strength of the resumption of growth. Economic growth is one of the basic features of any capitalist economy – its rate may vary significantly, but it is only absent on rare occasions. The nature of the measure means it almost always delivers positive results, because human ingenuity coupled with persistent population growth and the logic of the capitalist system means our capacity and incentive to produce more tends to increase. This underlines the significance of periods when economic output fails to increase, and should by the

same token caution us against exaggerating the significance of periods in which growth becomes evident again after a prolonged period of declining or stagnant output. In short, the growth now being heralded by the coalition government is rather mundane.

There has been a significant amount of incredulity expressed by well-known economists in response to Osborne's new rhetoric on the economy. As we will see below, the prevailing view is that, while we may have growth now, we could have had much stronger growth, much sooner – for there is a great deal of unused capacity in the economy. Related to this is the view that austerity has not succeeded, and indeed that it has been partially abandoned. There is, however, a secondary argument now being rehearsed in public debate, albeit not as strongly. It is that the resumption of growth is somehow illusory, and represents an economy not in recovery but still in denial about the extent of its ills. Indeed, the resumption of growth is based on a return to a version of the growth model which crashed so spectacularly in 2008. The recovery, therefore, will not endure – and the growth we have seen in recent months has been brought about by a wrong-headed stimulus in the form of efforts to boost the housing market, which cannot possibly last without risking another economic collapse.

Before chronicling reactions to the government's rhetoric on the economy, it is worth dwelling on exactly what approach to economic statecraft we were promised by the coalition government, and in particular the Conservatives. In a 2010 speech, before the general election, George Osborne posed himself a question:

Given that we cannot go back to the last decade's debt-fuelled model of growth, the question I am asked most often at the moment, is 'where is the growth going to come from?'

His answer was refreshingly clear:

The economics profession is in broad agreement that the recovery will only be sustainable if it is accompanied by an internal and external rebalancing of our economy: in other words a higher savings rate, more business investment, and rising net exports.

Similarly, the Conservative Party general election manifesto in 2010 promised 'a more balanced economy':

For the last decade, growth has been too dependent on government spending and debt-fuelled consumption. More than half of the new jobs created were driven by public spending. Household savings collapsed, and the UK has the lowest investment as a share of GDP of any G7 country. Our share of world exports has fallen by almost a third. A sustainable recovery must be driven by growth in exports and business investment, and through a better environment for wealth creation.

After forming the coalition government, David Cameron and Nick Clegg's foreword to the coalition agreement claimed that 'we both want to build a new economy from the rubble of the old' (HM Government, 2010: 7). The main document explained that:

[W]e need to take urgent action to boost enterprise, support green growth and build a new and more responsible economic model. We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries (HM Government, 2010: 9).

In 2011, the coalition published its ‘plan for growth’ – apparently after much inter-departmental squabbling. Of its four ambitions, three sounded distinctly like New Labour ambitions: creating the most competitive tax system in the G20, making the UK one of the best places in Europe to start, finance and grow a business, and create a more educated workforce that is the most flexible in Europe. Only one stood out: encouraging exports and investment as a route to a more balanced economy. The ‘need for action’ in this regard was outlined in the following way:

Sustainable growth requires a rebalancing of the UK economy away from a reliance on a narrow range of sectors and regions, to one built on investment and exports, with strong growth more fairly shared across the UK (HM Treasury & Department for Business, Innovation and Skills, 2011).

The document details several initiatives the government planned to take in order to bring about this rebalancing – but its real significance for our purposes lies in establishing a benchmark against which the government can be judged.

It is clear that something radically different to what apparently went before was offered. The diagnosis of New Labour’s failure in fact touches upon many of the features of the Anglo-liberal growth model identified above. In his September 2013 speech, the Chancellor claimed that he had succeeded in bringing about a recovery through rebalancing, while at the same time managing to reduce the deficit. He argued that ‘our economic plan is the right response to Britain’s macroeconomic imbalances and the evidence shows that it is working’. Many commentators strongly disagreed.

For instance, Ann Pettifor of the New Economics Foundation (NEF) and Policy Research in Macroeconomics (PRIME) described the September 2013 speech as ‘truly audacious’, pointing out that although many indicators – such as manufacturing output – have shown a ‘tiny uptick’ recently, they are starting from a recessionary base that is ‘among the lowest levels since records began’. Pettifor was incensed that Osborne denounced the debt-fuelled consumption of the previous years at the same time as championing the ‘Help to Buy’ scheme, through which the government will under-write mortgages with high loan-to-value ratios. She also criticised the Chancellor for describing this scheme as ‘monetary activism’, when in fact by using the government’s own balance sheet to guarantee mortgage deposits it is a clear case of fiscal expansion (Pettifor, 2013).

Simon Wren-Lewis (2013), Professor of Economics at Oxford University and author of the *Mainly Macro* blog, describes as ‘ludicrous’ and ‘obviously silly to anyone with a modicum of macroeconomic knowledge’ the notion, put forward by Osborne, that ‘positive growth proves critics of austerity wrong’. He likens the argument to climate change deniers believing their perspective to be vindicated by a bout of heavy snow. Similarly, Ha-Joon Chong, a Cambridge University economist and World Bank consultant, argued:

[D]escribing the UK economy as ‘on the mend’ is a near-Orwellian redefinition of economic recovery. The fact that most people accept this description, even if with reservations about the uneven distribution of its benefits, shows how low the standard of performance we expect of the UK economy has become (Chang, 2013).

Tim Harford (a.k.a *The Undercover Economist*), a *Financial Times* columnist and Radio 4 presenter, described Osborne’s claim about the recovery as ‘drivel’. In response to the positive growth statistics, and in his signature dialogue style, Harford (2013) wrote:

**Pretty embarrassing for his Keynesian critics, eh?** That depends on whether

his Keynesian critics are embarrassed by the sneers of cloth-eared nincompoops or not. I don't see how any thoughtful, open-minded person can believe that Mr Osborne's critics have been proved wrong by events.

**How so? Growth is back! Isn't that an endorsement of government policy?**

OK. I'll use small words to explain this. Let's say that a man gets sick. He picks up some pills from the chemist.

**What sort of pills?** Antibiotics.

**That isn't a small word.** Oh, shut up. So our man begins taking the antibiotics, but almost immediately gets an appointment with Dr Osborne, who declares the antibiotics a quack treatment. Dr Osborne confiscates them and instead prescribes prolonged bed rest. Our friend is sick for a long, long time. But recently, he's been feeling better. He's out of bed, pottering around and thinking about taking a shower, getting dressed and heading out for a walk. Dr Osborne claims vindication. He says the quacks who suggested antibiotics were wrong because the man's getting better. But this is the argument of a fraud or a fool – or, of course, a politician. Sick people usually get better. Sick economies usually get better, too. That fact, enormously welcome though it is, proves nothing.

He concludes by pointing out that 'the UK economy is suffering the slowest recovery of gross domestic product since credible records began by a colossal margin'.

Duncan Weldon, a senior economist at the TUC, characterises Budget 2013 as the moment rebalancing was 'suspended' in favour of consumer- and housing market-led growth, adding that even this represents 'the most generous interpretation' (Weldon, 2013a). Following publications of final estimates for the second quarter of 2013, Weldon concluded:

Output is growing at a healthier pace but it is being led by consumption, that consumption is fuelled by borrowing and may be associated with a pickup in the property market. Investment has collapsed to its lowest level in decades and outside of the car industry there is little progress on rebalancing. Meanwhile living standards remain squeezed with real disposable income falls picking up pace. For most people this doesn't feel like a recovery (Weldon, 2013b).

Martin Wolf, Associate Editor and Chief Economics Commentator at the *Financial Times*, responded angrily to Osborne's September speech, explaining that:

[N]obody thought recovery would never happen under austerity, merely that it would be damagingly delayed. The politics of this policy may not be too bad for Mr Osborne if the unnecessarily slow recovery becomes a faster bounceback in the run-in to the 2015 election. But it is hard to see an economic case for it. One thing ought to be quite clear: the fact that the economy grows in the end does not prove that needlessly weakening the recovery was a sound idea. This has been an unnecessarily protracted slump. It is good that recovery is here, though it is far too soon to tell its quality and durability. But this does not justify what remains a large unforced error (Wolf, 2013; *emphasis original*).

