

The Anglo-Saxon model of employment in the current economic context. The case of United Kingdom

Mirela Ionela ACELEANU

The Bucharest University of Economic Studies
mirelaaceleanu@economie.ase.ro

Abstract. *The Anglo-Saxon model of employment has certain features that derive from the specificity of the political and economic system of Great Britain. The labour market policies in the United Kingdom were different depending on the historical and political period; however, the Anglo-Saxon model is characterized mainly by high flexibility but low security. This paper presents the main features of the Anglo-Saxon model of employment, compared to the Nordic and the Mediterranean model and shows Britain's economic situation before and after the crisis.*

Keywords: employment; the Anglo-Saxon model; labour market; crisis; United Kingdom.

JEL Codes: E24, J24.

REL Codes: 8G, 12G.

1. A little history

Great Britain is a strong economy, which is characterized by a political system based on constitutional monarchy and has some specific features in the labour market.

The United Kingdom labour market has undergone periods of stability, but also challenging times, with high unemployment, strikes and economic instability. However, the policies adopted on the labour market have been different depending on the historical and political period.

In the early 20th century, the British labour market was conditioned by institutions and traditions that had developed gradually, in some cases over several centuries, and these governed wage levels and differentials, work practices and relationships and employment contracts. Institutional arrangements interacted with short-term economic influences, which varied considerably throughout the period. In the interwar years full employment and labour scarcity between 1914 and 1920 was followed by two decades during which chronic unemployment persisted (Glynn, Booth, 1996).

In 1920-1930, unemployment was an important issue faced by England, being an element of the Great Depression of the '30s, characterized by a fall in the economic activity, lower consumption, investment, increased instability and macroeconomic imbalances.

The period 1950-1960 was characterized by stable labour market, unemployment was low, the period following after the Second World War, when the economy was in recovery. During the 1950s and 1960s, while the economy as a whole continued to grow, industrial investment rose as a share of GDP and productivity growth started to accelerate. Between 1948-1968 UK annual unemployment rate averaged 1.8% and never exceeded 2.6%. In the next two decades, it increased considerably, especially in 1980, when it reached 11% (1986). Of course, not only in United Kingdom there was an increase in unemployment during the 80s, but in most industrialized countries, except Japan. The difference consisted in the fact that Japan applied flexible wages, meaning that they were changed depending on the productivity and profitability of each company. Basically, United Kingdom chose a policy that meant high wages but reduced employment, as a combination in the labour demand curve, while Japan chose higher employment even if it meant lower wages.

In the literature, some English authors consider that there were two periods in which unemployment rose because of the economic policies adopted in the United Kingdom: the first, in the 1980s – as a result of the monetary and fiscal policies that aimed to reduce inflation but increased the unemployment record, and the second in the 1990s, by applying a monetary policy that

assumed the increase in the interest rate. Thus, after a decrease in unemployment to 5.8% in the early 90s, unemployment rose again to 10.3% in 1993 (Artis, 1996).

The growth of the British workforce during 1971-1995 was therefore due almost entirely to a greater participation in the labour force of female workers. (from 36% in 1971 to 44% in 1995). Explanations are related to three causes; first of all the high demand for labour in 1960-1970 led the employers to seek extra-labour. Secondly the real wage growth made many women to get a job, to increase family income, and thirdly, in search of cheap labour, employers saw an opportunity to hire part time, which was especially suitable for women with families. This explains the strong growth of the activity rate among women in that period.

The period 1979 -1990 was marked by the reforms adopted by Margaret Thatcher, who brought England long-term benefits, but they were very tough in the short term. They promoted the free private initiative, reduced government intervention in the economy, and achieved the privatization of state enterprises. Some of her actions were unpopular, especially reducing government spending on social services, health and education and limiting union power. The Thatcher government promoted competition rules and free market regulation, so that only the competitive companies remained on the market. Even if these measures reduced inflation and increased productivity, unemployment rose sharply, social tensions and strikes appeared, increasing poverty and inequality. The system of taxes was also subject to reform, it was simplified in 1988, and the maximum charge was reduced. This made the United Kingdom an attractive landscape for foreign investment that flourished in this period.

