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Foreign Labor Trends Report: 2008 United Kingdom

Abstract

An overview of recent trends in the United Kingdom's labor market, government, economy and trade.

Keywords

United Kingdom, labor trends, Department of Labor, social indicators

Comments

United States Department of Labor. *Foreign labor trends report: 2008 United Kingdom*. Washington, DC: Author.

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FOREIGN LABOR TRENDS REPORT

2008

UNITED KINGDOM

KEY ECONOMIC, LABOR MARKET AND SOCIAL INDICATORS

<u>INDICATOR</u>	<u>2006</u>	<u>2007</u>
1. Per capita GDP/GNP, current prices (US\$) ¹	39,680	45,575
2. Consumer prices, inflation rate (%) ²	2.78	2.03
3. GDP generated in agriculture (%) ³	1.1	0.9
4. —, in industry (%)	26.0	23.4
5. —, in services (%)	72.9	75.7
6. Population, total (millions) ⁴	60.5	60.9
7. —, by major ethnic groups (%)		
English	83.6	83.6
Scots	8.6	8.6
Welsh	4.9	4.9
N. Irish	2.9	2.9
Black	2.0	2.0
Indian	1.8	1.8
Pakistani	1.3	1.3
Mixed	1.2	1.2
Others	1.6	1.6
8. —, in major urban areas (%)	80	81
9. Population beneath poverty level (%) ⁵	14	14
10. Birth rate (per thousand population) ⁶	10.78	10.65
11. Life expectancy at birth, total (years) ⁷	78.38	78.85

¹ IMF World Economic Outlook Database, April 2008

² Ibid

³ World Factbook- latest available info for 2006 is 2005 data; 2007 data is updated

⁴ Latest available data- 2001 Census; DEFRA (for urban numbers)

⁵ World Factbook-latest available is 2006 estimate

⁶ World Factbook- latest available info for 2006 is 2005 data; 2007 data is updated

⁷ Ibid

<u>INDICATOR</u>	<u>2006</u>	<u>2007</u>
12. —, Male	75.94	76.37
13. —, Female	80.96	81.46
14. Adult literacy rate (%) ⁸	99	99
15. Labor force, civilian, total (millions) ⁹	30.6	31.0
16. —, male (millions)	16.6	16.8
17. —, female (millions)	14.0	14.1
18. —, in informal economy (millions/%)	n/a	n/a
19. Completed primary education (equivalent to 6 th grade in US, %)	99	99
20. Employment, civilian, total (millions) ¹⁰	29.0	29.1
21. —, in industry (millions)	3.22	3.17
22. —, in export processing/industrial/special economic zones (millions/%)	n/a	n/a
23. —, in agriculture (millions)	0.45	0.44
24. —, in services (millions)	25.34	25.60
25. —, in government (millions)	5.84	5.84
26. Unemployment rate (%) ¹¹	5.4	5.4
27. Underemployment rate (%) ¹²	5.9	5.9
28. Level of Unionization of workforce (%) ¹³	28.3	28.0
29. Labor productivity, manufacturing (%) ¹⁴	n/a	n/a
30. Number of work-related deaths (000) ¹⁵	0.217	0.241
31. Number of work-related injuries and illnesses (000) ¹⁶	146.08	141.35
32. Number of Days lost from industrial disputes (000) ¹⁷	353	1015
33. Minimum hourly wage rate, (BPS) ¹⁸	5.35	5.52

⁸ World Factbook

⁹ Labor Force Survey

¹⁰ Office for National Statistics

¹¹ IMF World Economic Outlook Database, April 2008

¹² Latest available data- Labor Force Survey 2002

¹³ National Statistics Online, UK Snapshot

¹⁴ n/a

¹⁵ HSE: Health and Safety Statistics

¹⁶ Ibid

¹⁷ Labor Force Survey: Cumulative total from May 06-07 and May 07-08

¹⁸ BBC

<u>INDICATOR</u>	<u>2006</u>	<u>2007</u>
34. Avg. hourly earnings by major industry, (BPS) ¹⁹		
—, Manufacturing	12.75	13.10
—, Wholesale & Retail Trade	10.18	10.53
—, Government	13.41	13.81
—, Education	14.02	14.37
—, Health	12.70	13.08
35. Supplementary benefits as % of manufacturing earnings ²⁰	n/a	n/a
36. Avg. Hours worked per week, in manufacturing ²¹	39.1	39.3
37. —, in Services	32.7	32.6
38. —, in Agriculture	38.2	38.1

n/a = not available or not applicable

Exchange rate: US\$ 1 = 1.9876 British pound sterling (BPS, 2008); 0.4993 (2007); 0.5418 (2006) Source: World Factbook 2008

