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The austerity era

The neo-liberal ideology that guided governments from the 1980s onwards ushered in what we now call globalization. Economies, firms and individuals were urged to become more ‘competitive’ in order to succeed in a global market economy. Governments re-regulated labour markets to make them more flexible, dismantled institutions of social solidarity, rolled back mechanisms of social and economic security, and commodified education to serve the interests of business. These changes expanded the number of denizens, while the precariat took shape.

Loss of rights was scarcely noticed at the time, because a ‘Faustian bargain’ created a false mood of boom and prosperity. Governments disguised falling real wages – needed to compete with the workforce of emerging market economies and brought about by flexible labour policies – with a combination of easy money and labour subsidies. Growing inequalities, and the emergence of a plutocratic elite, were seen as the corollary of competitiveness. After 2008, all that changed.

The subsequent austerity era has exposed and exacerbated the trends unleashed by globalization that governments had concealed.

Inequalities have grown; wages have fallen further; unemployment, poverty and homelessness have risen. Governments have cut support for the precariat, while increasing subsidies for the rich. More people are losing rights; more are joining the precariat.

Meanwhile, a Great Convergence is gathering pace; wages in emerging economies are rising while those in industrialized countries are falling, a process that still has many years to run. Rich countries have become 'rentier' economies, receiving increasing income in profits and dividends from overseas operations and investments. This serves to enrich the plutocracy and elite, with good pickings for the salariat and proficians. There is a way out. But it depends on understanding what has been happening.

End of the Faustian bargain

When the neo-liberal project took off, the defining features were liberalization, which meant opening up national economies to global competition; individualization, which meant re-regulation to curb all forms of collective institution (notably trade unions and occupational guilds); commodification, which meant making as much as possible subject to market forces (notably through the privatization of public services); and fiscal retrenchment, which meant lowering taxes on high incomes and capital.

Liberalization opened up a global labour market, trebling the world's labour supply; two billion extra workers became available, habituated to labour for incomes one-fiftieth of those in the rich countries. With capital and technology highly mobile, productivity

began to rise rapidly in emerging market economies. The mantra of 'competitiveness' became the guide to economic and social policy, as every country tried to cut labour costs.

The Chicago school of law and economics that underpinned what became known as the Washington Consensus argued that policies and regulations were justified only if they promoted growth. But it was obvious that liberalization globally would lead to a long-term convergence of incomes, with wages rising slowly in developing countries while they fell more quickly in rich countries. Neo-liberal economists also knew that what they were unleashing would increase inequality; the returns to capital would soar while wages and employee benefits in rich countries would come under downward pressure.

Two courses were open to governments and the financial agencies guiding them. As their reforms automatically boosted the incomes of those in finance and export-oriented multinationals, one option was to oblige the fortuitously well-placed beneficiaries to pay more to the public coffers, for society's benefit. After all, their vastly higher incomes were not due to any new collective brilliance but to rule changes in their favour. Inequality could have been limited by a compact to share the gains across society.

Sadly, that road was not taken. Instead, governments made a Faustian bargain with their populations while engaging in a fatal embrace with financial capital. In illustration, in the 1960s, bank assets equalled 50 per cent of US national income; by 2008, they totalled over 200 per cent. In 1982, none of the 50 richest Americans was a financier; by 2012, 12 of the 50 were financiers or asset managers. Yet no government that wished to be re-elected could allow wages to plunge. So, as policy and institutional changes were

made in pursuit of flexibility, and as real wages stagnated, governments propped up the incomes of the emerging precariat through cheap credit, lax fiscal policy and labour subsidies, including tax credits. This Faustian bargain ushered in an orgy of consumption and dissaving.

The USA set the pattern. It printed dollars freely to cover rising current account and budget deficits. Meanwhile, the propensity to save rose in the emerging markets of south-east Asia following the Asian crisis of 1998; they accumulated many of those dollars (and euros), allowing the USA and Europe to spend lavishly. But that left the US economy exposed. By the time of the crash in 2007–8, the USA owed a net \$2.5 trillion to foreigners, whereas China had accumulated net foreign assets of \$1.8 trillion.

