

The Evolution of Public Sector Employment and Public Debt in the United Kingdom before and During the Recent Economic Crisis

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ABSTRACT: *This paper analyses the evolution of public sector expenditure and public sector employment in the United Kingdom before and during the recent economic crisis. Public sector has come to a moment when significant transformations had to be done, both from a structural and functional point of view. This paper sets the economic, political and social framework in which the process of reorganization took place following the 2008-2010 economic crisis and discusses a series of factors that determined the UK government to undertake these measures. The aim of the research is to provide a complete diagnosis of how public expenditure and employment evolved before the recent economic downturn and describe the functional relationship between public employment size and its costs.*

Keywords: *government, public employment, public expenditure, public sector, research*

I. INTRODUCTION

National and international economic, social and politic contexts are permanently changing and the recent global economic and financial crisis has raised serious challenges even for the best performing economies of the world. During the last decade, the British government has undertaken a series of sharp fiscal measures meant to reduce public expenditure, such as cutting pay, cutting pensions or shedding jobs.

The aim of our paper is to analyze the evolution of the British public system through different stages up to 2010, by placing public spending and public sector employment into a broader span of time so that comparisons between different periods may be performed. The paper is structured around the following three main pillars: the evolution of total public spending during the reference period, the size of public sector employment and the evolution of public personnel expenditure as percentage of GDP.

II. LITERATURE REVIEW

Public sector employment relations have been marked by important reforms during the last decades, all over Europe. The reform was triggered by macroeconomic constraints arisen from concerns about high levels of public expenditure and their potentially detrimental effects on national competitiveness in a more global economy, to which can be added the Maastricht convergence criteria for membership of Economic Monetary Union and the provision of the 1997 growth stability pact, putting national governments' fiscal policies under pressure [1].

In the late 1980s and early 1990s, the theory of the New Public Management (NPM) stressed the importance of performance management in the public sector. Bouckaert and Van Dooren (2003) consider that, at first, the emphasis on performance management was mainly a consequence of rising fiscal deficits in government, inspired by the ideologies of keeping the state as small as possible, but by the mid- and late 1990s, minimizing the public sector was no longer the dominant public management reform strategy and outcomes and quality concerns gain importance [2].

The functions the government has assumed in the development of the society have also changed, and along with the diversification and increase of government role, public expenditures have significantly increased worldwide. On the one hand, the governments have become more involved in providing the population with the necessary social services, thus the welfare state was created and developed, and on the other hand, governments have sought to pass some of their traditional functions to the private sector, through privatization and de-industrialization.

2.1 Public sector employment expenditure

ILO (1999) appreciated that there were over 450 million people employed directly in the public sector, at least 200 million of whom work in government units. This affirmation constitutes a strong argument to assert the indisputable importance of the sector in the social and economic reality, throughout the world. The international organization also states that "the share of public employment in total world employment remains

large – at around 30 percent depending on the levels of economic development and the role played by the State in the production of goods and services” [3].

The welfare state has triggered the logical and necessary increase of the number of public employees, a fact which contributed to the enhancement of public spending. The studies of Pollitt and Bouckaert (2004) [4], Rothenbacher (1998) [5] or Suleiman (2003) [6] prove that public employees’ compensation expenditure is a very important spending category in government’s budget, in some OECD countries amounting to 24 percent of total government expenditure and 11 percent per GDP (in 2005) [7].

However, during the 1980s and 1990s, numerous governments made deliberate efforts to reduce the level of employment in the core public service, as part of moves to contain or reduce public expenditure. In many cases this cutting back has been used as an opportunity to introduce public management reforms but the motivation is generally economic not managerial, as any government needs to keep the volume of expenditure and public employment in some kind of balance with the economy as a whole [8].

Governments attempted to cease the increase in state expenditure by slowing down the growth in the number of public sector employees, by "freezing" public sector employment, by cutting back personnel or by implementing measures that would increase productivity in the public sector [9].

Kamarck (2005) [10] sees the reductions in size of the government as a global reforming movement that took place in two phases. The author considers that the first phase took place primarily during 1980s, when governments concentrated on economic liberalisation and on privatising state owned industries. The second phase – beginning in the 1990s – focused on the administrative reform of core state functions and the building state capacity, which resulted in reducing the size of governmental bureaucracies “while simultaneously making government more efficient, more modern, more responsive to the citizen and less corrupt” [10].

However, Rothenbacher (1998) [5] considers that the reforms of the 80s resulted into a merely temporary reduction in the increase in expenditure as the average rate of state expenditure (in % of GDP) in the quinquennium 1990-95 was higher in all OECD countries than it was in the decade 1980-89. Talbot (2001) affirms that “the paradox of public services and management in the UK over the past 20 years or so is that everything has changed and nothing has changed” as “public services are still a very large proportion of national life and they have not qualitatively altered the share of national resources they consume, the numbers of people they employ or the range of services they offer” [11].

On the other hand, public sector payments are interrelated with the development of incomes in the economy as a whole. If the incomes in the private sector rise, the public sector cannot detach itself from this development without running the risk of becoming unattractive. If the income gap between the private and the public sectors becomes too big – especially in the field of upper-level positions – a noticeable lack of qualified personnel might occur [5]. Specialists have signalled the difficulties public institutions face in attracting and retaining highly prepared professionals, especially in the critical areas, due to factors such as the closed recruitment system, the constant pressure to do more with less resources, frequent reorganizations or staff reduction [12].

2.2 The public sector employment in the United Kingdom

When analysing the evolution of the UK public sector employment across time as well as in comparison with other states, one must take into consideration the special features of this country: the lack of public law basis or the fact that the concepts of “civil servant” and “public servants” are not clearly defined. Derlien and Peters (2008) describe the structure of government and the state in the United Kingdom (at least until July 1999) as “a highly centralized multinational state with a strong element of territorial administration and a lack of systematic constitutional or public law governing public administration” [13].

Public employment relations in UK suffered radical transformations along the last five decades, increasing grew consistently from 1960 to 1978, with particularly sharp increases during Labour government and significant contractions starting with the 1980s, providing dramatic evidence of the Thatcher effect, one continued under Major and subsequently partly reserved under Blair [13].