¹⁹ ASHE - Annual Survey of Hourly Earnings, part of ONS

²⁰ n/a

²¹ ASHE

SUMMARY OF MAJOR RECENT DEVELOPMENTS

Government

The United Kingdom (UK) has been governed since 1997 by the Labour Party, with party leader Gordon Brown taking over Tony Blair's position as Prime Minister beginning in June 2007. The Conservatives (Tory) and the Liberal Democrats are the major opposition parties. Labour has governed on a broad centrist platform advocating open and competitive markets, increased spending on public services, and fairness in the workplace. The Brown government has been speeding up the improvement of education, health services, and affordable housing at a cost of higher taxes and a widening public deficit.

The Labour Party was reelected to a historic third term in the May 2005 general election, although with a substantially reduced Parliamentary majority. Labour's smaller Parliamentary majority is made more difficult to manage by a significant cadre of rebellious Members of Parliament (MPs) who have voted against the government on key issues like education reform, school financing reform, and foreign policy. In June 2007, Blair fulfilled his May 2005 pledge to stand down as Prime Minister before the next election (now expected in 2010) in favor of Chancellor Gordon Brown.

Brown has been plagued by a difficult first year. Early favorable polls gave rise to talk of a snap election in the fall of 2007, but the plans were suddenly scrapped when poll numbers began to wane. Since then Brown and his party have steadily lost support in several important elections, including for the Mayor of London.

In July 2008, the Labour Party and the remaining 16 affiliated unions met to agree on a framework (dubbed the Warwick II Agreement) that outlined the major workforce-related commitments for an eventual fourth term for Labour. In return, the affiliated unions committed to fund and engage in election campaign activities. The agreement included commitments to lower the age threshold for the minimum wage from 22 to 21, consider not-for-profit training operating companies, more apprenticeships in the public sector, and stricter requirements for companies winning public sector contracts to treat workers fairly and remove pay inequalities. Equally significant was the omission from Warwick of long-standing union demands not addressed in Labour's first two terms, e.g. the right to engage in secondary strike activity and compulsory participation in private pension schemes. During its third term, the government has reiterated its commitment to the Warwick agenda, though emphasizing that the reforms outlined in the Agreement constitute good public policy, rather than highlighting promises to a union constituency. Unions have generally given the government only fair marks on its follow through to the original Warwick agreement of July 2004, although it has made strides in a number of those commitments, such as reforming the pension system, introducing additional paid holidays, investing in skills training, and passing laws on corporate manslaughter.

The Conservative Party leader, David Cameron, projects a moderate image and has begun to woo the middle class swing voters who brought so-called "New Labour" to power in 1997 with a "New Tory" centrist policy package.

Economy

The UK economy has not been immune to the global economic slowdown that began in mid to late 2007. Its close ties to, and similarities with, the U.S. economy have caused it to track both the ups and the downs of its American cousin. The UK economy outperformed the rest of Europe from 1997 - 2007, averaging 2.8 percent GDP growth annually, and has not experienced a quarter of negative GDP growth since 1992. Labour generally was credited with this prosperity, but in 2008 has borne responsibility for a slow down. The government stuck with centrist, free market-based policies and private sector-driven solutions, some of which were put in place during the painful reforms of the Thatcher years. It has resisted calls for protectionist trade policies and has promoted high levels of foreign direct investment in the services sector, particularly in financial services, that has helped fuel the boom. Business investment growth is also expected to moderate significantly in the face of uncertainties relating to the global credit crunch, while public spending growth is planned to be much more subdued than in recent years. UK GDP growth has slowed from 3.1% in 2007 to around 1.75% in 2008 and projected to grow to 1.25% in 2009. UK inflation has risen rapidly due to energy and food price effects. The CPI measure hit 3.8% in June 2008, jumping half a percentage point since May 2008, and up from its target rate of 2.0% set by the Bank of England in 2007, its highest since 1992. Unemployment has stayed at around 5 % since 2003 and employment levels remain unchanged at 74.9%.

Consumer spending growth is expected to slow more markedly to 0.5% in 2009 due to the squeeze on consumer spending from high debt levels, tighter credit conditions, falling housing wealth and sharply increasing household energy, petrol and food bills, with the poorest hit the most severely by rising energy bills and food price inflation. Property values soared 176 % between 1997 and 2006, 10.1 % in 2004 alone. That rate of growth more than halved in 2007 to 4.5 percent and turned negative in 2008. Consumer confidence was further dented by pessimism about job prospects, higher energy prices, and rising levels of debt. Mortgage approvals fell 56% over May 2007, and the housing market is stalling because of a lack of mortgages available to new buyers. This feeds concern that the UK is in for an extended, deep correction in the housing market.