By then, a global market economy had emerged. Labour market institutions had been transformed, with labour flexibility, wage system flexibility and a restructuring of the social security system (Standing 1999, 2002). Multinationals had become established in emerging market economies, shifting investment and employment, and unbundling themselves in a new model of shareholder capitalism. Labour markets changed radically. Though some denied that fundamental change was occurring (e.g. Doogan 2009), this view is hard to sustain. Labour insecurity became the norm.

Manufacturing production and employment in OECD countries fell, notably in the USA (Pierce and Schott 2012). The jobs lost should not be romanticized as ‘good’ in the sense of being better than in services. But they had been mostly full-time stable jobs, with extensive non-wage benefits, labour protection and collective bargaining.

The Great Convergence started slowly. Between 1960 and 2000, about 20 low-income countries grew faster than the USA and Western Europe. After 2000, 80 did so, narrowing the gap in living standards (Subramanian 2011). China, with over a billion people, emerged as a global giant. Manufacturing expansion coincided with growth of 145 million in its huge labour force between 1990 and 2008. Productivity grew annually by over 9 per cent. Output that took 100 workers to produce in 1990 required fewer than 20 in 2008, according to the Asian Productivity Organization. In 1999, China's exports were less than a third of the USA's. By 2009, China was the world's largest exporter.

Investment flooded into emerging market economies. Corporations became global in character: sales of multinationals' foreign affiliates rose sixfold between 1990 and 2010, their assets rose twelvefold, their exports quadrupled, and employment in affiliates more than trebled to over 68 million workers (UNCTAD 2011). The share of employees in US multinationals working for subsidiaries abroad rose from a fifth in 1989 to a third in 2009. These figures understate the changes, since they do not include the growing use of foreign sub-contractors.

Workers in rich countries were in trouble. Real wages for middle-income and lower-income labour declined. In OECD countries overall, the share of labour income dropped by five percentage points between 1980 and 2008 (OECD 2012). In the USA, before the crash, the wage share of national income had tumbled from its 1970 peak of 53 per cent to just above 45 per cent, its lowest level in modern history. By the end of 2012, the wage share was down further to just 43.5 per cent. Some economists attributed this to technological change (Brynjolfsson and McAfee 2012), but this is simply a variant

of ‘the lump of labour fallacy’, a familiar refrain since the Luddites. Although technological change played a part, policy and institutional changes were mainly responsible, along with workers’ weakened bargaining strength. The fall in wages was associated with globalization, not induced by digital technologies.

The trend was global. According to the Asian Development Bank, between the mid-1990s and the mid-2000s, labour income as a share of manufacturing output fell from 48 per cent to 42 per cent in China and from 37 per cent to 22 per cent in India. These were enormous shifts, and surely reflected labour surplus conditions and the power of capital.

In another indicator of structural change, the close positive relationship between productivity and wages stopped in the 1980s and the gap widened after 2000, producing a graph dubbed ‘the jaws of the snake’. This was reneging on an implicit social compact of the post-war era, by which real wages moved in parallel with productivity growth. In a globalizing economy, capital no longer needed to make that compromise.

As wages fell, and as labour flexibility made life for those living off labour more insecure, the Faustian bargain was kept going through cheap credit and subsidies. A defining moment came in 1992 when the US government made housing loans cheap and easy to obtain. It brought short-term political advantage to then President Bill Clinton, but was unsustainable. By 2007, total credit had passed \$50 trillion, fifty times greater than in 1964. The explosion of asset prices was aptly described by one economist as ‘creditism’ (Duncan 2012).

