

# THE UK: A MODEL FOR EUROPE?

## *A summary report*

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### **Introduction**

In 2005 Tony Blair as the new president of the European Union called upon the European Union to engage in a major debate on ‘modernising’ the European social model and implicitly provided the UK as a potential future model for European economic and social development. The UK government is happy to present the UK model as almost an unalloyed success story, combining stable and high growth with high employment rates and high public spending on public services to boost productivity and to reduce child poverty. This virtuous combination is seen as facilitated by flexible labour and product markets, not only in the private but also in the public sector. The purpose of this paper is to explore the conditions that allowed the UK model to be turned from a classic example of failure to one where the government at least is happy to proclaim it as a clear success story. The paper is divided into three main sections: first we assess the character of the UK national social economic model as prevailing in the 1980s and early 1990s; second we consider the degree of continuity and change in the model over the past decade and in particular since 1997 and the election of new Labour, identifying both the drivers for change and the outcomes of change; third we consider what conditions can be said to underpin the UK's apparent economic success of the past decade and where the costs of that economic success may lie, including costs to be borne by future generations if the model fails to deliver coherent and sustainable growth over the longer term.

## 1. The UK model in the 1980s

The literature on national socio-economic models provides a wide range of different typologies or classifications, dependent upon the orientation and research questions posed by the authors. Despite this potential variation in classification, box 1 - drawing on a recent book by Pendleton and Gospel - reveals a remarkable similarity in the positioning of the UK in the varieties of capitalism literature. The common themes to emerge are the lack of institutions for economic coordination, the dominance of financial constraints and shareholder power, the correspondingly low power of labour - resulting in both flexible employment and low employee voice - and the development of production systems requiring limited skill or training. Furthermore, in typologies of welfare state systems, such as those provided by Esping-Anderson, the UK's social model is identified as providing only a residual, safety net support to those at the bottom of the labour market.

### **Box 1. Portrait of the UK within typologies of national systems of corporate governance and labour management (Pendleton and Gospel 2005)**

*Financial economics* (Mayer 1990; Franks and Mayer 1997a):

- the UK as a 'market'/ outsider system - labour has no role in corporate governance

*Legal system* (La Porta et al. 1997, 1998, 1999, 2000):

- common-law system provides investors with more protection

*Political economy tradition/varieties of capitalism* (Lane 1995; Whitley 1999; Dore 2000a, c; Hall and Soskice 2001a, b):

- liberal market economy based on dispersed ownership and financial constraints - labour bears the brunt of adjustment to economic shocks

*Labour management literature:*

- flexible labour markets based on high labour turnover, short average job tenures and contingent pay

*Production systems literature:*

- UK oriented towards mass production and limited functional flexibility, low skill equilibrium

*Industrial relations systems literature:*

- absence of formal employee voice mechanisms; voice dependent on voluntary joint consultation or collective bargaining; limited notion of social partnership

Many of these classifications only focus on a few elements of the UK national socio-economic model. While we would not disagree with the overall characterisation, in order to examine recent changes in the model it is necessary to have a more finely differentiated analysis of the different elements. In box 2 we focus on nine dimensions, chosen both to represent key elements of the UK model and the dimensions where we will identify a high level of change over the past decade.

*i. Shareholder capitalism*

The most common characterisation of the UK as shareholder capitalism focuses on the spread and diversity of shareholders that act against the development of so-called 'patient capital' (Hall and Soskice 2001). This diversity is institutionalised by the importance of pension funds, the management of which is devolved to specialist fund managers who compete on the basis of quarterly fund performance (Blackburn 2002). However, for some commentators it is not simply the diversity and short-term nature of holdings that is important in shareholder primacy but also the development of hostile takeovers since the early 1980s (Deakin 2005). This focus on shareholder value increased as a consequence both of the selling-off of public utilities and assets and the development of shareholder value metrics by the large and growing consultancy firm network in the UK. These influences on domestic capital are reinforced by the dominance of the city in international capital flows and international financial services.

*ii. Manufacturing decline*

Most of the decline in manufacturing jobs in the UK occurred in the early 1980s: 1.6 million jobs were lost between 1980 and 1984 and a further 1.8 million over the next 20 years to 2004. Not only did the UK de-industrialise relatively early but it also developed at an early stage a strong base of concentrated retailer power. This retailer power had major influence over much of consumer manufacturing and processing as well as agriculture in the 1980s (Rubery 1994). While retailers and other dominant companies did develop subcontract relationships with partner companies and suppliers, most research failed to reveal the high trust relational contracting found in more coordinated economies (eg. Lane and Bachmann 2000). The main positive success story of the 1980s with respect to manufacturing was the attraction of foreign direct investment primarily from Japan associated with the development of the single European market; the UK was to be identified as a potential assembly plant using low-cost labour for the enlarged European market (Elger and Smith 2005).

**Box 2. The UK model in the 1980s**

*i. Shareholder capitalism*

- Strong shareholder rights and high reward to executives
- Financialisation (liquid capital markets, high use of accounting metrics, takeover and break-up of public assets through privatisation)
- Dominance of city over real economy (threat of hostile takeover)
- Strength of London in international financial markets

*ii. Manufacturing decline*

- Productivity gap with US and large European countries
- Retail-led dominance of some manufacturing sectors
- Arms-length supplier relations
- Some success in attracting FDI (electronics, automobiles)

*iii. Unstable macroeconomic conditions*

- High variation in interest rates, unemployment and exchange rates
- Control of money supply prioritised over unemployment
- Important role of housing market-boom then bust
- Easy access to credit

*iv. State role as public service provider/withdrawal from industrial policy*

- Privatisation of utilities, nationalised industries, rail network
- Low level of public spending particularly on infrastructure

*v. Weak innovation model*

- Strong public science base (especially universities – high quality but underfunded). Declining R&D spending, few high tech sectors, low world share of patents

*vi. Weak regulation of product and labour markets*

- Early liberalisation/privatisation of utilities markets

*vii. Class based education and training system*

- Elite education
- Low skill equilibrium, ad hoc change in VET policy
- Loose links between occupational status and education and training

*viii. Voluntarism*

- Weak associations of employers and workers
- Unions strong at workplace level; job demarcation through collective organization

*ix. Male breadwinner model/residual welfare state*

- Social security increasingly based on residual safety net, but (unlike the US) provided on a permanent basis and with a wide range of means tested benefits- high level of workless households
- State pension reduced to low level, supplemented by mean-tested benefits for lower skilled- company final salary pensions for more advantaged
- High female employment participation, high share of part-time work, wide gender pay gap

*iii. Unstable macroeconomic conditions*

The 1980s and early 1990s was a period of unstable macroeconomic conditions, associated in part with a focus on the control of the money supply and the rejection of any notion of managing the macro economy to smooth out the economic cycle. The exchange rate was also allowed to be volatile except during the short time period when the pound was entered into the European exchange rate mechanism but at too high a level to be sustainable. The instability was also fuelled by the housing market with the late 1980s boom turned into a severe housing market crash by 1989/1990. Changes to financial regulation were also associated with an increase in access to credit as the traditional regulated building societies became banks and increased competition led to an easing of the terms on which credit was available.

