Debt and Wage Stagnation

Compiled and written
by Kyle Lewis

autonomyinstitute.org
@Autonomy_UK

Autonomy

Autonomy

Debt and Wage Stagnation

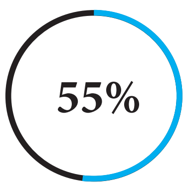
Since the financial crash of 2007-08, the rise of unsecured private debt has coincided with a prolonged period of wage stagnation and increasing levels of inequality. The inability of wages to meet the economic demands of life for so many therefore raises a very important question: are the unsustainable levels of private debt a symptom of work's failure to drive social mobility and decrease levels of inequality in the 21st century?

Individual adult debt exceeding annual income in the UK demonstrates a stark economic reality whereby credit is used as an insecure financial crutch to support falling wages. A recent report by the Resolution Foundation claimed that, based on current predictions, the decade between 2010 – 2020 would represent the worst decade for growth in real earnings in the UK for two hundred and ten years.

As of April 2017, the average debt per adult in the UK stood at £30,340. This is around 113.6% of average annual earnings

(The Money Charity, 2017).

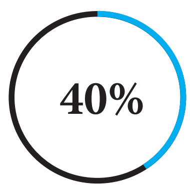
The economic logic of pursuing full employment at all costs contains within it a noticeable blind spot: it fails to address the (false) assumption that being in work necessarily equates to being out of poverty. A report by the Joseph Rowntree Foundation (JRF) states that in 2014/2015 there were 13.5 million people living in low-income households in the UK, equating to 21% of the population - this proportion has barely changed since 2002-2003 (JFR, 2016). Further, a 2016 report by the Trade Union Congress (TUC) states that nearly one in every eight UK households is currently over-indebted (TUC, 2016), forcing some working families into the precarious position of taking out high interest payday loans and thus perpetuating the debt spiral.



The number of people in poverty in a working family is 55% - a record high for the UK. Four-fifths of the adults in these families are themselves working (some 3.8 million workers)

(Joseph Rowntree Foundation, 2016).

University graduates from England now face the highest debt levels on graduating in the English-speaking world (Kirby 2016). To compound the high rates of personal debt incurred from attending university, students now face entering a job market that fails to justify their substantial ‘financial investment’. According to the Office for National Statistics (ONS), in 2013 47% of graduates were in non-graduate jobs. Not only does this leave a vast swathe of graduates unable to earn enough to pay off the student debt they’ve incurred, it also squeezes the non-graduate workforce via the introduction of higher-qualified competition. Middle class professions such as teaching and studying medicine have not been immune to falls in real term wages either. A report by the Intergenerational Foundation (IF) calculated that by taking into account five years of self-funded medical school, the average starting salary and the supposed maximum hours a physician can work, a newly qualified doctor could expect to earn an hourly rate of £7.89 (IF, 2016).



The poorest 40% of students going to university in England will now graduate with debts of around £57,000 from a three-year course

(Institute for Fiscal Studies, 2017).

In the last ten years the amount of student loan debt in the U.S. has grown by 170 per cent, with the total debt now standing at a huge $1.31 trillion. With stagnant wages failing to keep pace with the increase in monthly repayments, it is estimated that over 8 million student loan borrowers are now in default over a federal direct loan – a number larger than the population of 38 states (CFPB, 2017). The size of the debt, combined with the growing number of people defaulting on their loans, has raised fears of a financial crisis on par with 2007-08.

In 2017 the student loan debt in the U.S. stands at $1.31 trillion, with 44.2 million Americans now carrying some form of student loan debt

(Consumer Financial Protection Bureau, 2017).

The increasing disparity between rich and poor in the US has coincided with a prolonged period of financialisation and deregulation of the banking sector. The effect on wages has been stark, as between 1973-2006 the average real term annual wages of the bottom 90% fell from $31,300 to $30,700, whilst the top 1% increased 3-fold from $386,000 to $1.2 million (Palma, 2009). This has been mirrored in the UK where households are in the grip of the most protracted squeeze on living standards since the mid 1970's (ONS, 2017). To go alongside this, the amount of income being set aside for savings has fallen to 1.7%, becoming the lowest on record and some distance from the 10% average of the last 50 years (The Guardian, 2017). This coincided with the top 1% of earners receiving 9.8% of all income in the 1990's, rising to 15.4% by 2007 (FT, 2016).

There was only 1 banking crisis between 1947 and 1976 as economic inequality declined. There were 31 when this inequality exploded between 1976 and 2008.

(Reinhart & Rogoff, 2008, cited in Wisman, 2013).

