The 'gig economy' has broken a fundamental link in capitalism that was good for workers

Jim Edwards, *uk.businessinsider*, May 21, 2017

LONDON — Everyone knows capitalism is based on supply and demand. If the supply of something goes down, then the price of it rises. The concept applies to labour, too. In boom times, when there is low unemployment, wages go up as employers compete for workers and the available labour pool dwindles.

With unemployment in the UK currently at 4.6%, we ought to be living in a golden age, a once-in-a-generation opportunity for workers to make good money. Anything under 5% or 6% is *below* the technical range of "full employment." New employees ought to be difficult for businesses to find. Workers increasingly ought to be able to name their price.

Unemployment this low was last seen in Britain 40 years ago.

"The last time the unemployment rate was at its present 4.6% rate, in 1975, average earnings were increasing by around 30% on a year earlier!" That quote comes from a note published last week by Martin Beck, the lead UK economist at Oxford Economics.

But today, average wage growth is only 1.9%.

That's down from 4.5% in average pay rises workers got in the decade before the 2008 crash, when unemployment was higher. It's "an unprecedentedly poor performance. This is despite joblessness dropping to a 40- year low and employment at a record high," Beck told his clients. The numbers look like this:

The big difference between the pre- and post-2008 period is the increase in poorly paid, part-time, self-employed, low-quality jobs, Beck says. About half of all jobs created in the UK in recent years are "gig economy" jobs, he says. "Taking the two years to the end of 2016, almost a third of the rise in the number of people in work reflected growth in self-employment (double the share of that category in total employment), with another fifth corresponding to more people in part-time work."

Pay rates no longer move upward as unemployment moves downward, because companies like Uber, Just Eat, and Deliveroo can switch their demand for labour on and off on a minute-by-minute basis. Self-employed folks making a living on Etsy, Amazon, Airbnb or eBay know their clients instantly go elsewhere if they raise their prices by even a few pennies.

The gig economy has thus broken a fundamental link in capitalism that was good for workers, Beck writes. "The responsiveness of pay to falling unemployment has dwindled. A shift towards less secure forms of employment, the tightening up of eligibility for benefits and the consequences of globalisation have all made workers more compliant and less willing and able to push for higher wages."

Obviously, there are caveats to Beck's work:

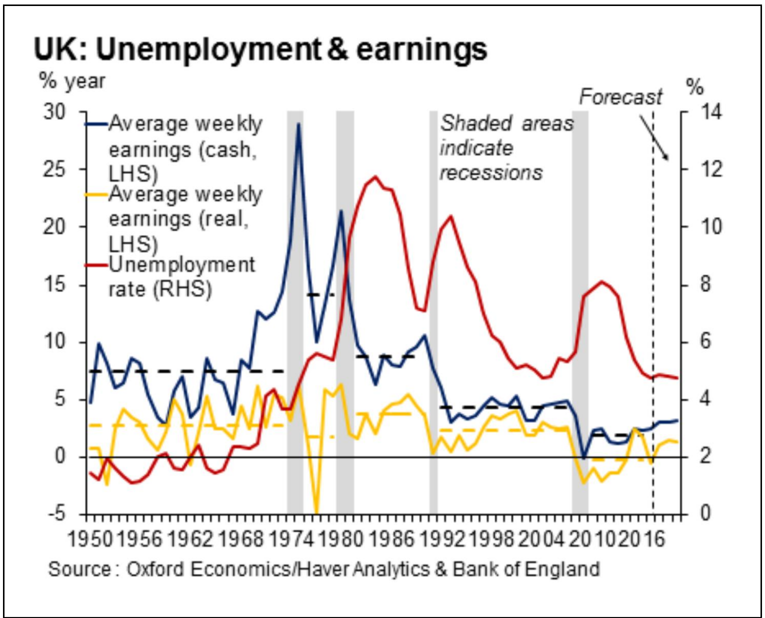
Unemployment may be technically low but it's actually nearer 11.5% once you include "inactive" workers who have given up looking for jobs and part-time workers who can't find full-time work.

Public sector employment was much higher in the 1970s.

Union membership and labour militancy were also higher in the 1970s.

But what makes his work powerful is the fact that the shift has occurred even after you take out the effect of inflation. Low inflation — which we have had for more than 10 years — depresses wage increases because workers feel richer when prices stay low and their wages buy more stuff. Low inflation is a pay rise in real terms. Likewise, high inflation is a pay cut in real terms.

Beck's next chart shows that real pay rates, after you take out inflation's effect on pay raises, have declined in recent years even though unemployment is historically low:



"After adjusting for inflation, the recessions of the early 1990s and late 2000s both triggered a step-down in annual pay growth, from 3.8% in the expansion of the 1980s to 2.3% in the 1990s and early to mid-2000s to minus 0.3% in the current period of economic growth," Beck says.

Low wage growth also has negative consequences for investors and bosses, too. A poor population cannot, in the long run, sustain consumer spending growth without going into debt. And spiralling consumer debt – which the UK already has – causes its own chaotic distortions.

There is a subtle effect on investment, too. As Beck notes in his paper (titled "A ‘lost decade’ for pay may be a taste of things to come") the low cost of labour pulls investment money away from things that might be more productive. The Bank of England, for instance, has done research showing that the rate of "capital deepening" is slowing down. Put simply, because British workers are so cheap, it is tempting to hire them rather than put your money into something more productive for the long run, such as investments in new plant, equipment or technology. The growth in the amount of capital per worker goes down.

In the short term this "feels" OK because unemployment goes down and firms expand. The money ends up in workers' pockets as wages. But in the long run, companies fall behind as they become dependent on vast armies of low-paid workers. Ultimately they are crushed by more advanced firms — or countries — who invested in more efficient, modern equipment.

In sum, the gig economy over the last 10 years has fundamentally changed the way capitalism works compared to 20 or 40 years ago. Low unemployment no longer triggers broad-based wage increases.

That's bad for workers, who are the vast majority of people, obviously.

From this perspective, you can see where Trump, Brexit and Corbyn come from: Workers feel like the only way to raise the price of their labour is by stopping the entry of competing migrant workers and recreating the 1970s, when double-digit annual pay increases were normal.

The question now is whether this is a temporary turning point or something more permanent, as the title of Beck's paper suggests ... "a taste of things to come."