The policies applied by the UK since 1996 in the labour market have focused on labour market flexibility, considering that it provides increased labour productivity, by the fact that it leaves the market forces free, and supply and demand self-regulate effectively.

The labour market policies applied in England after 1996 are very different from those applied by M. Thatcher in 1979. Developments in employment, unemployment and wage behaviour in recent years suggest that the policy changes since that time have created a more flexible labour market, particularly if one means by this the greater ability of employers to hire and dismiss and greater relative wage flexibility (Buxton, 1998).

In 1997-2007, the internal policy of the government led by T. Blair assumed significant increase in public spending on health and education and introduction of reforms based on the market economy in these areas. Blair's mandate led to the introduction of the national minimum wage, taxes for higher

education and constitutional reforms; his policy focused on the initiation of a social reform called New Labour and the openness to the European Union.

Currently, the labour market in Britain is facing some problems under the current crisis, the most important being related to high youth unemployment and the effects of applying the austerity program.

Britain adopted as austerity measures to overcome the current crisis the increase in the VAT rate from 17.5% to 20%, the reduction of the budgets of ministries, the reduction of the public sector jobs.

The largest economic English field, namely services, has recorded losses in recent years due to the crisis. The greatest losses occurred in manufacturing and construction.

British pound has risen against the Euro, which is a problem, because of weaker demand and also a loss of competitiveness of British exports in the Euro zone, the destination of 47% of British exports.

Unemployment has increased and, according to CEBR Centre forecasts (Centre for Economic and Business Research), it will continue to grow until 2016, the most affected area being North East of Great Britain, where there is a 12% unemployment.

Current employment policy is based on labour market flexibility, which means greater freedom of action for employers, but no support from the unions.

2. The Anglo-Saxon model in employment

The Anglo-Saxon system in employment is characterized by high flexibility but low security. This model assumes a lower level of spending than the other models (e.g. compared to the Nordic one). Its main particularity is its social assistance of last resort. Subsidies are directed to a higher extent to the working-age population and to a lower extent to pensions. Access to subsidies is (more) conditioned to employability (for instance, they are conditioned on having worked previously).

Active labour market policies are important. Instead, trade unions have a smaller decision-making power than in the other models; this is one of the reasons explaining their higher income dispersion and their higher number of low-wage employments.

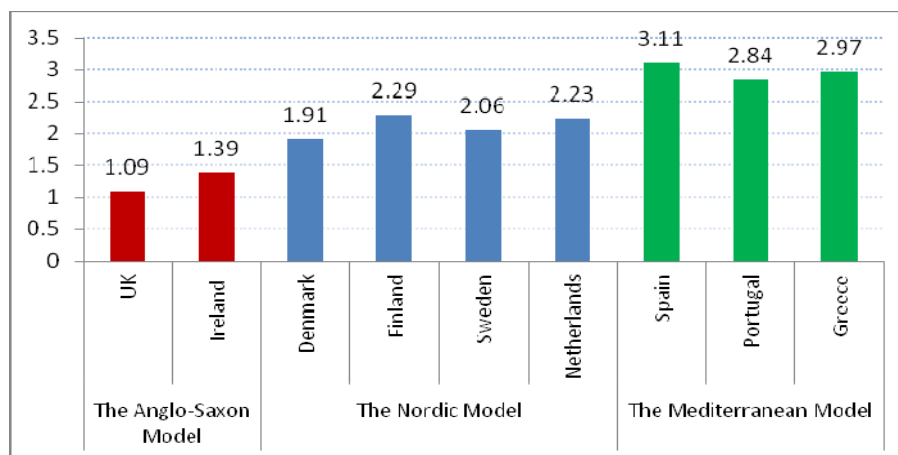
Taking into account the main elements of the analysis of the occupational model flexibility, the difference between the model applied by Britain and the other countries consists of the following aspects:

- employment protection is low;
- unemployment benefits are not generous;

- public spending on labour market are among the lowest in OECD countries;
- level of taxation is very high.

If we look at each element in the characterization of occupational models, namely employment protection, the generosity of unemployment benefits, expenditure on labour market policies, especially with active policies and the tax burden we can see the Anglo-Saxon model features in relation to other two major occupational models – the Nordic and Mediterranean one.