Although Wolf can be considered a supporter of the Anglo-liberal growth model in general terms (see Berry, 2011: 13), he is a critic of the coalition government. Yet even those explicitly supportive of the coalition government have expressed concern about the recovery story. The editor of *The Spectator* Fraser Nelson famously 'fisked' Osborne's speech (a term coined in recognition



of the style of journalist Robert Fisk, referring to a line-by-line critique), beginning that ‘the coalition government has run up a load of impressive successes, but I’m not sure that economic performance has been one of them’ (Nelson, 2013). Nelson was particularly critical of the Help to Buy scheme, and the increase in borrowing evident under the coalition government, implying that both are hallmarks of New Labour’s economic statecraft. On Osborne’s rhetoric, Nelson concludes that ‘there is a detachment between what he’s saying and what he’s doing. Some might say that he is, actually, implementing Plan B’. The argument that the coalition government has essentially abandoned ‘Plan A’ (i.e. austerity) has been made most forcefully by Jonathan Portes, Director of the National Institute of Economic and Social Research and former Chief Economist at the Cabinet Office, who described Osborne’s claim that the pace of fiscal consolidation has not changed as ‘an obvious sleight of hand... not supported by any of the available data’ (Portes, 2013). This is backed up by the OBR’s assessment of the 2013 Budget, which led its head Robert Chote to conclude that ‘deficit reduction appears to have stalled’ (cited in Kirkup, 2013).

Finally, and most prominently, the recovery story has been challenged from within the coalition government by the Liberal Democrats’ Business Secretary Vince Cable. In a speech at Warwick University in September 2013, two days after George Osborne’s effort, he warned the Conservatives about complacency, arguing that ‘a few quarters of good economic data’ could not be equated with a robust recovery. His remarks chimed with a longer piece by Cable in *The New Statesman* in March 2013, in which he described the recovery as ‘very modest’, and cited approvingly Robert Skidelsky’s view that austerity had been a drag upon economic recovery (while also confirming the partial abandonment of austerity, stating that ‘we have taken the conscious decision not to introduce further cuts at a time when the weaker economy has damaged tax revenues’).

## Evidence on economic performance

This section explores in more depth the actual evidence on economic recovery – and rebalancing – upon which both the recovery story, and its main critiques, have been based. It starts with an assessment of the apparent upturn in overall output as measured in GDP. It then adopts a series of measures of economic performance designed to evaluate the success of economic rebalancing: jobs, pay, productivity, investment and consumption, and the housing market. It is worth noting that the government has also referred to the need to rebalance the economy in terms of both sectors and geography – these issues are dealt with initially in relation to both overall output and jobs, but then revisited in several subsequent measures.

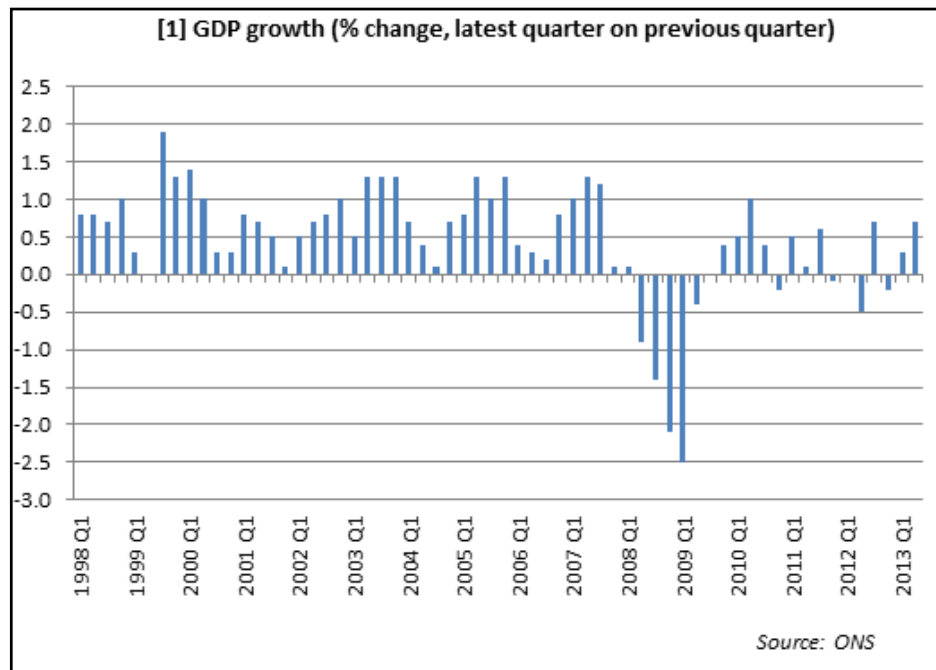
Some of these measures have been chosen based on the understanding of the pre-crisis growth model’s flaws outlined in Part 1. Low levels of pay, for instance, contributed to the unsustainability of the pre-crisis growth model, and consumption became too dependent on an over-heated housing market. Others have been chosen to reflect the coalition government’s own understanding of how the economy needs to change, so that its record can to some extent be judged on its own terms. Until recently, the government has consistently argued that growth must be based on increased exports, a more productive workforce, and higher levels of private investment. Most measures fit into both categories, but jobs probably fits into neither: although the government has celebrated the frequently positive employment news as evidence of recovery, it is not apparent that a particular rate or level of employment is integral to a rebalanced economy. However, employment and jobs data clearly provide for a richer understanding of how the performance of the economy is actually affecting individual livelihoods and, as indicated above, allows a more current look at sectoral and geographical rebalancing.

### Output

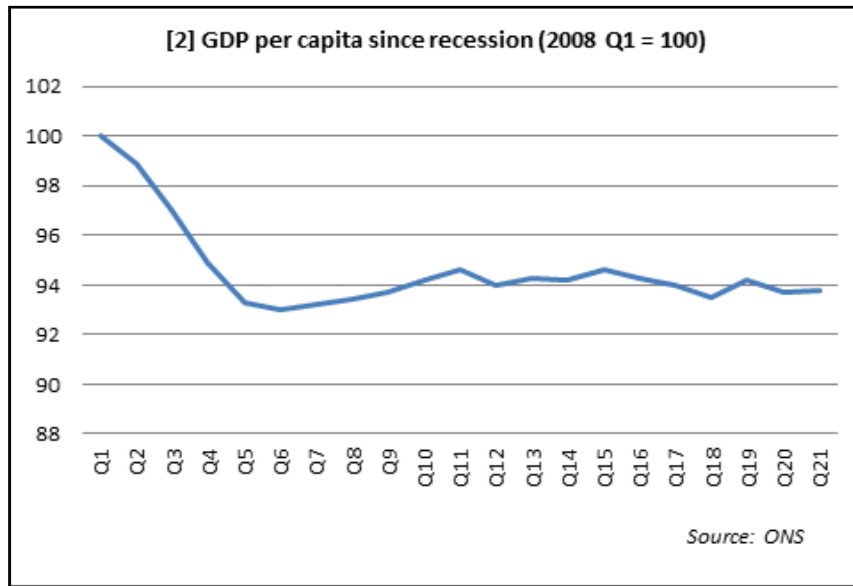
As suggested above, the GDP growth evident recently in the UK is fairly meagre, and more significant politically than economically. While output has grown by 1 per cent in the first two

quarters of 2013, this is only impressive in the context of 2012's results, which would have been catastrophic were it not for the Olympics. Output grew fairly steadily in both 2011 and especially 2010. 2013 may eclipse both of these years, but it is far too early to say whether this represents a genuine recovery in output or an inevitable bounce after a disastrous 2012 during which the UK, in effect, experienced another serious economic downturn. 2013 may simply be the latest 'zig' in what then Governor of the Bank of England, Mervyn King, warned would be a 'zigzag recovery' (BBC News, 2012). In July 2013 the Office for National Statistics' Chief Economist Joe Price described the output results as a 'bumpy plateau' (BBC News, 2013).<sup>3</sup>