The Labour Government's political commitment to increase spending in the health and education sectors also contributed to the robust growth of the past decade. Since 1997, government spending has created 700,000 new public sector jobs. In the southeast region, the public sector accounts for slightly over one third of the economy; in some parts of the north of England, it represents over three-fifths.

The UK is not a member of the European Single Currency (the Euro). The current Labour Government has said that it favors joining, but only if the British public approves adoption of the Euro in a national referendum. The date of this referendum is contingent on a government assessment based on five economic tests -- sustainable convergence, sufficient flexibility, effect on investment, impact on financial services, and effect on employment. Once these tests are passed, the government must then seek Parliamentary approval for a national referendum. Given the current lukewarm support for the Euro among the British people, however, a referendum is not likely to occur in the foreseeable future.

Workforce

The recently weak performance of the UK economy has not yet impacted its employment data. As of July 2008, UK employment had reached a record 29.59 million, and the

unemployment rate as measured by the International Labor Organization (ILO) was 5.4 %. Most of the strong growth in jobs occurred in the finance and business services sector, offsetting an ongoing drop in jobs in the manufacturing sector. Since the enlargement of the European Union in 2004 and 2007 with the addition of 10 central and eastern European states, the UK workforce has been augmented by an influx of workers from the new EU member states in Eastern Europe, with more than 1,371,000 workers from these countries registering for work between May 2004 and March 2008. As the economy has slowed, many of these workers have returned home, softening the impact on UK employment numbers.

Union membership has halved over the past 25 years. About 26 % of the British workforce now belongs to a union, a low proportion by UK historical standards, but still relatively high. Public-sector workers have a much higher share of union members -- nearly 60 % -- while the figure for the private sector is about 17 %. Union membership has been relatively stable in the past few years, although the trend has been slightly downward over the past decade.

For the sixth consecutive year, a higher proportion of women than men were trade union members. Union density among women was 29.6 % in 2007, while for men it was 26.4 %. Of the four constituent parts that make up the UK, Northern Ireland had the highest union density (39.7 % of employees). In Wales it was 37.3 %, and in Scotland 32.6 %. Union density was lowest in England at 26.6 %. Among the English government office regions, the North East had the highest union density at 35.7 %, while the South East had the lowest union density at 21.0 %. Private sector union density fell by 0.5 percentage points to 16.1 % in 2007, whereas public sector union density rose 0.3 percentage points in 2007 to 59.0 %. Across all sectors, just under half of UK employees (46.6 %) were in a workplace where a trade union was present. Over one-third of UK employees said their pay and conditions were affected by a collective agreement. Collective agreements covered around one in five private sector employees, while in the public sector collective agreement coverage was over three and half times greater at 72.0 %. The hourly earnings of union members, according to the LFS, averaged £12.74 in 2007, 15.6 % more than the earnings of non-members (£11.02 per hour).

A persistent characteristic of the UK workforce is its relative lack of mobility, geographically and between trades. Successive governments have introduced retraining schemes and grants with some success in creating a more adaptable workforce. The influx of foreign workers has helped to alleviate this problem, as has the growing share of women in the workforce -- currently at about 46 % of the working population.

A serious issue facing British employers is a skills gap derived from a high-skill, high-tech economy outpacing the educational system's ability to deliver work-ready graduates. The government has placed a strong emphasis on improving the British educational system in terms of greater emphasis on science, research and development, and entrepreneurship skills.

ORGANIZATIONS' LEADERSHIP, STRUCTURE AND MISSION

Government

Key labor-related functions are organized at the national level under several government departments. The Department for Work and Pensions covers all types of benefits, including pensions and disability payments. It oversees the Job Centre program of support for

individuals seeking work or training for new work. It also is responsible for enforcement of health and safety rules in the workplace. The Department for Education and Skills handles training and adult education, including support for union learning representatives. The Department for Business, Enterprise, and Regulatory Reform (BERR) is responsible for setting and administering workplace policy and regulations, including the working time directive and minimum wage provisions. Decision-making and administration of programs in the UK tend to be highly centralized with both policies and funds flowing out of London to the regions. Each of the Departments is headed by a Secretary of State appointed by the Prime Minister (and who is also an MP). Ministers, also MP's, handle sub-Cabinet portfolios and manage relevant legislation in the Parliamentary process.