Other countries followed. In Europe, millions were enabled to acquire housing beyond their sustainable means. The share of

households in England owning their homes rose from 57 per cent in 1981 to 71 per cent in 2003, at a time when earnings of lower-income groups were stagnating or falling. In Spain, banks were encouraged to lend 100 per cent mortgages to low-income workers, including migrants. In Ireland, banks rushed to grant 115 per cent loans in a building boom that nearly doubled the housing stock; fancy houses sprang up everywhere, many soon to become sad derelict building sites.

Like all Faustian bargains, the orgy had to end, which duly happened in 2007–8. But while the media focused on the greed of bankers and financial markets, attention was diverted from the structural features of the global market system and the related ‘crises’ that had been nurtured by the neo-liberalist strategy.

The *first* was a fiscal crisis. When the financial system went into meltdown, governments rushed to ‘rescue the banks.’ It was the greatest give-away to the rich the world had ever seen. It was also a missed opportunity to redistribute income. Governments, central banks and international financial agencies fed the banks gluttonous amounts of money, generating more government debt.

The *second* was a distributional crisis. Inequality had become greater than at any time since the 1920s. That was due to the Faustian bargain, to the strategy of weakening workers’ bargaining strength and to the restructuring of social protection. It was to worsen when governments addressed the fiscal crisis; they gave more subsidies to the affluent, while cutting benefits and services for others.

The *third* was an existential crisis. The neo-liberal model was a crude version of Darwinian competition, based on ‘winners’ and ‘losers.’ It eschewed values such as compassion, empathy and

solidarity, and preached individualism, competitiveness, meritocracy and commodification. This ideological break, initiated by Ronald Reagan and Margaret Thatcher, created an epidemic of stress, fear and insecurity among the precariat and those close to it. At the same time, the drive for 'competitiveness' encouraged unbridled opportunism, cheating and criminality, especially among the plutocracy. Bernie Madoff, who managed to defraud others of \$65 billion, was only the most vivid example of the plutocracy's venality.

Fourth, an ecological crisis built up through the globalization era. Although there were other causes as well, pursuit of economic growth brought disregard for the externalities that were exacerbating the environmental threat. Governments and corporations looked to the short term, four or five years in the case of most politicians, fewer for most chief executives looking to the bottom line and their bonuses. Proposals to curb, or impose costs on, polluting activities were thwarted by commercial interests and their pet politicians, with job generation often cited as a higher priority. The austerity era intensified the policies of giving subsidies and tax breaks for dubious production, while paying lip service to environmental needs.

Fifth, a 'rights crisis' waited in the wings. A democratic deficit has opened up, due to the commodification of politicians, many of whom are using politics as a 'stepping-stone occupation' enabling them to go on to money-making careers. This has been happening almost everywhere, including the UK. Many people have lost faith in the 'post-truth' version of electoral politics, knowing it is shaped by money, mainly from the plutocracy, with presentational skills, slogans and buzz words dominating substance. The democratic deficit is compounded by the growth of surveillance that is curtailing rights to

privacy and freedom. The ‘panopticon state’ is a threat to civility and equality. We will return to the rights crisis. But first we must consider the orthodox reaction to the end of the Faustian bargain.

The austerity era

Such is the scale of the global adjustment required that the generation we hope to inspire may live under its shadow for a long time to come.

Mervyn King, Governor of the Bank of England, October 2012

After a period of fiscal and monetary stimulus following the 2007–8 crash, a new orthodoxy crystallized. Governments, backed by international financial agencies, decided to impose ‘austerity’ on their populations to pay for the profligacy they had promoted. Ironically, the International Monetary Fund (IMF) and financial groups that had promoted the liberalization agenda became overseers of the strategy intended to clear up the mess. Many of the top policymakers to emerge after the crash were alumni of Goldman Sachs, including so-called technocratic prime ministers of Italy, Greece and Spain, the head of the European Central Bank and the new Governor of the Bank of England. It was a case of poachers turned gamekeepers, epitomizing what even *The Economist* (2012c) has called ‘the rise of the financial-political complex’.