On winning power in 1979, the Conservative government, which had stated as a clear objective the reduction in size of the civil service, demanded a 2.5 per cent reduction in staff expenditure and set targets for reducing the number of officials from 732.000 to 630.000 by 1984, followed by new cuts each year until 1988. In 1990, the year Thatcher left office, there were 580.000 civil servants; and the number of staff fell further under Major, reaching 495.000 in 1997 [14]. The downward trend was reversed shortly after the Labour government was elected in 1997 [13]. The category of industrial civil servants declined consistently to only 5.8 percent of the civil service in 2000, mainly through privatisation, while the number of non-industrial civil servants declined between 1979 and 1985, then levelled off until 1993, the overall decline between 1979 and 2000 being of 21%, a much less dramatic percentage decline than for industrial civil servants (83%) [13]. One important development in the civil service has been the establishment from 1988 onwards of “Next Steps” agencies, which accounted in 1997 for 77 per cent of the UK civil service.

Despite the loss of public sector job, Greenwood et al. (2002) warn that the state did not “rolled back” since 1979 as much as government rhetoric might suggest. They argue that the proportion of gross domestic product (GDP) absorbed by the public sector (around 40%) when the Conservatives left office in 1997 ‘was almost the same’ as when they entered office in 1979 [15]. Authors like Winchester and Bach (1999) consider that during the 1980s and 1990s, the Conservative governments developed a series of policies that restructured the organizational forms of public administration, strengthened management authority and accountability, undermined the organization and confidence of trade unions, and threatened long-established methods and principles of pay determination [16].

The last four decades have seen important changes in the public employment by policy area also. In 1961, the largest single category was nationalized industries and other public corporations at 38 per cent; by 1975 they had fallen to 28 per cent of total public employment. By 1997, as a result of reductions in number of employees in nationalized industries and the post-1979 privatizations, they accounted (excluding NHS trusts) for only 7.9 per cent. The one clear area of growth has been in social policies. The National Health Service share of total public employment grew from 10 per cent in 1961 to 24 per cent in 1997. Local authority education’s share grew from 13 per cent in 1961 to 23 per cent in 1997. Local authority services grew from 2.9 per cent in 1961 to 7.9 per cent in 1997. Thus social services (health, local education and social services) now account for 55 per cent of public sector employment without including civil servants working on these policy areas and the penumbra of nominally private sector but publicly funded education and social services [13].

Starting with 2008, when the effects of the global economic crisis became obvious and public spending stated to be seen as a burden for the governmental budget. Given the fact that the costs determined by the high number of public employees are considered to be a large part of the public expenditure, it is no surprise that the downsizing of public employment and the containment of personnel costs became a core issue on the public policy agenda.

2.3 Cutting public sector employment expenditure and size

Pollit and Bouckaert (2004) characterised the final years of the 90’s and the first years of the 2000s as high times for public sector restructuring and growing pressure on government budgets due to the economic and financial crisis that took over the UK in 2008, the high level of public debt and the necessity and commitment of the government to ensure its citizens with high quality public services [4]. The Spending Review from October 2010 set out the UK government spending plans for the period 2011-2015, putting into light how the cuts were going to be distributed among the governmental departments and the devolved administrations. For many areas of the public sector, a large part of their money was spent on the pay of their employees.

Karmarck (2005) considers **cutting the wage bill** difficult and controversial, as “government employment has often been used as means of reducing social tension and substituting for a weak private sector economy” [10]. There are several aspects to be considered when reducing the costs of government by **downsizing**: the capacity of the private sector to absorb new workers; not increasing the burden for the economy, as one government worker may be supporting many other family members; the workers that are paid to leave the government through voluntary redundancy programmes often result to be the youngest and most qualified, who can find more easily employment in the private sector; the “ghost workers” who have been known to return to the government payroll if inadequate control mechanisms are not put in place following initial audit [10].

Rothenbacher (1998) considers there are three possibilities to reduce staff expenditure: by privatizing public enterprises (Post Office, Railways, energy supply, etc.) and thus achieving a (merely formal in part) shift of the personnel from the public to the private sector; by limiting the scope of public tasks and directly cutting back the number of employees; by redistributing work: full-time jobs are replaced by part-time jobs [5].

In terms of employment reduction, the most straightforward way is freezing recruitment and using natural exits to reduce the number of employees. The number of job losses that can be achieved by using ‘natural’ exits from the public sector depends on the turnover rate, i.e. on the fraction of public sector employees who voluntarily leave public sector employment in a given period. An alternative to the ‘natural exit’ strategy is to make public sector workers redundant, but this method is usually costly, as it tends to require large severance packages, it is not an option for some public sector workers (for example, it is legally impossible to engage in involuntary redundancies with police officers), and would also risk creating tensions and possible disruptions in the way the public sector operates. The final option the authors analyse is to set up early retirement plans but these policies end up being costly – much more so than redundancy packages – because they have a doubly negative effect on the public finances: they represent a direct cost through the additional pension payments, and they lead to lower labour force participation and thus reduce tax revenues [17].

III. RESEARCH DESIGN AND METHODS

3.1 Research aims

Our paper provides a comprehensive analysis of the evolution of public expenditure and public employment in the United Kingdom up to 2010, the moment when the UK government started to implement the measures meant to diminish the effects of the economic crisis. The main aim of the present research is to clarify how public expenditure evolved along the last decades and whether social expenditure is the only category of public spending that increased lately.

In order to achieve this objective we have analysed the transformations that occurred in the area of public spending and the driving forces triggering these changes in the evolutionary trend, the size and structure of public employment depending on the level of government and the area of public activity, as well as the connection between the public employment dimension and the costs involved.

3.2 Research methods and data sources

For the purpose of our analysis, public expenditure has been divided between social spending and core spending, taking into consideration the new Classification of the Functions of Government (COFOG) which provides a breakdown of general government expenditure into the following ten functional spending categories: general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection.