*iv. State role as public service provider/withdrawal from industrial policy*

Much of the political agenda of the 1980s was to roll back the influence of the state not only in industrial areas such as steel and coal but also across the whole range of utilities and eventually even public transport such as railways. The focus on cutbacks was evident in the low levels of public spending particularly on public infrastructure and in the focus on competitive tendering for the provision of primary low level public services such as cleaning and catering (Cutler and Waine 1994). During this period there was no particular commitment to the involvement of the private sector in either the delivery of core services or in the rebuilding of a public infrastructure.

v. *Weak innovation model*

The UK's traditional innovation model comprises: a low and relatively stagnant level of R&D spending; limited development of high technology activities (mainly defence spending – with few spin-offs into the civil sector, unlike in the US or France –, pharmaceuticals - around 25% compared to 10% or less in other G5 countries – and US and Japanese foreign investment in electronics); a low world share of patents registered in the US patent and trademark office; publicly funded research undertaken within universities using short-term contracts from government agencies (unlike France (CNRS, INSERM, INRA) or Germany (Max Planck Institute, Fraunhofer Institute) where much publicly funded research is conducted by civil servants with job security); weakly developed science and education institutions (especially for the status of engineering as a profession); market forms of co-ordination instead of 'bridging' institutions (e.g. regarding producer-user relations, banks and industry, science and engineering)<sup>1</sup>; and limited support from shareholding portfolio investors for long-term, risky investment seen as necessary for innovation and learning (Miozzo and Walsh 2006 ch.6, Walker 1993).

vi. *Weak regulation of product and labour markets*

The OECD singles out the UK as the only country with a liberal approach in all three policy areas, namely, state control, barriers to entrepreneurship and barriers to trade and investment (the US has a more restrictive approach in the latter policy area) (Conway et al. 2005). Overall the UK shares first place with Australia in 2003 with the lowest level of product market regulation (op. cit.; see table xx). A range of studies have also explored the degree to which product market reforms of the 1970s and 1980s are 'the smoking gun' (Ebell and Haefke 2004) that explains divergent Anglo-American and European labour market performance (although for a contrary perspective see Amable and Donatella 2001). Cross-national assessment suggests countries with weak product market regulation (US, UK, Ireland) tend to have weak employment protection legislation, for example, and vice versa as found in the cases of Greece, Italy and France (Boeri et al. 2000). Mirroring this general finding, the evidence suggests the strong decline in collective bargaining and unionisation in the UK (and the US) were a direct result of 1980s product market reforms (Ebell and Haefke 2004), that competitive product markets were a large cause of the US employment miracle of the 1980s-1990s (Krueger and Pischke 1997) and by increasing employment contribute to increased GDP per capita (Blanchard and Giavazzi 2003), that entry barriers for new firms are negatively correlated with employment growth (Fonseca et al. 2001) and that product market reforms have around half the impact on employment rates as labour market reforms.

vii. *Class based education and training system*

In the 1980s there was considerable financial pressure on the higher education system and little expansion in student numbers. Higher education remained a privilege for the few but was increasingly underfunded. The elitist nature of higher education in the UK in part explains the historical lack of association between qualification and career: what mattered was not what was studied but where one studied (preferably Oxford or Cambridge). The focus was not on adding skills but on selecting the best

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<sup>1</sup> The arms-length relations between UK retailers and producers is one reason why the British market is so easily penetrated by foreign producers (Williams 1993: 181).

(where best is variously interpreted as the brightest or those who are best suited to reproducing the class system). This focus on selection rather than skill development in part explains the poor reputation of training in the UK; the failure of a large number of initiatives with respect to training over the last two decades can in part be explained by the fact that by and large people fair better if they get a proper job rather than a training position. A further factor was the focus on using training schemes to 'park' the youth unemployed rather than training for a productive economy. The large gap in training provision at the middle level in the UK was further perpetuated by the resistance to any imposition on employers of requirements to train. The consequence of the lack of a skill infrastructure was twofold: the development of work organisation that economised on the use of skill, leading to a low skill equilibrium (Finegold and Soskice 1988); and a more flexible system of allocation of labour within organisations, not tied to specific qualifications, except for where traditional job demarcations were established through trade union organisation.

*viii. Voluntarism*

The UK industrial relations tradition is associated with voluntarism but by the middle of the 1980s that system had been significantly undermined by the introduction of new industrial relations legislation that had introduced new legal controls on the ability of unions to take action. Perhaps even more importantly government attitudes towards trade unions had undermined the legitimacy of both trade union action and employee voice. Under this new political climate there were limited incentives for any employers to agree voluntarily to recognise trade unions, thereby demonstrating the weakness of a voluntary system in a context of government opposition to any role for collective labour. To some extent the weakness of the collective bargaining system in the UK was exacerbated by earlier trade union strategies to promote single company agreements based on their areas of strength and their subsequent neglect of sector level framework or national agreements. Employers' associations, traditionally weak in the UK, became even weaker as they lost their role in collective bargaining and the notion of social partnership being introduced from Europe took on even less meaning in the UK context where the coordination of collective bargaining had all but disappeared in the private sector (Brown 1993). Pressures were undermining the collective coherence of public sector employment regulation through both privatisation and the development of decentralised bargaining systems. At the level of the workplace or organisation, new systems of labour management were being introduced such as performance related pay and new working time arrangements; further investigation of these experiments in new systems found that managerial motivation was driven as much by the opportunity to reduce trade union control of pay and work organisation as by the attractions of the new systems per se (Kessler and Purcell 1995, Heyes 1997).

*ix. Male breadwinner model/residual welfare state*

The UK is traditionally classed as a residual welfare state alongside the United States. This characterisation was reinforced by changes that took place in the 1980s that removed any earnings related elements from social security both in unemployment benefits and to a large extent in pensions, where state second-tier earnings-related pensions were effectively replaced by incentives to switch into private and company level pensions as a second-tier. Moreover, the new flat rate benefit levels were increased only in line with inflation and were reduced significantly in relative terms over the decade. However, the UK system remains significantly different from that in

the US, both because of its national health system and because of its commitment to continuing support for those without adequate income through means tested benefits, for the sick, disabled or long-term unemployed. Similarly, low state pension levels are supplemented by access to a range of means tested benefits. One of the consequences of the means tested benefits was an increasing rate of workless households as the low paid jobs available to the unemployed were not sufficient to compensate for the loss of a range of means-tested benefits, including rent and mortgage payments (Gregg and Wadsworth 1995).

Another characterisation of the UK is as a strong male breadwinner society (Lewis 1992). This characterisation is based on the high gender pay gap, the lack of support for working mothers both in terms of paid leave or childcare during this period and the dependence of women on their partner's occupational pensions due to the low level of state pensions, the likelihood that women will not have full eligibility for the state pensions, due to discontinuity of employment and the exclusion of many part-timers from contributions, and a strong likelihood that women would be employed in sectors offering low or inadequate occupational pensions (from which part-timers were also often excluded until a successful European Court of justice case established this practice as indirect discrimination). However, against this classification one must note a relatively high and rising female employment rate and an early decision to introduce individualised taxation in the UK.

