The UK has experienced the slowest recovery in 300 years and the third slowest in six hundred and fifty years behind, in order, the Black Death and the South Sea Bubble. It took five and a half years for the UK to restore lost output compared with approximately four years in the Great Depression. GDP in Q42014 was 3.5% above its starting level. This slow recovery is even more surprising given the fact that the UK’s population age 16 and over has risen 5.4% since the start of 2008. GDP per head in constant prices in the UK in 2014Q3 was still 1.8% below its starting level in 2008Q1. Employment is 1.2 million higher than it was in 2008, with half of this growth being in self-employment; there has also been a sharp rise in the numbers of temporary workers as well as the numbers on zero-hours contracts (ONS, 2015).\(^1\)

The ONS finds evidence that it is likely that individual workers are likely to hold multiple zero hours contracts because the number of such contracts reported by businesses is more than twice as high as the numbers reported by workers. The employment to population rate of those ages 16 and over was 59.6% in December 2014 compared to a high of 60.4% in May 2008. The labour market crisis in the UK has fallen especially hard on the young who have been faced with a double whammy: they are unable to find jobs, but when they are lucky enough to find a job they are especially likely to have fewer hours than the youngsters would like and be temporary and low paying.

Living standards in the UK have collapsed, especially for the typical worker. The UK’s national statistic on wages, called Average Weekly Earnings (AWE) has risen from £424 a week in April 2008 when the recession started, to £457 a week in December 2014 or by 11.1%. Over the same period the price level rose, as measured by the CPI, by 19.1% implying an unprecedented fall in real wages 8%, despite some small improvement at the end of 2014 as inflation headed down. Since the coalition was formed in May 2010 real wages, based on the AWE and deflating with the CPI, real wages have fallen an unprecedented 4.3%. Real wages of the self-employed in the UK have fallen by over 20% since the onset of recession.

In the US real wages have remained broadly flat since 2008. Employment to population rate in the US for those ages 16 and over is 59.3% at the start of 2015, as in the UK, well below the 63.3% seen in the middle of 2007. US GDP in Q42014 is 8.5% above its starting level. In both countries there are significant levels of labour market slack over and above the unemployment rate. In my research with Andrew Levin and David Bell we estimate that the level of labour market slack is about 7.5% in both countries.\(^2\) In the UK it is principally from underemployment whereas in the US it is a mix of the underemployed and the hidden unemployed who have left the labour force but who will return when the good times roll. In the most recent data for

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1 ‘Analysis of employee contracts that do not guarantee a minimum number of hours, 2014 release’ ONS, 25\(^{th}\) February 2015.

January 2015, for example, there was a rise of over a million in the size of the labour force employment rose by 750,000 while unemployment increased by around 300,000, resulting in a rise of the unemployment rate from 5.6% to 5.7%. The number of those saying they were part-time for economic reasons increased slightly on the month from 6,790,000 to 6,810,000. These high levels of labour market slack help explain why there is no evidence of any significant pickup in nominal wage growth, although there has been recently in real wages because of the dramatic fall in the oil price.3

These continue to be Hard Times.

Tom Clark and Anthony Heath (henceforth CH) in their impressive and fascinating book *Hard Times – the Divisive Toll of the Economic Slump* have done a fantastic job documenting who has been hurt and how by the Great Recession along with what they call the withering of community bonds. There is no Big Society. The modern world has been hit by an economic tornado which was not quite 1933; there has been no General Strike and no Jarrow march. Central banks learned the lessons from the thirties and cut interest rates and bought assets through quantitative easing programmes. In 2009 governments around the world injected fiscal stimuli which, in combination with loose monetary policy created a steady recovery. But by 2010 the austerity small state counter movement argued that none of this was appropriate and all the fiscal stuff that worked was put into reverse gear. In the UK the leaders of the new coalition government claimed the UK was bankrupt and comparable to Greece which of course was untrue, given the UK had its own central bank and currency that it could borrow in. Such loose reckless talk destroyed what Keynes called animal spirits; business and consumer confidence quickly collapsed. Over the five quarters from 2008Q2 to 2009Q2 GDP fell 6.2%. Over the next five quarters Q32009-Q32010 the UK economy grew 2.7% including 1% in Q22008. Over the following flatlining nine quarters Q42010-Q42012 the economy grew only 1.9%. The coalition is responsible for the slowest recovery in hundreds of years by inhibiting the economy's natural tendency to recover

