



## Accounting for national success and failure: Rethinking the UK case

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### ABSTRACT

This article presents some basic political arithmetic on UK economic performance, including empirics on the sources of new job creation and regional differences. These empirics support an argument about the need for new measures and concepts of national success and failure. This is so because, as we show in the UK case, the standard post 1940 economic measures of GDP and unemployment give a seriously misleading picture of national success. This is an opportunity for accountants to join with others in devising new measures and concepts.

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### 1. Introduction

We are currently seeing a revival of interest in the national economy in a world which until recently saw globalisation and regional integration within Europe as established and irreversible. History does not repeat itself but the present form of early 21st century globalisation is coming under pressure in the early 2010s much as the pre-1914 form of internationalisation did in the 1920s: accumulating economic imbalances, changed politics within and between major powers, fragile long chains of debt and trade threaten economic crisis and disintegration. Once again, the stability of the international order requires economic adjustments which are beyond the political capacity of the major governmental players and supranational authority, as we see in the case of the on-going euro zone crisis or American down grading, or the Chinese trade surplus. This raises the question about whether and how international and regional troubles will once again lead to a revaluation and rediscovery of the national economy in the 2010s as they did in the 1930s. We do not yet have a 1930s model of national prosperity through autarchy but there are, for example in the UK, growing doubts about whether the national interest is being served by the current pattern of trade and specialisation. Hence after 2008 the British political classes increasingly talk about the need for a 'rebalancing of the economy' which means more domestic manufacturing and less dependence on financial services (Froud, Johal, Law, Leaver, & Williams, 2011, pp. 4–12). More recently, opinion has shifted, partly in consequence of the UK government's award of the Thameslink carriage building contract to Siemens that shifted assembly to Germany and the impending redundancies at the Derby train building factory of Bombardier. The result has been media angst and the redefinition of public procurement as an industrial policy issue (e.g. *Daily Mail*, 16th July 2011; *Financial Times*, 18th July 2011; *Guardian*, 11th July 2011; *Observer*, 17th July 2011).

There are many ways of approaching this rediscovery and revaluation of the national economy and this article focuses on issues around the conceptualisation and measurement of national success and failure by presenting empirics and argument about the British case. The article which does this is organised in a relatively straightforward way into four sections

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plus a conclusion. The first section deals with how the standard economic measures of Gross Domestic Product (GDP) and unemployment gave false readings of national success before 2008 and did not register unsustainability in the UK. The second section considers the possibility of an alternative business model approach and how this is adumbrated in earlier 1970s discussions of deindustrialisation. Sections three and four then explore different aspects of how standard job creation and unemployment measures obscure key aspects of the UK's current national problems. In particular, they do not register the dependence of much new private sector employment on public funding which directly sustains the state sector; nor do unemployment rates capture the broader problem of surplus population and dependence on benefits in the ex-industrial areas of the North and West. A short conclusion suggests that the irrelevance of standard economic measures is an opportunity for socially minded accountants and others to devise new and more relevant measures and concepts. The discussion of the British case is of broader interest because it raises issues about national success and failure which are relevant to other high income capitalist countries; and also about whether and how the national economy is the relevant unit of analysis.

## 2. Post 1940 economic measures of success: GDP and unemployment

If methods format the world, so too do technical measures. But, in considering economic measurement, we should remember that the history of economics (and its measures) is part of a larger history which is as much cultural as technical. This is the point which is ably made in Esty's (2004) cultural history of England between the wars. In the title of Esty's book, England is not defined as a sinking island but as a 'shrinking island' because the decline of Empire leads to a discovery of insular identity and national culture. The intellectual projection of national identity then figures not only in the essays, poems and novels of canonical literary figures like T. S. Elliot or Virginia Woolf, but also in the economic writings of J. M. Keynes. This is hardly surprising because Keynes was, as Esty (2004, p. 165) observes, a 'Bloomsbury intimate' with a cultural hinterland nicely brought out in Skidelsky's three volume biography (2005). And thus Keynes' *General Theory of 1936* combines two key elements of old and new. The older element is the scientific ambition to construct an explicit 'general theory' of capitalist economic dynamics which rested on the heroic assumption that the 'marginal propensity to consume' is always less than one and that capitalism therefore has a tendency to under consume because investment does not steadily compensate in a world where 'animal spirits' meet Knightian uncertainty. The newer element is an implicit (and taken for granted) national frame: it is the national stock exchange and ignorant mass investors who amplify cyclical trends; and the national government and its central bank are the only managers capable of delivering the necessary palliative which is a 'somewhat comprehensive socialisation of investment' around low interest rates and modest expectations of return. In the ensuing 20 years, the prospect of this kind of radical Keynesian intervention to stabilise investment was turned into an anodyne practice of demand management and Keynesianism; just as Keynesian theory was domesticated by mainstream economics as a special case of sticky wages (Leijonhufvud, 1968). But, from our point of view, the most important point is that any and all activist national strategies for economic management depended on new concepts and measures which (after a lag) were later developed in just a few years in the early and mid-1940s. National levels of economic activity and welfare were encapsulated into two standard outcome metrics of national income or output (as in gross domestic product) and of the rate of unemployment; the corollary measures of dynamic national success were growth of GDP and job creation. These privileged measures combined *bricolage* and system building. The *bricolage* came through the incorporation into economics of existing administrative measures of unemployment which were a knowledge by product of techniques of social insurance, which tied the visible extent of unemployment to variable national rules. These changed when social insurance, introduced in Britain after 1911, was extended under pressure of structural inter-war mass employment, and then changed again when social insurance was consolidated by the post Beveridgean settlement. The element of system building was provided by new kinds of national income accounting. The pioneering inter-war efforts of Clark and Kuznets were, under pressure of British war time circumstance, developed into measures of national income. These measures were the prerequisite for economic technologies to manage inflationary aggregate demand, first introduced with Kingsley Wood's 1941 budget and its supporting White Paper (Cmd. 6397, 1942). This prosaically titled official text, *An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940 and 1941*, was the first to be constructed in and through the new measurement system.

When the first official national accounts were published in the United States in 1947, the US and other high income countries entered a post-war world where trajectories of national success and failure were understood through the new 'macro-economic' measures of GDP growth, unemployment rates and job creation. This was how everybody recognised they were living through the post-war long boom, which the French called 'les trente glorieuses' (Fourastié, 1979), even as economists differed about its pre-conditions and ending. And although, much changed after 1979, the dominant national frame was carried over. Thus, when a new post-1980s golden age was discovered by Stock and Watson (2002) and endorsed by Bernanke (2004), 'the great moderation' was practically defined as a moderation in the amplitude of fluctuations in quarterly American GDP growth rates. The two key measures were also used as the benchmark of relative national success. The superiority of the American model in the 1990s was upheld on the grounds that it generated growth and jobs which the German and Japanese models did not (even though they produced manufactured exports). New Labour's economic success and Chancellor Brown's repeated claims in the 2000s about 'the end of boom and bust' could not be doubted because they were statistically corroborated by higher rates of GDP growth and lower rates of unemployment. Two decades of certitude

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