In terms of *employment protection*, United Kingdom records the lowest values of the European Union, which means that there is no major state involvement in regulating rules for redundancy and fixed-term contracts. In this way, companies act quickly to market changes and adapt easily to any shocks, but some employees may lose their jobs easier. This flexibility of employment and dismissal agreements is considered a necessary element in the current labour market reforms in England.



Source: Danielle Venn (2009), Legislation, collective bargaining and enforcement: updating the OECD employment protection indicators, www.oecd.org/els/workingpapers, <http://www.oecd.org/dataoecd/36/9/43116624.pdf>

Figure 1. *Employment Protection Index (OECD, 2009)*

In the chart above (Figure 1), one can observe the differences between the Anglo Saxon model and the other two models captured in the analysis. The Nordic countries have higher employment protection, but the highest one is recorded in the Mediterranean countries that are the most affected by the current crisis in terms of the size of unemployment and other labour market imbalances. This can be explained by the fact that the existence of market

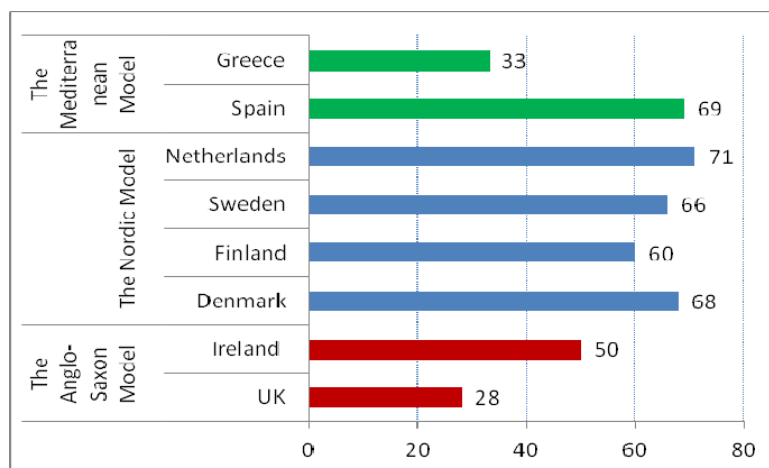
rigidities in employment and redundancies makes employers to be reluctant to hire, thereby reducing the flow of jobs, with negative effects on employment.

Thus, the Anglo-Saxon model is based on rather flexible rules of the labour market, in the absence of protection for unemployed people. In this model, the growth of flexibility endangers the safety of employees. Considering that now, the demand for skilled workers increases and the demand for unskilled workers decreases, the wages of unskilled workers decrease to the minimum wage, regulated by law. Nevertheless, productivity is insufficient to compensate for wage costs precisely because of the target set for the minimum wage, which leads to fewer unskilled workers. Therefore, persons without qualifications get to face strong barriers in the labour market integration, which leads to the lack of work and income security.

The generosity of unemployment benefits is reduced in the United Kingdom, which is observed in the chart below (Figure 2). And in this respect the UK registers the lowest values in relation to the analysed countries.

In the UK unemployment benefit is granted when the solicitor has worked 12 months in the last two years, the maximum grant being of six months. It is established in a fixed amount, 10% of the average wage. At the completion of a grant of unemployment benefits, unemployment assistance is granted, for an unlimited period, in a fixed amount (10% of the average wage), but without exceeding the sum of 3,400 pounds per year.

The highest levels of unemployment benefits are recorded in the Nordic model of employment.