Castles (2007) divided the ten spending categories into *social expenditure*, representing health and social protection spending which he considered to be closely equivalent, although not quite identical, to social expenditure as measured in SOCX, and *core expenditure*, in which he included the remaining functions [18].

The data processed in the first section of the present research relies on the new COFOG basis, and represent multiannual data provided by the website www.ukpublicspending.co.uk, data compiled by Christopher Chantrill and obtained from Public Expenditure Statistical Analyses (PESA).

The second section of the research, analysing public employment size and distribution according to several criteria, and the third section, analysing public sector pay bill and the functional relationship between public sector size and its costs, require cross-sectional time series information which have been obtained from the database of the UK Office of National Statistics. The release on *Public Sector Employment statistics* provides information regarding total employment, the number of public and private sector employees, the number of public employees divided by industry or by sector classification and the number of economically active people with ages between 16 and 64. The *Blue Book* release provides information on public sector compensation divided between general government and public corporations. The data regarding consumer price indices for the analysed period was obtained from the release regarding *Consumer Price Indices*.

The Official Labour Market Statistics has also been consulted, especially the Annual business inquiry employee analysis, which is an employee survey of the number of jobs held by employees broken down by sex, full/part-time and detailed by industry. The industry section provides information classified according to the Standard Industrial Classification, sections *L: Public administration and defence, compulsory social security, M: Education* and *N: Health and social work* being the most relevant ones for the present research.

3.3. Research results

In order to bring public sector borrowing back down to a sustainable level, the UK government planned a six-year fiscal consolidation package, which started in the 2010–11 fiscal year.

In what follows, we are going to undertake an analysis regarding public spending and public employment in the United Kingdom so that we can provide a diagnosis of the context in which the government decided to implement the measures are aimed to fight back the effects of the economic downturn and reduce public deficit. The empirical analysis proceeds in three steps. First of all, by decomposing total public spending in social and core spending we are going to assess the evolution of these two categories of functional spending. Second, we will explore the size of public sector employment, taking into account the level of government or the area of activity, focusing on its evolution along the last two decades. Third, we will explore the development of public personnel expenditure as percentage of GDP and try to establish a connection between the size of public employment and the costs involved.

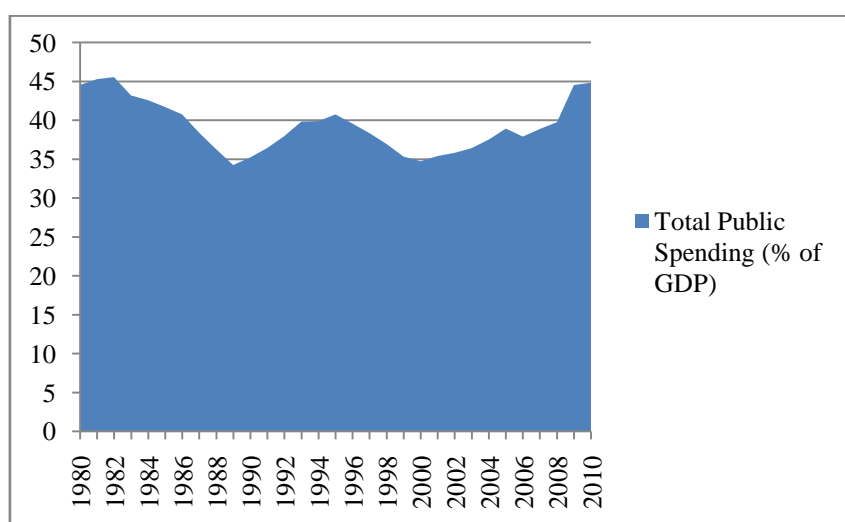
3.3.1 Social spending and core expenditure

This first part of the research establishes the level of the UK public spending during 2010 and its evolution along the last three decades, highlighting how the share of its main components (social spending, core spending and interest payments) changed along this period.

Fig. 1 shows how public spending has varied as a percentage of GDP in the United Kingdom for the period 1980-2009. The level of public spending seen in 2009 (44,54% of the GDP) is the highest since 1982, when total public spending accounted for 45,56% of the GDP. The high levels of public expenditure reflect, on

the one hand, the UK authorities' judgement of the need to invest in public services. According to OECD (2009), the declining expenditure as a share of GDP from 1997-2002 permitted the UK to improve its budget position, but in later years, as expenditures have increased, revenues have increased less quickly, resulting in deficits since 2002 [19].

The government deficit widened rapidly mostly due to the fact that tax receipts were significantly affected by the downturn caused by the economic crisis and also due to increases in expenditures to stimulate the economy, which increased significantly since 2008.



Data source: www.ukpublicspending.co.uk

Figure 1. Total public spending

In order to provide a comprehensive image of how public spending evolved and changed over the last two decades in the UK, we followed Castles' model of public spending classification and divided UK public expenditure categories into the two bigger aggregates of spending: core and total social expenditure. The analysis of core and social expenditure allows us to appreciate whether cutbacks in these areas can legitimately be seen as aspects of a coherent process of expenditure retrenchment and offers us a perspective over the evolution of public spending.

Table 1 presents the categories of public spending in UK divided between local authorities and the central government and shows that each of the two bigger aggregate of public spending – social spending and core expenditures – constituted, on average, around 50 per cent of UK public budget in 2010.

