date: 8th March 2011
embargo: 17th March 2011

TUC

A Budget for Economic Growth and Social Cohesion

TUC Budget Submission 2011

TUC

Contents

Section one

Executive Summary

1.1 British political and economic life is at a crossroads. The Government has embarked on the most painful spending cuts in living memory, prompted by the deficit in the public finances that followed the Great Recession of 2008-09. The Government has taken this path in the face of warnings from trade unions and others, that it risks plunging the UK back into recession. Growth figures for the fourth quarter of 2010, showing that the economy contracted by 0.6 per cent, show the dangers of the Government's approach. The worst case scenario is that the next set of figures, covering the first quarter of 2011, are also negative, which would mean that the UK is experiencing the feared double-dip recession. Meanwhile, inflation is double its target, leading to pressure on the Bank of England to raise interest rates – a move that would depress growth further.

1.2 This Budget Submission sets out the measures we believe the Chancellor should announce to the House of Commons to promote sustainable growth and social cohesion. The single most valuable announcement that the Chancellor could make would be to abandon the spending cuts announced in last October's Comprehensive Spending Review. Those spending cuts will cause great damage to public services, to vulnerable people and to jobs and the wider economy. They will disproportionately affect women, who are more likely to work in the public sector and to use public services. This submission makes the case for public services. It calls on the Government to address the front-loading of cuts in local government and to ensure that all local government workers are covered by the £250 uplift for those earning below £21,000.

1.3 This submission then briefly describes changes to taxation already announced by the Coalition, with a TUC response to those changes. It proposes a range of taxation options, including the introduction of a Robin Hood Tax.

1.4 The Budget Submission then sets out an agenda for sustainable growth. It calls for a modern industrial strategy, which the Government should develop working with the social partners. It calls for an investment bank for the UK, along the lines of Germany's KfW or France's FSI. It argues for a Ministerial Task Force, to which social partners can submit evidence, to look at how procurement policy can support skills, sustainability and employability. And it calls for a Green Investment Bank, operational in the next 12 months.

1.5 This Submission looks at high quality education and its relationship with innovation in the workplace, a relationship which is threatened by

Government cuts. It calls for a review of the current arrangements for tax relief for work related training and for the right to request training to be extended to all employees, as soon as possible. It argues for a set of skills targets, drawn up by employers and union representatives on Sector Skills Councils, with the possibility of regulation if these targets are not met.

1.6 The TUC opposes plans to force some benefit claimants to participate in unpaid work. Instead, it calls for high quality labour market programmes to help people into work and for the Future Jobs Fund to be reinstated.

1.7 This Budget Submission reviews the evidence that high performance work systems deliver greater productivity, a better working experience, higher skills and better pay. It calls for a study to consider tax incentives needed to encourage more employers to become high performance employers, working with trade union representatives.

Section two

Introduction

2.1 Budget 2011, perhaps even more than the General Election in May 2010, finds British political and economic life at a crossroads. Economic growth returned in the final quarter of 2009, and growth in the second and third quarters of 2010, at 1.2 and 0.8 per cent respectively, was higher than many had expected. This led to hopes that Britain had experienced a V shaped recession. Growth in the final quarter of 2010 was never expected to be as high – but nobody expected the economy to contract by 0.6 per cent in that period.

2.2 Hopefully, this is a blip. It is a golden rule of economics that we should not read too much into any one set of figures. December's heavy snow did not help the economy, although the haste with which the Chancellor of the Exchequer moved to blame the weather for this economic setback was at best unconvincing, and at worst betrayed that the Government are nowhere near as confident of their economic strategy as they would like us to believe.

2.3 The preliminary estimate of the growth figures for 2010Q4 showed an economic contraction of 0.5 per cent. The Government hoped this would be revised upwards; the fact that it was revised downwards, and that the Office for National Statistics said that even had there been no heavy snow last December, the economy still would have shrunk, was a heavy blow. If the next set of figures, due in April, are also negative, the UK is back into recession. We will be experiencing the feared 'double-dip'. The TUC does not predict a double-dip, but neither do we predict healthy growth in 2011Q1. Whether the economy is marginally growing or marginally contracting doesn't make much difference in real, everyday terms, but it makes a major difference in terms of confidence and national psychology. If growth is negative in April, it is inconceivable that the Government will go ahead with its spending cuts as planned. It won't announce a dramatic U-turn, more likely a tinker here and a tinker there. But the Government's economic credibility, like the economy itself, will have suffered a heavy blow.

2.4 Yet this could be a turning point for another reason too. Since the General Election, the main feature – some would say the only feature – of the Coalition's economic policy has been reducing the deficit. There has been little talk of economic growth, with an expected Growth White Paper, slated to appear shortly after October's Comprehensive Spending Review, failing to emerge. Since then, many commentators have wondered if the Coalition has a positive economic strategy, or if its only ambition is deficit reduction. The latest growth figures give added weight to voices, including that of the TUC, which argue that growth, not deficit reduction, should be the Government's top economic priority at this time.

2.5 This Budget Submission will be organised in the following way. It will begin by looking at the state of the economy. A macroeconomic update will consider not just growth, but inflation, wages and interest rates as well. This will be followed by a detailed look at the state of the labour market.

2.6 The TUC has spelled out the case against spending cuts many times, but since the single most valuable thing the Chancellor could do in the Budget is to revise the cuts programme, that case is restated here. The TUC's argument, that cuts on the scale planned will damage public services, will damage jobs and the economy, and will hurt the most vulnerable in our society, must be put once again. The TUC forcefully rejects the idea that there is no alternative to the Government's cuts agenda, so our ideas for truly reducing the deficit, and strengthening the economy, are set out here.

2.7 The Budget Submission will then discuss public services and the case for social justice. A myth has developed in recent years that the private sector is the driving force behind economic progress and the public sector is somehow second best. It is time this myth was exploded. The TUC strongly believes not only that public services are essential in the quest for social justice and a strong society, but that without them the private sector stands no chance of achieving meaningful success. Of course, the strength, quality and effectiveness of our public services is at major risk from the spending cuts that are about to be unleashed upon it.

2.8 Taxation is, of course, a major feature of any Budget, so this submission sets out the TUC's detailed analysis of the tax changes introduced by the Coalition Government, before describing the TUC's response to these changes and our proposals for a fairer tax system. We dismiss the Bank Levy and instead call for a Robin Hood Tax, with or without wider international agreement.

2.9 Following this, the Budget Submission describes the TUC's agenda for growth. Our recommendations for industrial policy, for innovation and skills, and for employment policy are stated. We then discuss wages policy. This is an important dimension in the debate around economic recovery. For years, hypothetical horror stories about non-existent wage-price spirals have been used to argue against legitimate wage increases for working people. Central banks have been particularly guilty of this, but so have politicians, from across the political spectrum. Wage negotiators are caught in a double bind: if the economy is doing well, healthy pay increases threaten to wreck it; if the economy is doing badly, we cannot afford healthy pay increases. Meanwhile, needless to say, bankers' bonuses increase exponentially.

2.10 This Budget Submission will argue that stagnant or falling real wages were a factor in bringing about the economic downturn, as combined with easy access to mortgages and consumer loans, they led to the rapid rise in household debt. Healthy but non-inflationary wage increases help pump-prime the economy, creating the demand necessary for businesses to stay afloat. Stagnant wages serve no-one, including those earning such wages, but also the wider economy.

2.11 Drawing on academic research, including US work prepared for the Obama transition team, this Budget Submission will call for tax incentives to encourage high performance workplaces, which are associated with high productivity and profitability, but also high wages. Union negotiators should be free, indeed encouraged, to negotiate healthy wage settlements for their members in this context.

2.12 Following this discussion, a concluding section will draw the Budget Submission together, before our summary of recommendations is set out at the end.

Section three

The State of the Economy

The UK economy

3.1 This Budget comes as the UK economy faces its greatest uncertainty since the end of the Great Recession of 2008-09. The reason for this, quite simply, is that growth figures for the final quarter of 2010, released in January and revised in February, showed that the economy contracted by 0.6 per cent in that period. For the UK economy to be shrinking so soon after its fledgling recovery earlier in 2011 is a very worrying development.

3.2 Forecasters had expected growth to be lower towards the end of 2010, and into 2011, than it had been in the earlier part of last year. Government Ministers half heartedly tried to blame the heavy snow that fell in the UK in December, snow that would undoubtedly have had some effect, but was hardly capable of turning around UK economic performance in such a dramatic fashion.

3.3 It is of great concern that so many other economic developments threaten to further depress the economy. The 2010Q4 growth figures were not affected by January's VAT increase, but the next set of figures will be. The figures for the second quarter of 2011, not due until July, will start to show the effects of reduced economic activity brought about by the dramatic government spending cuts, the bulk of which will begin to bite in April this year.

Inflation

3.4 To make matters worse, inflation is way above its symmetrical target of two per cent and looks set to stay there for some time. The most recent inflation figures show, on the government's preferred CPI measure, that prices rose by four per cent in January. On the RPI measure, which includes housing costs and council tax, and is therefore generally seen as more representative of the real costs facing working people, inflation is currently 5.1 per cent.

3.5 This raises the fear of so-called 'stagflation' - an economy characterised by both high inflation and sluggish growth - which puts policy makers in a bind. Raising interest rates, the most obvious corrective action to dampen inflation, depresses economic growth.

3.6 What is more, inflation has been determined largely by factors outside the control of the Bank of England, whose Monetary Policy Committee is the guardian of the two per cent inflation target. The Governor of the Bank of England, Mervyn King, set out the factors affecting inflation in a speech at the Newcastle Civic Centre on the day the latest growth figures were released.[1]

3.7 Import prices, excluding energy, have risen by over 20 per cent, much of which reflects the fall in sterling in late 2007 and 2008. Since imports account for between a quarter and a third of overall expenditure, higher import prices have driven up the overall price level by about six per cent. There has also been a rise in world energy prices. Sterling oil prices have risen by 110 per cent since the start of 2007 and gas prices by 130 per cent. Those prices are determined in world markets in which demand, especially from some of the emerging economies, has outpaced supply. That has pushed up overall prices further. Add to this the combined effects of recent changes to the standard rate of VAT, including the rise to 20 per cent in January, which are likely to push up the level of prices by around 1.5 per cent, and we have a 12 per cent addition to the price level over four years. That amounts to an average increase in the inflation rate of three percentage points a year.

3.8 Since CPI as a whole has risen by not much more than this, we can deduce that the contribution of domestically generated inflation over this period has been close to zero, and certainly well below its target. In these circumstances, had the Monetary Policy Committee raised interest rates, this would have had no effect on the drivers of inflation. Import prices, energy prices and VAT would have risen regardless.

Wages

3.9 Which brings us to wages. From a trade union perspective, the most interesting passage of Mervyn King's speech is the following one:

3.10 "So why is there so much unhappiness about inflation at present? The answer is clear. The three factors I described - higher import and energy prices and taxes - have squeezed real take-home pay by around 12 per cent. Average real take-home pay normally rises as productivity increases - money wages normally rise faster than prices. But the opposite was true last year, so real wages fell sharply. And given the rise in VAT and other price rises this year, real wages are likely to fall again. As a result, in 2011 real wages are likely to be no higher than they were in 2005. One has to go back to the 1920s to find a time when real wages fell over a period of six years."

3.11 Mervyn King confirms what is already well-known. The higher inflation that we are experiencing is nothing to do with wages. Indeed, with a public sector pay freeze, private sector wages rising slowly and higher prices,

[1] http://www.bankofengland.co.uk/publications/speeches/2011/speech471.pdf

exacerbated by the VAT increase, dampening consumer spending, the role of demand in helping to grow the economy is one that has received little attention.

3.12 The Institute for Fiscal Studies (IFS), which published its Green Budget on 2nd February, picks up this theme. The IFS notes that the majority of households ended 2010 with their wages rising more slowly than prices. As a result, average earnings were also rising less fast than the CPI. This means their purchasing power was dropping in real terms even before the recent tax hikes took effect. Thus, those elements of fiscal tightening, such as the VAT increase, that hit households directly could, in the words of the IFS, "have a greater-than-normal impact on them and their spending, as they come at a time when, psychologically speaking, most households are feeling vulnerable: many feel that they have yet to join in with the supposed economic recovery that they have read about in the papers."[2]

3.13 The Green Budget goes on to say: "Given the fairly feeble recovery forecast in wages and employment, we expect real household disposable income (RHDI) to be broadly stagnant for this year as a whole compared with last … Likewise, our proxy for permanent income expectations – which is a trend (moving-average) measure of actual income changes – looks set to increase in a meaningful fashion only from 2012 onwards. If this is the case, income growth will contribute little to consumption this year."[3]

3.14 The role of wages will form a central argument of this Budget Submission, as part of a fair package to grow the economy, minimise household debt and reduce poverty. More details will be set out in the sections that follow.

Interest Rates

3.15 Bank of England base rates remain set at a level that is designed to encourage growth. The current base rate of 0.5 per cent was set when the economy was in recession. With inflation high, there have been some voices in favour of a rise in base rates, despite the fact that, as set out above, this high inflation is due to imported factors and tax rises. The TUC agrees with the assessment of the Bank Governor, Mervyn King, as set out in the speech quoted above: "If the [Monetary Policy Committee] had raised Bank Rate significantly, inflation might well have started to fall back this year, but only because the recovery would have been slower, unemployment higher and average earnings rising even more slowly than now."

3.16 What is more, the recent economic growth statistics make an early rise in base rates less, rather than more, likely. In an article entitled 'The Long Blip', published in 'The Economist' on 20th January 2011 (i.e. before the latest

---

[2] IFS Green Budget, February 2011, p. 85
[3] IFS Green Budget, February 2011, p. 88

growth figures) it is argued that "The bank (of England) has lost credibility as the inflation overshoot has persisted and its forecasts have proved incorrect. But the best way to regain its credentials is not to make a panicky move now but to hold its ground, tightening policy only when it is clear that the recovery can cope with the fiscal clampdown. That should be apparent by late summer."[4] The TUC agrees that there should be no panicky move, although we are not so confident that the recovery can cope with the spending cuts, by late summer or at any other time.