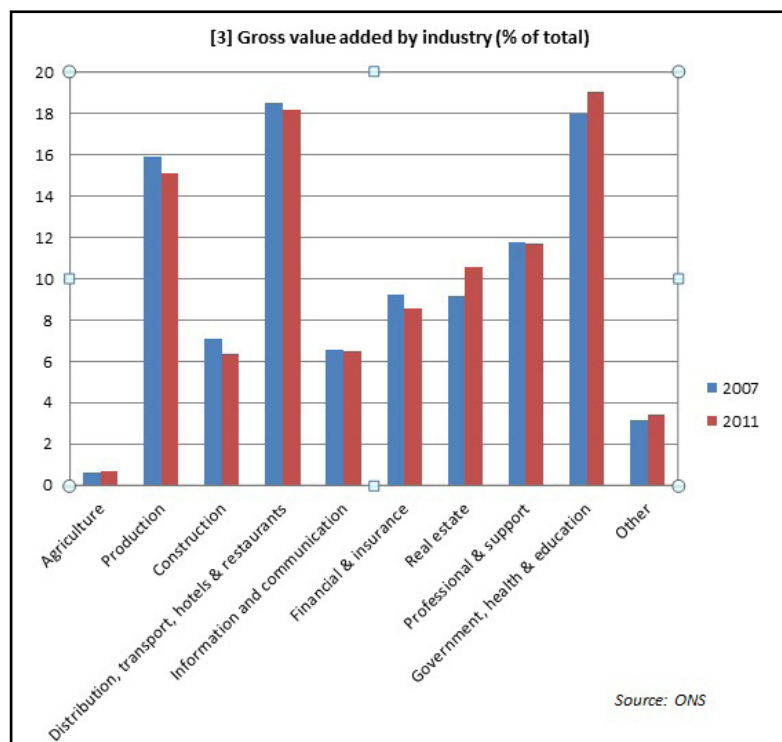
In terms of recovering from the deep recession of 2008-2009, even after a strong second quarter in 2013, output remains more than 3 per cent below its pre-crisis peak, whereas output in the United States is already more than 3 per cent above its own pre-crisis peak. By this stage of the recovery after the most recent recession in the UK, in 1990, output was already 12.7 per cent above its pre-recession peak. Output was 7.1 per cent above the pre-recession peak at this stage after the early 1970s downturn, and even after the Great Depression in the early 1930s output was 6.3 per cent above peak by this stage. Furthermore, if UK growth in the third quarter of 2012 had been in line with the second and fourth quarters (for argument's sake, -0.3 per cent), rather than inflated by the London Olympics, then by the middle of 2013 output would not even yet have recovered to its post-recession peak in the third quarter of 2011.



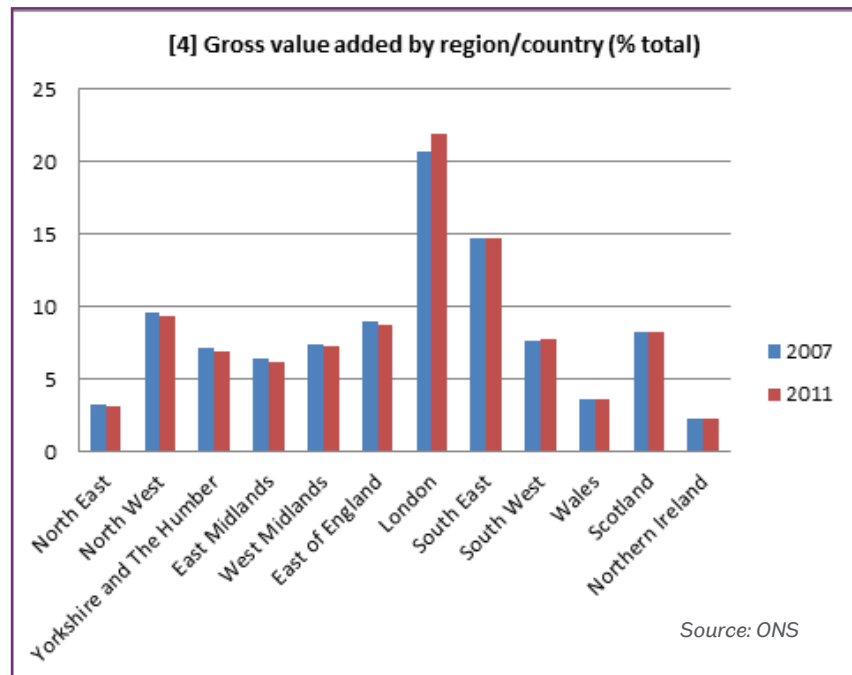
Even if we accredit recent GDP growth as significant, it is just as important to consider GDP per capita, that is, output per head of the population. Because the UK population has grown at a rapid pace since 2008 (unusual for an economic downturn), the reduction in GDP per capita was greater than the reduction in aggregate GDP during the deep recession of 2008-2009, and the resumption of growth in GDP per capita has been weaker than growth in aggregate GDP. In fact, according to the ONS (2013a), it has barely recovered at all. 21 quarters on from the start of the recession in 2008, GDP per capita remained almost 7 per cent below its pre-recession peak. It has been largely stagnant since the end of 2009, and has in fact fallen since the coalition government came to office.



In terms of the composition of different sectors within the UK economy, the Office for National Statistics' 'Blue Book' shows that little has changed since before the recession began. Of the industries covered by this series, only government, health and education, and real estate, grew as a proportion of the UK's gross value added (GVA) between 2007 and 2011. All other industries, including construction and production (which includes manufacturing), have declined as a proportion of GVA. George Osborne's budget speech in 2011 promised a 'march of the makers', but more recent evidence suggests that, while manufacturing output initially started to recover in 2010, it has fallen significantly since mid-2011. Only a relatively strong performance in car manufacturing is preventing further decline (ONS, 2013b). There has been no dramatic shift away from financial services, certainly when compared to other major industries. The preliminary estimate for 2013 Q3 shows production output continuing to grow more slowly than services, agriculture and construction, with production output actually having fallen by 0.3 per cent in the year to 2013 Q3.



Similarly, regional rebalancing of the economy is not yet evident. Indeed, while between 2007 and 2011 the proportion of the UK's gross value added attributable to London grew from 20.7 per cent to 21.9 per cent, the proportion fell or remained the same in all other regions and countries. Although the financial sector's relative position weakened during this period, the strength of the London property market means that the growing importance of real estate to the UK economy benefits the capital more than other areas. Given the time lag in disaggregated overall output results, the sub-sections below give greater insights into the sectoral and regional rebalancing of the UK under the full three and a half years of the coalition government.



GDP can also be expressed in terms of expenditure – indeed, a fascinating explanation emerges when recent growth is considered from this perspective. Government final expenditure (i.e. not including fiscal transfers to households) appears to account for the majority of recent growth. In nominal terms, spending has been largely stable, and was lower in the second quarter of 2013 than at some previous quarters under the coalition government. But in real terms – that is, distinguishing actual growth from inflation – government expenditure has actually increased from the beginning of 2011. Moreover, around two-thirds of the increase in GDP over this period can be attributed to the increase in this single category of expenditure. Of course, as discussed below, other forms of expenditure have grown too, while others have retracted. Yet it is interesting that the only expenditure under the direct control of public authorities is equivalent to such a large proportion of general growth.