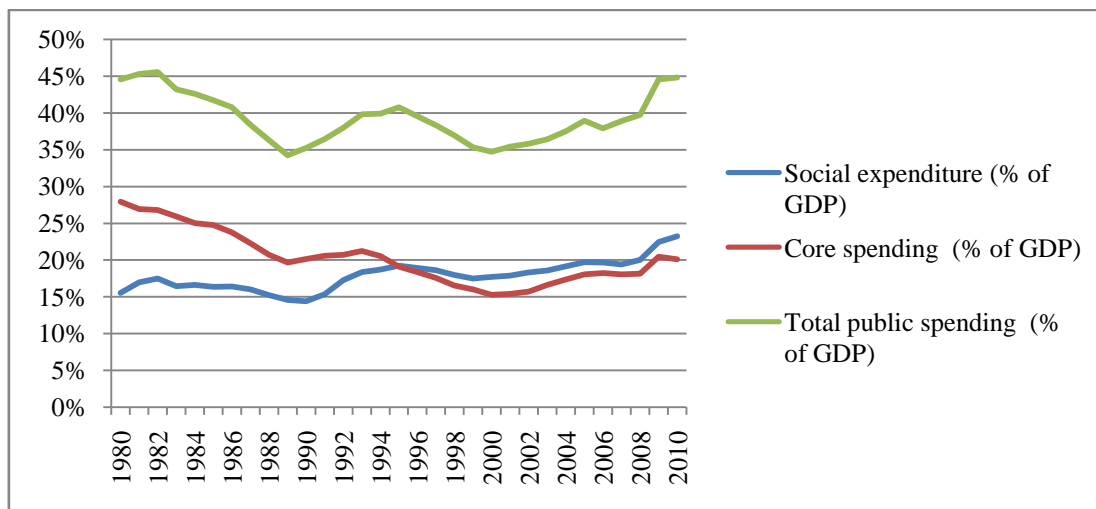
Table 1. United Kingdom Central Government and Local Authority Spending, 2010 (£ billion)

Functional categories of public spending	Central Government	Local Authority	Total
CORE SPENDING	187.9	112.3	300
1 General public services	50.6	10.8	61.3
2 Defence	38.2	0.1	38.2
3 Public order and safety	17	17.7	34.7
4 Economic affairs	33.9	10.9	44.8
5 Environmental protection	3	6.7	9.6
6 Housing and community amenities	7.2	4.6	11.8
7 Recreation, culture and religion	8.1	5.8	14
8 Education	29.9	55.7	85.6
SOCIAL SPENDING	297.1	49.1	346.1
9 Health	119.5	0.3	119.8
10 Social protection	177.6	48.8	226.3
Other Spending	8.2	17.1	25.3
Balance	2.6	-5.3	-2.7
TOTAL PUBLIC SPENDING	495.7	173.2	668.9

Data source: www.ukpublicspending.co.uk

Fig. 2 confirms that the welfare state did not retrench during these last decades, and that the core expenditure state did. Between 1980 and 2010, social expenditure increased in UK from 15.54% of GDP in 1980 to 23.22% on GDP in 2010, while core expenditure decreased from almost 28% of GDP in 1980 to 20% of GDP in 2010. Social expenditure grew steadily from 1990 until 2010, with a small decline at the end of the 1990s, while core expenditure started to increase from the 2000s onwards after a significant drop during the

1980s and the 1990s. The general tendency of social expenditure and core expenditure along the last two decades has been broadly convergent in character, with a substantial decline of core expenditure as percentage in the GDP and a slight and constant increase in its evolution during the last decade.



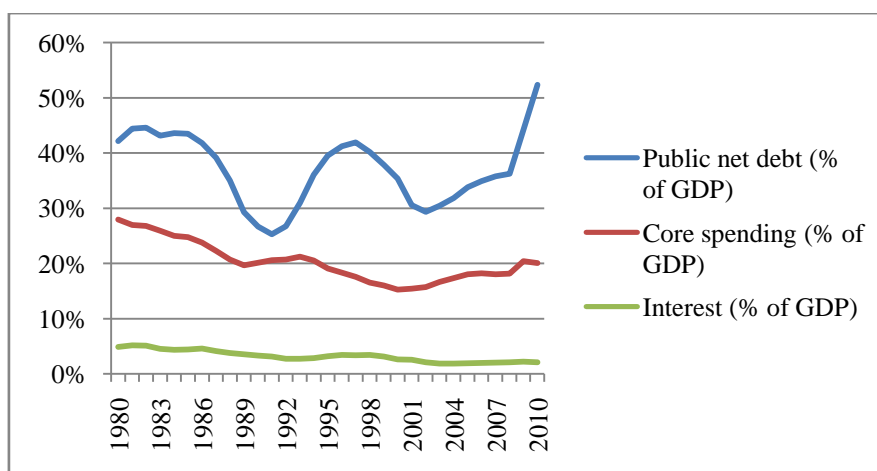
Data source: <http://www.ukpublicspending.co.uk>, and authors' calculation.

Figure 2. Total public spending, social spending and core spending evolution between 1980 and 2010

Castles (2007) does not agree with the scholars who attributed welfare expenditure growth in these years to increased spending on unemployment, arguing that SOCX (OECD Social Expenditure Database) data on unemployment benefit and active labour market spending suggests that such increases contributed only marginally to the social expenditure growth [18].

According to Castles (2007), public net debt also influences the level of core spending which in their turn have great influence on the level of total public spending, as higher debt levels mean substantially higher interest payments, which are a significant component of core spending [18]. This means that high levels of indebtedness lead to higher levels of core spending when interest rates are rising and to declining levels of core spending when interest rates are falling. However, in a study from 2011, the IFS shows that the spending on debt interest payments was fairly stable at around 5% of national income until the late 1980s; and that it then fell gradually until the mid-2000s.

Fig. 3 shows that the Public net debt of the UK fluctuated significantly along the last 30 years, while core spending had a decreasing trend until the end of the 1990s after which started to increase slightly. As the study of the IFS (2011) also showed, interest payments have been decreasing along the entire period, a factor that permitted core spending to maintain its decreasing trend. Although Public net debt was high during several periods of the last three decades, the fact that the costs with interest payments stayed low permitted the government to decrease core spending and to enhance the social category expenditure.