3.17 The OECD agrees that interest rates cannot go up now. In its Economic Outlook, published in November 2010, it states: "While monetary policy will need to remain expansionary over the forecast period against the background of a significantly tighter fiscal stance, the process of normalisation of interest rates will have to start in earnest during 2012 as underlying inflation starts to increase."[5]

Industry

3.18 Interestingly, the one sector that is performing particularly well at present is manufacturing. Output is up and domestic and export orders are on the increase. A 25 per cent depreciation in the value of sterling since 2007 has helped, making exports cheaper, but imports more expensive. Whatever the reason, manufacturing is central to any attempt to rebalance the British economy, meaning these figures are important.

3.19 Trade unions are, of course, interested in manufacturing jobs, and here the message is more mixed. January's CBI industrial trends survey promises job growth, but figures from the ONS highlight the loss of 90,000 manufacturing jobs between the third quarter of 2009 and the same quarter in 2010. This could simply be the result of a time-lag between the shedding of jobs in some parts of manufacturing and the hiring of new labour in others, but a significant fall in the manufacturing workforce over a period when the sector is recording growth of over five per cent does raise fears about the prospects of a jobless recovery.

3.20 What is more, manufacturing growth represents a bounce back from a recession where job hoarding and flexible employment practices were prevalent in the sector. Growth may therefore translate into an increase in hours and productivity, rather than new jobs.

3.21 The IFS Green Budget argues that the same factors that are dampening consumer demand, namely below-inflation pay settlements and labour market uncertainty, have contributed to robust performance and healthy balance

---

4 http://www.economist.com/node/17963355?story_id=17963355

5 http://www.oecd.org/document/60/0,3746,en_2649_33733_45267516_1_1_1_1,00.html

sheets for companies. As a result, businesses have increased internal funds to channel into investment, easing the impact of credit constraints. Indeed, business investment increased in real terms by nine per cent year-on-year in the third quarter of 2010. However, in the IFS's words: "this strong performance largely reflected a process of normalisation after an unprecedented 19 per cent collapse in fixed investment in 2009. Going forward, one cannot be too confident that this robust investment growth will continue into 2011."[6]

3.22 The TUC is heartened by the recent success in manufacturing and this underlines our belief that manufacturing is a crucial sector for the UK economy going forward. To really reap its potential, we need an active industrial strategy, which we discuss in more detail later in this submission.

Prospects for the UK Economy

3.23 The National Institute for Economic and Social Research (NIESR), one of the UK's most respected forecasters, argued on the last day of January that growth this year would be lacklustre. The economy would expand by 1.5 per cent, which would be, in NIESR's words, "barely higher than the 1.4 per cent expansion in 2010".[7] NIESR accepted that December's poor weather had had an effect, arguing that some of the output lost to the cold spell would be regained early this year, but the average rate of growth across the two quarters would be just 0.1 per cent. NIESR forecasts sluggish growth, rather than a double dip, which is some comfort for the Government. One other positive is that, according to NIESR, the recovery is subdued to the point that this year's projected surge in inflation would peter out and CPI would fall to 1.8 per cent, below its target, next year. To claim that as good news would be clutching at straws, but at least it would put to bed arguments in favour of raising interest rates.

3.24 NIESR's forecast came six days after the preliminary GDP growth figures were published for 2010Q4. The median growth projection from the Treasury's 'Forecasts for the UK Economy: a comparison of independent forecasts', published earlier in January, had projected growth of 2.0 per cent this year, while in its Economic and Fiscal Outlook, published in November, the Office for Budget Responsibility forecast growth of 2.1 per cent for 2011. It will be interesting to see how these forecasts are revised in the light of the latest growth figures.

3.25 In its Green Budget, the Institute for Fiscal Studies (IFS) uses a multiplier developed by the International Monetary Fund to assess the impact of planned spending cuts and tax increases on the short-term prospects for growth. According to the Green Budget, for a medium-sized economy such as the UK, which is attempting to cut the volume of spending by around two per

[6] IFS Green Budget, February 2011, p. 93
[7] http://www.niesr.ac.uk/pdf/010211_92958.pdf

cent per annum both this year and next, it would not be unreasonable to expect a one per cent hit to GDP both this year and again next. The Green Budget then adds: "But it could easily turn out to be a two per cent hit".[8]

3.26 Using the same IMF study, the IFS then discusses tax increases: "With the UK planning to increase taxes by about 1.2 per cent of GDP this year and a further 0.4 per cent of GDP in 2012, these consolidation efforts might be reasonably thought likely to depress the level of GDP by about 0.3 per cent to 0.6 per cent of GDP this year and perhaps something closer to 0.1 per cent to 0.2 per cent next."

3.27 The Green Budget goes on: "Clearly, combining these two sets of estimates hints that the overall hits to activity might be a great deal larger than what the OBR is assuming – i.e. perhaps as big as two per cent of GDP this year rather than the one per cent or so that the OBR's projections appear to be predicated on."[9]

3.28 The Green Budget does not predict a double-dip recession, although it believes there is a one- in-five chance of this happening. More likely is a sluggish recovery, or what the IFS describes as "a situation in which the economy just lacks energy and 'goes nowhere' for a while." Such a scenario, the IFS warns, could have serious consequences for the public finances.

3.29 The OBR had previously argued that growth in the first quarter of 2011 would be the weakest quarter, at 0.3 per cent. It would be incredible if the government's own independent forecasting body predicted a double dip, at a time that Ministers are arguing we must stick to the plan with regard to the spending cuts, but we can expect this 0.3 per cent projection to go lower still. The next OBR projections will be published alongside the Budget; they will make interesting reading.

The European Economy

3.30 So how does UK economic performance compare with that in mainland Europe? As in the UK, GDP growth in the euro area was always expected to moderate in the second half of 2010, although unlike in the UK, European growth in the euro area has not turned negative. The European Commission believes that the economic recovery in the wider EU is becoming more entrenched and that recent indicators confirm that positive momentum remains in place. In particular, the ongoing global recovery has resulted in solid export performance for those European economies that are in a position to take advantage of this.

3.31 The one European economy that has particularly benefited, of course, is Germany. According to the OECD Economic Outlook, private consumption,

---

[8] IFS Green Budget, February 2011, p. 80

[9] IFS Green Budget, February 2011, p. 80

investment and government spending on infrastructure have all been strong. Unemployment is at its lowest level since German reunification. Whilst GDP growth is expected to slow over the projection horizon, Germany's pre-crisis GDP level is expected to be reached in the course of this year.[10]

3.32 A paper published by Deutsche Bank Research, on 14th February, takes up this theme. German growth, of 3.6 per cent in 2010, was at its highest level since reunification. Inflation was just 1.7 per cent at the end of last year. Germany is described by Deutsche Bank as the "star performer on the growth stage in the euro area"[11].

3.33 Revised IMF projections for growth in the euro area were published on 25th January and are set out, alongside IMF projections for the UK, in the table below.

Table One: IMF projections for economic growth, euro area, selected euro countries and the UK (percentage change)

	2009	2010	2011	2012
Euro Area	-4.1	1.8	1.5	1.7
Germany	-4.7	3.6	2.2	2.0
France	-2.5	1.6	1.6	1.8
Italy	-5.0	1.0	1.0	1.3
Spain	-3.7	-0.2	0.6	1.5
United Kingdom	-4.9	1.7	2.0	2.3

Source: IMF World Economic Outlook, January 2011.

3.34 As can be seen from this table, it is Germany's performance last year that has put it in such a strong position. Its growth this year is projected to be just a shade above that of the UK (although it will be interesting to see if the IMF revises its UK projection downwards after the latest GDP figures).

Greece

3.35 Having looked at Europe's most successful economy, Germany, it is important to consider the situation in its weakest, Greece. As well as being of economic interest, we must examine this country because the economic difficulties that it has experienced have been offered as a major reason that the UK has had to embark on such a dramatic programme of spending cuts. For

[10] http://www.oecd.org/document/52/0,3746,en_2649_33733_45268596_1_1_1_1,00.html
[11] http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000269477.pdf;jsessionid=67AAB1EC7B9BB52AD17D6527B62F761E.srv22-dbr-de

example, in his Mansion House speech on 16th June 2010, the Chancellor of the Exchequer, George Osborne, said: "And that is why we see now with countries like Greece that what began as a crisis of liquidity and then solvency in banking systems, has been succeeded by market fears about the solvency of some of the governments that stand behind them. I do not want that question ever to be asked of Britain."[12]

3.36 There are a number of reasons why the UK economy cannot be compared to that of Greece. Writing in the New Statesman, David Blanchflower, Professor of Dartmouth College, New Hampshire, and former member of the Monetary Policy Committee, and Robert Skidelsky, perhaps the world's foremost authority on the work of John Maynard Keynes, remind us that, whilst Greece has spent more than half its years since independence in 1829 in default, Britain has not defaulted once in that period.[13]

3.37 As a percentage of GDP, national debt in the UK in 2009 was 72 per cent, compared to 119 per cent in Greece. Britain's debt is not only lower, it is also easier to finance. According to the Financial Times, the average UK debt maturity is 13.5 years, compared to 7.9 years for Greece, 6.4 years for Spain and 5.4 years for Ireland.[14] What is more, the majority of UK debt is bought and held domestically, by organisations such as pension funds, rather than bought by foreign buyers and therefore more at the whim of global markets, as in Greece.

3.38 The other major factor, of course, is that Greece is part of the euro. The UK has its own currency and a central bank that can set interest rates in the interests of the domestic economy. In recent years, the pound has depreciated by nearly 25 per cent, partly explaining the current success of UK manufacturing exports, and more generally offsetting some of the effects of the recession.

The World Economy

3.39 According to NIESR, the prospects for the world economy are less bright than before. NIESR expects global GDP to expand by 4.2 per cent in 2011, down from 4.5 per cent that it forecast in October. The recent increase in oil prices, which rose by around $20 a barrel to $95 between September and December 2010, is the main reason. NIESR's economic model suggests that output in the US will be 0.6 per cent lower this year as a consequence, while output in the big European economies will be between 0.1 and 0.4 per cent lower.

---

[12] http://www.hm-treasury.gov.uk/speech_chx_160610.htm
[13] http://www.newstatesman.com/economy/2011/01/cable-greece-keynes
[14] http://www.ft.com/cms/s/0/c9fa36fe-5e26-11df-8153-00144feab49a.html#axzz1DTTjEosm

3.40 The US economy regained its pre-crisis level of output in the final quarter of 2010. NIESR expects the negative effects of higher oil prices to be largely offset by the additional fiscal and monetary stimulus introduced towards the end of last year. It estimates the recent round of quantitative easing to be roughly equivalent to a 100 basis point cut in short-term interest rates this year. However, although NIESR forecasts the economy to expand by 2.6 per cent this year, it also expects the unemployment rate to remain at 9.7 per cent.[15]

3.41 According to the IMF World Economic Outlook Update, the two speed recovery continues. In advanced economies, activity has moderated less than expected, but growth remains subdued and unemployment is still high. In many emerging economies, activity remains buoyant, inflation pressures are emerging and there are now some signs of overheating. Detailed figures and projections for growth in major advanced and emerging countries are set out in Table Two:

Table Two: GDP growth in selected countries, percentage change Projections

	2009	2010	2011	2012
United States	- 2.6	2.8	3.0	2.7
Euro Area	- 4.1	1.8	1.5	1.7
Japan	- 6.3	4.3	1.6	1.8
United Kingdom	- 4.9	1.7	2.0	2.3
Russia	- 7.9	3.7	4.5	4.4
China	9.2	10.3	9.6	9.5
India	5.7	9.7	8.4	8.0
Brazil	- 0.6	7.5	4.5	4.1

Source: IMF World Economic Outlook Update, January 2011

Labour market update and trends

3.42 During 2010 the economic recovery was only partially reflected in the labour market. The employment and unemployment data improved in the spring and summer but slowed down from the autumn on.

3.43 During 2010 employment grew steadily at first but progress decelerated significantly in the second half of the year. In the October – December quarter of 2009, the number of people in employment was still falling, though by a smaller amount each month and from March the level began to rise again. This seemed very much in line with the fact that the economy had emerged from recession during 2009. But in the late summer and autumn of 2010 the improvement ceased and in two months the number in employment was lower than in the previous month. The working age population grew during 2010, so

[15] http://www.niesr.ac.uk/pdf/010211_93132.pdf

although the number in employment by the last quarter of 2010 was more than two hundred thousand higher than it had been 12 months earlier, the employment rate was the same:

Table Three: Employment levels in the UK

	Level (000s)	Rate (%)
Nov 09	28,903	70.5
Dec 09	28,861	70.4
Jan 10	28,843	70.3
Feb 10	28,839	70.3
Mar 10	28,872	70.3
Apr 10	28,980	70.5
May 10	29,023	70.5
Jun 10	29,158	70.7
Jul 10	29,158	70.7
Aug 10	29,189	70.8
Sep 10	29,125	70.6
Oct 10	29,089	70.4
Nov 10	29,121	70.5

Source: Labour force Survey, ONS, http://www.statistics.gov.uk/statbase

3.44 Although total employment in Oct - Dec was 218,000 higher than in the same quarter of 2009, the number of full-time employees was actually 28,000 lower. One of the characteristics of employment since the start of the recession has been the larger share accounted for by 'atypical' forms; at the end of 2010:

- the number of self-employed workers was 92,000 higher than it had been 12 months previously;
- the number of temporary employees was 97,000 higher; and
- the number of part-time workers was 210,000 higher.