It is especially interesting given that government spending has not grown significantly in nominal terms. The argument of Jonathan Portes and Fraser Nelson – seemingly supported by the OBR – that austerity has stalled was noted above. The suggestion is that actual spending should have fallen much more, in line with George Osborne's claims (although Portes also refers to the fact that the government has halted tax rises). Nevertheless, for current purposes we can infer from the data on expenditure in nominal terms that the government is not pursuing a traditional fiscal stimulus. The discrepancy between expenditure in nominal and real terms is explained therefore by productivity improvements in the public sector, which translates statistically into higher real terms expenditure. It would be unwise to assume that there is no room for improvement in public sector productivity, or that the coalition government has not achieved such improvement

	Current prices		Real terms (reference year 2010)	
	Government final expenditure	Overall	Government final expenditure	Overall
2011 Q1	86,598	380,237	84,092	374,264
2011 Q2	82,724	381,379	84,218	374,628
2011 Q3	83,574	388,054	83,852	376,862
2011 Q4	84,274	387,267	84,214	376,462
2012 Q1	87,719	389,508	86,489	376,436
2012 Q2	82,625	386,910	85,697	374,550
2012 Q3	84,584	391,363	86,436	377,330
2012 Q4	85,984	394,482	87,111	376,461
2013 Q1	86,773	398,204	87,195	377,467
2013 Q2	85,470	399,834	87,992	380,172
<b>Increase 2011 Q1 - 2013 Q2</b>	<b>-1,128</b>	<b>19,597</b>	<b>3,900</b>	<b>5,908</b>

*Source: ONS*

to some extent. But have such improvements really driven economic growth in recent months? PRIME economist Jeremy Smith (2013) argues instead that the results are more likely to be explained by anomalies in how public sector productivity is measured, which in turn influence the formula by which the Office for National Statistics calculates real terms spending from actual spending at current prices. As the ONS (2013c) explains, measuring public sector productivity is an extremely complex process. But because 'inputs' are a major component of this calculation, reductions in headcount or pay would appear initially as improvements in productivity, because the impact of such changes on what is actually delivered by public services is unlikely to be perfectly synchronised. Such anomalies would not sustain real terms expenditure growth over the long term without genuine productivity improvements, but seemingly are sufficiently influential in the short term to deliver positive GDP growth statistics.

### Jobs

At present, the employment rate is the one reliable source of good economic news for the government. The rate has grown to 71.7 per cent (all aged 16-64) in June-August 2013 from 70.7 per cent when the coalition government took office, and there are almost 700,000 more people in work. However, there are reasons to doubt the notion that the employment rate heralds

sustainable economic recovery. Firstly, the biggest leap in employment during this period actually came between the middle of 2011 and the middle of 2012 (when around 500,000 people found work, and the 16-64 rate rose from 70.3 to 71.4 per cent) –when overall economic growth was feeble – and so cannot be associated with the apparent recovery in 2013.

Secondly, positive economic growth has been marred – and probably enabled – by the worrying trend of under-employment. 26.9 per cent of people (more than 8 million people) in employment are part-time workers. 18.5 per cent of these (almost 1.5 million people) report working part-time because they could not find a full-time job. This rate has been rising, rather than falling, during the 2013 recovery. The rate was only 14.3 per cent when the coalition took office. It was below 10 per cent at the height of the boom, and had been at this level since the end of 2000. A related trend is the resurgence in temporary employment. More than 1.5 million people are temporary employees (6.2 per cent of those in employment); 38.9 per cent because they could not find a permanent job. This rate has been falling slightly since the middle of 2012, but has risen from 36.3 per cent when the coalition took office. The rate was around 27 per cent throughout 2007, although had been higher than 40 per cent throughout much of the 1990s.

Thirdly, while the unemployment rate has been falling fairly steadily from late 2011, the number of people in long-term unemployment has been fairly static, and in fact risen since early 2012.

Fourthly, the age distribution of employment results shows some worrying trends. Although the proportion of people in employment refers only to people aged 16-64, the government has highlighted the fact that the number of people of any age in employment has now never been higher. However, of the 741,000 people that have entered employment in the last three years, 163,000 of them (more than a fifth) have been aged 65 or over. In contrast, there are 149,000 fewer 18-24 year-olds in employment, and 33,000 more unemployed. The employment level of 18-24 year-olds has fallen consistently since late 2012, even as the overall economy returned to growth. It is positive that more older people are able to remain in work (although not if they are simply compensating for poor pension incomes), but it must be acknowledged that unemployment has a more significant impact on younger groups, partly because they do not receive the same level of income support from the state, and partly because it is associated with stunted skills development that may have a longer-term impact on their careers.

Fifthly, employment by growth has actually been concentrated among ‘foreign’ workers. Of the 300,000 people that entered employment in the year to April-June 2013 (the latest figures available at the time of writing), as the apparent recovery got underway, almost a third were non-UK nationals. Remarkably, more than two-thirds were not born in the UK. Obviously, there is an overlap between these groups, and neither is synonymous with ‘immigrants’ (because foreign-born workers may be long-term UK residents and, conversely, many people that come to the UK as immigrants may now be UK nationals). However, these results demonstrate the growth of low-paid work as the bulwark of the positive employment news – the kind of employment opportunities that tend to be associated with immigration, whether recent or historical. (Pay will be discussed further below.)

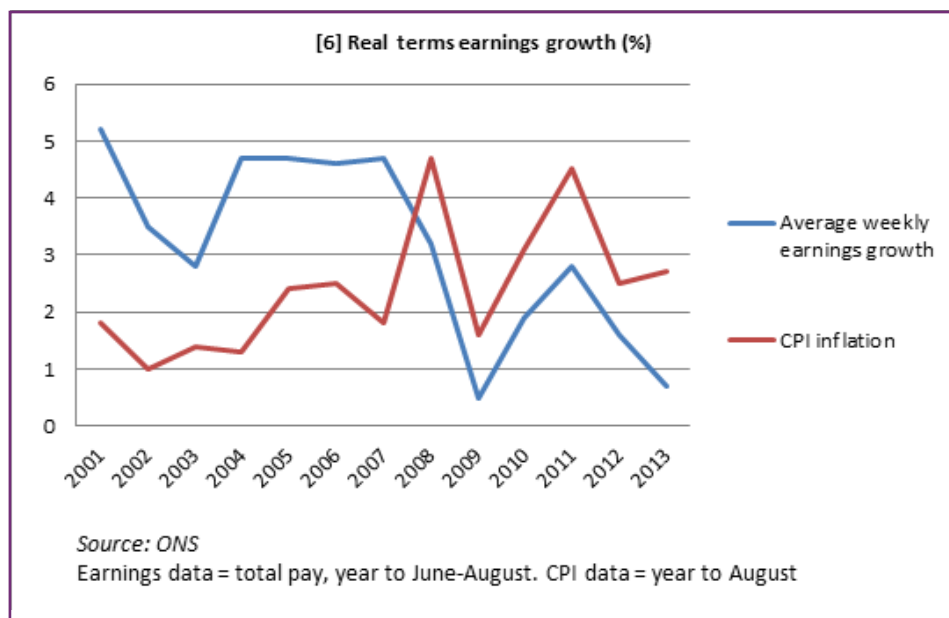
Even if we accepted the recovery story with regard to employment, we could still question whether positive employment news represents rebalancing. The Workforce Jobs index measures the number of jobs created, rather than individuals in employment. According to this index, 334,000 jobs were created in the year to June 2013, representing an increase of 1 per cent. Almost a quarter of jobs growth is accounted for, however, by ‘real estate activities’ (77,000 new jobs, or growth of 15.9 per cent), reflecting the resurgent housing market, and reminiscent of the pre-crisis growth model. Other areas showing above-trend growth in the year to June 2013 include ‘information and communication’ (5.4 per cent), ‘professional scientific and technical activities’ (3.5 per cent) and ‘administrative and support service activities’ (3.9 per cent). There were 15,000 fewer jobs in manufacturing, representing a decline of 0.6 per cent.