## **2. Continuity and change in the UK national model**

The key questions to address in assessing change over the past decade and in particular since 1997 include:

- whether the apparent economic success of the last decade builds upon the foundations of the model established in the 1980s and early 1990s or is more the consequence of significant changes to that model; and
- whether the new model that is emerging is coherent and sustainable and, relatedly, whether it involved significant consequences or costs to particular groups.

As a building block to try to address these questions, we need to take each of the nine elements in turn and consider the nature of changes that have taken place over the past decade. To try to determine whether or not there has been a major change in the UK model we assess change within each of these elements according to a two by two matrix: that is we distinguish between incremental and substantial change on the one hand and continuity and rupture on the other. Table 1 summarises our classification of change according to these nine elements. We argue that there has been a rupture in the UK model in three respects. First the UK has made a complete transformation to a service-led economy. Although this has occurred as a process of incremental change, the transformation of both the production system and labour market to a service led and polarised structure of graduate versus low skilled and often part-time service work requires a rethinking of appropriate models and classifications of the UK model that have traditionally been based on the organisation of blue-collar manufacturing work, despite the recognition of the importance of the service economy in the UK. In the other two areas which are identified as experiencing a rupture in the model, change has occurred more rapidly and thereby come under the heading substantial

change; the transformation in macroeconomic conditions towards price stability and growth stability was at one stage expected to end with changes in the fortunes of the world economy but so far predictions of major collapse have not been validated. The third element of rupture is to be found in the UK pension system where there has been a rapid and massive withdrawal by private companies from the provision of high-quality pensions, but so far little has been done to provide an alternative model and the consequences of this rupture have not yet really been fully recognised.

**Table 1. Summary of change in the UK model, 1980s to the present**

	<b>Incremental change</b>	<b>Substantive change</b>
<b>Continuity</b>	1. The shareholder model 5. Weak innovation model 6. Weak regulation of product and labour markets 8. Voluntarism 9. Residual welfare state (social security, gender relations)	4. State role (more spending and more marketization) 7. Class based general education and training system (incremental change in VET but emergence of polarised graduate/non graduate labour market)
<b>Rupture</b>	2. Manufacturing decline → service economy	3. Unstable macroeconomic conditions → Stable macro conditions 9. Residual welfare state → (pensions)

Two other areas have been identified as areas of substantial change, albeit along a path of continuity. The first is the increasing public expenditure on health and education that comes after a period of 18 years of relative neglect of the public infrastructure in the UK. To some extent this could also be regarded therefore as a rupture but the commitment to a publicly funded health service and education system has been a consistent element and it is arguable that even if the Conservative government had continued in power, it also eventually would have had to find some means of renewing the infrastructure. The policy with respect to public expenditure represents continuity in another sense, and that is the increasing involvement of the private sector in public services provision although we note that there has been a significant quickening of the pace of privatisation in all areas of public sector services since 1997. The second area of substantive change under the continuity path is the expansion of higher education: this expansion started prior to new Labour and maintains the traditional emphasis on higher education over training, even if the transformation to mass higher education represents a substantial change. Overall, therefore, there are at least a number of significant elements in the UK model that have been experiencing substantial or transformative change over the past decade. To provide more details on the nature of these changes, we discuss each of the nine elements in turn.

*i. Shareholder capitalism: does reduced liquidity encourage a stakeholder model?*

The past decade has seen increased political debate over whether or not unfettered shareholder capitalism acts in the interests of the economy and society. This debate has been fuelled in part by the excessive payments made to chief executives on the one hand and concerns over continued productivity gaps on the other. For example a high profile taskforce was set up to consider the inclusion of reporting requirements on human resource management in the annual reports that listed companies now have to file but the final outcome made such reporting effectively voluntary with relatively free choice of the indicators to be reported upon. This is just but one example of proposed moves to temper shareholder value that have yet to be implemented with teeth. Again for example, the 2002 Company Law Review Steering committee expressed its support for ‘enlightened’ shareholder value extending company interests to a wide range of stakeholder groups (Deakin 2005: 12).<sup>2</sup> However, as yet such proposals and developments have not been encouraged by government through, for example, reform of company law.

Nevertheless, Pendleton and Gospel (2005) argue that in practice the high institutionalisation of share ownership (eg. pension funds and insurance funds, which have holdings in a broad cross-section of FTSE companies) has created strong incentives for shareholders to become actively involved in companies as a consequence of reduced liquidity and thus longer-term relations between the institutional shareholders and the company. Table 2 shows the changing distribution of UK shares between 1981 and 2001 (excluding equity owned by non-UK investors, which increased significantly from 3.6% in 1981 to 31.9% in 2001).

**Table 2. Ownership of UK shares, 1981-2001, percentage of total equity owned at year end by each investor type (non UK investors excluded)**

	1981 (%)	1990 (%)	1997 (%)	2001 (%)
<b><i>Total held by major UK institutional investors</i></b>	<b>59.8</b>	<b>65.5</b>	<b>73.9</b>	<b>73.3</b>
Insurance companies	21.3	23.1	30.9	29.4
Pension funds	27.7	35.9	29.1	23.6
Unit trusts	3.7	6.9	8.8	2.6
Investment trusts	n.a.	1.8	2.5	3.2
Other non-bank financial institutions	7.1	0.8	2.6	14.5
<b><i>Other investors</i></b>				
Charities	2.3	2.2	2.5	1.5
Companies (non financial)	5.3	3.2	1.6	1.5
Public sector	3.1	2.3	0.1	0.0
Banks	0.3	0.8	0.1	1.9
Individuals	29.3	23.0	21.7	21.7

Source: adapted from Pendleton and Gospel (2005: table 3.1).

<sup>2</sup> The Review argued for ‘a proper balanced view of the short and long term, the need to sustain effective ongoing relationships with employees, customers, suppliers and others; and the need to maintain the company’s reputation and to consider the impact of its operations on the community and the environment’ (cited in Deakin 2005: 12).

It shows an increasing domination of UK share ownership by institutional investors (from an already comparatively high level), from 60% in 1981 to 73% in 2001. The impact of this change on the operation of British capitalism, however, is limited by the fact that the shareholder commitment remains contingent and still seem to disappear in crises. Thus when operating problems and profitability become really serious, the close relations between shareholders and companies are used in fact to impose rapid downsizing on the company and the workforce.

*ii. Manufacturing decline: a service-led economy?*

Manufacturing employment declined from 27% in 1980 to only 13% in 2004: the decline has been particularly rapid since 1997 with a 22% decline between 1997 and 2004, compared with only a 5% decline in France and Germany (Edmonds and Glyn 2005). This represented a loss of around 850,000 jobs but was more than compensated by the sharp rise in both public sector and private services employment. The decline and effective demise of much of UK manufacturing has been associated with the increased development of globalised supply chains. While the concentration of retail ownership in the 1980s took the initiative, independence and innovative capacity away from much of the manufacturing or supply chain infrastructure in the UK, the retailers by the late 1990s and the 2000s had moved away from managing domestic to international supply chains causing many domestic suppliers to close. Much publicity was afforded to the decision for example where Marks & Spencer abruptly terminated its long-term contractual relations with textile and clothing suppliers in the UK.