3.45 The number and proportion of temporary and part-time workers who are 'involuntary' (those who could not get permanent or full time jobs) has also grown:

Table Four: Involuntary part-time and temporary work in the UK

	Involuntary Temporary Workers		Involuntary Part-time Workers	
	Number	Share of all temporary workers	Number	Share of all part-time workers
Oct – Dec 09	500,000	34.8%	1,040,000	13.8%
Oct – Dec 10	581,000	37.8%	1,190,000	15.4%

Source: Labour Market Statistics, ONS, February 2011

3.46 During 2010 the number of public sector workers (excluding workers in the nationalised financial organisations) fell to 5,794,000 from 5,814,000 at the end of 2009. The proportion of all workers working in the public sector fell from 21.1 per cent to 20.6 per cent. For the first time in years the number of NHS workers began to fall, from 1,621,000 to 1,597,000. There was also a fall of 10,000 in the numbers employed in 'other health and social work'.

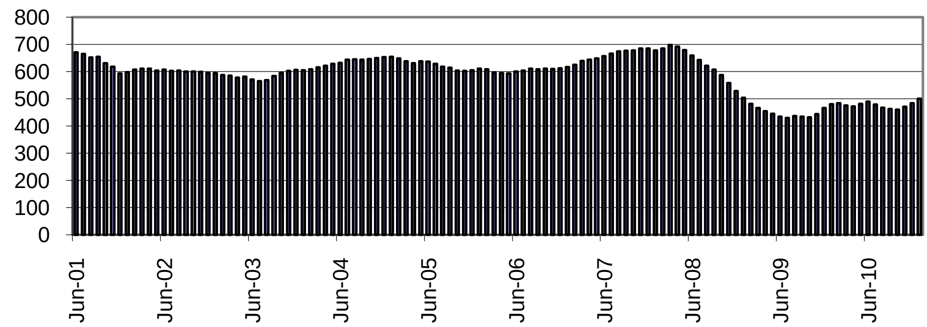
3.47 In 2010, unemployment continued rising until February but then fell for a few months, mirroring the pattern for overall employment. From the late summer, the incipient unemployment recovery then stuttered and at the end of the year the unemployment level was 40,000 higher than it had been 12 months earlier and the unemployment rate was also up, though by only 0.1 points. The level of unemployment has been above 2.4 million since May 2009 and the rate has been above seven per cent since January 2009.

3.48 The pattern of long-term unemployment has been less complicated, with the numbers unemployed over 12 and 24 months rising nearly continuously. At the end of 2010, the number unemployed over 12 months was 173,000 higher than at the end of 2009; for those unemployed over 24 months, the increase was 92,000.

3.49 Young people have been conspicuous losers since the start of the recession. In the 12 months after the last quarter of 2009 the number of unemployed young people aged under 25 rose by 43,000, whilst the overall level rose by just 40,000 – indicating that the number of unemployed people aged 25 and over actually fell slightly. The total number of unemployed under-25s in the Oct – Dec quarter of 2010 (965,000) was the highest recorded since these statistics began in 1992; it was also 43,000 higher than it had been twelve months previously. The number of unemployed 18–24 year olds has actually been higher in the past (December 1992 to June 1993); the large number of unemployed 16 and 17 year olds is not, however, particularly a problem associated with the recession – this has been a rising trend since 2002 (there was also a large jump in 1994–6).

3.50 In January 2011 there were 500,000 job vacancies, 20,000 up on January 2010; this includes a large number of vacancies for temporary census enumerators, excluding these jobs the level would be largely unchanged. Even including the census vacancies, the level is well below the normal range before the recession began, as chart one shows:

Chart One: Vacancies



Source: Labour Force Survey, ONS, http://www.statistics.gov.uk/statbase

3.51 In December 2010, there were still 5.2 unemployed people per job vacancy, marginally better than the 5.3:1 ratio in December 2009, but still well above the 2–3 to 1 that was the norm before 2008.

3.52 Working age economic inactivity has risen by just under 300,000 since the start of the recession; the level varied erratically during 2010 and at the end of the year was 36,000 higher than it had been 12 months earlier – a 0.4 per cent increase. At the end of 2010, the number of economically inactive people who said they wanted a job was 25,000 higher than it had been a year before – the share of all economically inactive working age people who said they wanted work was slightly lower, having fallen from 25.8 per cent to 25.4 per cent. At the end of 2010, the "want work" rate (unemployed people and inactive who want work as a proportion of the economically active and the inactive who want work) was hardly changed from the level of 12 months earlier, having fallen from 14.4 per cent to 14.3 per cent.

3.53 During 2010, it became clear that men's and women's labour market experiences since the start of the recession have not only been very different, they have followed mirroring paths over the course of the past two-and-a-half years. During the recession itself, men and women both lost jobs, but there was a more marked decline in male employment. Since the summer of 2009 there has been a significant recovery in men's employment that has not been matched by women's. In the 12 months to Oct – Dec 2010, the number of men in employment rose by 238,000, but the number of women fell by 19,000.

Section four

The Impact of the Spending Cuts

Introduction

4.1 A variety of previous TUC publications, including 'All Pain, No Gain: The Case Against Cuts' and 'Cuts Are Not The Cure' have set out our main arguments against the spending cuts that were detailed in last October's Comprehensive Spending Review. These arguments are briefly described again below. Many of the proposed cuts are due to come into force in April 2011. In other words, it is not too late: the single most valuable announcement that the Chancellor could make in Budget 2011 would be that the spending cuts announced in last year's Comprehensive Spending Review will not go ahead.

4.2 However, this Budget Submission assumes that the Chancellor will do no such thing. The following section explains why he is mistaken.

The Scale of the Cuts

4.3 To recap, the Coalition Government has said that reducing the deficit in the public finances is "the most urgent issue facing Britain". To reduce the deficit, the Government wants to cut the amount it spends each year by at least £81 billion by 2015, or around 14 per cent of all public spending. However, the cuts will not come equally from all areas of spending, because the Government has said that it wants to protect some services. This means that some areas will have much bigger cuts, in order that other areas face smaller, or no, cuts.

4.4 The main reasons that the TUC opposes the cuts are that they will:

- damage the quality of public services;
- damage the wider economy and jobs; and
- hurt the most vulnerable.

4.5 What is more, they will not actually reduce the deficit. As described elsewhere in this submission, spending restrictions will hurt the economy, slow economic growth and create unemployment. This means the tax received by the Government will decline, as companies pay less tax on falling profits, and people out of work stop paying income tax and VAT. In reality, the result is that the deficit is likely to get worse.

Cuts and Public Services

4.6 Part of the reason that cuts damage public services is that they make it much harder for staff to deliver a good service. In March 2010 the Audit Commission published 'Surviving the Crunch: Local Finances in the Recession and Beyond'[16]. This report noted that where jobs are lost, so are skills, knowledge and capacity. As a result, services inevitably suffer. It is not surprising that the number of workers who say they would consider working in the public sector is falling[17]. It follows that it is much harder for public services to recruit the best people and to consequently improve service.

4.7 Needless to say, the extra pressure on those that remain in the public sector is high. In October last year the CIPD published survey results which showed more than a third of employers reporting an increase in stress-related absences. Almost 40 per cent of those surveyed noted a rise in mental health problems, including anxiety and depression, as a result of the lingering effects of the recession[18]. (It must also be borne in mind that stress rates in public sector jobs such as policing, teaching, nursing and social work are affected by these workers having to deal with people in difficult or emotionally charged situations.)

4.8 The Coalition has pointed to the experience of Canada in reducing its deficit in the mid-1990s as a model for the UK to follow. But Canada did this by aggressively reducing the budgets of key public services. For example, in Alberta, education was cut by 12.4 per cent, healthcare by 18 per cent and social services by 19.3 per cent. In other areas, spending was cut by nearly 30 per cent. Some departments, such as economic development, were essentially eliminated. At least 265,000 jobs were lost in Canada's public services. As is so often the case, the worst off were hit the hardest. In Ontario, the 'Progressive Conservative' Government reduced benefits by 21 per cent in its first year of office.

4.9 The Canadian Government reduced its debt by almost one half, leading some to hail it as a success story. But economists have estimated that around 80 per cent of this decline was due to the expansion of the economy as a result of growth across the world during the 1990s and early 2000s. This has led to doubt that the degree of social spending cuts was ever warranted or needed to balance government budgets.

---

[16] http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/20100323survivingthecrunch.pdf

[17] See, for example, 'The Public Sector Has Lost its Appeal for Private Sector Jobseekers', HR Magazine, 5th March 2010

[18] http://www.cipd.co.uk/pressoffice/_articles/absencerelease251010.htm?IsSrchRes=1

Cuts, Jobs and the Economy

4.10 Since public sector pay accounts for about 30 per cent of all government expenditure, it was always inevitable that cuts would lead to job losses. What is not yet clear is exactly how many jobs will go.

4.11 Figures from the Office for Budget Responsibility, published in its 'Economic and Fiscal Outlook' in November last year, forecast that general government (i.e. public sector) employment will fall by 330,000 over the next four years. This is a downward revision from the 490,000 forecast by the interim OBR last June, but the OBR's November forecast added that a further 80,000 job losses could be expected due to a real-term freeze in public spending in 2015-16. Meanwhile, a leaked Treasury paper, published by The Guardian last June, forecast the loss of up to 700,000 private sector jobs.

4.12 The Chartered Institute for Personnel and Development (CIPD) put the figure higher than the OBR. It forecast in November that 725,000 public sector jobs would be lost as a result of the spending cuts, a further 650,000 private sector jobs would go and that the VAT increase would cost a further 250,000 private sector jobs. This means 1.6 million jobs would go in total.[19]

4.13 The link between public sector cuts and private sector job losses is clear. Official data shows that, in recent years, public spending on the private sector is higher and has risen faster than pay for public service staff. The data suggests that a ten per cent cut in spending would mean that £18 billion less was spent on the private sector.

4.14 In turn, this adds further pressure on public spending. In 1999, the Department for Social Security estimated that every 100,000 increase in unemployment raises benefit spending by £500 million – a figure that is almost certainly higher now. So any attempt to reduce the deficit that causes job losses ends up costing the government vast sums which only threatens an even higher deficit.

Cuts and Vulnerable People

4.15 It is a well-known fact that cuts hit the most vulnerable hardest. Most obviously, this is because many services only exist in order to help poorer people cope with the effects of poverty. What is more, many services are used more by the less well-off. Public transport, for example, is more likely to be used by lower income groups, who are less likely to have a car.

4.16 In August 2010, the Institute for Fiscal Studies (IFS) published a revised assessment of the distributional effects of tax and benefit reforms to be introduced between June 2010 and April 2014. Referring to the emergency

[19] http://www.cipd.co.uk/pressoffice/_articles/Treasuryselectcommittee011110.htm

Budget in June 2010, this stated: "the tax and benefit changes announced in the emergency Budget are clearly regressive as, on average, they hit the poorest households more than those in the upper-middle of the income distribution in cash, let alone percentage terms."[20]

4.17 In its Green Budget, published in February this year, the IFS argued that the tax changes to be implemented in April cause the biggest losses as a fraction of net income at both the top and bottom of the earnings scale. For those at the bottom, the lower benefit rates arising from uprating benefits in line with CPI inflation, rather than RPI inflation or the Rossi Index, combines with the fact that those at the lowest end of the income scale are less likely to benefit from rises in the threshold for income tax or National Insurance Contributions. The IFS says of the April 2011 changes "The pattern of income changes cannot be described as progressive or regressive"[21], which is progress on the clearly regressive changes reported last August, but will do nothing to narrow the gap between rich and poor.

4.18 And, of course, the VAT increase introduced in January is the most regressive form of taxation of all, hitting pensioners and those earning below the income tax threshold at the same rate as middle Britain and millionaires. Of course, if millionaires spend more than the very poor, it can be argued that they pay more VAT, but they are also in a position to pay this increased VAT without it damaging their lifestyle. The same cannot be said of those living in poverty.

Women and the cuts

4.19 The TUC has previously highlighted how the cuts will disproportionately affect women (see, for example, 'The gender impact of the cuts', A TUC cuts briefing, November 2010). However, such is the importance that we attach to this dimension of the deficit reduction strategy that it is worth repeating some of our main points here.

4.20 The cuts will disproportionately affect women in several ways. Women will be affected as mothers. The Health in Pregnancy Grant, previously available to all pregnant women reaching the 25th week of pregnancy, was abolished completely in January. This universal payment of £190 was intended to support mothers with additional costs in the period before childbirth. The Sure Start Maternity Grant, previously available to low income mothers reaching the 29th week of pregnancy, was worth £500. From the next financial year, this will only be payable for a mother's first child.

4.21 Ninety per cent of lone parents are women. Research commissioned by the Women's Budget Group shows that female lone parents will lose 18.5 per

[20] James Browne and Peter Levell, 'The distributional effect of tax and benefit reforms to be introduced between June 2010 and April 2014: a revised assessment', IFS, August 2010
[21] IFS Green Budget, February 2011, p. 279

cent of their net income (a reduction of £3,121 in cash terms, from an average net income of £16,868). Meanwhile, female single pensioners are set to lose 11.7 per cent of their net income (a reduction of £1,326, from an average net income of £11,341).

4.22 Women make up 65 per cent of the public sector workforce. Over 30 per cent of women's jobs nationally are in the public sector, compared to around 15 per cent of men's jobs. This means that women will be the biggest losers when it comes to public sector pay freezes and job cuts. With 500,000 public sector jobs to be axed, it is likely that at least 325,000 of those losing their jobs will be women. In local authorities, which will take the biggest cut, women make up 68 per cent of the workforce.

4.23 Finally, women are more likely than men to use many services, including social care, libraries, education (further education and higher education), early years care services, sexual/reproductive health services and healthcare services in general. Women will also lose out in other ways. For example, reductions to bus subsidies and increases in rail travel costs will have a disproportionate effect on women, as women are more reliant on public transport, particularly buses, than men.

Are those opposing the cuts 'deficit-deniers'?