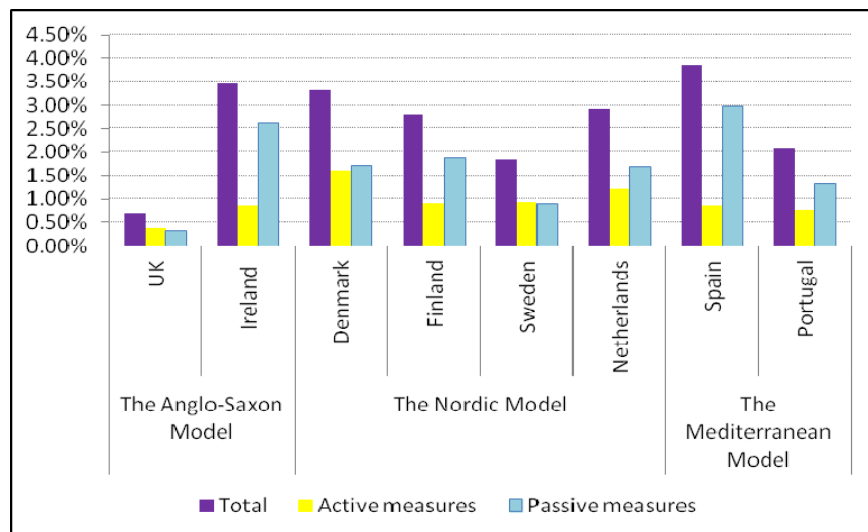


Source: OECD Employment Outlook, 2009,
<http://www.oecd.org/dataoecd/49/31/43728718.pdf>

Figure 2. *Unemployment benefit generosity (for the first year replacement rate)*

Active Labour Market Policies – ALMPs have the role to help unemployed people go back to work and include job placement services, benefit administration and labour market programmes such as training and job creation.

The Anglo-Saxon model is characterized by low involvement in public spending on active or passive labour market policies. Great Britain has the lowest expenditure on labour market policies (in 2009) than most European countries. Public expenditure on active policies is of only 0.38% of GDP and 0.32% for the passive ones. The Nordic countries have among the highest expenditure on labour market policies, both with the active and passive ones. The Mediterranean countries have high expenditure, particularly on passive policies; the explanation is related to the fact that these countries face high unemployment and try to reduce social tensions through passive policies.



Source: Public expenditure and participant stocks on LMP (Labour Market Policy), 2010, <http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP#>

Figure 3. Public expenditure on Labour Market Policy (% GDP), 2009

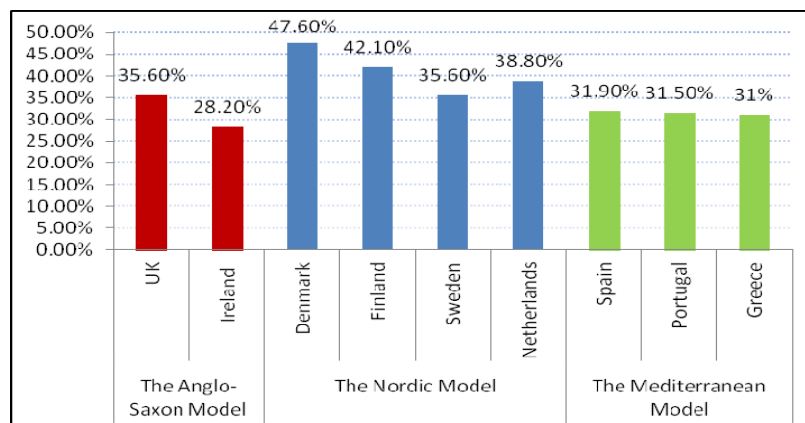
The tax burden is not very high in the Anglo-Saxon model, compared to the Nordic model, but it is higher than the Mediterranean model. The United Kingdom is a highly centralised country in terms of tax collection, with 94.1% of revenues accruing to the central government.

In 2010, the tax burden as a percentage of GDP was of 35.6%, up by 0.8% compared to 2009, but lower than in 2008, when it reached the record size of 37.9%.

The tax structure shows a comparatively high weight of direct taxes (at 15.8 % of GDP, the fifth highest ratio amongst Member States). Direct taxes represent the primary source of revenues (44.4 % of the total taxes, the second level after Denmark), markedly larger than indirect taxes (36.9 %), and far outweighing social contributions (18.7 %). Revenue from personal income taxes at 10.1 % was at the lower end of a range of just under 11 % over the last decade. Regarding property taxes, they get to 4.2% of GDP and register the highest level in OECD countries (Taxation Trend in the EU, 2012).

Indirect taxes have a share of 13.2% in 2010, up from the previous years, the largest share in indirect taxes having the VAT, 6.6% of GDP.