Reducing debt became the mantra of all governments, which later justified big cuts in public spending and living standards with research claiming that debt of more than 90 per cent of GDP reduced

economic growth (Reinhart and Rogoff 2010). Three years later, it was shown that the data and methodology behind this claim were dubious (Herndon, Ash and Pollin 2013; Pollin and Ash 2013). But by then, the policy of rapid debt reduction had become entrenched. The original paper had been accepted simply because it accorded with the ideological paradigm. That can be contrasted with indifference to research showing that reducing inequality would raise growth. As summarized by Berg and Ostry (2011a), in both rich and poorer countries, inequality was correlated with shorter economic expansions and lower medium-term growth.

The rationale for austerity was that high debt slows growth. But, as has become only too evident, the causation can run the other way, with slow growth leading to higher debt. By dampening growth, cutting public spending can increase debt rather than reduce it, creating a vicious circle of decline. It is harder to cut budget deficits during recessions, when living standards are falling and unemployment rising. Some expenditure, on benefits for example, rises automatically while tax revenue falls. Yet governments have responded to persistent debt with further cuts in benefits and services, including public goods, public spaces and the commons, thereby impoverishing more people, leading to more 'dependency' on benefits, and more pressure on health services.

Although debt in industrialized countries was substantial before the crash, it was swollen by the financial crisis itself. The average ratio of government debt to GDP, 74 per cent in 2007, surged by over a third to 101 per cent in 2010, and continued to rise subsequently in some of the hardest-hit countries. In Ireland and Portugal, debt rose to over 100 per cent of national income *after* the crash. In Spain

public debt, just 36 per cent of GDP before the crisis, was close to 100 per cent by 2013. According to the IMF, the main culprit was falling revenues, as austerity measures, intensified by external pressure, drove incomes down. Growth stagnated, yet governments continued to try to reduce debt by cutting the incomes of the majority, with empty promises that short-term pain would lead to long-term gain.

In Ireland, which in 2013 was being touted as a success story, a new government imposed austerity on lower-income workers while cutting corporation tax to 12.5 per cent to draw investment from elsewhere. By 2012, household debt exceeded 200 per cent of disposable income. Living standards tumbled, while foreign capital made more profits. As *The Economist*, an austerity advocate, ruefully admitted: 'That widening shortfall reflects the fact that the Irish people have fared much worse than the Irish economy' (Economist 2013a).

Elsewhere too, post-2008 policies were savagely deflationary. The debt ogre was used to justify plans to slash public spending and accelerate privatization, while huge hand-outs were given to banks by way of 'quantitative easing' in an effort to recapitalize the financial sector and induce investment lending. The outcome was more fat bonuses for bankers, while those relying on state benefits and social services suffered most.

Countries at the forefront of the crisis, such as Greece, Ireland, Portugal and Spain, paid a terrible price. Spanish households lost 20 per cent of their wealth, and Irish households 36 per cent, between 2007 and 2012. Greece's economy shrank by a quarter in that period and more spending cuts were planned, while in Portugal, higher income taxes and cuts in benefits led to big falls in national income

and soaring unemployment, with more austerity measures on the way.

The Eurozone crisis may have been the precipitating factor. But the main problem was the neo-liberal model that had allowed levels of inequality unimaginable at the start of the globalization era. Put bluntly, if more income goes to a tiny elite, the world economy becomes hostage to a ‘money strike’: the financial elite can withhold their money, just as workers can withhold labour in a labour strike, to force governments to entice them with more tax breaks and subsidies. The burden of cuts is then borne by everyone else, especially those most reliant on social spending and benefits – the precariat.

The Great Convergence

While austerity spluttered, the Great Convergence accelerated. Average living standards in emerging economies are rising, although many have suffered from austerity (Ortiz and Cummins 2013). While growth stalled in OECD countries, it remained buoyant in most emerging market economies. And the Great Convergence has been accompanied by ‘structural decoupling’. Whereas before the crash cyclical patterns in OECD countries were matched by similar changes in emerging economies, now most of the latter grow even when OECD countries are in recession. And the most successful have relied on state capital to do so.