4.24 The charge that is often levied at those who oppose spending cuts is that they are 'deficit deniers'. According to this argument, such people are content for the UK to be in deficit and, as such, have an irresponsible attitude towards the economy.

4.25 But the TUC does not deny the deficit. We recognise that it is real and it must be reduced. Yet it is manageable and the deficit can be reduced over a longer period: in other words, the fact that we are in deficit does not mean we risk a Greek-style crisis. To argue that we are is simply scaremongering.

4.26 So how to reduce the deficit? The only sustainable way to do so is to achieve long-term, sustainable economic growth. It is for this reason that growth is the centrepiece of this Budget Submission. It is also for this reason that the TUC has been so critical of the Government for not having a meaningful growth strategy. In the pages that follow, we set out our recommendations for promoting long-term, sustainable growth, but not as an end in itself: we seek this growth because it is the best way to protect the health of the economy, the jobs of our members and the delivery of the strong society that trade unions seek.

4.27 Apart from growth, the TUC believes that taxes should bear a heavier burden in reducing the deficit. The Government proposes that tax increases account for just 20 per cent of the deficit reduction, while spending cuts are responsible for a colossal 80 per cent of it. Of course, higher taxes are not popular and they can have their own damaging effects on the economy if they are raised too high.

4.28 But taxes raised when the economy is healthy again are a much more efficient and fair way of reducing the deficit. While cuts will impact on those on middle and low incomes, taxes can be raised in a way that means those most able to contribute can be required to do so. A tax on big financial transactions by banks, for example, could raise more than £3 billion a year[22].

4.29 Taxes also have the benefit that they can be raised or lowered relatively quickly and easily depending on how the economy is doing. Changing levels of public spending is a far slower process that can have very long term effects on an economy which are difficult to eradicate.

4.30 Far more taxes could also be collected now without actually changing any tax rates. The TUC has estimated that £25 billion is lost to tax avoidance by wealthy individuals and companies each year and that a further £8 billion is used up in tax allowances and reliefs used by the well-off[23]. It has also been shown that recruiting an extra 20,000 staff to work on tax collection could bring in an extra £20 billion a year[24].

---

[22] Robin Hood Tax Campaign website, FAQ, http://robinhoodtax.org.uk/debate/don%E2%80%99t-all-countries-have-to-implement-a-robin-hood-tax-at-once-for-it-to-work/2/

[23] *The Missing Billions*, TUC, 2008, http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf

[24] *The Great Tax Parachute*, Green New Deal Group, 2010, http://www.neweconomics.org/sites/neweconomics.org/files/The_Great_Tax_Parachute.pdf

Section five

Public services and the case for social justice

5.1 The Government has made it very clear that it is seeking economic growth, driven by the private sector. This Budget Submission centres on the TUC's ideas for a government role in bringing this about.

5.2 The public sector is a vital part of the economy. Good public services are essential for the delivery of social justice and for providing the long term support needed for a strong economy. But they face a diet of unremitting cuts and a raft of rapid, major changes. The TUC believes the cuts and reforms are damaging to the public services themselves, to the economy and wider society. It is necessary, therefore, to restate the case for the public sector, particularly in the context of a number of challenges that the public sector is facing.

5.3 Public services are not discretionary commodities. They are core public goods that provide benefits, not only to service users, but to society as a whole. The TUC supports public service delivery that is accountable, efficient, value for money and provides high quality, universally accessible services delivered by professional, engaged and appropriately remunerated staff. The founding principles of public services should be at the heart of any model of service delivery: universal access, delivery according to need, services free at the point of use and services delivered for the public good rather than for profit.

5.4 It is our view that through its democratic accountability, unique funding mechanism and long term integrated approach, the public sector is best placed to provide public services that meet these criteria. Polling shows that this view appears to be supported by the wider public[25].

5.5 However, the public sector faces a number of significant challenges. The first of these is deep, rapid cuts across the sector and beyond. We believe that these go much further than the public were led to believe before the General Election. Across the public services, the Spending Review settlement is already resulting in cuts to jobs and to services, although many more will come into effect later this year. There is already evidence that frontline services are being

25 YouGov survey found that 73 per cent of voters disagreed or strongly disagreed with more competition within the NHS, while another survey found that 89 per cent of the public thought that "public services should be run by the Government or local authorities, rather than by private companies" – *Rethinking Public Service Reform*, TUC, 2008

affected, with closures of Sure Start Centres and libraries and cuts to youth services, domestic violence prevention and police numbers to name but a few. There is no doubt that the cuts will affect the quality and accessibility of services, and that this will hit the poorest and most vulnerable in society the hardest.

5.6 Whatever the context and the timing of the cuts they would have been a cause for concern for public service workers and service users. But the depth and speed of the cuts make it extremely difficult for unions and public sector bodies to work together to plan for, mitigate and adapt to the impact of the changes. This effect is particularly stark in local government, where cuts of 28 per cent over the Spending Review period are being front-loaded into 2011-12 rather than staggered more evenly over the period. GMB research has already identified 160,000 local government posts at risk in 290 local authorities, with over 200 more still to declare whether they will be making job cuts.[26] ***We urge the Government to use the Budget to address the front-loading of cuts in local government, which appears to have no economic rationale and will be extremely damaging in terms of unemployment and loss of services.***

5.7 The cuts have a wider economic impact, reducing the tax take as workers cut back on household spending when they fear for their job or have been made redundant. They also have a direct impact in terms of reduced spending by the public sector on supplies and services from the private sector. Evidence from APSE shows that every £1 of public money that is directly invested in public services generates at least an additional 64p in the local economy[27].

5.8 As well as the cuts agenda, the TUC has serious concerns about the direction of government policy on public services. Our vision for public services is for directly delivered, world class services, with genuine equality of access and high levels of quality for users and workers. We therefore have serious concerns that the Government's vision for public services will lead to fragmentation, increased private sector involvement and irreconcilable tensions such as between plurality of provision and democratic accountability. This will affect public service workers and ultimately we are concerned that it will diminish the quality and accessibility of public services.

5.9 Although a White Paper is due, which sets out the Government's overarching vision for public service reform, it is already clear that there will be a greatly increased role for multiple providers, including private voluntary sector organisations. David Cameron admitted this in his article for the Daily Telegraph on 20th February, when he wrote: "We will create a new presumption … that public services should be open to a range of providers competing to offer a better service"[28]. There is an assumption that this will

[26] http://www.gmb.org.uk/newsroom/latest_news/162718_council_jobs_threatene.aspx
[27] http://www.tuc.org.uk/extras/speakingupforpublicservices.pdf
[28] http://www.telegraph.co.uk/comment/8337239/How-we-will-release-the-grip-of-state-control.html

deliver greater efficiency and value for money, but in fact evidence gathered by the TUC and a number of other organisations demonstrates that privatisation often has the opposite effect, driving up costs and failing to deliver better services.

5.10 For instance, the Financial Times recently published[29] an analysis of private supply of public services which concluded that the private sector was 'not yet better or cheaper' than the public sector. The FT also drew attention to the controversial role of management consultants in promoting outsourcing and in charging high fees to public clients.

5.11 The impact of private sector involvement on quality has also been questioned. For instance, research by the Association of Public Service Excellence (APSE)[30] looked at over fifty examples of where local authorities had brought services back in house delivering benefits including greater accountability, enhanced performance, more flexibility and increased public satisfaction. The main reason cited for bringing services back in house was poor contractor performance. In addition, authorities found that dealing with contractors absorbed a great deal of senior officers' and elected councillors' time. Using the example of school catering, APSE's report highlights a number of examples where services brought back in house went on to be innovative and successful.

5.12 The Government's proposed reforms of the NHS are likely to cost up to £3 billion to implement at the same time as fundamentally altering the make-up of the health service. Coming at the same time as increasing demographic pressures and a requirement to make £20bn in savings, there is a very real risk that the quality of patient care will suffer. Despite the Government's stated intention to protect NHS spending, unions are already reporting cuts across the health service.

5.13 The Health and Social Care Bill removes many of the checks and balances on private sector involvement and market mechanisms in the NHS. The TUC believes that the move from the NHS as preferred provider to 'any willing provider' will undermine NHS services and risks leading to a focus on cost rather than quality of care that could trigger a race to the bottom in service quality.

5.14 The private sector has a record of failing to deliver quality and value for money in the NHS – perhaps most famously evidenced by the rise in hospital infections after compulsory competitive tendering led to the outsourcing of hospital cleaning in the 1980s. Putting different parts of the health service in competition with one another will lead to fragmented and disjointed pathways of care and undermine innovation and the sharing of best practice. It will also

[29] Financial Times, 18 October 2010, *Private sector 'not yet better or cheaper'*
[30] APSE, 2009, *Insourcing: a guide to bringing local authority services back in-house*

increase administrative and other costs, with public funding being wasted on transaction costs.

5.15 As well as cuts and reforms, public service workers also face real pressures on pay, pensions and terms and conditions. The pay freeze for public sector workers, coming at a timing of rising inflation, has meant a real-terms cut in take home pay for many public servants. There is no guarantee that the £250 uplift for those earning under £21,000 will be applied in all sectors, notably local government, so low-income workers are not necessarily protected. ***The Chancellor should announce in the Budget that all local government workers will be covered by the £250 uplift.***

5.16 In addition to this, changes to public service pensions risk hitting both take-home pay and income in retirement. The TUC has made clear our opposition to moves to address the deficit by increasing employee contributions to public service schemes. The value of these schemes to members has already been reduced by 25% by the combination of the reforms negotiated in 2005/6 and the change in uprating to CPI. Further changes are expected as a result of the Hutton review, and unions are rightly anxious about the combined impact on members. Lord Hutton's interim report clearly stated that public service pensions are not "gold-plated" but are in fact modest, and the proportion of GDP represented by these pensions is set to decline.

5.17 Public service employees are also concerned at apparent threats to national pay bargaining arrangements. For instance, in education the School Support Staff Negotiating Body has been abolished and schools are being required to abandon national pay bargaining arrangements for teaching staff as part of converting to Academy status.

5.18 The TUC strongly supports national pay bargaining as a transparent and fair system that is efficient and aids movement around the country. Negotiating pay, terms and conditions locally is inefficient as it diverts attention and energy from the running of the public service in question, and leads to unnecessary bureaucracy in replicating discussions across the sector.

5.19 Existing national pay structures are designed to allow for sufficient flexibility to react to local conditions and provide an efficient, consistent and transparent mechanism for dealing with large numbers of staff. They are underpinned by the principle of equal pay for work of equal value, while local pay arrangements would only lead to pay discrimination and expensive litigation. National pay structures have also resulted in a consistently smaller gender pay gap in the public than the private sector. Existing systems of pay devolution have only led to problems, such as with wide variations of pay for similar jobs in the civil service and further education establishments simply not honouring agreed pay awards.

Section six

Taxation – a TUC Analysis

What the Coalition has done

6.1 The Coalition government's tax plans were announced in the June 2010 budget with some important additional measures announced in December 2010 in the Autumn Statement.

6.2 The principle changes announced have been:

- VAT increased from 17.5% to 20% from January 4, 2011.
- Income tax allowances will be increased by £1,000 in April 2011 to £7,475. It is suggested that 880,000 will be taken out of income tax as a result.
- Capital Gains Tax increased from 18% to 28% in June 2010 but the "entrepreneur's relief" rate of 10% on the first £2 million of gains was extended to the first £5 million of gains.
- Corporation Tax will be cut in 2011 to 27% and then by 1% annually for the next three years until it reaches 24% in 2014.
- The small companies' tax rate will be cut to 20% in 2011.
- A bank levy was introduced in January 2011.
- The tax system for UK companies with offshore subsidiaries and branches is being reformed so that some offshore structures will pay tax at less than 10% and a new 10% tax rate on patent income generated in the UK has been introduced.

Our critique of the Coalition's policies

6.3 There are major policy errors in the policies that the Coalition has adopted. These are as follows:

VAT Increase

- This measure is regressive; it hits the households with lowest income in the UK hardest. The Coalition's defence that VAT is progressive over a person's lifetime when compared to consumption changes all recognised bases for defining the progressiveness of tax. When compared to a person's income this tax is regressive and at a time of benefit cuts and pay freezes for the lower paid this increases the injustice in society, widens the gap between rich and poor and is bound to lead to increases in critical measures of social justice, such as child poverty.

- As VAT-exempt organisations this change increases the tax advantage banks enjoy because they are not subject to this tax. This is the wrong move and increases the urgency of the case for the introduction of a Robin Hood Tax.
- The VAT increase leads straight through to an increase in the inflation rate: a little less than 2% of the current inflation rate is caused by the VAT increase. Because the Bank of England appears minded to react to this increased inflation rate by increasing interest rates sometime during 2011 the VAT increase will have three further consequences. First of all it will increase the cost of borrowing for many households, making it harder still for them to maintain their standard of living and to pay for their mortgages. Second, the chance of a double dip recession may increase as the Bank of England seeks to force lower consumption when price increases are already penalising those on lower incomes, both of which have the effect of draining demand from an already weak economy. Thirdly this move may then lead to an increase in unemployment.

6.4 ***The TUC believes that the increase in VAT is harmful to the interests of the UK, the people of this country, the chances of economic recovery and to employment and as such recommends its reversal in Budget 2011.***

Income tax

6.5 This move is welcome.

Capital gains tax

6.6 The TUC has argued[31]that capital gains tax should be charted at the same rate as income tax to prevent tax avoidance, which the TUC believes costs more than the £1 billion that the Chancellor suggested at the time that such activity cost.

6.7 The TUC maintains this opinion, does not believe that there is a 'Laffer curve' effect with regard to capitals gain tax and can see no evidence of this when previous changes in tax rates occurred when the impact of other economic variables are taken out of consideration.

6.8 As such whilst the increase in the capital gains tax rate was welcome, the TUC does not believe that the new rate of capital gains tax is appropriate and believes that compared to the 50% top rate of income tax it provides a considerable incentive to avoid tax.