The Advisory, Conciliation and Arbitration Service (ACAS), founded in 1975, falls under the umbrella of BERR. ACAS offers independent advice and dispute resolution/mediation services. ACAS also provides training to employers and employees to solve problems in the workplace. The organization is governed by a council made up of leading figures from businesses, unions, academics, and other non-governmental organizations. The ACAS Council determines the strategic direction, policies, and priorities of ACAS and assures that its statutory duties are carried out effectively. ACAS has 11 regional offices some of which are very active in promoting local discussion of workplace issues through Employment Forums.

Employers

The Confederation of British Industry (CBI) is the principal voice for business in the UK. Its officers play an important role as public spokesmen for member companies and also are frequently called upon by the government to comment on legislative proposals or other issues of note. The CBI is not authorized by its affiliated companies to engage in collective bargaining.

Formed in 1965, the CBI represents over 250,000 member companies (out of about 1.7 million enterprises in the UK). It is directed by an elected president and council. Operations are conducted by committees charged with specific responsibilities (employment, education, and training) and professionally staffed under the management of a director general and two assistants. The CBI is a member of BUSINESSEUROPE (a Brussels-based European association of industries and employers) and represents British employers at the ILO. The CBI maintains a presence in Brussels, Washington, and Beijing, as well as offices throughout the United Kingdom.

As of July 2008, there were 182 employer organizations registered with an independent national certifying body, the Certification Officer (www.certoffice.org). All are engaged in collective bargaining and many represent companies also affiliated to the CBI. As in the case of the trade unions, the number of employers' associations has been declining. Comparable statistics showed 106 organizations registered in 1998 and 100 in 2000. Some have phased out activities in response to the decline in Britain's manufacturing sector; others have merged with related organizations. Certain employer associations are active only in Scotland. Other organizations representing various aspects of British business interests other than employment matters include the Institute of Directors and the Association of British Chambers of Commerce.

Major Trade Unions

The Trades Union Congress (TUC) is the largest organization of trade unions in the UK, representing over 90 % of organized workers in Britain. As of July 2008, the TUC had 58 unions, representing nearly six and a half million people. The decline in the number of affiliates (from 71 in 2003 and 64 in 2006) was due largely to mergers. There are approximately 120 other unions that are not affiliated to the TUC, the largest of which is the 400,000 member Royal College of Nursing. Most of these non-TUC unions, some of which operate only in Scotland, are small organizations representing workers or categories of employees in specific firms. Some organizations, such as the Police Federation, are barred by law from affiliating to the TUC. The government-appointed Certification Officer maintains a list of all unions and employers organizations (www.certoffice.org).

Britain's four largest trade unions are TUC affiliates and, as membership on the TUC General Council is allocated by size, have proportionately greater representation on the Council. The largest union, with approximately two million members is UNITE, and was formed as the result of a 2007 merger between Amicus and Transport and General Workers (TGWU). UNISON is the largest public sector workers' union with over 1.2 million members.

The TUC is not authorized to engage in collective bargaining, but it is an active participant in dispute resolution. The TUC General Secretary is viewed by employers and the government as a skilled intermediary and he is frequently tapped to help resolve major disputes between unions and employers. Internationally, the TUC is affiliated to the International Trade Union Confederation (ITUC), the European Trade Union Confederation (ETUC), the Commonwealth Trade Union Council (CTUC), and the Trade Union Advisory Committee of the OECD (TUAC). It also represents British workers at the meetings of the tripartite International Labor Organization (ILO).

Scotland has its own independent Scottish Trades Union Congress (STUC), whose secretariat is located in Glasgow. Most affiliates are the Scottish branches of TUC unions, but there are a number of specifically Scottish unions. The STUC often takes policy stances that contradict those of the TUC. A Wales TUC, based in Cardiff, is funded by the national organization. In Northern Ireland, the situation is more complex as UK and Irish trade unions are active in both Northern Ireland and the Republic of Ireland. The unions in Northern Ireland are represented by the nonpartisan and largely autonomous Northern Ireland Committee of the Irish Congress of Trade Unions.

LABOR LAWS

The UK is generally viewed as having a legal system that upholds worker rights. The UK has ratified all eight ILO core Conventions and continues to promote the ILO Declaration on Fundamental Principles and Rights at Work among all member states. On the domestic side, the Labour Government has overhauled the labor law since it came to power, in accordance with its election pledges. The Employment Relations Act 1999 (ERA 99), granted workers landmark rights regarding union recognition and the right to union representation. It also expanded existing labor laws to provide greater protection for part-time workers, agency workers, and workers with families. The Employment Relations Act 2004 (ERA 04) further strengthened provisions on statutory union recognition, the dismissal of strikers, and other aspects of the law related to industrial action. Other laws, such as the National Minimum Wage Act 1998 and the Employment Equality Regulations 2003 have completely changed the legal landscape of the United Kingdom.