In rich countries, the crash slowed potential as well as actual growth. The IMF concluded that the Group of Seven biggest industrial economies would grow at most by 2 per cent per annum between 2012

and 2017, compared with 4 per cent in the recovery from recession in the 1980s (1983–8) and 3 per cent in the 1990s recovery (1994–9). At 2 per cent a year and falling, the US economy's potential growth rate has slowed to half what it was in the late twentieth century.

By contrast, although China's government orchestrated a slowdown in its hectic growth, partly in response to signs of a property 'bubble', real wages and benefits rose faster after the crash just as they fell more sharply in OECD countries. In 2012, China's dollar GDP, measured at purchasing power parity, overtook the USA's. India struggled, but its economy still grew at 5 per cent a year. The convergence promised by globalization was gathering pace.

Much has been made of rising wages in China and it is true that, in one year alone, the minimum wage in some provinces rose by 30 per cent. But as productivity has also risen sharply, labour and production costs are still well below those in the OECD, and will remain so for years. Talk of a roll-back of manufacturing jobs and production to OECD countries is wishful thinking. Instead, investment and production shifted to other emerging market economies, such as Vietnam, Indonesia, Bangladesh, India and Cambodia. While manufacturing output and profitability picked up in the USA, aided by subsidies and shrinking wages and employee benefits, there was no strong revival of manufacturing jobs.

Above all, the Great Convergence involves a global shift of capital. The World Bank (2013) concluded that by 2030 half the global stock of capital will be in today's developing countries, compared with under one-third in 2012. Compared with 2000, their share of global investment is projected to triple to 60 per cent. China and India together will account for 38 per cent of global gross investment.

Growth in capital mobility also reflects the new global model of shareholder capitalism, in which corporate unbundling has gone with a shift of trade from finished goods to tasks and parts of goods. More corporations are integrated globally, able to switch production and employment according to market and cost changes. For instance, Boeing's Dreamliner, a midsize jet, involves 43 suppliers spread over 135 sites around the world; 70 per cent of its components are produced abroad. In Sweden, Ericsson's mobile phones have 900 components from 60 suppliers in 40 countries, which are shipped to customers in 90 countries. A typical Swedish car is only 50 per cent Swedish.

The global restructuring of investment has accelerated. Between 2007 and 2011, private investment in the 27 countries of the European Union fell by €350 billion, 20 times the fall in private consumption, four times the fall in real GDP. Including the USA and Japan, the fall in private investment was \$1 trillion. Foreign direct investment (FDI) into developed countries fell in 2012 to its lowest level for almost ten years, while for the first time FDI into developing countries accounted for more than half the global total (UNCTAD 2013).

The rush of multinationals to emerging market economies accelerated. Although many complained about rising anti-business sentiment in Europe, their motive was to boost profits. American firms led the flight, with Ford, General Motors, GE (General Electric), Dow Chemical, HP (Hewlett-Packard) and others closing European plants. Financial services firms followed.

Big corporations are blossoming in what are now dynamic members of a global market system. At the pinnacle in terms of

labour impact is the Taiwan-owned Foxconn, electronics workshop of the world, dubbed the champion of flexible manufacturing. By 2013 it employed 1.4 million people in China alone, up from 100,000 in 2003 and more than twice as many as when the global shock struck. In 2012, it announced plans to double in size again by 2020. Indicative of its global ambitions, it has become the Czech Republic's second largest exporter, is expanding in Mexico, Brazil, Turkey, India and Indonesia, and in 2013 was setting up its first US operation, in California, to manufacture Google Glass. Alibaba, a Chinese internet firm, plans to become one of the world's most valuable companies soon. Others are following.

China used the austerity era to buy the technology of high-profile European corporations, its state enterprises gaining control of private, often privatized, firms with the aid of subsidies, cheap credit and tax breaks. Chinese enterprises invested \$12.6 billion in Europe in 2012, 21 per cent more than in 2011. German manufacturing firms were again a favoured target, while China Investment Corporation took minority stakes in London's Heathrow airport and Thames Water. When Portugal privatized its power industry, China's Three Gorges took a 21 per cent stake in the largest power company. There is more to come.