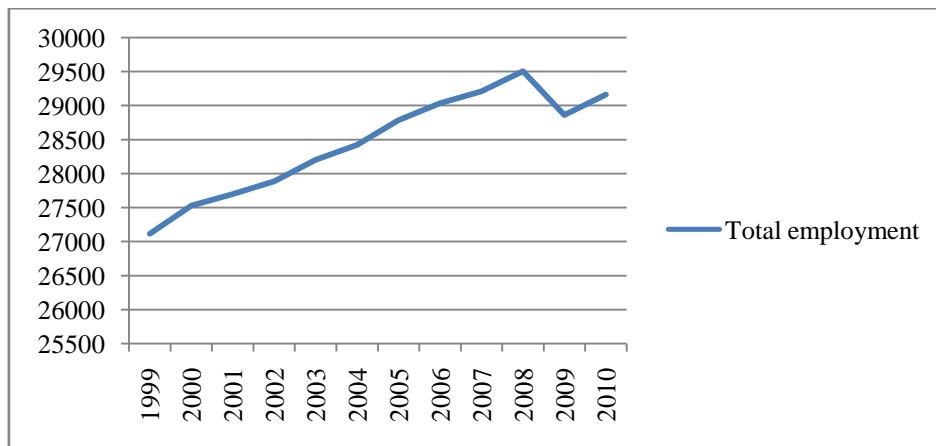
Data source: <http://www.ukpublicspending.co.uk>, and authors' calculation.

Figure 3. The evolution of Public net debt, core spending and interest payments as percentage of GDP

3.3.2 The size of public employment in UK between 1991 and 2009

The second part of our research aims to provide an analysis of the evolution of public sector employment size of in the UK during the period that preceded the recent economic and financial crisis 1991-2010 and to explore the functional relationship between the size and the costs of public employment.

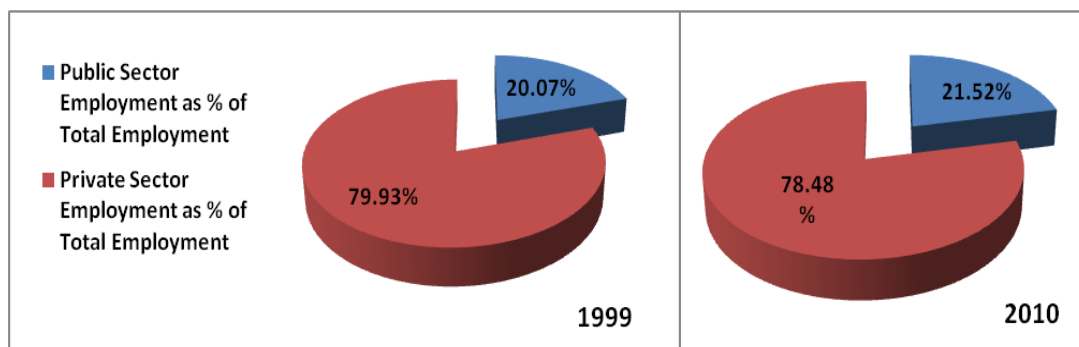
The first step towards creating a clear and comprehensive analysis of the public sector employment in UK is to situate it into the larger frame of total employment. As Fig. 4 shows, total employment in the UK registered a significant ascending trend along the last decade, starting from 27,115 thousands employees in 1999 and reaching 29,503 thousands employees in 2008. This ascending trend was ceased by the **global financial crisis** that started in 2008 but official statistics show that it has been retaken with the year of 2010. So the difference between total employment in 1999 and total employment in 2010 is of approximately 2 million employees, which means that employment increased by 2010 with 7.53% compared to 1999.



Source: <http://www.statistics.gov.uk/statbase/TSDSeries1.asp>

Figure 4. Total employment evolution in UK between 1999 and 2010 (headcount)

The next step of the research is to analyse the share of public employment in total employment. Fig. 5 below illustrate the percentages public sector employment and private sector employment represent in total employment for two different years, 1999 and 2010, and allow a comparison between the situations of public employment as share of total employment for these periods.



Source: <http://www.statistics.gov.uk/statbase/TSDSeries1.asp>

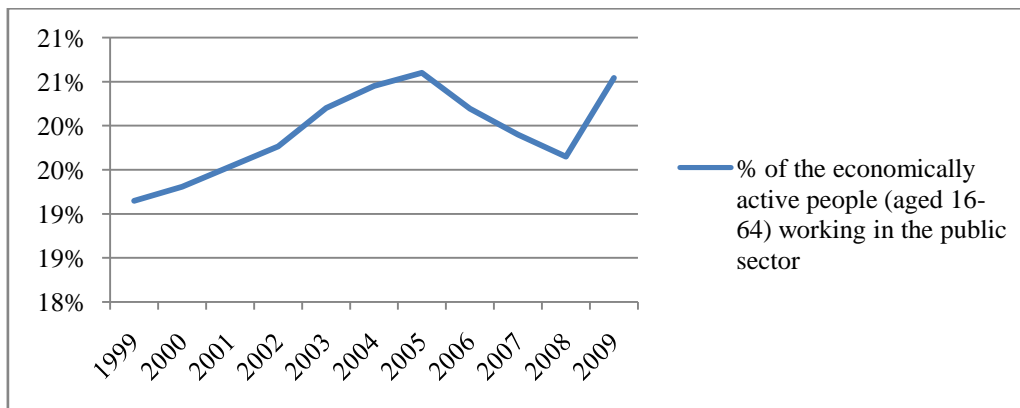
Figure 5. Share of public and private employment as percentage of total employment in 1999 and 2010

The share of public employment increased with almost 1,5% in total employment during the reference period. There were 5,443 thousands employees in the public sector in 1999 and 6,276 thousands in 2010; in the private sector there were 21,672 thousands employees in 1999 and 22,882 in 2010. These figures reflect that, although the number of jobs in the private sector increased significantly during this period, their growing rhythm was not as fast as the one of the number of jobs in public sector, which represents only a fifth of total employment. In other words, the public sector played an important part in the enhancement of total employment in the UK between 1999 and 2010, this increase reflecting also the fact that government units became more involved in the production of goods and services along the last years.

Following Tepe (2009) [7], who in line with Cusack et al. (1989) [20], suggests that the working age population is a more appropriate denominator for public sector employment than total employment, as the latter is sensitive toward business cycle fluctuations, we are also going to measure public administration employment

as the share of working age population. All people of working age are categorised within official labour market statistics as being either employed, unemployed or economically inactive. For this measurement, we are going to set as denominator the population aged 16-64 (one of the age categories provided by the Official Labour Market Statistics) that are economically active, namely eligible individuals who either are employed or are actively seeking employment.