While the service economy grew rapidly, there was nevertheless a parallel development towards outsourcing and offshoring in the field of services. The UK has been found to be second to the USA in leading the off shoring of call centres, back-office processing work and IT (table 3). Much of the high profile off shoring has involved the movement of call handling work to India where the persistence of higher education in English has facilitated such developments. Moreover while trade unions have been active in campaigning about the employment consequences of this practice, it is less well recognised that the UK is also a major destination for export oriented foreign direct investment projects (table 4). While India is a world leader in attracting such FDI, closely followed by Canada, the UK had the third highest number of projects in the world during 2002-03, more than China and significantly more than any other EU country.

**Table 3. Source of export-oriented FDI projects in services, 2002-03**

	<i>Call Centres</i>	<i>Shared service centres</i>	<i>IT services</i>	<i>Regional Headquarters</i>	<i>Total</i>
USA	307	76	414	238	1035
UK	38	23	47	55	163
GER	27	9	11	54	101
FRA	16	-	11	24	51
JAP	14	4	19	47	84
EU-15	127	43	99	188	456
World	513	138	632	566	1849

Source: UNCTAD (2004) Annex table A.IV.1, p. 339

**Table 4. Destination of export-oriented FDI projects in services, 2002-03**

	<i>Call Centres</i>	<i>Shared service centres</i>	<i>IT services</i>	<i>Regional Headquarters</i>	<i>Total</i>
INDIA	60	43	118	7	228
CAN	56	3	14	25	98
UK	43	7	73	64	187
CHINA	30	4	60	38	132
IRE	29	19	14	15	77
GER	20	1	34	22	77
SING	16	8	35	36	95
USA	15	2	26	80	123
FRA	13	2	16	11	42
JAP	11	-	16	8	35
EU-15	169	38	198	185	590
World	513	139	632	565	1849

Source: UNCTAD (2004: table IV.7).

The outcome of this process of restructuring is to move to the labour market more towards the so-called hourglass economy and employment growth focused at the top and bottom end of the economy. As Nolan puts it:

*At the top of the jobs hierarchy there has been a proliferation of high-paid jobs whose incumbents enjoy substantial discretion over the hours, places and patterns of their working time. But in Britain their fortunes have merely served to fuel the growth of low-paid, routine and unskilled employment in occupations that would have been pre-eminent fifty years ago. We have seen a growth in occupations such as carers, cleaners and drivers – people who carry out fairly menial tasks for the high earners. The fastest growing occupation has been hairdressing, which has seen growth of 302% over the past 10 years (Nolan, 2005).*

According to Goos and Manning (2003), the most pressing issue for millions in the 1980s was to find employment, whereas in recent years, the quality rather than the quantity of jobs that has become the main concern.

*iii. From unstable to stable macroeconomic conditions?*

A number of factors have influenced the evolution of macroeconomic policy and macroeconomic conditions in the UK. An important political factor is the vulnerability that the new Labour government felt with respect to economic management given the reputation for poor economic management under previous Labour administrations, resulting in pressure to devalue the 1960s and pressure from the IMF in the 1970s. To insulate the government against charges of ‘tax-and-spend leading to boom and bust’ one of the first tasks of the new Labour government was to establish the independence of the Bank of England in setting interest rates within a framework more favourable to smoothing cyclical fluctuations than is the case under the Euro regime. The monetary committee of the Bank of England is charged with

targeting a specific inflation rate of two and half percent and is expected to stimulate the economy when the inflation rate falls below that as well as vice versa when inflationary pressure is higher than 2 1/2 percent. Conscious that EU rules for the Euro zone might impinge on opportunities to follow through projects or improving public infrastructure and fighting child poverty, the Chancellor also established his own golden rules on debt financing that allowed for greater fiscal deficits in the downturns of the cycle compared to the upturns than is allowed again under the Euro zone rules (assisted, also, with a degree of subjectivity in how to define the period of the business cycle). The decision not to enter the Euro was effectively made by the Chancellor rather than the Prime Minister and was influenced both by the strong opposition to the Euro in the population at large and the Conservative party but also by memories of the problems of the Conservative government encountered when they entered the ERM.

In the early stages of the new Labour government previous Conservative governments spending plans were adhered to, reflecting the extremely cautious approach adopted by new Labour to macroeconomic management at the outset. The only new expenditure on New Deal programmes for the jobless was funded from a windfall taxes on pension funds that some regard as having contributed to future problems with private pension funds. A major change took place, however, with the three-year spending review from 2000 when new commitments were made to increase public spending particularly in health and education (Peston 2005). As table 5 shows, while expenditure on health only rose by around £4 billion between 1995-96 and 1999-2000, the increase between 1999-2000 and 2003-2004 has been of the order of £20 billion. Similarly educational spending only rose by £1 billion between 1995-96 and 1999-2000 but by £14 billion between 1999-2000 and 2003-2004.

**Table 5. Real expenditure on selected major areas of public spending, 1993-4 to 2003-4**

£ billions	1993-4	1994-5	1995-6	1996-7	1997-8	1998-9	1999-0	2000-1	2001-2	2002-3	2003-4
Health	45.6	48.4	49.4	49.2	50.2	51.7	53.3	57.6	61.9	66.3	73.5
Education	41.9	43.1	42.9	42.2	42.3	42.7	43.9	47.1	51.4	53.8	57.9
Social protection	122.5	125.2	128.4	129.6	128.4	125.7	131.1	135.2	140.6	143.8	148.3
Debt interest	26.0	29.0	32.1	32.6	33.6	32.2	27.2	28.0	23.3	21.3	22.0
Defence	28.2	27.7	26.0	24.7	23.7	26.1	26.0	26.4	25.4	26.1	27.1
Public order	18.6	19.0	19.0	18.9	19.2	19.7	19.8	21.6	23.8	24.9	26.9
Transport	13.3	14.9	13.8	11.7	10.4	9.3	9.7	9.7	11.7	13.6	15.5
<b>Total</b>	<b>356.4</b>	<b>367.7</b>	<b>372.2</b>	<b>365.8</b>	<b>364.7</b>	<b>365.5</b>	<b>369.3</b>	<b>389.4</b>	<b>403.8</b>	<b>418.9</b>	<b>446.5</b>

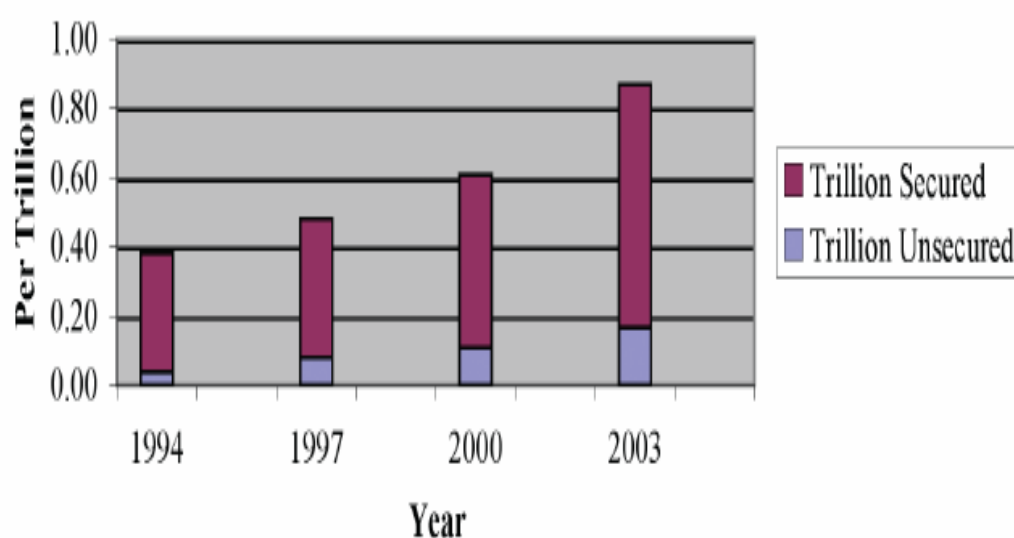
Note: The total refers to 'total managed expenditure' and includes any other items of expenditure not listed in the table here.

