

# Introduction

Every book has its moment of conception and its period of drafting. This book has been a long time in the making, but its drafting began only very recently and at a particularly awesome moment. Drafting began in the interregnum between two US Administrations, just as Donald Trump was poised to become the forty-fifth president of the United States; and on the day in which, in the United Kingdom, the new Conservative Government led by Theresa May lost its first by-election in a strong Tory seat, as buyer's remorse about the Brexit vote began belatedly to surface. Because of developments of this kind, early 2017 seemed to be both a good and a bad time to begin to write. Given all that was happening around us, it seemed a particularly appropriate moment to put together a systematic reflection on the future of both societies, and on the likely strength of the economies on which those societies rest. But it was also a moment at which such a reflection was bound to be difficult to deliver, because there was suddenly so much political novelty and uncertainty in both London and Washington, DC. Any reflection written to illuminate the times would, therefore, need to explain that novelty and uncertainty, as well as throw light on the continuities that make the novelty so disturbing.

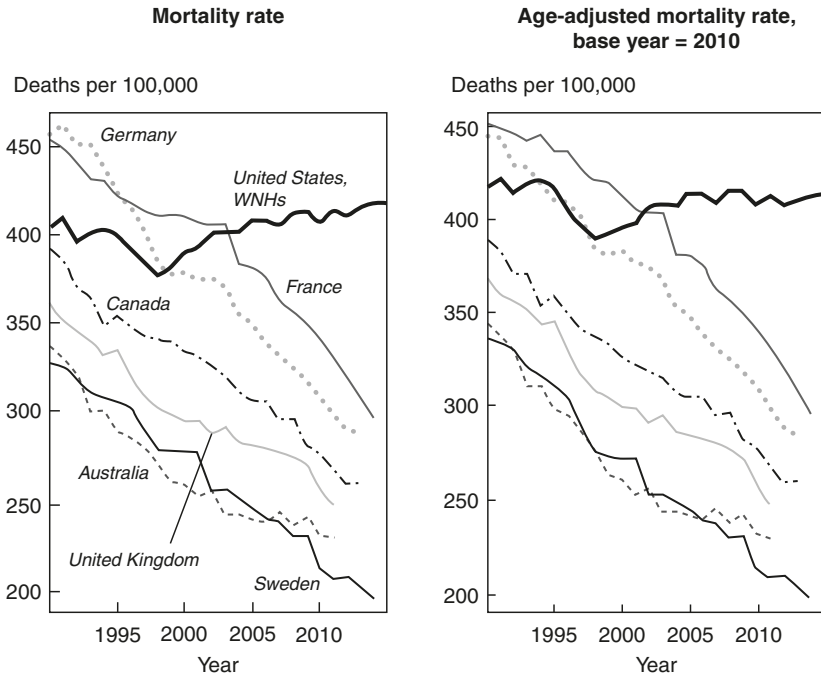
For just twelve months earlier, when Barack Obama gave his last State of the Union Address and David Cameron returned from Brussels with his renegotiated settlement with the European Union, neither Donald J. Trump's occupancy of the White House, nor Theresa May's of No. 10, was visible on the political radar of any serious public commentator. But here we were, facing 2017 with both newly in charge: the one poised to substantially reconfigure America's already inadequate welfare net (and to do an additional set of entirely unclear things to "make America great again"); the other poised to

somehow negotiate the UK's route out of the European Union without damaging still further the already vulnerable UK economy. Of course, neither of these political figures will necessarily be with us for long – May, if her weakened condition after her unsuccessful general election continues, Trump if he is eventually impeached – but even if either/both fall from power as sharply as they rose, the political volatility from which they both benefited will undoubtedly persist.