One of the most significant changes that the Labour Government implemented was the introduction of a national minimum wage in 1999. Taking the advice of the Low Pay Commission, an independent body it had set up in 1997, Labour introduced a £3.60 adult minimum wage, set to rise in October each year. The Government has announced that the adult minimum wage rate will rise from £5.52 to £5.73 an hour in October 2008. The youth rate for those aged 18 to 21 will be increased from £4.60 to £4.77. The Government has also said that the rate for workers aged 16-17 years should increase from £3.40 to £3.53.

The length of the work week in the UK is longer than most other European countries but still short compared to the United States. In general, workers may not be forced to work more than 48 hours a week, referenced over 4-6 month intervals. These regulations do not apply to senior managers or those with flexible work schedules, but they do apply to some professional workers, including junior doctors. While workers may opt out of the limit, they may also opt back in at any time with at most three months' notice. All workers also have the right to at least four weeks' paid holiday a year, which must be taken in the year in which they accrue. Workers also have the right to paid time off for the performance of duties relating to the trade union office.

The 1974 Health and Safety at Work Act stipulates that the health and safety of employees are not to be placed at risk, and in practice the act is updated regularly. The Health and Safety Executive effectively enforces regulations on these matters and may initiate criminal proceedings in appropriate cases. Workers' representatives actively monitor enforcement of the act. Workers may remove themselves from dangerous work conditions without jeopardy to their continued employment.

The ERA 99 introduced several important reforms to the laws governing workers' rights to unionize and engage in industrial action. The law also prohibits the compilation of lists of union members and labor activists for use by employers and employment agencies and ensures the secrecy of union membership rolls. The process of balloting for a strike has also become more union-friendly, with unions now being permitted to aggregate ballots across separate workplaces. Additionally, workers are protected by law against dismissal or other retaliation for campaigning or voting for or against recognition. Workers now have absolute protection from dismissal for the first 12 weeks of a legal strike or "trade dispute," with the possibility of extension if the employer is found not to be negotiating in good faith. The law defines a trade dispute in great detail; in summary, a strike must be confined to workers and their own employers; secondary boycotts are illegal. The dispute must be wholly or mostly about employment-related matters (e.g., pay and conditions), workers must be properly and secretly balloted no more than eight weeks prior to the initiation of industrial action (with notice to the employer), and mass picketing is prohibited.

Union recognition is also governed by the ERAs. Unions can file a request for recognition - identifying the proposed bargaining unit - first to the ACAS, then to the Central Arbitration Committee (CAC), a tripartite group that includes representatives from government, business and labor. The act covers employers with more than 20 workers and encompasses an estimated two-thirds of all workplaces. Once the CAC determines the appropriate bargaining unit, it assesses whether a union is likely to have majority support. If union members already make up a majority of the bargaining unit, the CAC may issue a declaration that the union is recognized for collective bargaining without a ballot. In those instances where the CAC orders a ballot (typically, when the majority of bargaining unit employees are not already union members), the employer must cooperate by providing a list of names and giving the union access to the workplace to campaign. Unions win recognition when a majority of those voting agree, including at least 40% of those in the bargaining unit. Although the law encourages voluntary agreements between employers

and unions, the CAC may, if necessary, impose a legally binding procedure for bargaining about pay, hours, and holidays. Free association is guaranteed by law and union members are protected against "being subject to any detriment" due to union activity or membership. There is no restriction on possible damages. This right extends to contract and part-time workers. Unions have the power to expel members whose political behavior they deem incompatible with union membership (e.g. members who engage in racist activity).

British law prohibits discrimination in employment on the grounds of sex, race or nationality, disability, sexual orientation, religion or belief, or transsexuality. With regards to sex, race or national origin, workers may not be treated differently, with limited exceptions relating to pregnancy and maternity. Discrimination on the basis of sexual orientation (including homosexuality, heterosexuality and bisexuality) and religious belief is governed based on the perception of the victim. This means that an employee who is discriminated against because he is thought to be gay, for instance, may bring an action against his employer even if he is actually heterosexual or bisexual. There is a narrow exception to this law for religious organizations, which is defined ambiguously but thought to include religious ministers but not employees of religious schools. Transsexual people are protected from direct discrimination in the workplace and post-operative transsexual people retain all the rights accorded to their new sex. Finally, the EU Employment Framework directive requires member states to outlaw age discrimination and this was implemented in the UK in 2006.