Source: HM Treasury (2004) 'Public Expenditure Statistical Analyses (PESA)', table 3.3.

In addition to this injection of public spending, consumer demand has been sustained through a credit driven consumer boom linked in turn to the housing boom. Figure 1 indicates both the massive growth in consumer credit particularly since 2000 and the importance of secured credit, largely against housing assets in that expansion. Table 6

further clarifies the importance of the housing boom in this credit expansion as despite an explosion in consumer credit, the ratio of credit to assets has remained totally stable since 2000. The reasons for the housing boom remain somewhat unclear as the cost of housing has become misaligned with the level of salaries. However, some of the reasons include the shortage of housing particularly in the southeast, concerns about the stability of the stock market in recent years, the long-term record of housing in ensuring the middle classes have access to wealth (once the decline in prices and the problems of negative equity in the early 1980s were sufficiently far in the past to be effectively forgotten about). For those homeowners experiencing increases in capital gains, the temptation has been to increase expenditure above earnings. As figure 2 shows, the UK dominates the consumer credit card market in Europe (a 55% share of the total number of credit cards in 2003) and the housing boom has not just led to increased indebtedness in the form of mortgages but also to increased credit of all kinds. The UK's transition to a relatively stable path and of economic growth is therefore based on a massive level of consumer debt and a potentially unsustainable housing boom.

**Figure 1. Total lending to individuals: secured and unsecured lending**



Source: Bank of England (2004)

**Table 6. Private sector housing assets versus household debt, 1994-2004**

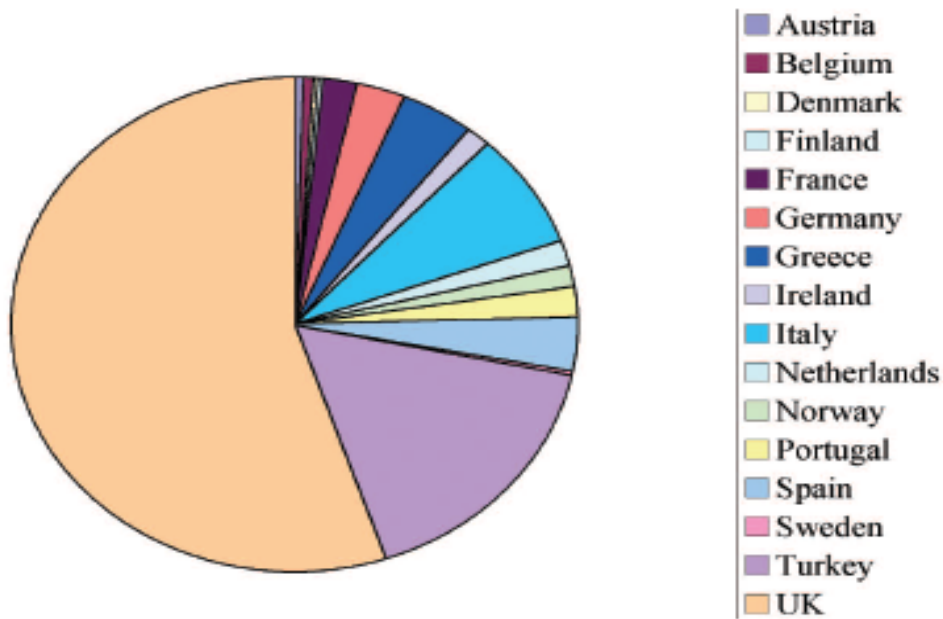
	<i>Private sector housing assets £bns</i>	<i>Housing debt £bns</i>	<i>Ratio of Private sector housing assets to debt</i>
Dec-94	1092	376	2.9
Dec-95	1088	390	2.8
Dec-96	1196	410	2.9
Dec-97	1301	431	3.0
Dec-98	1505	456	3.3
Dec-99	1719	494	3.5

Dec-00	1968	536	3.7
Dec-01	2116	590	3.6
Dec-02	2568	674	3.8
Dec-03	2869	773	3.7
Dec-04	3306	875	3.8

Source: Halifax, Bank of England, Office of National Statistics

Figure 2.

### Insertion 1: Western Europe credit card market – 2003



Source: Grant Thornton analysis of Datamonitor

#### iv. State role as public service provider/withdrawal from industrial policy

One of the driving forces behind the big injection of public expenditure since 2000 was the increasing recognition that the steadily deteriorating state of the public infrastructure was becoming politically unpopular. It is notable that the Conservatives in both the 2001 and the 2005 election have claimed that they would sustain the same level of expenditure in health and education (excluding universities) planned by the Labour party, indicating a cross-party consensus that a return to an effective zero new build and highly constrained levels of investment in maintenance of the infrastructure no longer constituted a politically acceptable policy. However, a potentially equally important driving force has been the opportunity to open up new markets and opportunities for private capital through the rise in public expenditure. The motivations for this expansion of opportunities with private capital are both multiple and somewhat unclear: one media commentator has recently argued that while for the Chancellor the main motivation is related to meeting expectations within the EU and

the international community more generally on public-sector debt, for the Prime Minister the involvement of private capital is seen as a necessary part of his commitment to sustain pressure on the public services to deliver a continual revolution in working practices (Toynbee, *The Guardian*, 02.09.05).

The commitment to higher public spending on services is a commitment to front-line services which may involve higher employment levels but not higher levels of pay and which have to be delivered at increasing levels of productivity on annual basis. In part this approach can be explained by reference to the past -- new Labour is concerned not to be seen as favouring the still strongly organised public-sector workforce. However some see this as a thinly veiled excuse for expanding profitable opportunities for private sector companies. The result of the opening up of infrastructure projects to private finance, the development of wide ranging public private partnerships to deliver services and an accelerated outsourcing of many low skilled jobs has been to fuel growth not only in public-sector employment but also in private sector employment. Public employment has increased its share of total employment from 21% in 1980 to nearly 26% by 2004. Edmonds and Glynn estimate a rough figure of 550,000 private sector jobs being created as a direct result of increased public spending between 2000 and 2003, concluding in fact that since 2000 growth in UK employment is due to higher public expenditure.