6.9 In addition the TUC questions why the reduced rate band for "entrepreneur's relief" was extended and believes that this will have little or no impact on the rate of economic development or growth in the UK.

---

[31] http://www.tuc.org.uk/economy/tuc-18094-f0.pdf

6.10 For these reasons the TUC recommends that the "entrepreneur's relief" be restricted to £2 million and that all gains should be taxed at a person's marginal rate of income tax.

Corporation tax

6.11 The TUC has shown that the effective rate of corporation tax paid by major multinational corporations located in the UK has been steadily falling for a decade. [32] [33] Whilst the cut in the rate of capital allowances may slightly arrest this decline for manufacturing companies this change will have little impact on the effective tax rate of banks and other financial institutions, most of whom pay tax at rates well below the current UK headline rate. If the tax rate is cut by 4% as proposed, and with large UK corporations currently paying tax at approximately 21% on average [34], the result will be, even after taking the changes in the capital allowances rates into account, that large UK companies will soon be paying tax at rates of less than 20% on average and some will be paying much less than that.

6.12 It should be noted that the TUC also believes that small companies do on average pay tax at rates higher than the headline rate of corporation tax applicable to them, meaning that on average they pay tax at rates in excess of 20%.

6.13 The result is that the TUC now fears that multinational corporations located in the UK will be paying tax at rates lower than those payable on the income of average earning people in this country and at lower rates than those paid by small UK based companies.

6.14 This fear is exacerbated by the changes to corporation tax on foreign branches coupled with changes to the rules on controlled foreign companies and the taxation of patent income announced in December 2010. It is now clear that the UK Government is encouraging UK based multinational corporations to use tax havens to achieve effective tax rates of less than 10% on their mobile capital; capital previously taxed in the UK at rates of up to 30%. This is an enormous change in the corporate tax system, and the territorial principle inherent in it opens up possibilities for tax avoidance as income falls between tax jurisdictions that can be easily exploited by multinational corporations. It is hard to believe that the government intends that they should do otherwise given the statements made on the intention to provide effective tax rates of less than 10% on significant parts of their income. This is a goal for tax previously unknown in the UK, and certainly completely unknown for large multinational corporations. It is especially unfortunate that the companies most likely to exploit it are the major banks

[32] http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf
[33] http://www.tuc.org.uk/extras/corporatetaxgap.pdf
[34] http://www.tuc.org.uk/extras/corporatetaxgap.pdf

who have the most mobile capital base of all, and that as a result the very companies that most benefited from the taxpayer funded bail out of business during the recession are to now get the only tax breaks made available in the UK in the post crash-era. We believe that this is a serious error of economic and political judgment and that it is unnecessary to secure the economic position of the UK which is not threatened by its current corporate tax regime, as evidenced by very few companies seeking to leave before this change was announced.

6.15 We are also concerned that this move leaves large business with an economic advantage over small business and that this will result in slower growth in the UK domestic market and so slower growth in the employment market as artificial tax incentives encourage the reallocation of capital to locations outside the UK as a result of the deliberate tax policies adopted by the UK government.

6.16 It is our belief that there has never been an occasion when it is more important that the major multinational corporations based in the UK are seen to pay for the enormous benefit they get from trading in this country and as such pay a fair share for it. As popular protest has shown, failure to recognise this puts the credibility of tax and economic policy at risk.

The Bank Levy

6.17 The bank levy was the wrong tax at the wrong time for the UK. It raises less than the bankers' bonus tax and it is much less effective than a Robin Hood Tax would be and which we support.

6.18 We do not support the bank levy which we believe targets the wrong tax base and raises too little money from this sector for the UK. We offer alternative policies below.

Alternative taxation policies

6.19 The TUC has been a proactive proponent of tax reform to tackle the economic issues that the UK faces in recent years.

6.20 We reiterate our commitment to the following policies:

- Abolition of the UK domicile rule. [35]
- Reform the UK's tax residence rules. [36]
- Creation of a general anti-avoidance principle in UK tax law, on which issue we note the government is consulting.[37]

---

[35] http://www.tuc.org.uk/extras/taxresidence.pdf

[36] http://www.tuc.org.uk/extras/taxresidence.pdf

[37] http://www.tuc.org.uk/extras/taxresidence.pdf

- The Robin Hood Tax.

6.21 We do, in addition reiterate our belief that:

- The 50% income tax rate should be maintained.
- Capital gains should be taxed at the same rates as income.
- A tough approach to tax avoidance should be adopted.
- Cuts in staffing at H M Revenue & Customs should be cancelled so that tax avoidance and tax evasion in the UK economy and the recovery of tax debt can all be effectively tackled, which is not possible without adequate and appropriately trained and remunerated staff.

6.22 We have, in addition, proposed the following reforms to the UK's tax system, all of which we think worthy of detailed consideration as they correct injustices, extend the tax base without threatening economic prosperity or the recovery from the recession and ensure that those with lowest means bear the smallest burden of any tax increases whilst those with the capacity to pay bear the burden of doing so:

- That minimum rates of tax for those earning at high levels should be introduced to restrict the value of allowances and reliefs those on high incomes can enjoy at a time of national austerity.[38]
- That an empty property tax, resulting in a charge five times the level of normal domestic rates, be levied on properties kept unoccupied for extended periods, medical emergencies apart. This would have the advantage of creating a new tax base in the UK whilst ending the blight of empty properties and would release domestic property back into the market to address the housing shortage currently facing the UK. It would in addition almost certainly create a demand for property renovation services, helping create employment in this sector. [39]
- That the losses available to UK banks be restricted for carry forward purposes, either to a monetary value that may be offset each year, or by time period, or both, so that profits now being earned in this sector will be subject to current taxation and not be eliminated by the offset of losses brought forward as might otherwise be the case. This is a necessary condition to ensure that these banks make an appropriate return to society for the support that they individually and collectively received as a result of the bank bailouts in 2008 and 2009. [40]
- That pay of above ten times average income in the UK not be deductible for corporation tax purposes as it is likely to reflect a distribution of profit that

[38] http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf
[39] http://www.tuc.org.uk/economy/tuc-18094-f0.cfm

[40] http://www.tuc.org.uk/extras/taxingbanks.pdf

is not a tax deductible expense. [41]

- Introduce an additional tax charge on investment income above an agreed minimum annual amount that would be set at rates equivalent to national insurance on earned income to remove the tax advantage that unearned income currently enjoys in our tax system and to reduce or even remove the incentive to tax avoid by recategorising earned income as investment income through the use of limited companies. [42]

Robin Hood Tax

6.23 The TUC believes that the finance sector is currently undertaxed and that it should make an appropriate contribution to meeting the costs of the global economic crisis which it did so much to create, as well as the costs of society as a whole. We believe that one of the best ways for the financial sector to contribute would be through the Robin Hood Tax – small taxes on financial transactions set at rates from 0.005% to the 0.5% which currently applies to some share transactions and raises £3bn a year for the exchequer.

6.24 We believe that the financial sector in the UK could contribute a further £20bn in tax revenue, and that as a first step, ***the Budget should include a 0.005% currency transactions levy and the extension of the current stamp duty to all share transactions.*** We also believe that the Government should support the introduction of financial transaction taxes at EU level and as widely as possible around the world – but we believe it is simply an excuse to say that such taxes can only be introduced with global agreement. We believe that half of the funds raised by a Robin Hood Tax should be devoted to reducing the public sector deficit and thus prevent cuts in public expenditure, with the remaining half being divided equally between overseas aid (spending on health, education and water and sanitation in developing countries) and meeting the global challenge of climate change.

[41] http://www.tuc.org.uk/economy/tuc-19141-f0.cfm
[42] http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf

Section seven

An Agenda for Sustainable Growth

Introduction

7.1 *"In the longer term, sustained economic growth is likely to prove a necessary condition for managing the heavy fiscal pressures that lie ahead. The government should dare to be radical. There is no good alternative."*

'A strategy for growth that dares to be radical', Martin Wolf, 11th February 2011

7.2 As noted above, the TUC believes the best response to the deficit is to achieve long-term, sustainable growth. Of course, even if the UK had no deficit, indeed, if the financial crisis had never happened, the primary economic objective of any government should still be the pursuit of long-term, sustainable growth. Entrenching the recovery, which entails not just avoiding a double-dip recession, but also achieving more than the "economy going nowhere for a while" that the IFS Green Budget predicts, is a laudable short-term objective. But the TUC's ambitions go further.

7.3 We live in a globalised economy, where China and the other BRIC economies are on the rise, where the United States continues to enjoy huge economies of scale (and much more government intervention in industry than its free market rhetoric would have us believe) and where Germany continues to be the motor of the European economy. What place for the UK in this globalised world?

7.4 And how will we make our industries sustainable? Britain and other industrialised nations enjoyed huge success, and created great wealth, through their growth-oriented policies in the twentieth century. Yet growth is not an end in itself. Nor can we pursue any type of growth, at any cost. Global warming reminds us that if we pursue growth in this century in the same way that we pursued growth in the last, we may destroy the planet in the process.

7.5 This section will set out the TUC's agenda for sustainable growth. It will consider innovation and skills, employment policy and high performance work systems. And it will discuss wages, as the legitimate reward for working people, but also as a key driver of demand in a balanced economy.

Government growth policies

7.6 On 25th October 2010 the Prime Minister's speech to the CBI Annual Conference set out the first major government statement on a strategy for growth. The Prime Minister's speech included the announcement that the UK would have its first ever national infrastructure plan. It recorded that, in the June Budget of 2010, there was no reduction in capital spending compared to the last government's figures and that, in the spending review, an additional £8.6 billion was allocated to capital spending over the next four years. It also announced over £30 billion invested in transport projects over the next four years.

7.7 The Prime Minister added: "And today, we are publishing a detailed plan setting out the infrastructure Britain needs and how we will unlock £200 billion worth of public and private sector investment to deliver it." David Cameron also announced in his CBI speech that the Government would invest over £200m in Technology and Innovation Centres over the next four years.

7.8 But whilst the Prime Minister made some important policy announcements this did not allay fears among businesses, trade unionists and economists, all of whom were concerned at the lack of an overarching growth strategy. These groups had all expected a White Paper on Growth to be published, either to coincide with the Comprehensive Spending Review or shortly afterwards, a White Paper that did not seem to be imminent. Fears increased again four weeks after the speech, when the Financial Times reported that the Growth White Paper had been dropped, after aides admitted they did not have enough content to warrant such a White Paper.

7.9 On 29th November 2010, the Treasury and BIS published the Government's growth review. This included the announcement that, from now on, the Chancellor and the Business Secretary would require every Government Department to present Action Plans for sustainable growth across sectors of the economy and for all sizes of business, focusing on areas where there are clear opportunities to improve the UK's performance and where the Government could make a difference.

7.10 The review then said that the Government would focus on priorities for action in the following issues in the run-up to Budget 2011: planning; trade and investment; competition; regulation; access to finance; and corporate governance. The Government would also review the potential for action in six industrial sectors: advanced manufacturing; digital and creative industries; business and professional services; retail; construction; and healthcare and life sciences.

A modern industrial strategy

7.11 The TUC has engaged with officials at BIS on the Advanced Manufacturing Growth Review in the run-up to the Budget. We do believe, however, that this initiative and the wider growth review are poor substitutes for a long-term, modern industrial strategy. Officials at BIS will have had barely three months to produce policy proposals in time for the Budget and it is simply impossible to address the various needs of industry in so short a timeframe.

7.12 ***The TUC has long-believed that Britain needs a modern industrial strategy and we call on the Government, working with the social partners, to begin to develop such a strategy.***

7.13 The TUC would start from first principles, by asking a number of questions. These might include:

- What industries do we currently have in the UK?
- What do we do well?
- Which of those industries, given the right support, will remain successful in the light of globalisation (e.g. are not likely to move east because of their low labour costs, or are dependent on, for example, skills or knowledge that is not easily copied by other countries.)?
- What are we geographically well-placed to do?
- What economic, political, environmental, societal and technological developments can we foresee in the next 20 years that will alter these facts, either making an industry unsustainable in the UK or creating the possibility for the development of an industry in the UK?

7.14 There are many other questions that we would wish to add, but the point is to develop a model of 'comparative advantage'. We know that we will increasingly lose industries based on low labour costs to Eastern Europe or to Asia. Some pessimists argue that, as China and India develop higher skills among an increasing proportion of their populations, we will lose more and more high skill, high value industries as well. The TUC disagrees with this. In our view, with the right government support, there is no reason why we cannot build industries, in sectors where we have comparative advantage, that match the best in the world.

7.15 We stated above that our growth strategy must be sustainable. That is a challenge, but it could also be a huge opportunity. Britain is an island, with a wealth of potential in wind, wave and tidal power. This means we are rich in opportunities to become world-leaders in environmental technology. Consumers are becoming more and more environmentally conscious, wanting to drive greener cars and fly on greener aircraft. Britain's aerospace and automotive sectors will need to develop less polluting products and are likely to need government support in order to do so.

7.16 These are the discussions that competitor governments have, yet such is our fear of being seen to 'pick winners' in the UK that legitimate, important decisions about policy priorities are too often not taken.

7.17 In his 'State of the Union' speech on 26th January, President Obama said: "This is our generation's Sputnik moment. Two years ago, I said that we needed to reach a level of research and development we haven't seen since the height of the Space Race. In a few weeks, I will be sending a budget to Congress that helps us meet that goal. We'll invest in biomedical research, information technology, and especially clean energy technology – an investment that will strengthen our security, protect our planet and create countless new jobs for our people."

7.18 President Obama chose biomedical research, information technology and clean energy technology for a reason. He chose them because they are areas of comparative advantage for the United States. The US has other areas of comparative advantage, of course, but Obama is recognising the industries of tomorrow, while also acknowledging that they will need some government support in order to come to fruition.