Employment restructuring

The global restructuring of employment has also accelerated. Between 2008 and 2010, US-based firms cut 2.9 million jobs in the USA and expanded jobs outside the USA by 2.4 million, while leading French

firms in the CAC-40 stock-market index cut employment in France by 4 per cent but increased global employment by 5 per cent. By 2012, one-fifth of Japanese manufacturing took place outside Japan. For electronics it was over 30 per cent, for cars over half. Toyota's boss lamented: 'Industry and employment are on the verge of collapse' (Economist 2012d). Japan has become a 'rentier' economy, relying on investment income from overseas, which keeps the yen strong, impeding exports.

Some still believe the USA is an industrial country. But its leading firms have been shifting more jobs abroad. Apple, then the biggest US corporation by value, had only 43,000 employees in the USA in 2012. Outside, it employed directly just 20,000 people and contracted out another 700,000 manufacturing jobs, mostly in Asia. In 2011, Steve Jobs famously told President Obama that 'those jobs aren't coming back.' Apple's shift abroad, which only began in 2004, was due not just to labour costs but also to the availability of skilled flexible labour and the ability to scale up and down rapidly in response to demand and technological change.

By 2012, China had 34 million urban factory workers earning on average \$2 an hour, while a further 65 million in town and village enterprises earned 64 cents an hour, with 675 million workers available elsewhere. Talk of the labour surplus drying up is delusional. If the Chinese authorities wished, they could raise the retirement age, now 60 for men and 55 for women, low by international standards. The number of Chinese aged over 60 is expected to rise from 181 million in 2012 to 390 million in 2035. If the retirement age was raised by just one year, it would unleash additional labour equivalent to the total labour force of an average EU country.

However, perhaps the outstanding feature of the labour market restructuring is the continuing rise of labour migration, including rural-urban migration in emerging market economies, which is swelling the global labour supply. When commentators ruminate about the ending of labour-surplus conditions – called the Lewis tipping point, after a famous paper written in 1954 – they focus on shrinking additions to the adult population. More important is the loosening of people from rural pursuits as they flood into globalizing labour markets.

Globalization of migratory labour

The Great Convergence is linked to the changing pattern of migration, unique to the Global Transformation. Migration is now global, with flows of people in all directions. More countries have high emigration as well as immigration. And more migration is circulatory and short-term, rather than for settlement, unlike the previous surge in the movement of people before the First World War.

Since 2008, emigration from Europe's most crisis-hit countries has soared. The number of Greeks and Spaniards moving to other European Union countries, notably Germany, doubled between 2007 and 2011. In 2007, 300,000 migrants came to Spain from Latin America; in 2010 the number leaving Spain for Latin America overtook total immigration. The Portuguese too flooded to former colonies, Angola, Mozambique and Brazil. The number of Portuguese living in Brazil rose from 276,000 in 2010 to 330,000 in 2011. More than 100,000 people, many of them young university graduates, were

estimated to have left Portugal in 2012, a bigger outflow than at any time since the mid-1960s. Ireland's central statistical office estimated in 2012 that since 2008 50,000 people had left the country, and the exodus was gathering pace.

The migration of highly educated people also accelerated after 2008. In the five years following the crash, a third of new migrants to OECD countries had tertiary education. On average, immigrants in rich countries are more educated than the native-born and the gap is widening, reflecting inflows from North America and Eastern Europe. In Canada, over half of immigrants have tertiary education; the proportion is over 40 per cent in the UK and Ireland, and about 30 per cent for the OECD as a whole.

A growing number of people migrate within multinational corporations and multilateral agencies. Many are in the salariat, but there is also more movement by proficians as consultants, short-term contractors and freelancers. And student mobility has grown as part of the global commodification of education. Not only have the numbers risen, but the mobility has become global, with students going to more countries, and the USA shrinking as a destination.