The UK prohibits forced or compulsory labor as well as the employment of children under 16 in industrial enterprise, except as part of an educational course.

All rights available to workers in the UK are available to citizens and non-citizens on an equal basis, both by law and in practice.

INDUSTRIAL RELATIONS SYSTEM

The British trade unions retain significant leverage in the British political system. Over 26 % of the British workforce belongs to a union. Unions founded and continue to be the principal financiers of the Labour Party. They have a third of the votes in the Labour Party decision-making body and at the annual party conference. Although huge general strikes are things of the past, unions can still mobilize the UK's public sector employees on employment issues and, more importantly, they bring out the vote at election time. With Labour's election in 1997, unions once again became full partners with business in formulating and debating policy. Mechanisms include formal consultations with the TUC and informal relationships between government officials and union leaders. Working-level TUC officials have regular contact with working level ministry employees.

The TUC launched a major partnership initiative in January 2000 to encourage union-management cooperation. Most of the TUC's private-sector affiliates came on board. Under the initiative, unions and management typically negotiated so-called "collective agreements," less formal than collective bargaining contracts, but legally enforceable. Currently, about 35% of the British workforce is covered by collective agreements.

Despite general acknowledgement that the Labour Government had fulfilled many of its early promises to organized labor, some union leaders had hoped that the return to power would bring a more orthodox approach on issues like pension contributions and secondary

strike action. Furthermore, key elements of Labour's centrist platform were viewed as attacks on basic public services. Disputes over public-private partnerships in the health service and education reforms giving teachers' aides a more important role in classrooms resulted in short-term strikes by public services sector unions. At the same time, a growing division within the labor movement itself over the direction of British foreign policy further exacerbated tensions between the government and the unions.

The TUC has retained its status as chief interlocutor and the voice of labor to the government. TUC experts continue regular consultations at all levels of government and the TUC General Secretary is regularly called upon to mediate disputes.

Much of the employment legislation currently affecting the UK labor market originates from the European Commission in Brussels. EU regulations affect working patterns, wage structures, and employee protection rights. Government, business, and labor all participate in formal and informal organizations in Brussels that influence the formulation of EU directives and how they are implemented, although there appears to be less enthusiasm for these EU fora over the past decade.

MAJOR SOCIAL PROGRAMS AND GOVERNMENT SERVICES

The UK has an extensive set of government services that provide a social safety net for individuals seeking work, for retirees, and for those unable to work. Some benefits and credits are based on payment of National Insurance (NI) contributions or level of income. Others depend on length of time in employment and level of earnings or on length of residence in the UK. Still others are available strictly on the basis of need. Employees pay NI contributions if they earn more than a lower earnings limit (LEL) set by the government; as of 2008, the LEL was £90 per week. Individuals begin paying NI contributions on income over £105 per week and, for earnings between £90 and £105 per week, they are credited with contributions.

A significant legal change occurred in 2005 with the implementation of the Civil Partnership Act. Under the terms of the law, claimants are no longer treated as individuals if they are civil partners or live with someone even if not civil partners. This change affects all means-tested benefits like income support, pension credits, housing benefits, council tax benefits, and income-based jobseeker's allowances, which all now must be claimed as couples with income and resources assessed jointly.

Job Training and Employment Assistance

There are a range of benefits available to people with low incomes, depending on whether they are working -- part time or full time -- or out of work and looking for a job. The most significant are Working Tax Credits, Income Support, and Jobseeker's Allowance. Working Tax Credits provide support to low-income workers without children, disabled workers, and couples or single parents who are working. It also includes a stipend to help defray childcare costs. Income Support is a means-tested benefit available to those with low incomes. It does not depend on NI contributions. Among the individuals eligible for Income Support are lone parents, the disabled, and those caring for a disabled person.

Jobseeker's Allowance (JSA) is the principal benefit available to those who are unemployed or working only part time and seeking work. JSA has both contribution-based benefits and

income-based benefits. The former is payable for a maximum period of six months to those who satisfy certain NI contributions criteria. The latter is payable to those who do not qualify for contribution-based JSA or whose eligibility has expired; these payments are dependent on the claimant's income and savings. All JSA recipients must be actively seeking employment, must be under the state pension age, and must enter into a jobseeker's contract. While there are some exceptions for part-time study, generally this benefit is not available to students.

