The U.K. Model: A Model for Europe?

Jill Rubery, EWERC
University of Manchester

Abstract

The U.K.'s flexible labor and welfare system provides, according to Tony Blair, a model for a modernized European social model. This paper explores this claim and demonstrates the importance for recent favorable growth and employment trends of macroeconomic conditions, public expenditure, and Britain's position as a leader in the internationalization of the service economy. Not only is the model not readily transferable to Europe but it comes with both high social costs and high risks. The United Kingdom has rediscovered the public space but combined this with a commitment to the market state that poses long-term risks to Europe's social models.

Current pressures to modernize employment and welfare systems in Europe are interpreted either as a way for social models to survive in the new globalized world (CEC 2003) or as a death knell for the sustainability of varieties of capitalism (Wickham 2005). Within this debate, the U.K. model has taken on a central if somewhat paradoxical role. The United Kingdom is associated with the liberal and market version of capitalism where social policy is at best a residual, thereby providing an exemplar of the dangers faced by true European social models. Others—including Tony Blair—present the United Kingdom's revitalized model of the last decade as a potential savior for the European social model—a model to emulate. It is trumpeted not only for promoting stable and high growth and high employment rates through flexible labor and product markets but also for developing policies to renew public services and to combat child poverty, which are funded by economic growth and by modern approaches to public service and welfare reform.

To take this debate further, the nature of the U.K. model itself must be established. Does the U.K. model correspond to an archetypical neoliberal or market model? Moreover, has the U.K. model itself changed such that past typologies are not appropriate? And even if recent trends are positive, are these developments dependent on the United Kingdom's specific position in the

---

Author's address: Booth Street West, Manchester, United Kingdom M156PB

world economy, or do they really provide a blueprint for the rest of Europe? And, indeed, are the positive developments sustainable and at what costs ?

The United Kingdom as a Variety of Capitalism

The varieties of capitalism literature has generated a wide range of different typologies, dependent upon the research questions posed. Despite this potential for variation, the positioning of the United Kingdom is remarkably similar across the literature. The common themes are the lack of institutions for economic coordination (Hall and Soskice 2001). the dominance of finance and shareholder power; the correspondingly low power of labor, resulting in flexible employment and low employee voice (Gospel and Pendleton 2005); the development of production systems requiring limited skill or training (Finegold and Soskice 1988); and the role of the welfare state as primarily a residual safety net (Esping-Anderson 1990). All of these features tend to put the United Kingdom into the U.S. box of liberal market capitalism with only residual welfare protection. However, there are many significant features of the U.K. model that set it apart from the U.S. model while still remaining at a distance from many European social models. The most important of these are the commitment to a free heath service, the provision of a universal and non-time-limited social welfare protection system, and a still more embedded system of employee voice and collective regulation than prevails in the United States, particularly in the public sector.

The divergence between the U.K. and the U.S. models is in fact starker in 2006 than in 1994, when the current author assessed the characteristics of the United Kingdom's model and its prospects for development (Rubery 1994). This assessment was made in the context of fifteen years of Conservative government, which had continuously eroded the welfare state and the public space; the focus emphasized the likelihood of continued divergence between the United Kingdom and Europe. The interlocking nature of the United Kingdom's institutional and social arrangements was found to be generating a low-wage, low-skill economy, reinforced by the short-term thinking associated with shareholder power and the city's orientation toward international rather than British capital. British manufacturing companies, under the control of dominant retailers, were unable to develop the high value-added strategies that might enable them to enter on a high road growth path. Trade union power had been undermined both by the change to legislation and by the rapid restructuring of production and ownership that had removed many of their bastions of power. Plans to decentralize and fragment pay determination in the remaining public sector were likely to result in a further erosion of the tradition of collective but voluntary regulation. These features of the employment and production model were being reinforced by the running down of the welfare state such that there was a danger of it converging on the U.S. residual model. No major renewal of the skill base appeared to be in the cards either through education or training, and the lack of support for dual-earning families was maintaining a ready supply of overeducated women for a low paid and largely part-time female labor market. These pessimistic conclusions were reinforced by the declaration by the OECD (1994) in its 1994 Jobs Study that job growth in the future would have to come from the private sector.

From the perspective of 2006, the prediction of a continuing vicious circle made in the 1994 paper appears unproven. The intervening period has been characterized by high and sustained employment growth in both the private and public sectors alongside low unemployment, fueled by significantly increased public expenditure and by an almost continuous expansion of private credit supported by rapidly rising housing assets. The lack of training has not been resolved, but the skills agenda has moved up the policy agenda. In addition, there has been a sustained expansion in the numbers of young people attending higher education. Furthermore, while the trend toward high inequality, particularly at the top end of the scale, has continued, it has been tempered by stronger social safety nets applied in the form of a new and rising national minimum wage, higher benefits to the working poor, and higher minimum income guarantees for pensioners and for those with children. The consequence has been significant reductions in measured poverty levels particularly for pensioners and for children. There have also been signs of a response to the needs of a society increasingly based on dual earners and/or single-parent families with new investment in childcare facilities, support for the costs of childcare, and improved rights for leave and for flexible working that should enable returning mothers to stay in their existing jobs even if they wish to work part-time (Smeaton and March 2006).