Financing Strategic Sectors

7.19 Different countries have different ways of funding strategic sectors. Germany has the KfW bank which, in its own words, "finance(s) the investments in the future made by German citizens and SMEs to encourage that the German economy remains strong, as well as investments in municipal and social infrastructure to advance structural change and the common welfare"[43]. The KfW also "finance(s) projects of German and European companies so that they can also assert themselves in global markets". The KfW is government-owned and covers 90 per cent of its borrowing needs in the capital markets, mainly through bonds that are guaranteed by the federal government, thereby allowing it to raise funds on advantageous terms.

7.20 France's Fonds Strategique D'Investissiment (FSI) has two shareholders – the Caisse des Depots, which has a 51% stake and the Government, which has a 49% stake. Using private investment funds, notably pension funds, the Caisse des Depots is a long term investor, able to commit the time needed for sustainable growth. However, the FSI was established to meet a unique objective, i.e. to strengthen French competitiveness. The FSI's money is utilised exclusively through investment in the capital structure of private companies, with the FSI taking a role as a minority shareholder. The FSI seeks to be a long-term investor, investing for up to 8-10 years, possibly longer. It invests an amount of money that gives it presence and allows a say in governance (through seats on boards). It also makes a commitment to exit in a way that

[43] http://www.kfw.de/kfw/en/index.jsp

supports the company in question. Rather than offering subsidies, it associates itself with entrepreneurial risk.

7.21 The TUC has previously called for the setting up of a UK version of the FSI, with £5 billion at its disposal, raised partly through public investment, but also from private investors or grants from bodies such as the European Investment Bank. However, we recognise that both the KfW and FSI models have their different merits. What is important is that the UK develops a similar facility to finance investment, especially in strategic sectors, as well as in 'new' sectors with which banks may be unfamiliar (and therefore risk-averse when it comes to financing).

The Role of Procurement Policy

7.22 Government procurement has a vital role to play in building long-term, high-value, sustainable industries. But Government procurement is inevitably affected by the spending cuts.

7.23 The Office of Government Commerce (OGC) is the body responsible for the way in which government procurement takes place. In June 2010, just over a month after the General Election, the Office of Government Commerce was moved from the Treasury to the Cabinet Office, where it is now part of the Efficiency and Reform Group. The TUC believes this was a retrograde step because, as we outline below, there is a fundamental link between procurement policy and the quest for long-term economic growth. For that reason, the Treasury has an interest in the way procurement policy is conducted.

7.24 On the day that this move was announced, the Cabinet Office Minister, Francis Maude said: "We want a slim but strong centre that can drive down the cost of government, so protecting as best we can the crucial front-line services on which our citizens depend."[44]

7.25 Speaking to a supplier summit on 1st December 2010, Mr Maude gave more details: "We want to identify what aspects of the procurement process should be targeted to make the purchase of services much quicker, cheaper and better. We want to identify what central government needs to do to ensure that it is an effective 'single customer' for services. We want to discuss how you can be involved in supporting our initiatives in respect of SMEs and Mutuals/JVs."[45]

7.26 The TUC, like everybody else, wishes procurement to be efficient and to deliver value for money. However, to repeat the words used by Francis Maude, quicker and cheaper doesn't necessarily mean better.

7.27 The TUC has a long-standing interest in procurement policy. Even at a time of government spending cuts, the public sector spends a colossal amount

[44] http://www.cabinetoffice.gov.uk/news/whitehall-shake-drive-efficiency
[45] http://www.cabinetoffice.gov.uk/news/cabinet-office-ministers-speech-supplier-summit

of money procuring goods and services. According to the Financial Times, the annual procurement budget amounts to £191 billion.[46] This means that government is one of the few purchasers which is large enough to have the power to shape the market. For example, it is recognised that one barrier to the UK being more internationally competitive in the world economy is in the skill shortages that it suffers. If the government insisted that every government contract required the supplier to deliver a minimum amount of training, this would make a major contribution to overcoming those skill shortages.

7.28 Similarly, government contracts could insist on a certain degree of sustainability. According to EU law, it could even require the employment of a certain number of people who find it difficult to access the world of work, such as the long-term unemployed.

7.29 Of course, if such requirements were put into contracts, the cost of the contracts would rise. Viewed simply, that means the contract is more expensive and the cost to the taxpayer is higher. But if we see higher skills, or a more sustainable industrial sector, or less unemployment as an investment, we may be achieving greater value for money in the longer term.

7.30 The TUC advocates a case-by-case approach to the use of so-called social clauses in procurement. We recognise that multiple social clauses, quite apart from not always being relevant to particular contracts, would deter suppliers and increase bureaucracy, leading to longer lead times for both contractors and suppliers. But we also believe that a relentless focus simply on low cost misses an opportunity to help deliver the high-skill, high-value, sustainable growth that we need.

7.31 In its growth review, the Department for Business announced that from now on the Chancellor and the Business Secretary would require every Government Department to present Action Plans for sustainable growth across sectors of the economy and for all sizes of business, focusing on areas where there are clear opportunities to improve the UK's performance, and where the Government could make a difference.

7.32 This is a concept that the TUC has long called for in our discussions with BIS and we welcome it now. It has never made sense to us that, for example, the Department of Transport can procure trains to carry us around the country, but it has no particular interest in how the way it procures those trains could support British industry. It is inconceivable that that would happen in Germany or France. EU law would prevent the Government from crudely buying British, but there is much more that can be done through procurement and other policy areas that would allow the totality of government to support British industry.

---

[46] http://www.ft.com/cms/s/0/aef14e20-3552-11e0-aa6c-00144feabdc0.html#axzz1DeZV2vQ6

7.33 One thing would be to use procurement policy to strengthen British industry. The TUC's ideal solution would be for the Department of Transport to buy British trains, not because they were British, but because they were the best. But to ensure that British is best, we need to strengthen our key industries and procurement policy has a role to play in helping us to do that.

7.34 ***The TUC calls on the Chancellor to announce, in the Budget, a task force, comprising of Ministers and Officials from BIS, DWP, DECC, the Cabinet Office and the Treasury, to consider a procurement policy that increases the UK's levels of skills, sustainability and employability, as well as value for money, and to report in the Autumn. Employers and trade unions should be asked to give evidence to this task force.***

Building the Green Economy

7.35 The recent jobs surge in the renewables sector highlights both the opportunities and weakness of our strategy for a green economy. The renewable industry's paradox is of rapid employment growth on a weak manufacturing base. We install but don't make enough wind turbines. According to RenewableUK[47] employment doubled to 10,000 skilled, full time equivalent jobs in on- and offshore wind and marine energy industries between 2007 and 2010. But manufacturing turbines and wave devices accounted for only 750 jobs (7%). Supply side failures[48] mean that UK-based engineering has lost out, with, for example, no more than a fifth of the investment for the early offshore wind farms, such as the London Array and Thanet, benefitting UK-based firms.

Renewables sector	Total employment	Manufacture
Onshore wind	6,000	300
Offshore wind	3,100	250
Marine energy	800	200

Source: RenewableUK, 2011.

7.36 Employment was propelled by offshore wind capacity doubling in three years, with an acceleration in the annual build and installation rates. Now, around 10% of our electricity comes from renewables. Factors driving growth include planning consents, technology developments, access to finance, the Renewables Obligation and access to the national grid. But further key drivers include:

- a local skills base;
- access to test bed facilities at Narec[49], the national centre for the UK's low carbon generation technologies; and

[47] *Working for a Green Britain,* RenewableUK, 2011.
[48] *Greening the economy: a strategy for growth, jobs and success,* Aldersgate Group 2011.
[49] http://www.narec.co.uk/

- Government support (£60m) for wind manufacturing infrastructure at port sites, announced by the Environment Secretary in October 2010.

7.37 Since the RenewableUK study, Clipper Wind, Siemens and other investors have established plants to manufacture and install turbines for offshore wind farms in the North Sea basin. Manufacturing is where much of the real added value, jobs and skills lies.

7.38 Renewable energy is a case in point of those industries which, given the right support, will thrive in the UK. The UK is well placed to take advantage of the global Low Carbon Environmental Goods and Services sector, worth £3.2 trillion in sales in 2008/09 and estimated to grow by approximately 4% per year over the next five years[50]. The sector in the UK recorded sales of £112bn in 2008/09, which represented a nominal annual increase of 4.3% from 2007/08, and exported £10.8bn, with a positive net trade position of £4.5bn (2008). BIS suggests that by 2015 UK employment in these industries could exceed one million jobs.

7.39 But, as the UK renewables industry shows, a strong policy framework is required, with the right balance struck between regulation and incentives and between public and institutional support and market solutions. And in shaping our strategy we need to pay close attention to our competitors' green economic strategies. Strong incentives for business, regulatory levers, availability of finance and clear government leadership are key factors behind the growth of low carbon industries in China, the US, India and Germany. Germany has already created 280,000 jobs in renewables with further strong growth forecast.

7.40 The Government is due to publish a roadmap for a green economy in Spring 2011. The broad direction of travel should be evident from the independent Committee on Climate Change. Its advice to Parliament[51] has identified three key sectors for low carbon development to reach our legally binding targets to cut emissions by 34% by 2020, and 80% by 2050:

- decarbonising power supply;
- emissions reductions in buildings and industry through energy efficiency; and
- transport emissions cuts through the introduction of new technologies.

A change of Government may have brought a shift towards a more market based, less interventionist economic policy. But the Government must sustain its focus on energy, transport and energy efficiency priorities to ensure that our climate change targets are met.

[50] Growth Review Framework for Advanced Manufacturing, BIS, 2010.
[51] Building a low-carbon economy – the UK's innovation challenge, July 2010.

The TUC would identify four immediate priorities to secure green growth.

First, to focus on priority technologies and sectors required to deliver climate objectives. 'Building a low-carbon economy – the UK's innovation challenge', published by the Committee on Climate Change, assessed the technology portfolios as follows:

- Develop and deploy offshore wind, marine, carbon capture and storage (CCS) for power generation, aviation technologies, smart grids, and electric vehicle technologies.
- Deploy nuclear power, advanced insulation materials, heat pumps and CCS for energy intensive industries (there may also be scope for UK participation in the demonstration of industry CCS).
- Research and develop hydrogen fuel cell vehicles, technologies in agriculture and industry, third generation solar PV technologies, energy storage and advanced biofuels technologies.

7.41 The Committee on Climate Change commented that, "Current levels of public expenditure for RD&D should be regarded as a minimum and cuts would be detrimental to the achievement of our climate goals and the new Government's objective to build a green economy. UK energy RD&D funding is low by international standards, and international funding is low relative to benchmarks proposed by the Stern Review."[52]

7.42 Second, the Government's Electricity Market Reform (EMR) should be seen as a prime opportunity to deliver green jobs and skills, and affordable energy. But care must be taken to avoid unintended consequences for jobs and investment. The proposed carbon tax[53] , the central energy market reform that the Government intends to introduce in Budget 2011, will impact badly on our energy intensive industries and (with other policies under consideration) may deter investment in carbon capture technology. The CO2 tax represents a Coalition commitment to increase the proportion of tax revenues from environmental taxes.

7.43 Around £110bn of investment in new power generation and transmission assets for electricity is required by 2020. The UK's liberalised energy market therefore faces the challenge of doubling the investment rate it has achieved over the past decade, in renewables, new nuclear and clean coal and gas. The Treasury has proposed a target price for carbon allowances by 2020, with a top up tax if the market price should fall below the target figure. A consultation paper invites comments on the optimum target price in the range of £20 to £40 a tonne in 2020.

[52] 'Building a low carbon economy: the UK's innovation challenge', Committee on Climate Change, July 2010.
[53] Carbon price floor: support and certainty for low-carbon investment, HM Treasury, 2010.

7.44 The TUC recognises the need to introduce an effective price for carbon emissions, to drive investment and jobs in low carbon technology. A CO2 floor price, set at an appropriate level, should, within the right policy framework, deliver a balanced energy supply of nuclear new build, renewables and clean coal and gas with carbon capture.

7.45 But the carbon tax proposal appears to have unintended consequences for our energy intensive industries. Steel, glass, cement, aluminium, chemicals, ceramics and other sectors with high energy needs have a key role to play in any vision of a low carbon economy: such as steel for wind turbines, or glass for double glazing. Surprisingly, given the evidence published jointly by the TUC and the Energy Intensive Users Group[54] on the cumulative impact of climate change policies, there is no impact assessment of the energy policy review on these sectors, which employ over 250,000 people in skilled, quality jobs. ***The Budget should announce that the Government will defer legislation on a CO2 floor price until it has assessed and addressed concerns over the impacts on our energy intensive industries and on low carbon technology investments, notable the CCS development programme.***

7.46 There are also real concerns that the EMR reforms, as they stand, will deter investment and lose this opportunity for UK world leadership in carbon capture technology for clean coal and gas power generation. A fully developed CCS programme in the UK could create up to 27,000 skilled jobs in carbon capture-related technology by 2020.

7.47 The Government must ensure the Green Investment Bank (GIB) is a genuine, well capitalised public sector body tasked with driving investment for a clean energy future[55]. Ministers have expressed their public support for a GIB, with an initial £1billion of capital and operative from 2013. The TUC believes that the alternative of a green fund will not deploy the scale of investment needed to renew our energy infrastructure, as it will not be able to issue bonds to leverage its capital base. A fund would tend to encourage ad hoc responses to investment challenges. But the low carbon transition will inevitably preoccupy the UK right through to 2050. An incremental approach to funding would be both wasteful and inconsistent with a meaningful infrastructure strategy.

7.48 The GIB would be able to leverage many times its capital base. At present, CSR 2010 proposed an initial £1bn capital from 2013. The example of existing public banks in Germany and France suggests leverages ranging from 10 to 30 times the available equity. As TransformUK suggests, these organisations then achieve a further round of leverage through co-investment in capital projects with the private sector.