In 1998, the new Labour Government launched an employment assistance program it called the "New Deal." The program provides intensive one-on-one counseling and active job-seeking support for young people, lone parents, and disabled people. The Government delivers these services through its nationwide network of Job Centres, many of which are now upgraded to Job Centre Plus with additional computer-based job search tools. In addition to distributing benefits and supporting job seekers, the Job Centres network with employers in order to identify their needs and provide targeted training to potential employees. As a result of policies such as the "New Deal," there are now 1 million fewer people on inactive benefits than 10 years ago.

Workers who have suffered an injury on the job or who have contracted an industrial disease may collect Industrial Injuries Disablement Benefits (IIDB). IIDB is available either temporarily or permanently for major and minor injuries. The level of benefits depends on the extent of the disablement and is available on top of other NI benefits. Again, there is an appeals process in cases where claims are denied.

One of the major planks in the Labour Government's campaign platform has been to address the "work-life balance." There are now more rights to paid time off for expectant mothers, fathers, and parents adopting children. Anyone responsible for at least one child under 16 or a young person between 16 and 19, who is in full-time non-advanced education, can qualify for a child tax credit. Nine out of 10 parents are eligible for the child tax credit. All working mothers are entitled to six months of ordinary maternity leave, with the option to extend to one year, during which time they receive all non-wage contractual benefits. They also receive six weeks' pay at 90% of average earnings and 20 weeks' pay at a flat rate of £106. Paternity leave is available for up to two weeks at the same flat rate.

The UK Government proposed in July 2008 the abolition of "life on benefits" as part of a new streamlined benefits system. Those who have been unemployed for more than two years and those who are found to be abusing the system will have their income support and incapacity benefits removed. Another change would require a person to work for six months before qualifying for benefits, rather than the previous four weeks. The Welfare Green Paper includes proposals to force those unemployed for more than two years to work full-time in the community. Incapacity benefit will be scrapped as part of a plan to get more people back to work. This shake-up will apply to all 4.5 million people on out-of-work benefits, but is expected to impact most on Jobseekers Allowance. Under plans laid out in the Green Paper, claimants will have to carry out four weeks' community work once they have been unemployed for more than a year. After two years, they will be ordered to work full-time in the community. Incapacity Benefit claimants will all move to the new Employment Support Allowance by 2013, which ministers hope will be regarded, for all but the most disabled people, as a temporary benefit. Those on incapacity will need an independent medical check by someone other than their own General Practitioner. Drug addicts will also be targeted, with the government expecting them to declare their problem and to embark on treatment in return for benefits. The Government intends to get one million people off incapacity benefit by 2015. In February 2008 government welfare adviser David Freud suggested less than a third of the 2.7 million people claiming the benefit were

doing so legitimately. The goals of the latest proposed changes also include achieving an 80 % employment rate, eradicating child poverty by 2020 and equality for disabled people by 2025.

The latest Green Paper also proposes giving private and voluntary providers the right to bid for any back-to-work service; building work skills by requiring those with skills barriers to undertake training to help them back into work; expecting partners, as well as lone parents, to look for work when their youngest child is seven; strengthening parental responsibility by letting parents keep all of their maintenance payments and requiring both parents to register the birth of their child; giving more help to the most severely disabled people, as well as doubling the Access to Work budget to help an extra 25,000 people a year to stay or get back into work; giving disabled people a 'right to control' over the range of public funding to which they are entitled, by taking it as an individual budget; and simplifying the benefits system to remove perverse incentives and reduce fraud and error.

Pensions and Retirement

The present British system combines features of the U.S. social security and welfare systems. The government pays a basic state pension to all individuals who meet minimum age and National Insurance contributions requirements.

In 2007-2008, the basic state pension for a retiree with a full contributions record is £87.30 per week, and is set to increase to £90.70 for 2008-2009. The Pensions Act 2007 made changes to the Basic State Pension (BSP) and the State Second Pension (S2P). The legislation reduced the qualifying number of years needed for the BSP from 39 for women and 44 for men to 30 years for both while increasing the age to collect the pension to 68 for both men and women by 2046. The number of years required to pay into the system in order to receive benefits dropped to 30 to make it easier for individuals to leave the workforce to care for children or other relatives. The Pensions Act 2007 amends the Pensions Act 1995 for the purpose of increasing the pensionable age for men and women progressively over a period of 22 years beginning with 6th April 2024, to reflect increasing longevity in society and make the state pension affordable in the long term. The act also linked annual cost of living increases in BSP with earnings rather than prices. Changes to the S2P included the introduction of national insurance credits for those with long-term disabilities and people with caring responsibilities to allow caregivers to build additional pension entitlement. Pensioners are credited with contributions during periods when they receive incapacity benefits, jobseeker's allowance, career's allowance or severe disablement allowance. There are special benefits available to all those over the age of 80 who have lived in the UK a total of 10 years after the age of 60, even if they have not made NI contributions. The Winter Fuel Payment of £200 annually is available to anyone aged 60 or over who is normally resident in the UK.

