



PRESS RELEASE

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Undisclosed and Unsustainable: Problems of the UK national business model

This new Working Paper from the CRESC Research Centre at the University of Manchester argues that the UK before 2007 had an undisclosed business model of using publicly supported employment to cover the continuing failure of the private sector to generate welfare through job creation.

The business model concept and sustainability

What is a national business model and why does it matter? Because jobs are the primary way of distributing welfare, the national business model issue is whether and how the economy can generate the quantity and quality of employment necessary to distribute welfare and diffuse prosperity across regions and social groups. **(p.3)**

If we then consider sustainability, the sustainability of the British national economy has been constructed through dystopian or utopian visions of national decline and renewal.

The 1970s dystopia was about deindustrialisation, manufacturing decline and “too few producers” with the centre-right arguing that the problem was the public sector crowding out private investment. **(p.6)**

A narrative about national renewal in the 1980s displaced this dystopia. Here, Thatcherism was ‘pain for gain’ as tax breaks for business and high income earners plus a flexibilised labour market released enterprise. This was evidenced by more jobs, economic growth and new leading sectors like finance and the creative industries. **(pp.7-8)**

These claims were always dubious. For example, the employment base in finance is limited and the sector was never an important creator of new jobs.

The total employed in and by finance is no more than 1.5million and heavily concentrated in London and the South East (p.16) whereas British manufacturing in its current emaciated state directly employs 2.8 million (p.11). The total of just over 1 million directly employed in finance is flat from 1991 and these numbers did not increase in the huge finance-led boom of the 2000s. (p.15) Para-finance employment (in accountancy, law etc) sustained by demand from finance adds another 500,000. (p.13)

State and para-state employment and the undisclosed business model

Old measures of public employment are increasingly irrelevant in an economy of outsourcing because they count the number of public employees in the state sector but do not adequately count the growing number of private employees in the para-state sector.

The para-state includes activities like rubbish collecting or nursery education which are revenue dependent on government funding and activities like private health care dependent in many ways on government support.

This paper presents the first ever estimates of para-state employment. Official statistics show the UK's state sector by 2007 employs 5.8 million or 22% of the workforce. On our estimates, the para-state sector in the UK now employs 1.7 million a number equal to one-third of the total number of public sector employees. (p.16)

Since 1991 the British economy created an additional 5 million jobs. This paper offers an analysis of the 2 million increase from 1998-2007 period using our estimates based on ABI statistics. They highlight the leading role of state and para-state employment (S+PS).

- (a) **Nationally**, S+PS account for 57% of the total 2.24 million increase in number of employees. (p.20)
- (b) **In terms of gender**, S+PS accounts for 81% of the 1.1 million increase in female employment because S+PS plays a key role in sustaining PT female employment. (p.21)
- (c) **In the ex-industrial regions**, S+PS accounts for 55-73% of employment growth in the Midlands, North, Wales and Scotland (and any expansion in private employment in these regions is driven by the multiplier effect of S+PS wages (pp.22-23)

Under New Labour, this expansion of S+PS employment was driven by a remarkable near 50% increase in real government expenditure after 2000 in a period of prosperity. (p.23)

The undisclosed and unsustainable business model of New Labour was to use taxation and the redistribution of the fruits of prosperity to make capitalism work for women and the regions. This was the best available regional policy because the alternative was almost certainly a decline in regional employment in the West Midlands and the North East during an economic boom. It was unsustainable because the public sector deficit has reached the EU limit of 3% just before the crisis (p.26) and it postponed a debate about jobless growth.

Policy implications and new directions

The UK's problems are those of continuing national decline led by a private sector whose capabilities have not been transformed by tax breaks and a flexibilised labour market. The expansion of the para-state under New Labour was about the emergence of a sheltered client, private sector whose privileges and performances need to be interrogated.

A market fundamentalist's reaction against the bloated state and its private clients would be misplaced. The pattern of S+PS job creation suggests the state is filling in for (not crowding out) private activity. The North East or the West Midlands have lost an old industrial base and not discovered any autonomous private sector replacement.

The policy implications are two fold:

- (1) Immediately, the question for the election campaign is not only about whether public expenditure cuts will compromise service delivery. The employment implications of upcoming public expenditure cuts need also to be carefully considered especially in terms of employment for women and in the ex-industrial regions which are dependent on publicly funded employment.
- (2) Longer term we need a debate about a new kind of national business model to deliver a low carbon economy by reworking the public/private relation and recognising how the problem of continuing national decline now intersects with global warming which requires massive investment in infrastructure and green technologies.

The public sector cannot sustainably infill for an anaemic private sector whose capabilities were not transformed by the Thatcherite changes of the 1980s.

Undisclosed and Unsustainable: problems of the UK national business model (Working Paper no.76) is free to download from www.cresc.ac.uk

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The academic paper is written by a permanent team of researchers based at the ESRC funded Centre for Research in Socio Cultural Change (CRESC) at the University of Manchester. The researchers are best known for their work on Financialization and their recent public interest report, 'An Alternative Report on UK Banking Reform' (www.cresc.ac.uk).

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