One of the major developments in industrial structure of recent years has been the growth of large specialist outsourcing companies in areas such as engineering maintenance and cleaning and catering services. Another area has been IT outsourcing where some of the largest contracts have been negotiated, often with U.S. owned multinational IT companies (Grimshaw and Miozzo 2006). Many of these contracts have ended in ignominy and failure but paradoxically the government has tended to lay the blame primarily on the public sector organisation responsible for the contract rather than on the private contractor itself. Problems with the rail network eventually did force the government to find a means of bringing the infrastructure back under some degree of public control although private companies continue to operate trains. Moreover maintenance work was brought back in-house as the only means to control costs and quality following massive cost overruns and some high-profile accidents caused by poor maintenance. Concerns over waste in public expenditure have led to a more professional approach being taken to private sector contracting but nevertheless even recent high profile and controversial private finance arrangements such as in the London Underground have been associated with underperformance, low investments and problem of poor maintenance.

The policy of outsourcing, private finance and the freeing up of some public sector organisations from effective democratic control (for example in the foundation hospitals or the city academies that are outside of direct national or local government purview) is effectively blurring the public private divide in employment. Thus, although there is still a commitment to public provision of services, it is not matched any longer by a stable employment environment in which the workforce can opt to work for public sector employers as all areas are now at risk of transfer. The public sector remains relatively strongly unionised and the trade unions have had some success in protecting terms and conditions of employment associated with outsourcing. They have extracted commitments in local government and health that new recruits, not just transferred workers, will have their terms and conditions

protected and linked to those prevailing in the public sector. Nevertheless, research suggests that the change of employer from public to private sector can lead to deterioration in working conditions and rewards (Grimshaw and Hebson 2004), although in some contexts, for example IT staff, change is mixed with transfer to a large multinational often enhancing their career opportunities, while at the same time introducing job insecurity due to the linking of job prospects with renewal of outsourcing contracts and changes in employer (Grimshaw and Miozzo 2005).

The risks associated with this approach to public spending are extremely high for the British public. If the massive increase in expenditure does not bring about notable improvements in services there is a real danger of loss of commitment to the maintenance of public provision. However, the private sector has yet to prove itself capable of delivering quality services. Moreover, the financing arrangements may lead to the private sector extracting much of the increase in real expenditure in the form of profit rather than enhanced services. There are particular concerns that the costs of private finance initiatives will be borne by future generations with the servicing of the private finance absorbing higher shares of public expenditure in the future (Shaoul 2005).

v. *Weak innovation model*

Despite a new policy consensus on the need to build a knowledge economy, trends in the last decade have reinforced the traditional weak innovation model in the UK. Gross R&D spending in the UK fell in almost every year during the 1980s and 1990s (as a share of GDP), in contrast to other G5 countries whose shares generally increased; UK spending fell from 2.39% to 1.83% while in the US, for example, it rose from 2.42% to 2.74% during 1981-1998 (Bloom and Griffith 2001: 339). Comparing the period 1991-1997 with 1997-2003, there was only a marginal rise in R&D spending growth (22% and 25% respectively), lower than GDP growth in both periods (own calculations, ONS data). 2003 data show the UK still lags behind in both public and business R&D spending compared to the US and Germany (table 7) and has a long way to go to improve its current level of a 1.9% share of GDP to meet the government target of 2.5% by 2014, let alone the more ambitious Lisbon 2010 target of 3% of GDP.

**Table 7. Innovation scoreboard for the G5 countries, 2003**

	<i>UK</i>	<i>US</i>	<i>Japan</i>	<i>Germany</i>	<i>France</i>	<i>EU</i>
% of 20-29 S&E grads	19.5	10.2	--	8.0	19.6	11.3
Work pop w tertiary educ	29.4	37.2	33.8	22.3	23.5	21.5
Public R&D exp	0.65	0.76	0.81	0.73	0.83	0.69
Business R&D exp	1.19	2.04	2.28	1.76	1.37	1.30
USPTO patent applications (per million population)	77.2	322.5	265.2	147.4	76.5	80.1
Early stage venture capital (share of GDP)	0.047	0.218	--	0.042	0.035	0.037
ICT expenditures (share of GDP)	8.6	8.2	9.0	6.9	7.4	7.0

Source: adapted from European Commission (2003: annex table B).

Secondly, while cutbacks in public R&D spending have occurred in most countries, they were especially pronounced in the UK – from 49% of the total to 24% between 1981 and 1998 (Bloom and Griffith 2001: 341). It is difficult to detect any radical shift in this pattern since the 1997 election of the new Labour government; government spending declined by 44% and 38% during the periods 1991-97 and 1997-2003, respectively (own calculations, ONS data). However, while overall R&D spending has fallen since 2000, the government has made substantial injections in the targeted areas of Research Councils and Higher Education Funding Council expenditures, with average annual growth of 13% and 10%, respectively during 2000-03 (own calculations, ONS data). Most recently, the government has set out a ‘science and innovation investment framework’ for 2004-14, in which it commits to a ‘very substantial investment in the public science base’ (SR 2004), although this only promises growth ‘at least in line with the trend growth rate of the economy through the ten-year period’ (op. cit.).

Thirdly, despite cutbacks in the public science base, business funded and business conducted R&D spending in the UK remained relatively flat during the 1980s and 1990s, in marked contrast to the US and Japan where levels increased by around 50% (as a share of GDP) (Bloom and Griffith 2001: figure 5). This suggests either limited development of governmental tax credit policies, or the loss of footloose R&D to other countries with more generous R&D tax subsidies. In pharmaceuticals, for example, an increasing share of UK firms’ R&D is being carried out abroad (op. cit.).

Fourthly, a ‘new’, and relatively unique, feature of the UK’s innovation system is its high and rising share of foreign-funded R&D spending. 1998 data show 22% of UK business R&D funded from abroad compared to 11% in France, 3% in Germany and just 0.4% in Japan (Bloom and Griffith 2001: 345). In pharmaceuticals, for example, the proportion of UK-based R&D funded by foreign firms increased from 18% in 1994 to 34% in 1998 (op. cit.: Figure 11).

*vi. Weak regulation of product and labour markets*

There has been a continued commitment to deregulation under new Labour, reflecting the decision by new Labour to pursue the path of previous Conservative administrations except for the implementation of its manifesto commitments to follow European employment directives, implement a national minimum wage and provide some legal support for trade union recognition (the cost of trade union support for a Labour victory). While the acceptance of the Social Charter marked a significant change from the Conservative government, the continued UK opposition to further extension of the European social model reduces its significance. There has been continuity in product market regulation with further deregulation in some areas particularly with respect to opening hours in the service economy. In general a deregulated approach is also adopted with respect to the public sector, but there has been some public pressure for increased regulation for example with respect to the checking of criminal records of employees working with children or the vulnerable. However, the implementation of this new regulation was contracted out to the private sector which proved unable to cope with the workload. Overall the UK shares first place with Australia in 2003 with the lowest level of product market regulation (Conway et al. 2003: see table xx) although there is some evidence of a convergence

process during 1998-2003 towards countries with a liberal approach (a correlation coefficient of -0.83 between the index of regulation and the change in index).