While some of these changes represent deviations from the 1994 model, some trends have strengthened and reinforced the characteristic features of the UK model. The expansion has most certainly not been based on manufacturing but instead reflects a further strengthening of the leading sectors of the U.K. economy, namely, financial and business services and retailing. The retailing sector has in practice abandoned its supply network in the United Kingdom to become an even more leading force in the development of global production chains, thereby further sealing the fate of much domestic manufacturing. The United Kingdom was already leading the process of globalization in 1994 (Hirst and Thompson 2000), but it is now even further at the forefront of the globalization of services and is a major recipient as well as provider of foreign direct investment related to services, including call centers. Developments in the employment model are reinforcing the divide between the private sector, which is following a flexible or deregulation model, and the public sector, where collective bargaining has held up and become again more nationally oriented. This division provides the context for the government's concern to increase private sector involvement in the public sector. At the same time a range of new individual employment rights have been implemented in response to EU law and new Labour's decision to introduce a national minimum wage. Flexible and extended working hours have become normalized as the notion of a 24/7 economy has become embedded in the operation of the service economy, and the United Kingdom has insisted that employees can continue to opt out from the EU's maximum forty-eight-hour working week. To return to our initial question, Does all this add up to a rupture or fundamental change in the U.K. model?

Interpreting Changes in the U.K. Model

The changes in the U.K. model can be attributed both to a few clear major changes of direction, which we call turning points, and to the impact of incremental or evolutionary change, such that "tipping points" were reached beyond which the underlying characteristics of the model can be said to have changed (Streeck and Thelen 2005).

One of the most important turning points was the adoption of a more expansionary macroeconomic model, supported by a decision to remain outside of the EU's monetary union and by a less deflationary set of rules established both for monetary policy and fiscal policy management. While this change in macroeconomic policy can be considered a turning point for the U.K. economy, the scope for change in demand management and thus in the performance of economic models is an unduly neglected aspect of employment and social models by the varieties of capitalism literature, which stresses the importance of structure over economic management.

Another major turning point can be considered the election of new Labour, which by 2000 had rehabilitated public expenditure as an acceptable part of government policy. In part this rehabilitation might also be considered a tipping point; the years of neglect of the social infrastructure under Thatcher made it vital to start the renewal process at some point as the electorate finally became more concerned with the state of schools and hospitals than with tax rates. Expenditure on health rose by around £4 billion between 1995–96 and 1999–2000 but by £20 billion between 1999–2000 and 2003–4. Similarly, educational spending increases were £1 billion in the first and £14 billion in the second period. This turning point marks a return to a collective commitment to the socialized provision of public services. Even though suppressed at the national level under Thatcher, the persistent support for such provision was indicated by the collapse of political support for Conservatives in local government, where many social services are provided. The neoliberal view of the state as inefficient and unnecessary is much less firmly embedded in the United Kingdom than in the United States; just as Thatcher could draw on the City to fight the Keynesian consensus, so Blair could draw on suppressed but widespread support for a return to more socialized provision.

However, this tipping point is also a turning point as the expansion of public spending has become even more predicated on the opening up of public services provision to private providers. This reinforcement of the market state is now directly linked to the expansion of public expenditure and is further being used to reopen and intensify debates over work organization and terms and conditions in the public sector. The public sector unions have had some success in resisting these changes and in extending basic protection to employees of private sector contractors. Nevertheless, their success is patchy and subject to further revision as the opportunities for private sector involvement in public provision continue to multiply. Public sector expansion is central to both the public and private sectors: public sector employment has expanded from 21 percent in 1980 to 26 percent in 2004, and much of the private sector growth is also a direct and indirect consequence of higher public expenditure.

Two more tipping points had been reached by 2006 that change the basis for the evaluation of the U.K. model from the 1994 position. The United Kingdom has become an overwhelmingly service economy and at the same time has reinforced its focus on higher education rather than training as its primary route to generating a skilled workforce. It is thus no longer relevant to assess the U.K. model by reference to its suitability for developing a high value-added manufacturing capacity—the implicit agenda in much of the varieties of capitalism literature—based around vocational training. However, the remaining 50 percent of young generations and even higher shares of older generations are left without effective skill development policies. New proposals to engage employers in the training of the workforce in degree level qualification and to raise the school leaving age to eighteen, but with options to combine training and work for those who wish, are attempts to fill this gap, but there are still grounds for skepticism about employers' enthusiasm for engaging in training activities.

The United Kingdom as a Model for Europe?