---

[54] The Cumulative Impact of Climate Change Policies on UK Energy Intensive Industries – Are Policies Effectively Focussed?, TUC-EIUG, 2010.
[55] Accelerating the transition to a low carbon economy, Ingrid Holmes, E3G, 2010.

7.49 ***Budget 2011 should therefore confirm the creation of a Green Investment Bank operational within the next 12 months to contribute green investments at the necessary pace and scale. It should operate as an accountable public body, ensuring transparency and that its investments are made in the national interest.***

7.50 Finally, accessing skills and training. An effective, government-led skills strategy is fundamental to securing a just transition to a low carbon economy. As the Alliance for Sectors Skills Councils commented[56] in its response to the low carbon skills consultation, "a clear strategy and direction from Government is urgently required in order to stimulate both demand from employers and innovation in skills development and delivery."There is a significant skills shortage in sectors such as science, engineering and technology. This is borne out by the renewableUK study, in which 26% of employers reported that they had had hard-to-fill vacancies, compared with 3% in 2009. Difficulties were mainly due to a shortage of applicants with the required experience (43% of companies), lack of skills (29%) or qualifications (14%).[57]

7.51 The Alliance suggests that a sector-led approach is the best means to engage employers on low carbon issues and sell and promote solutions. Sector Skills Councils, working collaboratively, have the employer engagement mechanisms to show how principles applied in one sector can be utilised across others. SSCs should have the lead in forecasting skills needs in the low carbon context through their labour market information to ensure a match between supply and demand. Skills should be focussed on business needs articulated by employers rather than the demands of emerging policy.

7.52 The UK is well placed for the development of a green economy based on exploiting our comparative advantages. Key sectors include ultra low carbon vehicles, CCS technology and renewable energy technologies. But getting the right balance between finance, skills, regulatory and energy policies will be the key to success.

Science

7.53 The TUC agrees with the President of The Royal Society that: 'Supporting science is crucial to the strength of our economic recovery, our education system and to the solution of global problems'[58]. Under pressure from the 'Science is Vital' campaign, the Comprehensive Spending Review did recognise the need for continued investment in science, engineering and technology. The Government's decision in October 2010 to freeze the Science

---

[56] Meeting the Low Carbon Skills Challenge, Alliance for Sector Skills Councils, June 2010.
[57] *Working for a Green Britain,* RenewableUK, 2011.

[58] http://www.bbc.co.uk/news/science-environment-12021483

Budget was a better outcome than that experienced in many parts of the public sector. However, no such safeguards were provided for R&D spending undertaken directly by government departments, and the Science and Research Funding allocations and the HEFCE grant letter published in December 2010 give significant cause for concern.

7.54 The good news is that key investment projects, including at the Institute for Animal Health and UK Centre for Medical Research and Innovation, will go ahead. But this will be at a significant cost of a 46% cut in capital budgets for research councils and cuts of a similar order in capital spending by higher education institutions. Some of this capital spending is actually required for maintenance and other long-term commitments, which can't simply be stopped – so the money will have to come from other sources instead.

7.55 Although cash cuts in resource budgets are less draconian they too will have a real adverse impact. For example, an international review of energy research in the UK has warned of insufficient funding to meet national carbon-reduction targets. In stark contrast to the Business Secretary's recognition as recently as September that 'some of the UK's greatest scientific advances stem from research with no obvious commercial application', the Government's current approach is to focus only on internationally excellent research and protecting funding leveraged from external sources. In doing so, it is out of step with the approach taken in comparable EU countries. Furthermore, it has cancelled publication of the R&D Scoreboard – an initiative that for 20 years has assessed the research activities of the UK's top 1,000 companies on the basis that industrial R&D is critical to national competitiveness.

7.56 Previous TUC publications have identified the importance of supporting girls and young women who wish to embark on a career in science, but who, for a host of reasons, do not do so. We remain committed to supporting such girls and young women, and therefore we regret cuts announced to the budget of the UKRC, which is the government's lead organisation for the provision of advice, services and policy consultation regarding the under-representation of women in science, engineering, technology and the built environment.

7.57 The Campaign for Science and Engineering adeptly summaries the challenge ahead: 'The allocations confirm that UK science and engineering faces four very tricky years ahead. While some of our international competitors are looking to the Future, British research will be busy retrenching'. The TUC believes that sustained investment in the science and engineering base must be integral to a UK growth strategy. ***Any decisions to cut or reprioritise science expenditure, in this or any Budget, should be subject to an open and evidence-based assessment of the implications for UK scientific capacity and capability.***

Innovation

7.58 There is no single magic bullet for faster economic growth, but one of the most important factors, undoubtedly, is to increase productivity.

7.59 The UK has made some progress in catching up with the productivity of our leading competitors in recent years, although we have some way still to go. There is a time lag in figures for productivity: latest international comparisons of productivity, published in February 2011, show revised estimates for 2009. Those estimates show that UK GDP per worker is lower than that in France, Italy and the United States. GDP per worker is also lower than the average of the G7 countries, excluding the UK. Meanwhile, on a GDP per hour worked basis, which shows the effects of the UK's long-hours culture, UK productivity is lower than in France, Germany and the US.[59]

7.60 To increase productivity, policy makers have focused on innovation. The term innovation, in business terms, refers to an intervention that improves the process of production to the extent that it makes the company more competitive. This intervention might lead to producing the same product or services with fewer inputs. It may lead to making existing inputs produce more.

7.61 Innovation could refer to a new piece of equipment or to a new, more efficient method of working. If James Watt's steam engine was an innovation in equipment, Henry Ford's production line was a more efficient working system. Innovation dominates the minds of politicians, economists, businessmen and businesswomen, organisational psychologists and a whole host of others seeking to improve productivity and, in so doing, to improve economic growth.

7.62 There is much going on in government that focuses on innovation. The forthcoming Technology and Innovation Centres, the UK Innovation Research Centre and the Office for Life Sciences are just three institutions or work strands that the TUC supports. We are concerned, however, that the seedcorn for future innovation will be undermined by the public spending cuts.

7.63 In 'The Race between Education and Technology', published in 2008, Claudia Goldin and Lawrence Katz describe how for much of the twentieth century, the quality of education in the United States facilitated its breathtaking rise to become the most successful economy in the world.

7.64 Goldin and Katz write:

> "At the end of the twentieth century, almost all nations have discovered what America knew at the beginning of the century. Human capital, embodied in one's people, is the most fundamental part of the wealth of

[59] http://www.statistics.gov.uk/pdfdir/icp0211.pdf

nations. Other inputs, such as natural resources and financial capital, can be acquired at world prices in global markets, but the efficiency of one's labour force rarely can be. Not only does more education make the labour force more efficient, it makes people better able to embrace all kinds of change including the introduction of new technologies. And for some extraordinary individuals, more education enables them to create new technologies."[60]

7.65 Goldin and Katz argue that advances in education across the twentieth century account for almost 15 per cent of the labour productivity change in the United States. They also argue that the fact that all other nations have followed the US approach (Europeans used to mock the United States for educating such a large proportion of its population to high levels, arguing that this was a waste of money) and invested heavily in the education of their people is testimony to how important human capital became in the twentieth century and how important it is in the twenty-first.

7.66 Technological changes continued to impact on the demand for labour across the twentieth century. Great technological advances increased the relative demand for skills. But US education was egalitarian. As Goldin and Katz write, "The democratic, republican vision of education triumphed over an elitist one in which private schools would exist for some and charity or pauper schools would serve the others."[61]

7.67 Later in their book, Goldin and Katz write: "A nation's economy will expand as technology advances, but the earnings of some may advance considerably more than the earnings of others. If workers have flexible skills and if the educational infrastructure develops sufficiently, then the supply of skills will expand as their demand increases. Growth and the premium to skill will be balanced and the race between technology and education will not be won by either side and prosperity will be widely shared."[62] However, in the 1970s, everything came to a halt in the US. The country experienced exploding inequality, chiefly at the upper end of the income distribution. Economic growth slowed or was stagnant until the mid-1990s. Whatever growth occurred was unequally shared. With low or no growth and soaring inequality, the lower end often lost out altogether while the economic elites prospered.

7.68 Goldin and Katz argue that the educational attainment of American youth at the turn of the twenty-first century is not rising as rapidly as it did a hundred years ago, in response to strong economic incentives. They suggest two reasons for this. The first is the lack of college readiness of youth who

[60] 'The Race between Education and Technology', Claudia Goldin and Lawrence Katz, 2008, p. 41
[61] The Race between Education and Technology', Claudia Goldin and Lawrence Katz, 2008, p. 161
[62] The Race between Education and Technology', Claudia Goldin and Lawrence Katz, 2008, p. 320

drop out of high school and of the substantial numbers who obtain a high school diploma but remain academically unprepared for college. The second is the financial access to higher education for those who are college ready.

7.69 Among the solutions to these problems, Goldin and Katz call for more immediate financial incentives for doing well at school. Debt aversion is a real issue among poorer and middle income families. They argue that children from disadvantaged backgrounds may not understand the financial benefits, could lack adult role models who have succeeded at work or could have peers who are hostile to the idea of academic achievement. Parenting programmes and early childhood health and education interventions are likely to be complementary. Pre-school education for children from poorer backgrounds is also important.

7.70 Mentoring programmes that offer social and emotional support to poor kids, as well as financial assistance for post-secondary training, can play a modest role in improving the likelihood of college-going for a low-income youth.

7.71 Goldin and Katz go on to say:

> "Educational investments can have a range of beneficial effects for those who go further in school. They can also benefit the entire nation through an increase in economic growth, or reversal, of inequality trends. But the impact of greater educational investments on inequality can take a long time, especially if the investments start with young children. Furthermore, education-based policies might not have much effect on the share of national income accruing to the very top of the income distribution (the top 1 per cent). The nation, therefore, may want to complement greater educational investments with policies that have a more immediate impact on the distribution of the benefits of economic growth."[63]

7.72 Goldin and Katz argue that the erosion of labour market institutions, such as the minimum wage and unions, has exacerbated the market forces that have driven the recent rise in US wage inequality. Some enhancements of institutions to buffer the earnings of workers with modest incomes could work well when accompanied by policies that expand education and the overall supply of skills.

7.73 The UK's history of both education and innovation differs from that of the US. As noted above, the UK, along with much of Europe, was slow to recognise the benefits of mass, quality education. However, there are also great similarities between the position of the UK and recent US history. We, too, have seen stagnating wages among working people and 'middle Britain', while the rewards at the very top have soared. We also have a cohort of potential

[63] 'The Race between Education and Technology', Claudia Goldin and Lawrence Katz, 2008, p. 351

university students or workers able to achieve other high level skills, who spend their lives doing menial tasks. Many of Goldin and Katz's suggestions and observations apply to the UK. Pre-school education and early childhood health and education interventions could be important in the UK. Financial assistance for education and training would be important here too.

7.74 But the spending cuts will damage education. In England, detailed analysis of the Comprehensive Spending Review settlement by the Institute of Fiscal Studies (IFS) has shown that there will be cuts in real terms in overall funding for schools, even taking into account the pupil premium. The IFS has found that 60 per cent of primary students and 87 per cent of secondary students will be in schools where real funding falls. The CSR also announced a real terms cut of 12 per cent in overall funding for public spending in Wales, amounting to £1.8 billion. The size of the cuts made by the UK Government will see education funding in Wales cut in real terms.

7.75 Capital funding for schools in England and Wales has been cut, coming on top of the cancellation of the Building Schools for the Future (BSF) initiative in England this year, which stopped over 700 badly needed school building projects. Schools in England and Wales also depend on local authority services. The removal of targeted provision will have a particularly serious impact on areas of high deprivation. Local authorities will charge more for school services, or stop providing them altogether.[64]

7.76 Cuts to education will be deeply damaging for a whole host of reasons. The fact that they will reduce the capability of the future workforce to capture innovation, thereby undermining future productivity improvements, is simply one of them.

Skills

7.77 The Government published a skills strategy (Skills for Sustainable Growth) and the future funding plans for adult further education and skills (Investing in Skills for Sustainable Growth) last November. A consultation on skills policy had been held over the summer months and the TUC had submitted a response, which made the case for government maintaining spending levels in this area in order to sustain a skill-based economic recovery. However, publication of the CSR in October confirmed that the FE and skills budget would be reduced by 25 per cent over the coming three years.

7.78 As well as saying that cuts to the skills budget would further damage prospects of a viable economic recovery, the TUC highlighted the following four priority policy areas in its submission:

1. A welcome for some aspects of the direction of skills policy, including the

[64] See 'What Teachers Need To Know About The Cuts', National Union of Teachers, Winter 2010.

commitments on continued government support for apprenticeships and for the role that unions play in promoting learning at work.

2. A real concern that significant cuts in funding would deprive the most vulnerable in society of the opportunity to develop their skills in a very tough labour market.
3. In light of reduced government spending, the even greater urgency for an active strategy to increase business investment in skills through the use of specific policy levers.
4. Ensuring alignment of a strategic approach on skills with an active industrial policy so that we can build the skilled workforce needed for growth areas in the economy, especially the low carbon economy.

7.79 The TUC has strongly welcomed the Government's commitment to not only expand apprenticeships, but also to address key challenges relating to quality and equality. Compared with the provision in place under the previous Government, spending by BIS in this area will actually increase by £250m over the coming three years in order to fund an additional 75,000 adult apprentices (i.e. those aged 19+). It is also welcome that the new skills strategy says that there will be a much greater focus on supporting many more apprentices to achieve intermediate level qualifications and that there will be new "diversity pilots" designed to tackle gender segregation and barriers faced by other groups. Trade unions are also expected to play an increasingly important role, in particular by promoting the benefits of apprenticeships to disadvantaged groups in the workforce and to employers who have not previously trained apprentices.