Social security contributions represented 6.7% of GDP in 2010, being divided into contributions incurred by employers – 3.9% of GDP, contributions incurred by employees – 2.6% of GDP and contributions incurred by self and non-employed – 0.2% of GDP. These contributions differ on six classes, depending on income and activity.



Source: Taxation trends in the European Union, Eurostat, 2012, http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2012/report.pdf

Figure 4. Tax burden - total taxes as % GDP (2010)

Analysing the four pillars that distinguish the occupational patterns from different countries, we can say that the Anglo-Saxon model focuses on the extension of the internal market of the European Union based on social protection at minimal level, and flexible labour markets.

Based on this analysis, the main features of the Anglo-Saxon model are shown in the figure below.

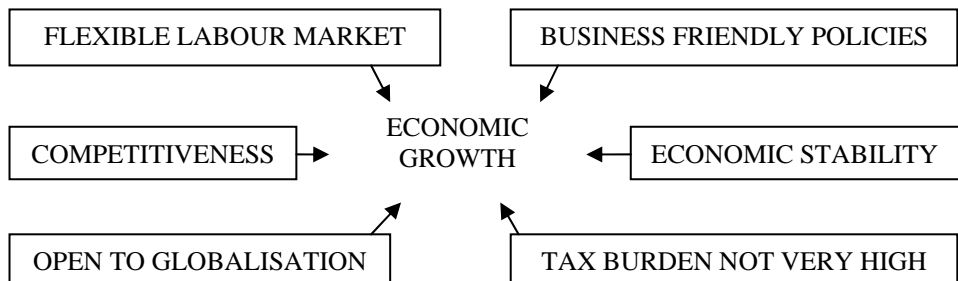


Figure 5. The main features of the Anglo-Saxon model

These can be considered strengths of the Anglo-Saxon model, in comparison with other models. The main weaknesses of the Anglo-Saxon model are high unemployment among youth, labour productivity lower than in the Nordic countries, income inequality, both regionally speaking and on types of work (jobs).

3. Employment and actual economic context in UK

Britain's economic situation is now influenced by the current crisis. Britain has been through periods of recession, which were typically exceeded in 3-5 years from triggering. In times of recession there is rising unemployment, a fall in economic activity, lower GDP, lower investment, increase in public debt.

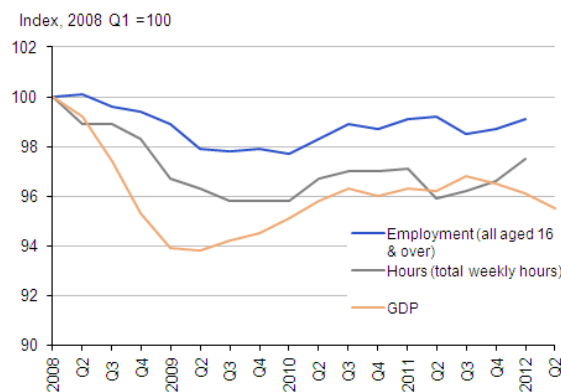
Pasquale Tridico (2012) believes that this crisis is mainly financial and explains labour flexibility by the fact that with the massive shift from the industrial sector to the service sector, technology and innovation bring about rapid structural changes, which demand quick responses from firms. Therefore, labour should adjust to the firms' need.

According to *National Institute of Economic and Social Research*, the current crisis is deeper than others are (1929-1934, 1973-1978, 1979-1984, and 1990-1994) because the economy's progress since the start of the recession has actually been significantly worse than the four years after the Great Depression that began in 1930. Some economists believe that England can enter a *double-dip recession*, meaning that the economy goes back into a recession before it has had a chance to recover its previous high of economic output.

Real GDP growth rate (as percentage change on previous year) was in 2007 of 3.6%, 1% in 2008, and in 2009 dropped to 4%. In 2010, economy registered a slight recovery, the GDP growth rate being of 1.8%, but increased slightly in 2011, being of only 0.8% and 0.5% in 2012. Forecasts for 2013 have announced a return to 1.7%.

UK Office for National Statistics reflects the evolution of GDP, employment and hours worked presented in the chart below, which highlights the effects of the crisis on these indicators.