CH’s book is unashamedly about inequality as well as about recession and it is a lot about the squeezed middle. The book’s theme is that the deep societal problems laid bare by the recession – problems of anxiety and isolation- were always more structural than cyclical. A rich country, they argue, should be perfectly able to endure getting a bit poorer, during a passing downturn. The UK they argue, and I agree, didn’t run into all the dislocation they uncovered because the crisis suddenly created frailty in downtrodden communities. It simply exposed underlying problems with deep roots in the long decades before, when inequality had run out of control.

I should say at the outset I really like the book a lot; it is vital reading for anyone who wants to understand the impact of the worst downturn in a generation. It uses the best empirical evidence, places it in historical perspective, especially from the 1930s with an obvious passion. There is a certain darkness in their writing in the sense that a lot of the book says here we go again; they really aren’t that hopeful that any of this is going to get fixed. They obviously care about the plight of the meek and the mild.

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CH identify the high levels of insecurity and underemployment that have resulted from this latest bust, which have been slower to disappear than the decline in the unemployment rate would suggest. They rightly point out that ‘most people desperately want to work, which is why – in popular imagination and experience – joblessness is the defining feature of hard times’ (p50). Unemployment is indeed a major source of unhappiness; and the underemployed, the working insecure and the poor, ‘have shared in around half of the misery of the jobless’. There is little evidence to support the contention that the unemployed are a bunch of lazy scroungers; the evidence is that Marx’s reserve army of the unemployed is a conscript army and not a volunteer army. Even though the unemployment rate didn’t rise to anything like it did in the thirties, this really was the big hurt.

The young, the fragile and the weak suffered most and what they document is the evidence from behavioural economics that not just absolute things matter but so do relative things. If I buy a BMW and you do my happiness doesn’t rise as much as if you didn’t get one; if we are all in it together then that’s fine but if you do well and I don’t then watch out. The young especially have done badly at the expense of the old. The young’s dreams, say CH were ‘put in the deep freeze’. The slump hit sectors such as construction and manufacturing that traditionally provided better paying working class jobs disproportionately hard. Jobs created in the recoveries especially in the UK have tended to be low-paying and insecure. CH are right though; contemporary Britain and America were not broken by the Great Recession as the US was by the Great Depression.

But CH do note some social and economic surprises. First, the immediate effect of the Great Recession in the UK was not disproportionately felt by the poor. State action through taxes and benefits ensured that the initial squeeze was shared far and wide. In the new foreword to the paperback edition the authors make clear that line is now heavily qualified, both because of new data from the IFS on differential inflation hammering the poor, and also because of the coalition’s commitments to cut benefits and tax credits as the poorest income groups lost the biggest share of their incomes on average. Second, those who have been hurt have been surprisingly compliant: crime rates have fallen not risen and there haven’t been widespread riots. Third there has not been a major uptick in suicide rates in the US or the UK, although there has been in Greece, for example, or a major drop in levels of well-being over the crisis. If we look at Eurobarometer survey 69.2 administered in the UK between March and May 2008 when asked ‘how satisfied are you with your life?’ 34% said very satisfied 55% said fairly satisfied and 11% said not very or not at all satisfied. In November-December 2013 in Eurobarometer 80.2 the answers were 42% very satisfied with 50% fairly satisfied. In the new and much larger ONS well-being surveys there has been no significant change in happiness or life satisfaction measures between 2011 and 2013. This has not been a happiness reducing recession.