Similarly, there has been no geographical rebalancing. In the year to June-August 2013, the employment rate *fell* by 1.4 per cent in the North East, 1.6 per cent in the North West, 0.8 per cent in the West Midlands and 0.3 per cent in the East Midlands, and was stagnant in Wales. It rose by 1 per cent in both London and the East of England, and 1.8 per cent in the South East (excluding London). Although the employment rate grew in both Yorkshire and Scotland, overall these results clearly demonstrate that the apparent recovery is largely exacerbating, rather than challenging, the existing regional imbalance in employment prospects in the UK.

## Pay

If employment is the most reliable source of good news on the economy – albeit based on a crude reading of employment results – then earnings have been a constant source of concern. Pay has not increased, in real terms, even as overall growth has returned on a consistent basis. As chart 6 shows, average weekly earnings growth was consistently above inflation in the years preceding the recession, but has been significantly lower since 2008.



Clearly, it is difficult to talk about recovery, if growth is not reflected in individuals' standard of living. We should not infer from these results, however, that there is a clear distinction between the pre- and post-crisis models in terms of pay, with the period up to 2008 characterised by soaring wage growth and the period afterwards characterised by wage decline. Even during the period of high growth from the mid-1990s onwards, growth in average earnings masked a growing inequality, as pay for the highest earners outpaced pay for low- and median-earners (Lansley & Reed, 2013; Whittaker, 2013). The economic downturn appears to have depressed pay at the top of the earnings distribution, while exacerbating living standards decline for most people.

The differences in earnings between industries also suggests the failure of economic rebalancing. In June 2013, average weekly pay across the six manufacturing sub-sectors was £394, 9 per cent lower than the UK average. This is consistent with the pre-crisis period: pay was 6 per cent below the UK average in June 2008, and 5 per cent below in June 2003. The contrast with the financial and insurance sector is striking. Average pay is £1,050 per week in this sector, or 85 per cent above the UK average. This accelerates the trend seen before the downturn: in June 2008 average pay in finance and insurance was 55 per cent above the UK average, and in June 2003 it was 24 per cent above the UK average.

There is a similar story regarding pay across the regions, with inequality persisting and deepening. In June 2003, average pay in the North West, North East and Yorkshire was 11 per cent, 12 per cent and 10 per cent respectively below the UK average. In June 2008 the figures were 13 per cent, 15 per cent and 10 per cent below the UK average. In June 2013 the figures were 11 per cent, 13 per cent and 10 per cent, demonstrating an extremely similar pattern to the pre-crisis period. This contrasts with London and the South East quite dramatically. In June 2003, pay in London was 25 per cent above the UK average, and pay in the South East was 15 per cent above. In June 2008, the figures were 31 per cent and 12 per cent. In June 2013, the figures were 33 per cent and 10 per cent above the UK average. Clearly, in terms of pay, London is clearly moving further away from the Northern regions (although pay growth in the rest of the South East appears to have slowed).

### **Productivity**

As indicated by the fact that overall output is growing faster than employment, productivity in the UK has finally started to increase. After falling for six consecutive quarters, productivity (measured on an output per hour worked basis) was stagnant in the first quarter of 2013, then grew by 0.5 per cent in the second quarter. However, productivity has yet to recover the ground lost since the coalition government came to office, and remains below the level recorded in 2006.

There is also little evidence that productivity is improving in the Northern regions, as part of economic rebalancing – although data is only available up to 2011. Output per hour is 29 per cent higher in London than the UK average, and 7 per cent higher in the South East – figures almost identical to those recorded in 2005. Productivity in the North East and North West is 10 per cent below the UK average, and in Yorkshire it is 12 per cent below. These discrepancies have widened since 2005 although have generally slightly improved since the coalition took office.

### **Trade**

In recent decades the UK has experienced a significant current account deficit, arising principally from the economy importing more goods and services from abroad than it exports to the rest of the world. As noted above, this had been identified by the coalition government as one of the key flaws of the pre-crisis growth model. However, there is little evidence that the economy is now rebalancing towards export-led growth.

In the immediate post-war era, the UK's current account alternated between small deficits and small surpluses. Since 1984, however, the UK has run a current account deficit every single year, and deficits have grown in magnitude. In 2012 it stood at more than £59 billion, almost 4 per cent of GDP – the largest deficit since 1989. From 1997 to 2009, the average annual deficit was around 1.8 per cent of GDP. From 2010 to 2012, the average was 2.7 per cent. The trade balance is the chief component of the current account deficit, demonstrating the economy's weakness in exports, and stood in 2012 at almost £34 billion, or more than 2 per cent of GDP.

GDP data shows that the trade balance improved slightly in the first two quarters of 2013, as exports increased. However, the increase was largely in line with the overall increase in GDP, with exports accounting for no greater a portion of GDP than the corresponding quarters of 2010, 2011 and 2012. Clearly, the recovery is not being led by exports. Furthermore, there has been no rebalancing *within* exports away from financial services and towards manufacturing. Financial services represent less than 10 per cent of the UK's GVA, but almost a quarter of all exports.

## Investment and consumption

Across the G7, investment (that is, gross fixed capital formation) accounts for an average of 14.6 per cent of GDP (ONS 2013b). An economy based on investment rather than consumption is one of the key elements of the promised rebalancing. Yet, despite the 2013 recovery in overall growth, investment results have been getting worse. It remains 25 per cent below its pre-crisis peak from late 2007, and now represents 10.4 per cent of GDP, down from 13.5 per cent. Within this, business investment has been the most significant drag. After a small rise in the first quarter of 2013, it fell by 2.7 per cent in the second quarter. It has fallen in two out of every three quarters since the coalition came to power.

In contrast, consumption has remained consistently high. It is of course too simplistic to say that changes in levels of consumption represent either good or bad news for the economy. The most important consideration is the proportion of GDP represented by consumption – the high rate evident before the financial crisis proved unsustainable. Unfortunately, however, there is no evidence that this rebalancing is occurring. Consumption accounts for roughly the same proportion of GDP as it did when the coalition government came to power, and indeed the same as the pre-crisis period (that is, around 46-47 per cent).

The reason that consumption-led growth was unsustainable was that it became too dependent on borrowing, as earnings stagnated. A similar pattern is, however, again evident. Household consumption has grown by around 3 per cent in real terms since the middle of 2009, while real disposable income has been flat over the same period. The Bank of England reports that non-credit card unsecured borrowing has increased enormously as the economy has returned to consistent growth, with households taking on more than £5.4 billion in unsecured borrowing between July 2012 and July 2013 – in addition to credit card borrowing returning to levels last evident in early 2011 (Bank of England, 2013).

## House prices

The ONS (2013b) argues that ‘the change in household behaviour in the past year [i.e. additional consumption] may be associated with the performance of the housing market. House prices have been rising since 2011, and this in turn may have influenced household confidence and expenditure’. The implication is that the return to consumption-led growth has been enabled not solely by unsecured borrowing, but also by the housing market. The recovery therefore bears the hallmarks of the pre-crisis growth model. The government has of course deliberately sought to bolster the housing market through its ‘Funding for Lending’ and Help to Buy schemes; after recovering during 2009, average house prices were largely stagnant from the middle of 2010 to the end of 2012 – but have since grown by around 5 per cent. Moreover, growth has been driven almost exclusively by London. Average house prices in London are now around 20 per cent above their pre-crisis peak (in early 2008), while prices in the rest of the UK are around 5 per cent below the peak. Rising house prices are not necessarily a negative sign for the economy – indeed, stagnating house prices in most of the country are a sign that the economy outside London remains in very poor health.

Yet the financial crisis and subsequent recession have demonstrated the danger of relying on the housing market to fuel economic growth as earnings stagnate. Hay argues that a combination of demographic change, increasing graduate debt and the rising cost of mortgage borrowing (as banks seek to recapitalise) means ‘there are good reasons to think that British house prices remain significantly over-valued and that the longer-term house price trajectory is at best likely to prove static – or, more realistically, to chart a downward trend’ (Hay, 2013: 15-16). Arguably, we are already witnessing the impact of these long-term trends outside London (with the London property market benefiting from foreign investment), as well as the short-term impact of a sluggish recovery. The problem with a growth strategy reliant on the housing market, therefore,

is that the housing market is unreliable. Unless other sources of consumer demand – principally earnings – are able to substitute for the release of equity, then the post-crisis growth model may suffer the same fate as its pre-crisis relative.