There has also been feminization of migration, with more women than men moving, usually for employment. The proportion of women migrants who are highly educated is higher than for men. Migrants have a higher fertility rate, and the fertility rate of citizens in rich countries has dropped below the natural reproduction rate. So, the share of children whose parents are migrants has risen.

Much migration is undocumented, which is transforming labour markets in a number of rich countries. Of the estimated 232 million migrants around the world, about 30 million may be undocumented.

Almost a third of migrants in the USA are thought to be ‘illegals’. Migrants lost jobs in droves in the post-2008 recession, but most did not show up in the unemployment count or claim benefits. They just slipped into the shadow economy. Tight border security deterred illegals from leaving, for fear of being unable to return.

There are also more refugees and asylum seekers than ever. Their treatment has grown more punitive and exclusionary, often designed to deter them coming to that particular country. And there is an impending disastrous development of growing ‘environmental migration’, due to global warming and related ecological trends.

A new phenomenon is the migration of labour without migration of workers. Call centres may turn out to be a transitory phase in a broader trend, involving telecommuting and the extraordinary rise of ‘crowd-work’. The old image is of people moving to look for economic opportunity. But migration of labour without the migration of workers poses challenges to economic analysis, labour statistics, fiscal policy and social protection policy.

Another new migration trend consists of elderly Europeans going into long-term care institutions in lower-income countries. This is topical in Germany, and is attributed to rising care costs as well as ageing. Instead of people from Eastern Europe or Asia going to Germany to care for the elderly, families are sending their old people to those countries. Elderly care is profitable. And although EU law currently prohibits state insurers from signing contracts with overseas homes, pressure is building to change that. Old-age migration, for retirement or care, will grow.

Meanwhile, internal migration has grown in emerging market economies, notably China, while it is falling in the USA, possibly

because information and cheap travel have allowed more to seek jobs without relocating (Kaplan and Schulhofer-Wohl 2012).

Rich countries as ‘rentier’ economies

Appalled by austerity, some social democratic economists have called for a Keynesian response (boosting spending). But the OECD countries are not in a Keynesian world. They are becoming ‘rentier’ economies, drawing in foreign capital with subsidies and tax breaks, and gaining more income from repatriation of profits and dividends by multinationals, thereby benefiting from rising sales and investment abroad.

In 2012, US profit margins were higher than at any time in the previous 65 years; corporate profits as a percentage of national income reached 13.6 per cent. Yet this did not lead to a surge of domestic investment or employment. Not only did full-time jobs not return to their pre-recession level but wages remained below the starting level of previous recessions. The foreign share of profits was a third of the total, more than double the proportion in 2000.

The USA tried to increase manufacturing exports. But creating manufacturing jobs by this route is becoming ever harder. According to the US Department of Commerce’s Office of Competition and Economic Analysis, each billion dollars of manufacturing exports generated 14,000 jobs in 1993, but only 5,350 by 2012. Most of that decline was due to productivity growth. Although workers in export-oriented manufacturing earn nearly 20 per cent more than their peers, goods exports supported just 7.3 million jobs in 2012 and the

evidence of previous years suggests that roughly half of these may have been in services rather than manufacturing. Improving export competitiveness will only make a modest change.

As for the UK, the BBC's presenter Evan Davis summarized its future as 'butler to the global super-rich', serving visiting plutocrats and depending on the City of London to bring in income from financial services. In contrast, Peter Marsh (2012), manufacturing editor of the *Financial Times*, wrote a bullish book claiming that the rich countries will not lose production because a 'fifth industrial revolution' will rescue them. Whatever that might be, there is no reason to think it will restore production or manufacturing jobs in those countries.

The trend towards rentier economies has implications for the precariat's response. But as the Great Convergence gathers momentum and OECD countries adjust to their new status, the devastation produced by the austerity era will surely only worsen.