*vii. Class based education and training system*

Education has risen up the political agenda since the election of new Labour. The primary commitment made in 1997 was towards improvement in education in schools but this was coupled with a commitment to continue to expand numbers in higher education and indeed the adoption of a target of a 50% participation rate in higher education. Concerns over the productivity gap between the UK and the rest of Europe and the US has led new Labour to try to emulate the US model of an expanded graduate labour market and as a consequence to move away from the elite but relatively well-funded system of higher education that prevailed through the 1960s and into the early 1990s. This move towards a mass-market higher education has occurred alongside the retention of the elite system, i.e. Oxbridge, and a decision to introduce top up fees for universities also provides the future potential for a new elite cadre of universities to emerge that will charge differential fees, thereby restricting access either to the well-off or to the extremely bright who will be offered bursaries. Currently the proposal is for top-up fees to be capped at £3000 a year but there is much scepticism that this political control over fees will be retained over the long-term.

The lack of specific correlations between qualifications and occupations for most UK graduates has in part facilitated the ready absorption of the new expanded numbers of graduates into the labour market. However, the consequence is that many graduates are now entering jobs not previously regarded as graduate jobs and although there are some areas where graduates may be able to expand and develop those jobs, more research is needed to see whether or not the expansion on supply-side is being utilised within the productive system in the UK. Overall the policy of expanded higher education is having contradictory effects on equal opportunity; it is reducing the elite and privileged status of university education but saddling the younger generations with high levels of debt. Furthermore there is a paradoxical finding that as the number studying in university rises, the chances of those from the very lowest segments of society entering higher education have not risen and may indeed have fallen (Blanden et al. 2002).

The expansion of higher education to a potential 50% of the relevant cohort calls further into question the status of alternative forms of initial training and skill development. Those not entering higher education are increasingly regarded as educational failures and despite many efforts to reform and expand vocational training systems there is still little evidence that training systems are held in high regard by either employers or potential employees. The new focus on sector skill strategies has begun to pay more attention to the overall supply of skills and less to the specific needs of individual employers, and public sector organisations are now building in skill and training requirements into private sector contracting. However the skill gap that still needs to be bridged in the UK, if it is to close the productivity gap with other societies, is indicated by the extraordinarily low shares of the workforce that managers regard as skilled (see table 8).

**Table 8. Proportion of skilled employees among the non managerial workforce at the workplace, by sector**

	<i>% of workplaces with no skilled employees</i>	<i>% of workplaces with 1-25% skilled employees</i>	<i>% of workplaces with 26-50% skilled employees</i>	<i>% of workplaces with &gt;50% skilled employees</i>
Manufacturing	4	40	20	37
Electricity, gas and water	2	8	21	68
Construction	19	12	14	54
Wholesale and retail	40	38	10	12
Hotels and restaurants	21	61	9	8
Transport and communications	33	42	9	15
Financial services	57	23	13	7
Other business services	12	18	23	47
Public administration	27	31	13	29
Education	0	2	42	55
Health	22	33	23	22
Other community services	17	36	16	31
<b>All workplaces</b>	<b>19</b>	<b>31</b>	<b>20</b>	<b>30</b>

Source: adapted from Cully et al. (1999: table 3.4).

#### *viii. Voluntarism*

Trade union pressure on new Labour to introduce legislation on trade union recognition signifies the ending of the belief that the trade union movement is able to survive and prosper without state support – one of the fundamental tenants of the notion of voluntarism. Similarly trade unions in the UK have abandoned their long-term scepticism of the need for legal regulation on employment rights and have been a major force pressing for and utilising the European social legislation as a means of some form of re-regulation of the UK labour market. There are still elements of a voluntarist approach remaining particularly in the proposed implementation of the information and consultation directive where the government supported by the trade unions provides for the opportunity for local arrangements to act as alternatives to following statutory procedures. The unions' commitment to voluntarism in this respect reflects their concern that statutory systems of employee voice might undermine the continuing forms of workplace unionism. In other cases, particularly with respect to rights for part-time workers or on gender equality, the union movement has tended to favour legislation while the government might still prefer a voluntary approach: for example the unions supported a statutory right for parents to work flexible hours when their children are young rather than the new right to request flexible working which was the most the government was prepared to agree to.

At the workplace level, case study and survey evidence has pointed to a rebalancing of power towards employers with the consequences of increased work pressure, long working hours and greater emphasis on individualised and performance related pay (Beynon et al. 2002, Burchell et al. 2001). However most of these changes appear to have taken place before the end of the 1990s with some evidence of an amelioration or stabilisation of these pressures into the 2000s (Green 2001, White et al. 2004). Many of the changes towards new payment systems, new forms of work organisation and new working time arrangements during the 1990s could be traced to policies to reduce the power of trade unionists over the traditional organisation of work and the wage-effort relationship. Within the public sector these changes are certainly ongoing under the pressure introduced by Blair's commitment to 'a constant revolution in working practices'. The extent to which these policies are productive in raising productivity as opposed to increasing staff turnover and stress is a matter of debate.

*ix. Male breadwinner model/residual welfare state*

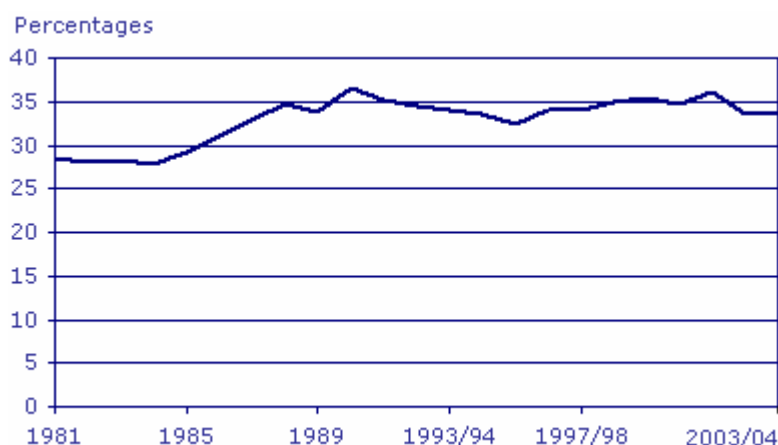
New Labour has been committed since the election in 1997 to both reducing child poverty and reducing the share of adults and children in workless households. These strategies are seen as directly related as child poverty is strongly correlated with workless households. The policy also chimes with the government's emphasis on employment, sometimes called a work first policy, where the unemployed or disadvantaged are required to take whatever jobs are available in order to qualify for support. There are two main groups targeted by this policy - workless couple households and lone parents. There are several elements to the change in the welfare state system: first the continuation of the policy of requiring active job search in return for benefits, and with limited rights for workers to specify the type or timing of jobs that they are willing to take; the development of the New Deal programmes to assist entry into employment; the expansion of in work benefits to include a wider range of households and the introduction of a national minimum wage; increased childcare support for lone parents and the couple households where both are in work.