The Government also pays an additional means-tested pension to those retirees without sufficient income to put them over the officially established poverty line, currently £105 per week. For each £1 of additional income, the second pension is reduced by 40 pence. This system of means testing has acted as a disincentive to saving for many workers. Also, the poverty line is set through a mechanism linked to earnings, while the basic state pension has been linked to prices since the 1980s. If current trends in earnings and prices continue, the present pensions system would lead to a gradual increase of the gap between the basic state pension and the poverty line, subjecting more and more of the payment to means testing.

Many individuals also participate in company-sponsored private pension plans. As in other western economies, there has been a move among private companies away from defined benefits plans to defined contributions plans that offer no guaranteed pay-out. In addition, pension plans offered by private companies in Britain typically operate under an "opt-in" system whereby workers must specifically declare their desire to participate in the private plan, although the government has announced plans to require plans to become "opt-out" instead. Government statistics showed that almost 60 % of private sector workers did not contribute to a non-state pension plan in 2005, up from just over 40 % in 2003. The latest Employer's Pension Provision survey indicates that the percentage of employers making pension provision for their employees declined from 52 % in 2003 to 44 % in 2005.

RECENT TRENDS/OPENNESS IN TRADE AND INVESTMENT WITH THE U.S.

The UK is the most favored inward investment location in Europe, attracting about a quarter of all direct investment in the EU. About 40 % of U.S., Japanese, and Asian investment into the EU goes to the UK, which is the home to more leading global corporations than any other EU nation. The U.S. and the UK are the largest foreign investors in each other's countries. Net foreign direct investment (FDI) flows from the U.S. into the UK fell from £15589m in 2005 to £13994m in 2006. Net FDI flows from the UK into the U.S. rose between 2004 and 2005 from £3732m to £15041m, but then dropped to £259m for 2006.

In the fiscal year ending March 31, 2008, inward investment projects totaled 1,573 (up by 10% from prior year) creating 45,051 new jobs (up 23%). The number of projects has nearly doubled in the last four years. The U.S. leads with 478 projects followed by Germany with 104, and Japan with 102. U.S. investment brought 30,000 new and safeguarded jobs. The U.S. remains the biggest investor, representing 30% of the total investment projects.

Total projects increased 10 % from 1,431 to 1,573. Also, 45,051 new jobs were created and a further 58,488 safeguarded, bringing the total number of associated jobs to 103,539 (up 32%); 653 (42%) of the total were new projects and 436 (28%) of the total were expansions by existing investors. R&D operations increased by 83% to 251 projects; with high value and R&D intensive projects representing two thirds of the total; Advanced Engineering projects rose by 61 % to 182 projects; Environmental Technologies projects increased by 22% to 59.

With a few exceptions, the UK does not discriminate between nationals and foreign individuals in the formation and operation of private companies. U.S. companies establishing British subsidiaries generally encounter no special nationality requirements on directors or shareholders, although at least one director of any company registered in the UK must be ordinarily a resident in the UK. Once established in the UK, foreign-owned companies are treated no differently from UK firms. Within the EU, the British Government is a strong defender of the rights of any British registered company, irrespective of its nationality of ownership. Local and foreign-owned companies are taxed alike.

U.S. companies have found that establishing a base in the UK is an effective means of accessing the European Single Market, and the abolition of most intra-European trade barriers enables UK-based firms to operate with relative freedom throughout the EU. Some 5,700 U.S. companies have operations in the UK, including all of the top 100. The UK hosts

more than half of the European corporate headquarters of American-owned firms.

Market entry for U.S. firms is greatly facilitated by a common language, legal heritage, and similar business institutions and practices. Long-term political, economic, and regulatory stability, coupled with relatively low rates of taxation and inflation make the UK particularly attractive to all foreign investors.

The U.S. remained by far the most popular destination for new UK outward direct investment in 2006 (the last year for which figures are available), continuing the strong investment partnership between the two countries. The UK is the leading investor in the U.S. in terms of stock of FDI. Other EU member states and Canada attracted a large proportion of the remaining outward UK FDI, although China is growing as a destination for UK investment.

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