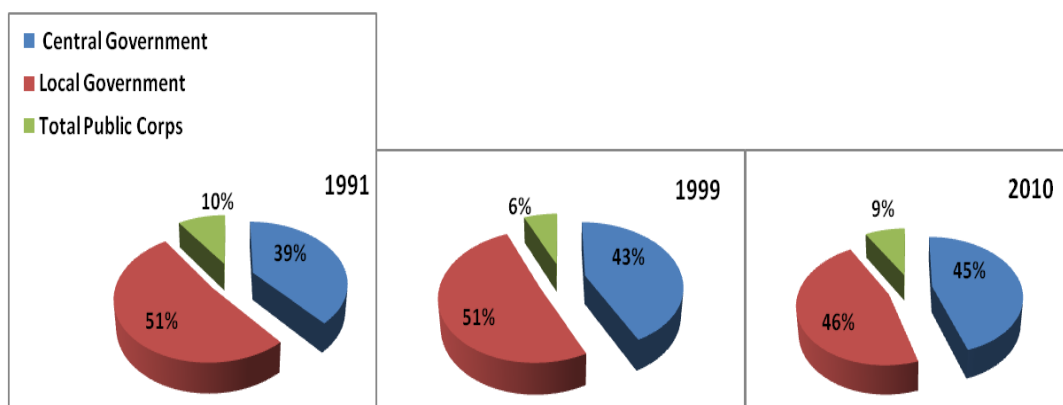
Fig. 6 below shows that the percentage of public employees within the selected denominator increased continuously until 2006 when, two years before the economic crisis started, the government started to reduce the number of employees working in the public sector. The sudden increase reflected in the number of public employees as a share of the economically active working age population in 2009 can be explained through the nationalization of several important financial institutions that took place during 2008 and that determined an increase in public workforce.



Source: <http://www.statistics.gov.uk/statbase/TSDSelection1.asp> for data regarding the Economically active people, aged 16-64; <http://www.statistics.gov.uk/statbase/TSDSelection1.asp> for data regarding Public sector employment.

Figure 6. The percentage of public employees out of economically active working age people

Fig. 7 below presents the distribution of public employment by level of government in UK (central government, local government and public corporations) for three different periods so that the evolution in time can be analysed.



Source: <http://www.statistics.gov.uk/statbase/TSDSeries1.asp>

Figure 7. Total public sector employment by level of government in 1991, 1999 and 2010

The following trends can be observed:

- During the period 1991-1999, which mostly coincided with the Conservative government, the share of local government in total public employment remained constant and the one of public corporations decreased, as a consequence of the privatisations that took place during those years. It is important to mention that the total number employees, including the three governmental levels, decreased from 6,017 thousands in 1991 to 5,446 thousands in 1999, due to the fact that the number of employees in local government and public corporations dropped significantly during this period. Only the number of employees of the central government decreased in a small proportion which explains why its share in total public employment increased with 4%.

- During the period 1999-2010, which mostly coincided with the Labour government, the number of employees of the central government continued its ascending trend. Despite the fact that the increase was more significant during this decade than during the previous period – from 2,326 thousands in 1999 to 2,827 thousands in 2010 – it did not cause a proportional impact on the total number of public employees as both the number of local government employees and the number of public corporations employees increased, the first at a slower rate than the latter, as shown also by the drop in percentages – from 51% in 1999 to 46% in 2010. The increase of the number public corporations employees and, implicitly, of its share in total public employment is explained by the nationalization of several British banks during the year of economic crisis of 2008.

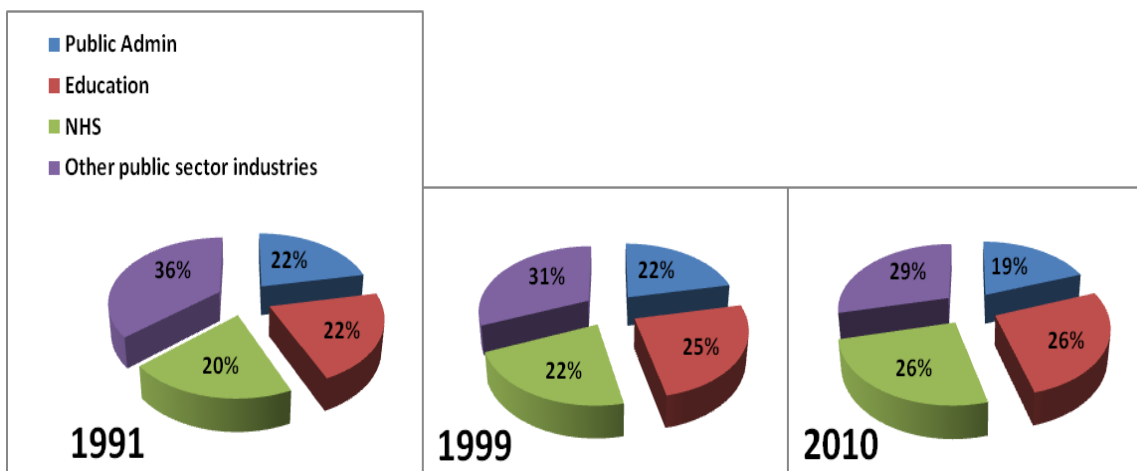
Table 2 below provides information about the evolution of the number of civil servants in total public sector employment during the reference period. Overall, the share of civil servants in total public administration in UK did decrease along the last two decades, from 10,91% in 1991 to 9,10% in 2010, although their real number did not maintain a constantly decreasing trend and fluctuated together with the total number of public sector employees. The number of civil servants started to increase in 1999 until 2005 when it reached 571 thousands employees.

Table 2. Percentage of civil servants of total public employees (thousands, headcount)

YEAR	Number of civil servants	Total public sector employment	Civil servants (% of total public sector employment)
1991	593	6017	10.91%
1999	504	5446	9.91%
2010	522	6276	9.10%

Source: <http://www.statistics.gov.uk/statbase/TSDSeries1.asp>

The charts below present the distribution of workforce in public sector for the main areas of activity (education, NHS, public administration, other public sector industries) corresponding to three different years of reference 1991, 1999 and 2010. The category ‘other public sector industries’ includes: construction, HM forces, police, other health & social and other public sector.