### Back to the future

It is clear that the economy has not recovered. Arguably, it is *in recovery*, but that this is occurring so long after the recession – compared to the experience of previous recoveries and other countries – suggests that the British economy has deep-rooted problems, or that economic policies designed to trigger recovery have largely failed. Clearly, the coalition government would favour the former explanation, yet this merely begs the question of whether it has made any genuine attempt to fix these problems. There is little evidence that the problem it has focused on resolving – the structural deficit – caused the economic downturn, or that fixing it has enabled a wider rebalancing of the economy.

What we are seeing therefore is ‘pseudo-recovery’. The financial crisis and subsequent recession were caused by flaws in the British economy’s growth model. Although we should not exaggerate the ability of policy-makers to transform economic practice in the short term, it is nevertheless apparent that these flaws have not been addressed. This failing is inhibiting recovery, because many of the pre-crisis growth model’s key features have been severely undermined by the crisis and its aftermath. It also means that a further economic downturn is likely (although obviously not inevitable), although the fact the pre-crisis growth model has been unable to resume normal service means that a crash similar to that experienced in 2008 is very unlikely. The table below summarises the condition of the growth model’s key features, pre- and post-crisis.

The growth model that seems to have appeared during 2013 will not be the same as the pre-crisis model – but this does not mean it represents the rebalancing promised by the coalition government. The only evidence to suggest a significant change is a partial retrenchment of the welfare state, and the reluctance of the banking sector to create credit, relative to the previous growth model – neither of which can plausibly be considered growth-inducing. Of course, through Funding for Lending and Help to Buy, the state is using its own balance-sheet to substitute for the banks’ – a radical departure from previous practice in some ways, but actually geared towards the same goal of delivering growth, in part, by inflating the housing market. The sustainability of this strategy remains to be seen.

There are few signs of export-led growth, a ‘march of the makers’, or increasing private investment. The housing market and unsecured credit have reclaimed their previous functions in supporting consumption and, as such, are likely to be a source of instability as well as consumption-led growth. This type of growth will also lead to further deindustrialisation and import dependence, as labour becomes more concentrated in non-tradeable sectors with low levels of technological innovation (Plender, 2013). This time around, of course, the property boom seems to be even more concentrated in London; it seems likely that low pay and under-employment will remain defining features of economic life outside the South East, although without sustained investment productivity is highly unlikely to increase significantly, and therefore unemployment will remain relatively low.

This is not to suggest that switching to a new growth model is a straightforward task; there are significant obstacles in the way. Crucially, while a new model would presumably be characterised by a higher level of private investment, the initial transition to a more productive economy with stronger manufacturing, exports and pay would also require significant investment. Any transition therefore confronts Britain’s longstanding problem with the high cost of capital (Hay, 2013: 56-7). The private sector in Britain is overly-dependent on bank finance, yet the highly concentrated banking sector in the UK, and its dependence on wholesale funding, tends to make commercial borrowing prohibitively expensive (Thompson, 2013: 489). The fact that lending is

[7] Features of the British growth model	
Pre-crisis	Post-crisis
<b>Sectoral balance</b>	
A declining manufacturing sector, contrasted with a growing services sector. Growth in the hospitality industry was important to services growth, but so too was the financial sector, which became a major source of employment, exports, and tax revenues. The centrality of debt and capital markets to the entire economy gave financial services, particularly banks, a pivotal role in facilitating growth. Banks were encouraged to expand significantly.	There has been no reversal of manufacturing decline. The hospitality industry has largely retained its size, and property-related services have grown significantly in importance. Financial services will remain a vital source of employment, but the banking sector's future remains uncertain. Lower profitability has reduced the tax revenue created by banks, and recapitalisation has (other things being equal) increased the cost of borrowing.
<b>Employment and pay</b>	
Relatively high employment in the years immediately preceding the crisis, to some extent due to the growing public sector workforce, and declining productivity. Yet jobs in the private sector became increasingly low-paid and insecure.	Under-employment and low-paid work appear to have become entrenched features of the labour market. Apart from among young people, employment remains fairly high, although this may be a product of Britain's poor productivity.
<b>Investment and consumption</b>	
Very low levels of private investment. Growth was generated instead by high levels of private consumption, despite stagnating incomes, sustained by unsecured debt and property wealth. Financial services liberalisation was associated with both poor investment in the 'real economy' and the increasing availability of consumer credit.	Public investment has been reduced, exacerbating a further decline in private investment. Cash surpluses held by many firms, and a renewed focus on pensions saving, could increase investment channels, but currently economic growth is again being sustained by consumption, dependent on debt and the housing market.
<b>Housing market</b>	
House prices rose consistently, significantly increasing household wealth. Release of equity contributed significantly to private consumption, and therefore growth, and stamp duty on property was an important source of tax revenue. The housing market was aided to a great extent by the Bank of England's position on interest rates, which remained low even as inflationary pressures mounted.	Industries related to property have increased in importance in terms of output and employment. Yet the resurgence in house prices appears to be concentrated in London and may therefore not fuel increased consumption to the same extent. Persistent problems in the banking sector mean the government has had to intervene to support mortgage borrowing, although this is unlikely to endure over the long term.
<b>Trade</b>	
Manufacturing decline contributed to the growth of Britain's current account deficit from the 1980s onwards. The deficit was slightly reduced during the 2000s due to the increasing tradeability of financial services.	Sterling depreciation has given a small and temporary boost to manufacturing exports, but exports remain unbalanced towards financial services, and the current account deficit is larger now than any time since 1989.
<b>Public spending</b>	
From mid-1990s onwards, high levels of public spending due to strong investment in public services and higher public sector pay, and means-tested benefits increasingly subsidising low-paid work. Spending sustained by healthy tax revenue due to high employment and strong growth, despite low rates of personal and corporate taxation – although investment was to some extent off-balance sheet due to the role of private finance in providing up-front capital.	Spending on public services unlikely to return to pre-crisis levels, reducing the consumption and housing investment of public sector workers. Welfare expenditure has increased significantly due to an expanded recipient group, but cuts in entitlement mean it will not help to support consumer demand to the same extent as previously. Fiscal policy now overseen by quasi-independent forecasters, yet the state has taken on new fiscal risks to support the housing market.

usually secured on the value of commercial property is a further barrier, given its relatively low value in current economic conditions (Plender, 2013).

There are alternatives to bank finance. FTSE 100 companies are currently holding a net cash stockpile of £73.9 billion (gross cash minus short-term debt), six times greater than at the start of the financial crisis in 2008. The absence of clear opportunities to generate an investment return – in the context of shareholder primacy within Britain's corporate governance structures – is seemingly preventing this cash being utilised (Smith, 2013). The amount available to pension funds (which already hold around 95 per cent of GDP) for investment is also likely to increase as millions of private sector workers are 'automatically enrolled' into pension schemes. But most will be enrolled into schemes run by insurance companies rather than traditional investment funds, and the individualisation of pensions saving will create investors with a lower appetite for risk (Berry, 2013).

It is understandable that given the difficulties involved in rebalancing, the government has sought to revisit a form of the previous growth model. Yet the same problems that are inhibiting the development of a new model will also make returning to the pre-crisis model problematic. While there are potentially alternatives to bank finance for commercial lenders, this is far less the case in terms of consumer borrowing. The recapitalisation of the banking sector – which is being achieved through higher interest rate spreads (i.e. the banks charge more than they pay for money) – increases the cost of consumer borrowing even further. Although the reduced availability of credit represents a departure from the pre-crisis model, Sukhdev Jodal, Michael Moran and Karel Williams (2012) argue that the fact that banks have been permitted to recapitalise in this way demonstrates the *strengthening* of the City's political influence following the recession. But this is not to say that recapitalisation is not required; if we are again to have growth driven by consumption, and facilitated by the financial sector, then higher capital buffers are required to mitigate the sector's tendency to implode (Seabrooke & Tsingou, 2010; Thompson, 2013).