In both the UK and the US what CH call the ‘gradual evolution of disadvantage’ has taken place; the weak are hit more than the strong. The least educated and minorities lost out the most from what CH call the *dynamics of casualisation*. The levels of youth unemployment per se doesn’t seem to be the major factor what seems to matter but the rate relative to adults appears to. There were riots in Sweden among minorities even though the unemployment rates compared with many countries were low but they were high relative to white adults. Communities matter; fairness matters. The ratio of youth unemployment rates to adult rates is especially high in the UK. Older people were forced back to work as the value of their pensions fell. Interestingly older workers report they would like fewer hours while younger workers say they would like more hours.

The pain hasn’t been evenly spread, so contrary to what George Osborne, the UK Chancellor of the Exchequer has frequently claimed, there is no evidence we are ‘all in this together’. Far from it. CH argue that ‘a true economic hurricane engulfed the rich world’ as it did in the thirties. As then the bust was preceded by a housing boom which started in the United States, this time in the sub-prime housing market. The similarities to the past are well documented by John Kenneth Galbraith in his classic book *The Great Crash* which showed that the 1929 crash started in the Florida housing market and just spread. I have always been struck by the quote from Keynes from his classic 1931 paper on unemployment.

“For it is a possibility that the duration of the slump may be much more prolonged than most people are expecting and much will be changed both in our ideas and in our methods before we emerge. Not, of course the duration of the acute phase of the slump, but that of the long, dragging conditions of semi-slump, or at least sub-normal prosperity, which may be expected to succeed the acute phase.”

Clark and Heath explain clearly what the *long dragging conditions of semi-slump* look like in the twenty first century. Flickers of depressionary social psychology, CH note applied in the thirties when cigarettes and cinema tickets were about the only goods with rising sales. In the Great Recession Britons developed a taste for more sugary and fattier foods. Shoppers switched to supermarket own brands, drinking less in the pub and cooking with leftovers, doing more home cooking, more mending of clothes and more vegetable growing. Rising use of food banks is an obvious concern. There is evidence that people have substituted processed foods for fruit and vegetables with the result that indicators of nutritional quality have dropped. Traditionally the lipstick index tends to be negatively correlated with economic health as women substitute lipstick for more expensive purchases like dresses and shoes in times of economic distress. During the Great Recession sales of lipsticks fell but what did rise were sales of nail polish, which women bought to feel good.

Austerity in the UK introduced by the coalition government in the spring of 2010 destroyed growth and caused the economy to flatline for three years; growth only returned when the automatic stabilisers were allowed to kick in. Cuts in public investment and a rise in VAT which is a highly regressive tax at the same time that tax rates at the top end were reduced, which

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generated a sense of unfairness. There is a deep sense of bifurcation and polarization. The influx of young, hard-working, highly educated and mobile workers from the ten Accession countries who came to the UK since 2004 in search of work, are the scapegoats for anti-immigrant parties such as the UK Independence Party. More than 2.5 million workers from these countries have registered for National Insurance numbers. They have higher employment rates than the UK born, and have greased the wheels of the labour market and made it function more efficiently, lowering the NAIRU. But they, along with youngsters from Spain and Greece who came to the UK to work to escape their own Great Depressions are widely resented for taking British jobs. Labour market anxiety and insecurity prevails.

Interest rates remain at the Zero Lower Bound and show little sign that they will rise any time soon. In 2009 when I was on the MPC voting to cut rates I thought at the time that rates would remain close to zero for five years. I haven’t changed that view and don’t expect to see them rise in the US in 2015 and in the UK before 2020, not least because of the fact that 70% of UK mortgages are variable rates with the remainder fixed for quite short periods. Any rise in rates would wipe out many homeowners. There is even talk that rates might have to be cut even further in the UK. The £375 billion of assets the Bank of England purchased show no signs of being sold off. The next move might even be to buy more as the pound strengthens against the Euro; who would have thought we had entered the era of currency skirmishes. The worst crisis in our lives is far from over. These are certainly unusual times and harsh times. A great book.