Source: <http://www.statistics.gov.uk/statbase/TSDSeries1.asp>

Figure 8. Distribution of public employment by industry in 1991, 1999 and 2010

The following remarks need to be made based on the analysis of the above three charts:

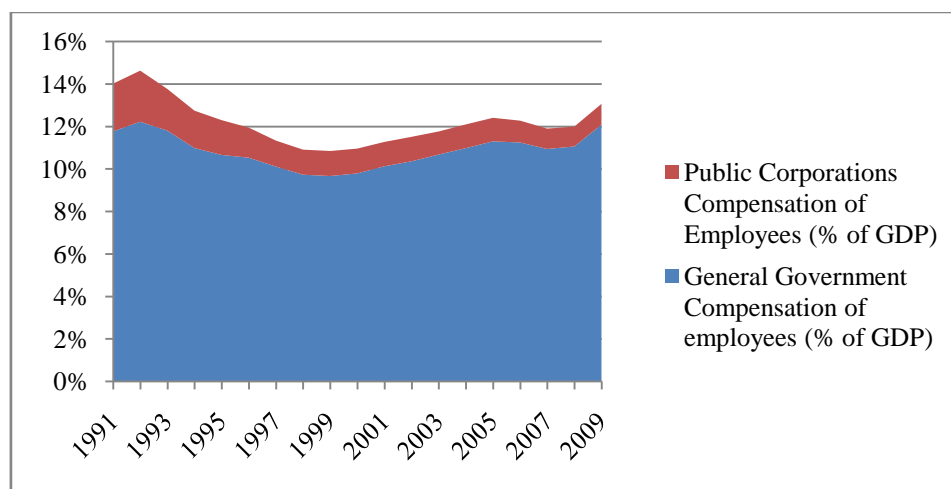
- Changes in the size of the public sector workforce over the last decade have been far from evenly spread across areas of activity.
- There are two areas of activity in which public sector employment increased relatively quickly along the last two decades: education and the NHS. While the first one had a more significant increase during the period 1991-1999, the later one had a more significant increase during the period 1999-2010, each area representing 26% of the employment in public sector by 2010, education counting for 1,661 thousands employees and the NHS for 1,599 thousands employees.
- The public administration area maintained the same percentage of the public sector employment between 1991 and 1999 and registered a decreasing trend along the following period, overall dropping from 1,315 to 1,212 thousands employees.
- Regarding the public sector activities – construction, HM forces, police, other health & social and other public sector – included in the category ‘other public sector industries’, all of them dropped significantly in

terms of employment, except for the Police which employed, in 2010, 30% more people than in 1991 (increased from 224 thousands employees to 292 thousands employees during the analysed time period).

3.3.3 Public sector employees' compensation in the United Kingdom

After having established the size of public employment and having analysed its evolution along the last two decades, the third part of our research will analyse the trends in public sector pay bill and will establish a relationship between the size of public employment and its costs.

Fig. 9 shows the evolution of public sector compensation as a share of GDP over the period 1991-2009. Measuring the costs of employee compensation as a share of the GDP provides an overall indicator for the amount of public resources devoted to public employment. From a peak of 14.62% of GDP in 1992, total public sector compensation (the two shaded areas combined) declined to a low in 1999 of 10.84%, which reflected largely the privatisation of public corporations. Between 1999 and 2005, the pay bill grew steadily and, after a small decline between 2005 and 2007, the total pay bill increased again to reach 13.06% of the GDP in 2009, which is its highest level since 1993. IFS (2011) argues that the large increase between 2008 and 2009 was caused by the continued real increase in the public pay bill at a time when national income was declining [17].



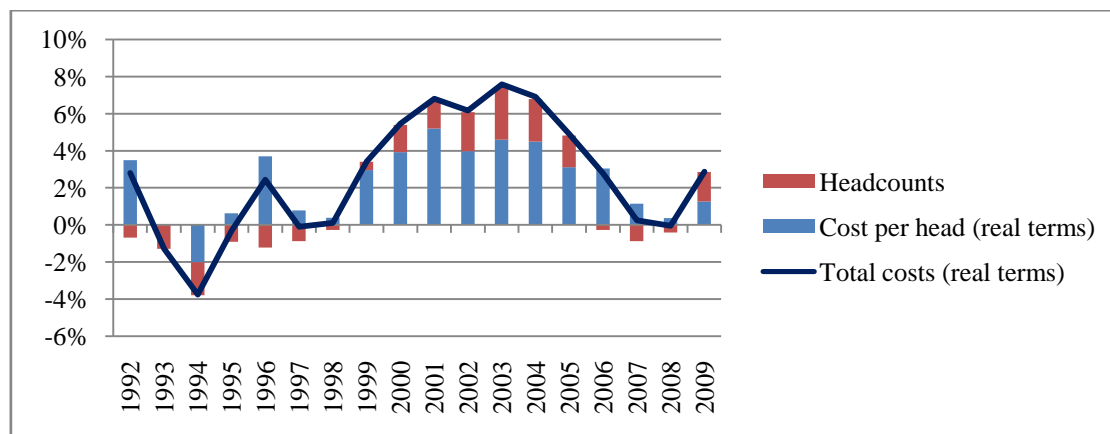
Source <http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlnk=bb>

Figure 9. Public sector compensation

The general government pay bill (i.e. excluding public corporations) grew from a low of £104 billion (in 2009 prices) in 1995 to £151 billion in 2004, increasing with 3% to 6% each year in real terms over this period. In 2006 and 2007 it grew at a much slower rate, registering a negative increase in 2008, before growing more quickly again between 2008 and 2009, reaching £168 in 2009. We have reached these findings by using information which was brought up to date, at the level of prices of 2009, by using the consumer price indices for the period between 1991 and 2009, provided by the Office of National Statistics.

Another way to measure the costs of employee compensation is as a share of total government expenditure, in order to capture the relative importance of employees' compensation expenditure in the government's budget. The general government pay bill amounted to £168 billion in 2009, representing 28% of total public expenditure and 12.05% of the GDP [21], the highest level since 1992.