The outcome of the policy has been a modest decline in the proportion of workless households (ONS 27 July 2005) from a 1996 peak of 19.1% to 16.1% in 2003/4 with a slight rise to 16.3% in 2005. There has been a steeper decline in lone parent workless households from 52.1% in 1996 and 50.3% in 1997 to 40.8% in 2005. However the absolute numbers of workless lone parent households has remained rather constant as the share of such households in the population has increased.

There are three major problems with the in-work tax credit policy that may yet undermine the long-term sustainability of this welfare reform. First there have been major problems in the implementation of what is an extremely complex benefit programme, with the result that many households have been left without tax credits or have been overpaid and expected to repay them at a much later date. These problems are undermining trust in the system. The second problem is that although the number of households facing benefit withdrawal at 70% or more has been reduced, there has been a major increase in the number of households facing a reduction in benefits at a rate of over 60% if wage income increases. This expands the number of households within a poverty trap and restricts opportunities for second income earners to enter the labour market. Thirdly the policy encourages entry into work but does little to improve the quality of jobs available, with the result that employment may not be sustainable if jobs are low quality and insecure.

While there has been some increase in employment opportunities over the past decade and certainly some redistribution of resources towards poor households, the main effect of the policy has been to stem any further major increases in overall income inequality in the UK (see figure 3). The policy has been less effective than intended (to date), in part, because of problems with the payment of tax credits and because reductions in child poverty and pensioner poverty have been offset by increases in poverty amongst working age childless people.

**Figure 3. Gini coefficient for equivalised disposable income**



While the Labour government planned a reform of social security for the working age population it has found itself somewhat unexpectedly in the midst of a crisis in the UK pension system. There are a number of elements to this crisis and of course different perspectives on the most important elements. From an employee or worker perspective the main crisis is in two elements: first the long term decline in the relative value of the state pension and second the collapse of the final salary occupational pension schemes; the number of persons belonging to such schemes has fallen by 1 million over 5 years such that only 3.65m out of 22.5 m in the private sector belong to such a scheme compared to 5m out of 5.7m in the public sector (*The Telegraph*, 13.06.05).

The lack of access to final salary schemes particularly applies to younger people as most schemes are now closed to new entrants. The alternatives to final salary schemes are money purchase defined contribution schemes but these have proved unpopular with the workforce for two main reasons: first with the stockmarket collapse the value of annuities plummeted, thereby providing negative incentives to contributions; second, there has been a great deal of mis-selling of these schemes in the past with people wrongly advised to move out of the state second pension into private schemes and as a consequence there is very low trust in this system. The second state pension now seems a safer option even to some insurance providers (Norwich Union – see *The Guardian*, 17.05.05). This was initially designed as a residual back up for those who for various reasons neither had a private nor an occupational pension, but it is now becoming the pension option of choice, thereby potentially increasing government

commitments. The effective withdrawal of private capital from the provision of high quality pensions was not fully anticipated. This withdrawal follows on from companies taking a 'pension holiday' when the stockmarket was strong and lower contributions were required, but when the stockmarket declined and commitments increased, many companies refused to act symmetrically and increase contributions to overcome shortfalls. The government is waiting on the outcome of a Pensions Commission before deciding what line to take; it is toying with introducing compulsion on both employers and workers to contribute to an occupational scheme but is worried that this may be presented as a new form of tax. Voluntary saving is being held back in part by the government's pension credit system that extends means-tested top ups to low income pensioners, thereby reducing incentives to save for a small second or third pension. There is also some commitment to review the system for women who constitute the majority of pensioners and who have very inadequate entitlements but a proposal to consider a citizen's pension appears to have been dropped by the new secretary of state appointed after the election.

The third main change in the social and family model relates to the support provided for maternity and for work-life balance. Women continued to increase their participation in both education and employment through the 1980s and 1990s. Finally there was a recognition that something needed to be done about the mismatch between employment patterns of women and the support available for families, particularly in the context of the very long working hours in the UK that inhibit sharing of domestic tasks. There are three elements to the change in policy: first the national childcare strategy was launched to increase availability of childcare and provide some assistance with affordability through a child tax credit, although childcare remains extremely expensive in the UK and the targeting of assistance on only formal forms of childcare has limited take up; second there has been a steady expansion in the length and improvement in the pay for maternity leave and there is now some plan to allow some part of paid maternity leave to be transferred to fathers, but for whatever reason the term maternity leave continues to be used instead of parental leave which is only available on unpaid basis; there is now a right for parents of children under six (and likely to be extended to all parents and carers) to request employers to allow them to work flexibly and for any failure to consider this request seriously to be referred to a tribunal. This rather weak right to request flexible hours however seems to be leading to some change in employment policy towards the availability of flexible work options.

### **3. Coherence, sustainability and costs of the emerging UK model**

#### *Conditions underpinning the UK's economic success*

We have identified a number of factors that have been critical in sustaining high employment rates and growth rates in the UK economy. These include the greater flexibility in macroeconomic policy that derives from the UK remaining outside the euro zone and from its policy of targeting long-term stability in inflation rates and in debt finance, thereby allowing it to take counter cyclical action to guard against recessions. Since 2000 this macroeconomic framework has been coupled with a commitment to increase public spending to make good the deficits in infrastructure that had accumulated over the previous two decades and to raise levels of spending on

health towards the EU average. This increase public spending has fuelled job growth in both public and private sectors.

A second factor maintaining demand has been the strong housing market; wealth effects have led to sustained consumer confidence and strong retail sales. The social segmentation of the UK and the apparent acceptability of high inequality has both provided the opportunities for high rewards for those engaged in growing new markets and has permitted strong job growth in low productivity sectors where wage levels can remain well below the median earnings level in the society due to the lack of national systems of pay determination to encourage comparability across sectors.

Mobilisation of the labour supply to ensure a high employment rate and long working hours has also been facilitated by the relatively low level of earnings among workers at the low and medium points of the income distribution, as well as low unionisation and weak opportunities for voice at the workplace. Opportunities for very high rewards at the top end have also promoted high employment levels and long working hours.

#### *Costs of the UK's economic success*

While the apparent relative success of the UK model can be explained, there is no doubt that there are major costs associated with this pattern of growth. Moreover, while these costs are currently tolerated, there are high risks built into the system that may eventually cause crisis and dislocation.

The costs of the system are primarily the large share of low wage jobs - particularly for women part-timers - but also for other groups. In addition, the current UK model is characterised by a low level of employment rights and employee voice, which are associated with a high level of work intensification. Further costs are generated by the problems of achieving an effective work-life balance in a society where many full-time jobs involve long and unpredictable hours and many part-time jobs are not only insecure but subject to variable scheduling. High labour market inequality is also matched by high levels of inter-generational and inter-class inequality, associated with access to both housing stock and shareholdings.

The risks of the system are found primarily in the danger of a housing market collapse that would have serious negative consequences for large swathes of the population - certainly for the lower middle classes upwards. There is also the strong possibility of a bursting of the consumer credit boom, particularly if the housing market weakens. There are further risks associated with the potential high long-term costs of the involvement of the private sector in the expansion of public services. These costs relate both to concerns over the future share of public expenditure that will need to be used to service the private finance currently being mobilised to rebuild the infrastructure and to the real question marks over the motivation or the capacity of private sector organisations to deliver quality public services.