The higher cost of borrowing appears therefore to create a more restrained version of the old model, which means that the key question becomes how long it can function under the weight of its own contradictions. It seems likely that very low interest rates will be permanently required. This probably means tolerating high inflation, which had for a sustained period been quashed under the previous growth model. Inflation without wage increases, however, will require ever more aggressive public interventions to reduce the cost of borrowing to enable low-income households to consume. Funding for Lending and Help to Buy – as well as the Bank of England's programme of quantitative easing and the novel forms of insurance offered to banks – are early symptoms of this condition. These schemes create significant fiscal risks, in addition to the possibility of borrowing retracting too rapidly, and therefore demand collapsing, if they are withdrawn.

## Conclusion

The notion of a 'growth model' is not impervious to theoretical challenge. Yet it neatly encapsulates the role of both established practice and contingent political decisions in accounting for *how* a particular economy or set of economies will pursue growth. It also allows economic policy to be judged on its own terms, that is, its success in delivering strong and sustainable growth. This contrasts with the 'varieties of capitalism' approach, which assumes *a priori* that policy reflects established institutional routines, and that no one set of routines is more effective than any other in the long term and, as such, is interested more in the extent to which policy conforms to type rather than the extent to which policy is successful.

The growth model evident in Britain in advance of the economic downturn cannot be conceived as the product of a singular political programme, but nevertheless was the result of conscious



political choices over several decades to liberalise and expand the financial sector, inflate the housing market, retrench the welfare state, and tolerate the relative decline in wages. The financial crisis that occurred in 2008 was endogenous to this model, and it was the model's flaws and contradictions that meant the financial crisis triggered a deep recession in 2009.

Despite better economic news in 2013, the British economy has yet to recover from these events. The recent upturn in growth is best conceived as a 'pseudo-recovery'; while overall output has finally started to recover, a more detailed look at economic performance demonstrates an economy in poor health. Indeed, even the headline growth figures look far less rosy once they are considered on a per capita basis, and the statistical methods underlying the results are interrogated. The headline employment rate has held up well, but under-employment and youth unemployment are becoming chronic problems. Pay continues to fall in real terms. Investment remains very low, contributing to poor productivity (the negative flipside of high employment).

There is little evidence of economic rebalancing towards exports and manufacturing. The genuine growth that has been experienced appears to be due to a re-ignition of elements of the pre-crisis growth model, that is, a booming housing market and consumer borrowing fuelling private consumption. In terms of the economy's geographical balance, London and the wider South-East region are now even more dominant than before. The post-crisis growth model appears therefore to be a direct descendant of the pre-crisis growth model. The current model will probably be less prone to systemic crisis, because banks will be compelled to operate higher capital buffers. But it will probably also be far less effective in delivering growth. Already, fiscal and monetary policy levers have been used in unprecedented ways to sustain the housing market and consumer borrowing, but as fiscal risks and inflationary pressures mount, wages continue to stagnate and capacity constraints begin to take effect, it is not clear they will be sufficient to sustain the recovery.

## Notes

1. Unless otherwise stated, all statistics included in this section are from (or derived from) ONS data, and available at [www.ons.gov.uk](http://www.ons.gov.uk)

2. Osborne also explained that 'growth has been weaker than originally forecast' by saying that '[t]he economic collapse was even worse than we thought'. This perspective stands in direct contradiction to his own forecasters at the OBR, who recently revised down the size of the structural budget deficit on the basis that recent economic growth suggests that the economy was not as damaged as first thought by the financial crisis – a decision which hugely benefits the coalition government by making its austerity targets more sustainable (Berry & Berry, 2013).

3. The preliminary estimate for 2013 Q3 (based only on initial output data) suggested quarterly growth of 0.8 per cent, slightly surpassing the 2013 Q2 result. Preliminary estimates are usually broadly correct, once confirmed, but nevertheless this would not change the overall argument of the paper that the growth being witnessed now is fairly weak, largely regressive, and being achieved without eliminating the flaws inherent in the pre-crisis growth model.

## References

BBC News (2012) 'Bank of England says UK economy "to zigzag" this year', BBC News, 12 February

---

2012, available at <http://www.bbc.co.uk/news/business-17040658>.

BBC News (2013) 'UK economy: GDP figures explained by the ONS', BBC News, 25 July 2013, available at <http://www.bbc.co.uk/news/business-22277954>.

Bank of England (2013) Trends in Lending: October 2013, available at <http://www.bankofengland.co.uk/publications/Pages/other/monetary/trendsinlending.aspx>.

Bennett, Asa (2013) 'Vince Cable warns George Osborne against "complacency" on economy', *The Huffington Post*, 11 September 2013, available at [http://www.huffingtonpost.co.uk/2013/09/11/vince-cable-george-osborn\\_n\\_3904905.html](http://www.huffingtonpost.co.uk/2013/09/11/vince-cable-george-osborn_n_3904905.html).

Berry, Craig (2011) *Globalisation and Ideology in Britain: Neoliberalism, Free Trade and the Global Economy* (Manchester: Manchester University Press).

Berry, Craig (2013) 'Can pensions break the British investment strike?', *SPERI Comment*, 7 November 2013, available at <http://speri.dept.shef.ac.uk/2013/11/07/pensions-break-british-investment-strike/>.

Berry, Craig & Berry, Richard (2013) 'Has the Office for Budget Responsibility achieved genuine independence from government?', *Democratic Audit*, available at <http://www.democraticaudit.com/?p=1278>.

Cable, Vince (2013) 'When the facts change, should I change my mind? The long economic stagnation of post-crisis Britain', *The New Statesman*, 6 March 2013, available at <http://www.newstatesman.com/economics/economics/2013/03/when-facts-change-should-i-change-my-mind>.

Chang, Ha-Joon (2013) 'George Osborne's description of the economy is near-Orwellian', *The Guardian*, 26 July 2013, available at <http://www.theguardian.com/commentisfree/2013/jul/26/george-osborne-economy-orwellian-on-mend>.

Clift, Ben (2012) 'Comparative capitalisms, ideational political economy and the French post-dirigiste responses to the global financial crisis', *New Political Economy* 17(5), pp 565-590.

Coates, David (2000) *Models of Capitalism: Growth and Stagnation in the Modern Era* (Cambridge: Polity).

Coates, David (2009) 'Chickens coming home to roost? New Labour at the eleventh hour', *British Politics* 4(4), pp 421-433.

Coates, David (2012) 'Shadows of the past in the making of the future', paper presented at *The British Growth Crisis: the Search for a New Model: Sheffield Political Economy Research Institute Inaugural Annual Conference*, University of Sheffield, July 2012, available at <http://speri.dept.shef.ac.uk/wp-content/uploads/2012/07/David-Coates-Shadows-of-the-Past-in-the-Making-of-the-Future-Models-of-Capitalism-British-Imperialism-176KB.pdf>.

Conservative Party (2010) *An Invitation to Join the Government of Britain: The Conservative Manifesto 2010*, available at [http://media.conservatives.s3.amazonaws.com/manifesto/cpmanifesto2010\\_lowres.pdf](http://media.conservatives.s3.amazonaws.com/manifesto/cpmanifesto2010_lowres.pdf).