There are two types of arguments that suggest that the U.K. model does not provide a blueprint for Europe; the first relates to the question of whether the United Kingdom's revealed comparative advantage can be transferred or emulated; the second relates to the sustainability of the model and its costs even in a U.K. context. The notion that the United Kingdom has been propelled into growth by its flexible labor market must be considered questionable in light of the clear evidence of fiscal expansion and the development of the United Kingdom's position as a first mover in the globalization of services, a position fueled by its powerful actors in retail and finance and by the growing importance of the English language in service trading.

The sustainability of the U.K. model as a production system for a high-income economy has been considered in doubt due its poor record on training. The United Kingdom is doing relatively little to upgrade jobs at the bottom of the labor market, but its focus on higher education to provide higher-level skills could be considered a viable means of providing skills for a service economy, particularly as the scope for developing targeted vocational training is limited by lack of knowledge as to what specific skills are needed now and in the future in many service sectors. There needs, to be, however, more research on the scope of job crafting by graduates to sustain this argument. Even so, the United Kingdom's labor market system can be said to have facilitated the relatively rapid absorption of an increased supply of graduates due to the lack of expectations that subject of degree should be closely related to employment and career. While the U.K. model may support an internationally oriented service economy, other countries in Europe have other strengths, including production of quality manufacturing and R&D, which may be undermined by "borrowing" from the U.K. model. Other problems of sustainability are the danger of collapse of the interrelated private credit and housing boom and the long-term costs of private financing of public sector expansion, as much future public expenditure may be swallowed up by capital servicing costs, raising the danger that public support for fiscal expansion will be eroded if this does not deliver services.

The final set of reasons for not emulating the United Kingdom are the high social costs. These are found in the high inequality by class, gender, and generation (Hills 2004); the growth in problems of the working poor (Palmer et al. 2006); the continuing underemployment of labor, particularly women; the low trust in employment relations fueled by the lack of employee voice in the private sector; the continuously changing agenda in the public sector; and the increasing expectations that employees should be available to cover a 24/7 economy. Recent policies on work-life balance are at best partial and may reinforce women's role in flexible and part-time work, albeit under better employment conditions.

To conclude, although the U.K. model has performed better than expected over the past decade, the reasons are to be found in both its approach to macroeconomic policy and its comparative advantage in the global services sector. These characteristics are not readily transferable to the rest of Europe. The rediscovery of commitment to the public space has set it apart from the United States; however, this commitment no longer involves a public production model and is based instead on a market state. As such the United Kingdom could still be the Trojan horse that undermines European social models, even though the policy is pushed through on a renewed commitment to social provision.

References

Commission of the European Communities (CEC). 2003. *Jobs, Jobs, Jobs: Creating More Employment in Europe.* Report of the Employment Taskforce chaired by Wim Kok. Accessed December 10, 2006, from http://europa.eu.int/comm/employment_social/employment_strategy/pdf/etf_en.pdf.

Esping-Andersen, G. 1990. *The Three Worlds of Welfare Capitalism.* Princeton, NJ: Princeton University Press.

Finegold, D., and D. Soskice. 1988. "The Failure of British Training: Analysis and Prescription." *Oxford Review of Economic Policy,* Vol. 4, no.3, pp. 21–53.

Gospel, H., and A. Pendleton, eds. 2005. *Corporate Governance and Labour Management: An International Comparison.* Oxford: Oxford University Press.

Hall, P. A., and D. Soskice, eds. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage.* Oxford: Oxford University Press.

Hills, J. 2004. *Inequality and the State.* Oxford: Oxford University Press.

Hirst, P., and G. Thompson. 2000. "Globalisation in One Country: The Peculiarities of the British." *Economy and Society,* Vol. 3, no. 29, pp. 335–356.

Organization for Economic Co-operation and Development (OECD). 1994. *Jobs Study.* Paris: OECD.

Palmer, G., T. MacInnes, and P. Kenway, P. 2006. *Monitoring Poverty and Social Exclusion 2006.* New Policy Institute and Joseph Rowntree Foundation, York. Accessed December 10, 2006, from http://www.poverty.org.uk/reports/mpse%202006.pdf.

Rubery, J. 1994. "The British Production Regime: A Societal-Specific System?" *Economy and Society,* Vol. 2, no. 23, pp. 335–354.

Smeaton, D., and A. Marsh. 2006. *Maternity and Paternity Rights and Benefits: Survey of Parents 2005.* DTI Employment Relations Survey No. 50, March. Accessed December 10, 2006, from http://www.dti.gov.uk/files/file27446.pdf?pubpdfdload=06%2F836.

Streeck, W., and K. Thelen, eds. 2005. *Beyond Continuity.* Oxford: Oxford University Press.

Wickham, J. 2005. *The End of the European Social Model—Before It Began?* Employment Research Centre, Trinity College Dublin. Accessed December 10, 2006, from http://www.iatge.de/aktuell/veroeff/2005/dynamo10.pdf.