So, as we explore now the future of two economies under new and uncertain political leadership, it is initially worth noting the extent to which, for all their recently achieved solid rates of GDP-growth and job-creation – both the US and UK are running at near full employment as this volume goes to press – serious indicators are readily available to demonstrate just how *fundamentally flawed* both economies continue to be. Take the US economy for example, where:

- Total household debt is on the rise again – up by 70 per cent from its post-crash trough of 2010 – peaking in the first three months of 2017 at \$12.7 trillion (a peak higher even than that realized in 2008). This, in the wake of over four decades of stagnant real wage growth for most Americans, and of steadily increasing inequality in the distribution of income and wealth.
- Post-recession manufacturing employment growth in the US economy that is still sluggish and low. The US manufacturing sector, which in 2000 absorbed 17.3 million American workers and by 2010 absorbed just 11.5 million, still only accounted for 12.3 million jobs by mid-2015, a 37 per cent drop from the June 1979 manufacturing employment peak of over 19 million. This at a time when the US trade deficit with what is now the world's leading producer and exporter of manufactured goods – China – is running at a record level: \$365.7 billion in 2015, and still \$347 billion in 2016.
- Labour market participation rates for working-age men in America are down and falling, at the very time when death rates among those men are creeping up. In the US, some 11.5 million men aged 24–55 are currently neither employed nor looking for a job; but the white non-Hispanic members of that same demographic are reportedly

consuming pain-killers at twice the rate of employed Americans, and – as Figure I.1 indicates – are now dying at a faster rate and at a younger age than did their equivalents in the generation before, and younger and at a faster rate than their equivalents abroad. It used to be only the black working class who died young in America, but apparently not any more.

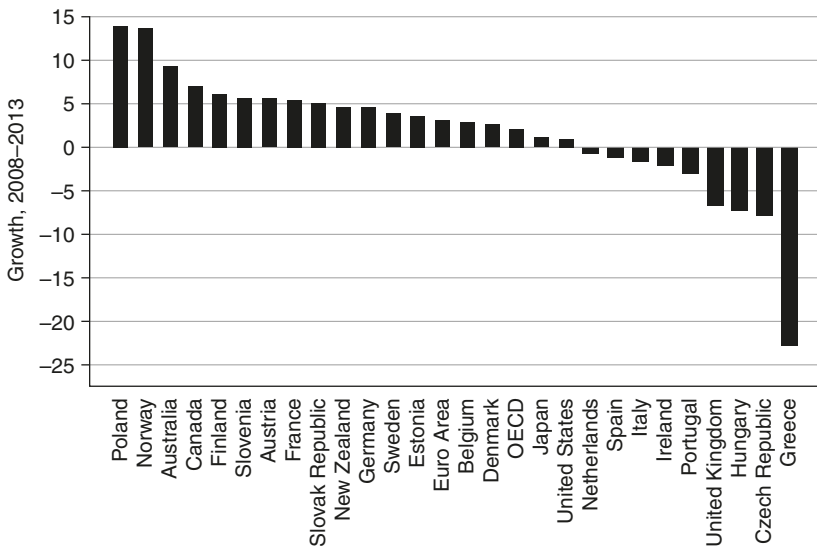


**Figure I.1** Rising morbidity and mortality in midlife among white non-hispanic Americans in the twenty-first century

(Source: Anne Case & Angus Deacon, “Mortality and Morbidity in the 21st Century”, Brookings Papers on Economic Activity, Spring 2017, p. 406).

But the United States is not alone in supposedly facing a difficult and demanding economic and social future, one characterized by dire statistics on such things as income and debt, job security, and health. There are powerful signs of adverse headwinds in the United Kingdom too, if you know where to look for them. Among these are at least the following:

- Wage stagnation: just a month after the Brexit vote in June 2016, the Trades Union Congress (using OECD data) reported that average real wages in the UK had fallen by nearly 10 per cent since the onset of the financial crisis in 2008, a fall exceeded in the entire OECD – as Figure I.2 indicates – only by Greece, Hungary and the Czech Republic. If true, that means that the British are currently in the middle of their worst decade for wage growth since the end of the Second World War, and on average will not earn more in real terms in 2021 than they did in 2008. On the Government’s own figures, indeed, and because of Brexit, “real average earnings are now forecast to be £830 lower in the UK than expected in 2020 – thanks to a double whammy of weak pay rises and higher inflation”.