- 
- Crouch, Colin (2005) 'Models of capitalism', *New Political Economy* 10(4), pp 339-456.
- Crouch, Colin (2009) 'Privatised Keynesianism: an unacknowledged policy regime', *British Journal of Politics and International Relations* 11(3), pp 382-399.
- Esping-Andersen, Gøsta (1990) *The Three Worlds of Welfare Capitalism* (Cambridge: Polity).
- Finlayson, Alan (2009) 'Financialisation, financial literacy and asset-based welfare', *British Journal of Politics and International Relations* 11(3), pp 400-421.
- Gamble, Andrew (1994) *The Free Economy and the Strong State: The Politics of Thatcherism* (Basingstoke: Palgrave).
- Gamble, Andrew (2003) *Between Europe and America: The Future of British Politics* (Basingstoke: Palgrave).
- Gamble, Andrew (2009a) 'British politics and the financial crisis', *British Politics* 4(4), pp 450-462.
- Gamble, Andrew (2009b) *Spectre at the Feast: Capitalist Crisis and the Politics of Recession* (Basingstoke: Palgrave).
- Hall, Peter A. & Soskice, David (2001) 'An introduction to varieties of capitalism' in Peter A. Hall & David Soskice (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: OUP), pp 1-68.
- Harford, Tim (2013) 'Dr Osborne's bitter medicine is no cure', *The Undercover Economist/Financial Times*, 12 October 2013, available at <http://timharford.com/2013/10/dr-osbornes-bitter-medicine-is-no-cure/>.
- Hay, Colin (2005) 'Two can play at that game... or can they? Varieties of capitalism, varieties of institutionalism' in David Coates (ed.) *Varieties of Capitalism, Varieties of Approaches* (Basingstoke: Palgrave), pp 106-121.
- Hay, Colin (2013) *The Failure of Anglo-Liberal Capitalism* (Basingstoke: Palgrave).
- Hindmoor, Andrew & McConnell, Allan (2013) 'Why didn't they see it coming? Warning signs, acceptable risks and the global financial crisis', *Political Studies* 61(3), pp 543-560.
- HM Government (2010) *The Coalition: Our Programme for Government*, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/78977/coalition\\_programme\\_for\\_government.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf).
- HM Treasury & Department for Business, Innovation and Skills (2011) *The Plan for Growth*, available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31584/2011budget\\_growth.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31584/2011budget_growth.pdf).
- Kirkup, James (2013) 'Budget 2013: Interest payments on national debt to eclipse combined budget for schools and police', *The Telegraph*, 20 March 2013, available at <http://www.telegraph.co.uk/finance/budget/9944649/Budget-2013-Interest-payments-on-national-debt-to-eclipse->
-

combined-budget-for-schools-and-police.html.

Lansley, Stewart & Reed, Howard (2013) *How to Boost the Wage Share*, Touchstone Pamphlet 13, Trades Union Congress, available at <http://www.tuc.org.uk/economic-issues/touchstone-pamphlets/how-boost-wage-share>.

Nelson, Fraser (2013) ‘“Fisking” George Osborne’s recovery speech’, *The Spectator*, 9 September 2013, available at <http://blogs.spectator.co.uk/coffeehouse/2013/09/fisking-george-osbornes-speech/>.

Office for National Statistics (2013a) *Economic Review: May 2013*, available at [http://www.ons.gov.uk/ons/dcp171766\\_308566.pdf](http://www.ons.gov.uk/ons/dcp171766_308566.pdf).

Office for National Statistics (2013b) *Economic Review: October 2013*, available at <http://www.ons.gov.uk/ons/rel/elmr/economic-review/october-2013/art-octoberer.html>.

Office for National Statistics (2013c) ‘Public service productivity estimates: frequently asked questions’, available at <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/productivity-measures/public-service-productivity/faqs/index.html#12>.

Osborne, George (2010) ‘Mais lecture: a new economic model’, 24 February 2010, available at <http://www.totalpolitics.com/print/speeches/35193/george-osborne-mais-lecture-a-new-economic-model.thtml>.

Osborne, George (2011) ‘Budget statement 2011’, 23 March 2011, available at <http://www.parliament.uk/business/news/2011/march/budget-2011-statement/>.

Osborne, George (2013) ‘Keynote speech on the economy’, 9 September 2013, available at <https://www.gov.uk/government/speeches/chancellor-speech-on-the-economy>.

ONS (2013) *Quarterly National Accounts*, Q2 2013, available at [http://www.ons.gov.uk/ons/dcp171778\\_326877.pdf](http://www.ons.gov.uk/ons/dcp171778_326877.pdf).

Payne, Tony (2013) ‘Models of development and models of capitalism’, *SPERI Comment*, 6 March 2013, available at <http://speri.dept.shef.ac.uk/2013/03/06/models-development-models-capitalism/>.

Pettifor, Ann (2013) ‘The (sheer) audacity of the Chancellor’s hope’, *Policy Research in Macroeconomics website*, 9 September 2013, available at <http://www.primeconomics.org/?p=2120>.

Plender, John (2013) ‘UK gets the wrong kind of economic recovery’, *Financial Times*, 10 September 2013, available at <http://www.ft.com/cms/s/0/4be6ab7a-1977-11e3-afc2-00144feab7de.html#axzz2kKgB17FH>.

Portes, Jonathan (2013) ‘What Osborne won’t admit: growth has increased because of slower cuts’, *The New Statesman*, 10 September 2013, available at <http://www.newstatesman.com/politics/2013/09/what-osborne-wont-admit-growth-has-increased-because-slower-cuts>.

Seabrooke, Leonard & Tsingou, Eleni (2010) ‘Responding the global credit crisis: the politics of financial reform’ in *British Journal of Politics and International Relations* 12(2), pp 313-323.

Smith, Alison (2013) 'Cash held on balance sheets of largest companies at record high', *Financial Times*, 15 September 2013, available at <http://clippings.ft.com/listnavigator/cpexh/11845092>.

Smith, Jeremy (2013) 'The mysterious alchemy of GDP – transforming public spending reductions into “growth”', *Policy Research in Macroeconomics website*, 17 September 2013, available at <http://www.primeeconomics.org/?p=2144>.

Standing, Guy (2011) *The Precariat: The New Dangerous Class* (London: Bloomsbury Academic).

Thompson, Helen (2013) 'UK debt in comparative perspective: the pernicious legacy of financial sector debt', *British Journal of Politics and International Relations* 15(3), pp 476-492.

Watson, Matthew (2008) 'Constituting monetary conservatives via the savings habit: New Labour and the British housing market bubble', *Comparative European Politics* 6(3), pp 285-304.

Watson, Matthew (2009a) 'Headlong into the Polanyian dilemma: the impact of middle-class moral panic on the British government's response to the sub-prime crisis', *British Journal of Politics and International Relations* 11(3), pp 422-437.

Watson, Matthew (2009b) 'Planning for a future of asset-based welfare: New Labour, financialised economic agency and the housing market', *Planning, Practice and Research* 24(1), pp 41-56.

Watson, Matthew (2013) 'The welfare state sources of bank instability: displacing the conditions of welfare state fiscal crisis under pressures of macroeconomic financialisation', *Public Administration*, doi: 10.1111/j.1467-9299.2012.02069.x.

Weldon, Duncan (2013a) 'Recovery, rebalancing, renewal', *Touchstone*, 16 September 2013, available at <http://touchstoneblog.org.uk/2013/09/rebalancing-recovery-renewal>.

Weldon, Duncan (2013b) 'The state of the recovery', *Touchstone*, 2 October 2013, available at <http://touchstoneblog.org.uk/2013/10/the-state-of-the-recovery>.

Whittaker, Matthew (2013) *Squeezed Britain 2013*, Resolution Foundation, available at <http://www.resolutionfoundation.org/publications/squeezed-britain-2013/>.

Wolf, Martin (2013) 'Osborne has been proved wrong on austerity', *Financial Times*, 26 September 2013, available at <http://www.ft.com/cms/s/0/c2fc7352-25de-11e3-ae8-00144feab7de.html?siteedition=uk>.

Wren-Lewis, Simon (2013) 'Austerity, growth, and being economical with the truth', *Mainly Macro*, 28 September 2013, available at <http://mainlymacro.blogspot.co.uk/2013/09/austerity-growth-and-being-economical.html>.



The  
University  
Of  
Sheffield.

Sheffield Political Economy Research Institute  
Interdisciplinary Centre of the Social Sciences  
219 Portobello  
Sheffield S1 4DP

T: +44 (0)114 222 8346  
E: [speri@sheffield.ac.uk](mailto:speri@sheffield.ac.uk)