As seen from the graph (Figure 6) during the crisis the three indicators fluctuated a lot, knowing a decreasing trend in 2008-2010. The number of hours worked per week and employment record a comeback after 2011, but GDP experiences a further decline starting with the third semester of 2011.



Source: Office for National Statistics, UK, 2012.

Figure 6. GDP, employment and hours worked (2008-2012)

Unemployment rate in United Kingdom was of 8% in 2011, below the EU average compared with 9.7%, as the EU average was. However, a major problem that exists not only in England but also in many European countries is youth unemployment rate, which is 21.2% in the United Kingdom, very close to the EU average of 21.4%. Some studies of the ILO consider that high youth unemployment in the EU is determined by the skills gap between what schools provide and what labour market requires.

UK unemployment rate varies depending on the studies completed so it is lower for higher education graduates, reaching 5.1% against 17.1% for graduates with primary education (2010). This evolution of unemployment rate is recorded in other European countries, because educated people are more likely to adapt to the labour market and contribute to increase productivity. Moreover, the participation in lifelong learning has positive values in the United Kingdom, being of 15.8% in 2011, above the EU average of 8.9%.

The average time of transition from school to work also differs depending on the level of education. In the United Kingdom, higher education graduates find jobs on average three months after graduation, those with secondary education, 3.3 months, and those with primary education 6.4 months. These periods are among the lowest in the European Union, which shows a good correlation between

education and labour market programmes in United Kingdom. There are currently concerns at the EU level to analyse the connection between completed studies and qualifications required to work, to identify inconsistencies that may arise in the labour market; they can be *vertical mismatches*, when the level of education is above or below the level required to work or *horizontal mismatches*, that arise when the level of education is suitable for the requirements of the job, but the type of education, of expertise is inadequate. These discrepancies may reveal the impossibility of education to prepare graduates with the skills demanded by the market, the lack of demand for certain skills or the existence of discrimination. From this point of view, according to the study *The European Higher Education Area in 2012* conducted by Eurostat, in the UK there is a high percentage of graduates of higher education, but employed in areas that do not require tertiary qualifications. They may be considered overqualified and account for 26.5% of the graduates of higher education in the United Kingdom, aged 25-34 years, exceeding the EU average of 20.6%.

According to OECD studies, Britain ranks among the top countries in terms of welfare and quality of life (OECD, Better Life Index, 2012). With a population of 61.4 million inhabitants and a life expectancy at birth of 80 years, Britain has good results in many of the indicators of quality of life.

In general, people in the United Kingdom are more satisfied with their lives than the OECD average, with 75% of people saying they have more positive experiences in an average day (feelings of rest, pride in accomplishment, enjoyment, etc.) than negative ones (pain, worry, sadness, boredom, etc.) (above OECD average). English people rate their life satisfaction with a score of 6.9 out of 10, above the OECD average.

In the United Kingdom, the average income per person is of 26.552 USD per year, above the OECD average (22.387 USD per year). There is a big difference between rich and poor. For example, the top 20% of the population earns six times as much as the bottom 20%. Regarding wages, British people earn 44,008 USD dollars per year on average, higher than the OECD average of 34,033 US dollars. Nevertheless, here are also large differences between the rich who get to be paid over 80,000 dollars per year and the poor who receive only 18,000 USD per year.

People in the United Kingdom work 1,647 hours a year, less than most people in the OECD who work 1,749 hours and spend 14.8 hours a day for personal care and leisure. 12% of the UK employees (above the OECD average of 9%) work over 50 hours per week, which affects the ratio work-life (family).