It is clear from the evidence presented that a strong correlation exists between the drastic rise in private debt and the stagnation of wages witnessed in Western countries over the last thirty years. However, we cannot grasp this phenomena through economic terms alone; we must analyse it as part of a broader social structure – a structure governed by techniques of discipline, radical commodification and mass pauperisation (intertwined with other logics of power) that undermine liberty and social equality. Debt, and the condition of indebtedness, should therefore not be understood as economic necessities but as political-economic choices that have direct consequences for the lives of the population. The combined squeeze of rising personal debt and insufficient and declining wages by which one might pay it off is a sign of a fundamental malaise that exists within our political and economic thinking.

One of the fundamental pillars – and justifications – of our political-economic common sense is the assumption that the next generation will be better off, in both educational and material terms, from the generation that preceded it; we might call this 'progress'. If work, in the form of waged labour, can no longer deliver on its promise of continued social and economic prosperity, we must ask whether new economic/political solutions can be found that reinstall our progressive generational ideals.

References

Belfield, C., et al., (2017) Institute for Fiscal Studies. Higher Education funding in England: past, present and options for the future [online]. Available from:
https://www.ifs.org.uk/uploads/publications/bns/BN211.pdf [Accessed 5/7/2017].

Clarke, S., Corlett, A., Finch, D., Gardiner, L,. Henehan, K., Tomlinson, D., Whittaker, M., (2017) Resolution Foundation. spring budget 2017 and the 15 year squeeze on family and public finances [online] Available from: http://www.resolutionfoundation.org/app/uploads/2017/03/Spring-Budget-2017-response.pdf [Accessed 30 June 2017].

Elliot, L., (2017) Household income falling at fastest rate since 1976 as UK savings rates crash. The Guardain [online] 30 June. Available from: https://www.theguardian.com/business/2017/jun/30/britons-savings-at-record-low-as-household-incomes-drop-says-ons [Accessed 01 July 2017].

Frotman, S., (2017) Consumer Financial Protection Bureau. [online]. Available from:
http://files.consumerfinance.gov/f/documents/201703_cfpb_Frotman-Testimony-CA-Senate-Banking-Committee.pdf [Accessed 01 July 2017].

Kemp-King, S., (2016) The Graduate Premium: manna, myth or plain mis-selling? Intergenerational Foundation [online]. Available from:
http://www.if.org.uk/wp-content/uploads/2016/09/Graduate_Premium_final.compressed.pdf [Accessed 01 July 2017].

Kirby, P., (2016) The Sutton Trust. DEGREES OF DEBT: Funding and finance for undergraduates in Anglophone countries [online] Available from:
https://www.suttontrust.com/wp-content/uploads/2016/04/DegreesofDebt.pdf [Accessed 03 July 2017].

Office for National Statistics (2013) Graduates in the UK Labour Market 2013 [online]. Available from:
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/graduatesintheuklabourmarket/2013-11-19 [Accessed 01 July 2017].

Office for National Statistics (2017) Quarterly National Accounts: Jan to Mar 2017 [online]. Available from:
https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/jantomar2017 [Accessed 01 July 2017].

Tetlow, G., (2016) Is income inequality increasing in the UK? The Financial Times [online] 11 December. Available from:
https://www.ft.com/content/24e88c30-bc5f-11e6-8b45-b8b81dd5d080 [Accessed 01 July 2017].

Tinson, A., Ayrton, C., Barker, K., Born, T.B., Aldridge, H. and Kenway, P., (2016) Joseph Rowntree Foundation. Monitoring Poverty and Social Exclusion 2016 [online] Available from:
http://www.npi.org.uk/files/7614/8111/0522/MPSE_Findings_2016.pdf [Accessed 30 June 2017].

Trade Union Congress (2016) Britain in the Red: why we need action to help over indebted households [online]. London: Trade Union Congress. Available from:
https://www.tuc.org.uk/sites/default/files/Britain-In-The-Red-2016.pdf [Accessed 01 July 2017].

The Money Charity (June 2017). Available from:
http://themoneycharity.org.uk/money-statistics/ [Accessed 30 June 2017].

Palma, J.G., 2009. The revenge of the market on the rentiers. Why neo-liberal reports of the end of history turned out to be premature. Cambridge Journal of Economics, 33(4), pp.829-869.

Wisman, J.D., 2013. Wage stagnation, rising inequality and the financial crisis of 2008. Cambridge Journal of Economics, 37(4), pp.921-945.

Autonomy Institute
51 Church Walk
London
N16 8QR

autonomyinstitute.org
@Autonomy_UK