Fig. 10 shows the percentage increase in the general government pay bill (in real terms) split between the increase in headcount and the increase in cost per head since 1992. The data collected and analysed in the present section includes information regarding the period 1991-2009, which is why the calculations for the year 1991 were not carried out. The period analysed includes both Conservative and Labour governments. The Conservative government, which corresponds in the case of our analysis to the period between 1992 and 1997, reduced headcounts on average by 1.1% each year and increased real cost per head by 1.1% on average a year; the Labour governments, on the other hand, increased headcounts by 1%, on average, per year as well as increasing cost per head by 2.8%, on average, per year over the period from 1997 to 2009. However, most of the increase in the general government pay bill was concentrated during 1999-2005, with costs per head rising by 4% per year in real terms over this period. It results from these calculations that this was the period when public spending was growing at its fastest rate under the previous Labour administrations. In the years before the financial crisis, the Labour government started to reduce this growth both by limiting increases in costs per head and by reducing the employment level slightly. After 2008, this tightening of the public sector pay bill ceased, with a significant increase occurring in 2009.



Source: <http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlnk=bb>

Figure 10. Changes in the general government pay bill

3.4 Results analysis and interpretation

UK public spending has varied significantly along the last three decades as a percentage of the GDP, registering a continuously upward trend starting with the first years of the last decade. Our research has reached the conclusion that indeed social expenditure (health and social protection), which in 2010 represented almost 50% of total public expenditure, has been continuously increasing since early 1990s; while core spending (the other categories of functional expenditure divided according to the COFOG classification) has been decreasing for most of the period, allowing the government to allocate more financial resources to the social care. Overall, the analysis suggests that the dominant trend of public spending over the recent years has been convergent in character with an upward movement in social expenditure and a downward movement, for most of the period, in core spending coming from the effort of the country to reduce its fiscal vulnerability under circumstances of increasing debt. However, it is worth mentioning, that during the Labour governments, both aggregate categories of public spending registered an increasing trend as share of the GDP, core spending increasing for the first time within the analysed time span.

The second part of our research reveals that, in the context of the ascending evolution of total employment, public employment had a higher rate of increase than the private employment during the last decade, meaning that many of these job gains were in the public sector. However, the private sector still employs 78.5 percent of total workforce, representing the dominant employer in production, constructions and in many services. In contrast, the public sector is the dominant employer in health, education and public administration. Public employment increased as a share of the economically active working age population until 2005, when it started a slight decreasing evolution, suppressed by the process of nationalization of several financial institutions during 2008.

The composition of public sector employment has changed dramatically over the last two decades. Regarding the level of government, the number of people employed by central government increased with 6% between 1991 and 2010, whereas local government decreased with 5% within the same period. If we split this span of time between Conservative and Labour governments, we will notice the first ones maintained a highly centralised British administration with little more than half of the public employees working for the central level of the government in a period when the number of jobs in public administration was declining. As we will see at a later phase of our analysis, the number of civil servants also declined during those years meaning that bureaucracy was getting thinner. However, the number of jobs provided by the central level of the government remained constant. During the Labour government, although the number of public jobs increased, their distributions shows a more decentralised state with a smaller number of employees working for the central government and a higher number of people employed at the local level.

Public corporations represent the part of public employment which fluctuated most during this period as a consequence of the privatisation and then nationalization processes that occurred along the last twenty years.

The results of our analysis show that public employment experienced important changes regarding the number of employees working in different areas of public activity. Employment in education and health has gone up, together counting for just more than fifty per cent of total public sector employment compared with around forty per cent twenty years ago. In contrast, public administration area lost a significant number of employees. All the other public activities – construction, HM forces, police, other health & social and other public sector – dropped as well in terms of employment, with the exception of the police forces who managed to increase their manpower with 30 percent between 1991 and 2010.

These changes have not been evenly spread across all public branches, the development of the welfare state determining the necessity to employ more and more people for the activities developed in social areas. These findings indicate that increase and not radical downsizing has been dominant pattern of public administration employment policies.

The results of our research regarding the costs of employee compensation as a share of the GDP show that it declined until 1999, when it started to grow steadily. The percentage increase in the general government pay bill (in real terms) split between the increase in headcount and the increase in cost per head shows that the Conservative government reduced headcounts and increased real cost per head each year. On the other hand, the Labour governments increased headcounts as well as increasing cost per head each year at a higher rate than the previous Conservative government did during a period of decrease in headcounts. The fact that the number of public employees has decreased or increased whereas the cost per head has increased, during the entire analysed period, reflects that growing government employees' compensation expenditure does not cause a decrease in public administration employment. Furthermore, we can conclude that the driving forces behind public administration employment growth are not the personnel costs in particular but rather fiscal constraints and anti-cyclical public employment policies are the driving factors.

IV. CONCLUSIONS

Higher debt levels meaning substantially higher net debt interest payments or electoral necessity of the governments to respond to the population's demands for increased spending on social programmes and for new programmes to cope with what the literature describes as the 'new social risks' of life in post-industrial societies are other factors which may have influenced the shaping of public expenditure trends over these years.

The increased influence of the state in economy and society has triggered the enhancement of public expenditure. Along with other European countries, the United Kingdom has also experienced moments of important reformations in the structure and the number of public employment and up trends or down trends of public expenditure dimension.

The structure of the UK public employment did change during the last decades, registering significant cutbacks in the number of industrial public servants and increases in the number of those working in areas of social services provision. The fact that public employment wage pay bill remained high and started to weigh heavier and heavier in the public budget, in spite of all the transformations that took place along the years, determine governments either to reduce public employees earnings or to cut public employment.

A further research that would aim to complete the analysis undertaken in the present paper should be focused on assessing which are the areas of the United Kingdom that have benefited most from the increase in public sector employment and to what extent. All government departments other than health, which will be protected to some extent, face their biggest and fastest spending reductions of modern times, so a future paper would focus on identifying which category of public activity each area relies most on and formulate proposals of further policy options that could reduce the effect of the announced cuts in public spending and public employment.

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