**Figure I.2** International real hourly earnings growth, 2008–13  
 (Source: OECD Employment Outlook, 2014).

- Productivity shortfall: the productivity of UK workers – measured by output per hour – fell in the last two quarters of 2015 faster than at any time since the fourth quarter of 2008, when the UK economy was officially in recession. That shortfall left the UK with the largest

productivity gap with the G7 average since records began, with UK output per hour now a full 36 percentage points less than the figure for Germany, 31 per cent less than that for France, and 30 per cent down on the figure for the United States. This is no small matter, given the critical role that labour productivity plays in sustaining and increasing overall living standards. It means that currently the British “are no richer relative to the EU-15 average than they were 15 years ago, and [that] the average Briton has to work more hours than the EU-15 average to achieve that income”.

- Rising personal debt: what is even more troubling are the signs, emerging again, that in the UK those incomes are being inflated only by the acquisition of larger and larger quantities of personal and household debt. In the twelve months to July 2017, if the Bank of England’s figures are correct, “household incomes had grown by just 1.5 per cent but outstanding car loans, credit card balances and personal loans had risen by 10 per cent” as “terms and conditions on credit cards and personal loans had become easier”. So, it is not just in America that the ghosts of 2007–8 are beginning once more to stir.

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With all this in mind, one important recent political experience shared by the US and the UK might now begin to make more sense than perhaps it initially did: their shared experience of two major elections/referenda in which the outcome came as a surprise, not just to those who lost them but to their winners as well. In both countries, new political leaders and agendas now hold centre-stage because of a widespread and largely unexpected rejection in 2016 of more mainstream candidates and programmes by first the British and then the American electorate. It is true that the margin of victory for the Leave Campaign was very tiny in the British case, and that Donald Trump’s winning margin was restricted to the electoral college (Hillary Clinton’s popular vote exceeding his by more than 3 million): but victories, however problematically earned, count in elections – because to the victors go the spoils.

The Brexit vote was quickly understood at the time, and is still largely seen now, as a protest vote against their persistent neglect (from many governments and over many decades) by communities situated far from

London – communities that are currently full of non-college educated, predominantly white, working-class voters. The unexpected election of Donald Trump was equally grounded in a protest vote against economic neglect by their US equivalents. In neither case was white working-class anger the only factor in play: but in both countries it was in play, and being in play, it made the electoral difference. For the first time since at least 1945, the old political order in both Washington, DC and London was rattled to its core by the protest votes of those who found their present circumstances unsatisfactory – rattled by voters, moreover, who were prepared on this occasion to blame existing political parties for the things they found unsatisfactory. In each country, that is, elections held in 2016 demonstrated more clearly than in recent elections past that a significant section of each electorate found their circumstances to be intolerably *flawed*.

Which takes us to the title of this comparative text: *Flawed Capitalism: The Anglo-American Condition and its Resolution*. Long before Donald Trump and Theresa May came to dominate the political headlines, it was increasingly obvious to many progressive commentators on both sides of the Atlantic that there were flaws in both countries that needed to be recognized and understood, addressed and rectified. As we shall see, those flaws were (and remain) partly nationally-anchored and country-specific, and need to be dealt with as such. But they were, and are, also partly common to the economic model underpinning both societies; and to the degree that they are, are equally and similarly remediable. That much at least was clear before the 2016 political tsunamis. But what those unexpected developments have now added to this ongoing reform effort is both a new urgency and a new question. The new urgency comes from the new uncertainty, and the new question becomes this. Will the new centre-right solutions now on offer in Washington, DC and in London bring those much-needed remedies closer, or push them further away? As you will see as you read on, the answer on offer here is that the new politics of the centre-right will only make things worse on both sides of the Atlantic – that by shifting to the right in so unexpected a fashion, both countries have just scored spectacular own-goals – and that these are own-goals which are likely to undo much, and perhaps even all, of the limited progressive gains that had been put in place in both the US and the UK on either side of the financial crisis of 2008.

## INTRODUCTION

Donald Trump's proposed retreat from globalization in the United States, and the Brexit retreat from the European Union in the United Kingdom, both suffer from what Ben Clift recently and properly characterized as "the dangerous illusion of 'taking back control'". Why that control will not come back the centre-right way, but can be recaptured by the development and implementation of more progressive politics, will be the focus of the second half of *Flawed Capitalism*. The book's first task is more modest but equally vital. It is to take stock of where we are, of how and why we got here, and of the adequacy of our current condition.