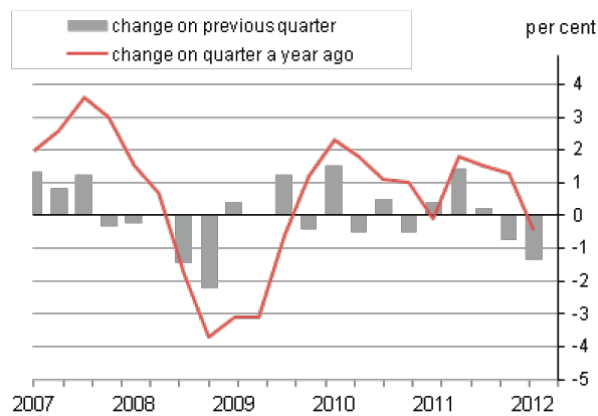
The minimum wage was introduced in the UK in 1999 and varies depending on the age of the employee. The initial level was set at £3.60 an hour (the adult rate) for those aged 22 and over, with a lower level of £3.00 an hour (the youth development rate), being set for those aged 18 to 21. Those under 18 were not covered until October 2004 (Butcher, 2005). Starting with October

2004, the minimum wage was introduced for the age group 16-18 years too, being of 3 pounds, while the other steps of the minimum wage increased by 35%. From October 2010 a new level of minimum wage for apprentices was also introduced (apprentice rate). Currently the minimum wage (gross per hour) is £ 6.08 – adult rate (£5,87 net value, for workers aged 21 and over), £4,98 – youth development rate, £3,68 – 16-17 year old rate (for workers above school leaving age but under 18) and £2,6 – apprentice rate (for apprentices under 19 or over and in the first year of their apprenticeship). The minimum wage is recalculated annually based on inflation.

The introduction of the minimum wage has been much discussed in terms of the impact it has on employment, by its reduction. *National Minimum Wage, 2012* analyses the impact of applying the minimum wage on the economy and concludes that overall this impact was not strong, employment being affected only for certain groups and periods. However, Bryan, Salvatori and Taylor (2012) found that there was some evidence that minimum wage upgrading had a negative impact on hours worked, particularly for younger workers.

In September 1998, before the introduction of the minimum wage, the low paying sectors accounted for 32% of jobs. In September 1998 - September 2011, the low paying jobs increased only by 5.2% due to the total employment higher by 6.4%. In 2010, there was an increase in low paid jobs while, because of the crisis, total employment fell. In 2011, most low paying jobs were recorded in areas such as hairdressing, childcare and cleaning, most employees in these conditions were unskilled workers.

Labour productivity has seen a decline in the period 2007-2009 in all sectors, because of the crisis, followed by a period of fluctuations, as observed in the chart below.



Source: Office for National Statistics, Labour Productivity Q1, 2012 (29 June 2012)

Figure 7. Whole economy labour productivity (output per worker)

After the sharp decline in productivity in 2009, its growth follows, until 2010. After 2010, decreases in the evolution of productivity were not strong, usually remaining at positive values by 2012. In 2012, there is a slight decrease in labour productivity per worker, together with a slight increase in labour costs per hour.

Conclusions

Analysing these characteristics of the labour market in United Kingdom, we conclude that the English economy is affected by the crisis and is facing some gaps in this regard. However, these imbalances are of lower intensity than those produced by the crisis in other European countries. On the other hand, many macroeconomic indicators show that the English economy is strong and through adequate policies can overcome recession without large losses.

Labour market flexibility is a broad political discussion at European level, usually considered to have positive effects to overcome the crisis. Nevertheless, certainly one should consider the type of flexibility according to each economy. For example, there is the most flexible labour market in terms of fixed term contracts in Spain (having the most fixed term contracts of the EU) and yet is facing the highest unemployment. The explanation is related to other labour market rigidities, namely wage rigidity, internal mobility and legislative rigidity. In other economies labour market is considered to be rigid because there are not enough fixed term contracts. Therefore, its flexibility and success depend on the characteristics and features of each economy.

The labour market in Britain is in a process of flexibility and openness to the European Union, supported by several strengths: economic and political stability, unemployment below the EU average, competitiveness, business support. Weaknesses affecting the United Kingdom economy are related to high unemployment among young people, anti-crisis measures unbearable for some taxpayers, increasing debt, concerns about rising inflation.

In the present context, all economies are more or less affected by the crisis, with greater or lesser effects on the labour market, so that restoring labour market stability and the economy as a whole require joint efforts and appropriate policies.

United Kingdom experience gained by overcoming other recessions, through economic stability and by achieving a high level of quality of life can be a useful model to address economic policy, even if this economy has some features specific to its political system.

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