7.80 The Department for Education is also committed to boost apprenticeships for 16-18 year olds by at least 30,000, so the overall aim is to establish around 100,000 new apprenticeship places over the coming few years. However, it is of concern that the Education Bill currently going through Parliament is repealing previous legislation that would have required the Skills Funding Agency "to secure an apprenticeship place" for suitably qualified young people (i.e. known as the "apprenticeship guarantee") and is instead replacing this with a form of "apprenticeship offer" for certain groups. It would be especially disappointing if this policy change reduces the opportunity for disadvantaged groups to access apprenticeships in comparison with the previous policy intent of the "apprenticeship guarantee."

7.81 The generally positive commitments on apprentices are overshadowed by the impact of the overall 25 per cent reduction in government spending on skills provision, which will have a disproportionate impact on the most vulnerable. In particular, it will hit adults who previously benefited from the "Level 2 entitlement" by accessing free training to enable them to achieve a qualification equivalent to either 5 GCSEs at A-C grade or an NVQ level 2. In recent years, many thousands of employees without such qualifications accessed training via the Train to Gain programme to achieve this skill level.

The Government has now abolished both the entitlement and the Train to Gain programme, with free training now being confined to adults who have serious problems with literacy and numeracy.

7.82 There are also going to be major restrictions to English for Speakers of Other Languages (ESOL) courses that will adversely affect many vulnerable adults. There will be no public funding to support ESOL training for migrant workers. In addition, from this September free ESOL courses at FE colleges will be restricted to citizens claiming "active" benefits (e.g. JSA) with those claiming other benefits (e.g. Income Support) forced to pay regular fees. A recent survey conducted by the Association of Colleges has highlighted that around 100,000 students - three quarters of whom are women receiving "inactive" benefits - face having to pay fees ranging from £400 to £1200, with the likelihood being that many of them will simply opt out of such courses.

7.83 ***Budget 2011 should announce a review the current arrangements for tax relief for work-related training through the corporate tax and income tax systems.*** A forthcoming policy paper commissioned by unionlearn estimates that the total cost of this relief to the Exchequer is in the region of £5bn per annum, with little available data on how it is being used by those employers that qualify for it. The policy paper concludes that there are very strong grounds for using this money much more effectively particularly in the current fiscal climate by making it more progressive (e.g. targeting relief on training of low-skilled and low-waged employees) and also more focused on "high returns" (e.g. restricting it to training leading to qualifications). There would be substantial savings resulting from these reforms (around £4.5bn) which could then be used to extend training relief on NationaI Insurance contributions in order to provide a similar form of financial support to those employers and employees in the large numbers of workplaces that are currently excluded from relief (e.g. all public and voluntary organisations and private sector companies that do not pay corporation tax).

7.84 The efforts of the previous government to address the disproportionately high percentage of UK employees with low skills had been showing some degree of progress. According to the latest annual assessment[65] by the UK Commission of Employment and Skills (UKCES), over the past decade the numbers without any qualifications had declined by more than 1.5 million (or by 26%) and the numbers achieving high level qualifications had increased by more than 3 million (or by 44%). However, in spite of this progress, the UKCES's analysis is that "the UK is unlikely to improve its relative international position [and] will remain in the bottom half of OECD countries on low and intermediate skills", because other countries are "progressing further and faster". It should also be noted that this analysis was undertaken well before the Coalition Government announced the major cuts to skills funding last autumn.

[65] Ambition 2020: world class skills and jobs for the UK (The 2010 Report), UKCES, 2010

7.85 The Coalition Government's consultation paper did at least acknowledge the scale of the skills challenge and also helpfully identified that a key barrier is the inadequate nature of employer investment in training in the UK. For example, the findings from the latest National Employer Skills Survey (NESS)66 indicate that one third of employers still offer no training and that each year 44 per cent of the workforce is denied access to training at work. NESS also highlights that "training that is done is often minimal, on-the-job and informal" and that "small businesses in particular are less likely to invest in training their workforce."

7.86 The Skills Strategy itself includes a welcome commitment to try and extend the use of regulatory levers to influence employer investment in skills at the sector level - albeit on a voluntary basis – through Licence to Practice (i.e. occupational licensing) and training levy schemes. However, there remains a great deal of scepticism about this on the basis that evidence shows that there is little prospect of employers signing up to such schemes on a wholly voluntary basis. It is also hugely disappointing that the Government has just announced that the Right to Request Time to Train is not to be extended to employees in SMEs in April, as originally planned. The Government has not completely ruled this out, but it is now saying that it will be taking further time to examine the potential impact of the regulation on smaller firms.

7.87 ***The Government should extend the Right to Request Time to Train to all employees as soon as possible. An announcement to this effect should be included in the Budget.*** Data from the latest National Employer Skills Survey highlight that the likelihood of employers not providing any training increases inversely with employment size (e.g. 45 per cent of employers with fewer than five staff said they had not provided any training in the last 12 months). Employees of larger businesses are already using the right with no evidence of complaint and research undertaken by unionlearn has shown that it encourages employees to ask for training and does not result in more red tape.

7.88 Employers may be more inclined to participate in some other new sector schemes announced in the skills strategy, such as a new Growth and Innovation Fund (GIF) designed "to support employers to be more ambitious about raising skills in their sector and to promote workplace practices that will lead to better development and deployment of workplace knowledge and skills." The Government is going to contribute £50m to this with an expectation that "businesses will co-fund the training costs covered by the Fund."

7.89 Aspects of the GIF are welcome, including the focus on co-investment, deployment of skills and innovation rather than just a simplistic approach designed to increase the supply of skills in the workplace. However, it is crucial that employee engagement is at the heart of all GIF projects and that trade unions in each sector are fully engaged in what in effect is a strategy to

[66] National Employer Skills Survey for England 2009: key findings report, UKCES, 2010

drive up the adoption of better skills utilisation and high performance working across all sectors. The potential for building the union role on this front is something that unionlearn is currently prioritising and last year it published a discussion paper by Professor Francis Green (Unions and Skills Utilisation) looking at the opportunities and challenges facing unions in relation to this aspect of the skills agenda.

7.90 It is also important to note that the UK Commission for Employment and Skills is to be reshaped so that it can "become a true vehicle for economic growth and social partnership, with employers, trade unions and others coming together to give effective leadership to business on skills". Welcome as this aspiration is, it has to be viewed in the context of major cuts to the funding of both the Commission and Sector Skills Councils over the coming years and the lack of a strategic approach on economic growth at the national level.

7.91 The Government needs to build on the welcome initiatives to promote a new social partnership at the sector level and to try and extend the use of regulatory levers to influence employer investment in skills. ***In order to give this traction, the TUC recommends that employers and union representatives on Sector Skills Councils should be required by government to come together to draw up a number of skills targets (e.g. the growth in the number of apprentices in sub-sectors). If these targets are not achieved, there should be a process to trigger the introduction of regulatory measures to tackle employer under-investment in skills in a particular sub-sector or occupation.***

7.92 Industrial strategy, and the complementary skills priorities and funding that should flow from this, is one policy area that is notable for its absence in the Government's skills strategy. In reality, this is hardly surprising considering the abandonment of the "industrial activism" approach of the previous government. There is some reference in the strategy to sectors supporting the development of the low-carbon economy via the new approach on co-investment, including the possible use of occupational licensing, levies and other measures. The document also says that the government will "be prepared to co-fund training programmes in new or rapidly changing parts of the economy, for example to meet skills needs arising from the transition to a low-carbon economy."However, the general impression given was of a lack of real commitment in the skills strategy to a strategic approach on this front.

7.93 Since then, however, there have been some indications that the Government is at least giving further consideration to a strategic approach on skills in relation to the development of the low carbon economy. It has published a response to the consultation on the low carbon skills strategy initiated by the previous Government, in which the sectoral approach is fleshed out, and it is also anticipated that there will be a more considered view of skills policy in the forthcoming Green Economy Roadmap. Nevertheless, as with other policy areas, there remain huge concerns that a strategic approach on "green skills" is being hindered by ideological opposition to national strategic policy making and widespread cuts to government agencies (e.g. RDAs) that are necessary to deliver on this agenda.

7.94 It is very welcome that the Government has pledged to continue to give support to the union role in championing learning and skills in the workplace, including maintaining the level of funding for unionlearn and the Union Learning Fund at the same level as in the current financial year.

Employment Policy

Mandatory work

7.95 ***The TUC is opposed to the Government's proposals to mandate some claimants to participate in unpaid work.*** We believe both that it is unfair to require claimants who are compliant with their Jobseeker's Agreement to work for free and that workfare is an ineffective labour market intervention. The DWP's recent review of the international evidence on workfare concludes that: "There is little evidence that workfare increases the likelihood of finding work. It can even reduce employment chances by limiting the time available for job search and by failing to provide the skills and experience valued by employers."[67] The review also found that workfare schemes are at their least effective for participants with multiple barriers to employment, that claimants in these groups do not benefit from unpaid work placements because the support necessary to address their needs is not provided and that as those with multiple barriers can find it difficult to meet their obligations under workfare they are more likely to face sanctions for non-compliance. ***The TUC believes that these proposals will simply punish unemployed people who cannot find work and calls on the Chancellor to ensure that they are withdrawn.***

Cuts for working families

7.96 The TUC is concerned that at a time when family budgets are being squeezed by tax rises as well as by falls in real wages, the Government has chosen to introduce proposals to further cut benefits for working families. The TUC has calculated that benefit cuts announced to date could mean that working families are worse off by over £2,700 a year by 2013[68] and that around two-thirds of the welfare cuts announced to date will reduce the income of working claimants.[69] And while there will be some winners from the Government's new proposals on Universal Credit, the impact assessment also makes clear that many will lose – including significant numbers of middle earners with modest savings and second earners in couple households.

---

[67] http://campaigns.dwp.gov.uk/asd/asd5/rports2007-2008/rrep533.pdf
[68] http://www.tuc.org.uk/social/tuc-19126-f0.cfm.
[69] http://www.tuc.org.uk/social/tuc-18749-f0.cfm.

7.97 As well as the negative financial impacts that these changes will have for working families, the TUC is extremely concerned that these cuts will act to reduce the chances of some working people remaining in employment. With higher childcare costs, lower returns from earnings and tighter conditions on receipt of in-work benefits it seems likely that some households, particularly those with children, will simply not be able to afford to remain in work. With unemployment already extremely high, the TUC is therefore concerned that Government policy may further act to reduce labour market participation. At a time when securing the recovery depends on increased employment levels, and when reducing child poverty rates depends upon more parents moving into better jobs, the TUC is alarmed by the real social and economic damage that these cuts are likely to cause. ***The TUC therefore calls on the Chancellor to re-assess the Government's programme of welfare cuts, and in particular to ensure that benefits for children and families are protected from sweeping spending reductions.***

Labour market programmes

7.98 The TUC continues to oppose the contracting out of welfare to work services, and believes that state provided welfare services provide both better outcomes and value for money. The most vulnerable claimants are often at the greatest risk from privatised labour market programmes as claimants in these groups face the greatest risks of being 'parked' on benefits (as the costs of supporting them into work are too great for providers' profit margins). We are also concerned that given the difficulties the current economic climate will cause for private providers (there are over 100,000 fewer vacancies across the economy than was the case before the downturn) the financial imperatives facing these companies may lead to lead to claimants being treated unfairly or harshly, or being provided with lower quality services.

7.99 We are also concerned by reports that the total number of claimants receiving support from the Work Programme will be lower than under labour market programmes provided by the previous administration.[70] Claimant unemployment remains only around 150,000 lower than it was a year ago and is 670,000 higher than at the start of the recession in January 2008. With the most recent figures only showing a small rise in the claimant count, which currently stands at 1,459,700, it seems likely that demand for labour market programmes will remain high throughout 2011. In this context reducing spending on support for those facing unemployment seems particularly misguided, leaving claimants at a higher risk of long-term unemployment.

7.100 The TUC also notes that while unemployment remains higher than it has been for the last decade, investment in Jobcentre Plus is set to fall. With Jobcentre Plus about to experience a 25 per cent budget cut over the Spending

[70] http://www.bbc.co.uk/news/uk-politics-12476342.

Review period, and staffing levels set to reduce by 9,300,[71] we find it hard to see how the Government can meet its commitment to provide 'intensive' support for those facing unemployment.

7.101 And as well as staffing reductions, it is becoming clear that newly introduced Jobcentre Plus programmes will be more poorly resourced than those preceding them. For example, the Department's Work Experience scheme will have a maximum of 73,000 places a year,[72] is limited to 18-21 year olds, will provide no guaranteed training opportunities for participants and provides no support with travel or childcare costs for participants. This contrasts poorly with the opportunities previously provided by the Future Jobs Fund (see below).

7.102 ***The TUC therefore calls on the Chancellor to recognise the importance of investing in high-quality labour market programmes, to ensure that spending on such programmes is protected from cuts and to recognise the quality and value for money of the services and support that Jobcentre Plus can provide.***

Ending Child Poverty

7.103 Increasing employment rates among families with children will be vital if the Government is to meet its Child Poverty Targets. The TUC agree with the End Child Poverty Coalition that the Government's child poverty strategy and its labour market policy need to be fully integrated, with regeneration and labour market programmes focused on areas where child poverty rates are highest. ***We also believe that the Government should produce a detailed assessment setting out how the measures it proposes in its forthcoming Budget will impact on reducing child poverty, as per the requirements of the Child Poverty Act. We call on the Chancellor to make sure that such an assessment takes place.***

The Future Jobs Fund

7.104 In May last year, the Government announced that it was closing the Future Jobs Fund, clawing back £320 million that had not yet been allocated. The Future Jobs Fund represented a serious attempt to draw on the lessons of 35 years' of work experience schemes. Successive governments have relied on mandatory work experience, but it rarely lives up to expectations. Employers do not give preference in recruitment to people who have spent time on work experience and unemployed people repeatedly say that it does not help them to get jobs.

7.105 The Future Jobs Fund was an attempt to create something genuinely different – a 'job guarantee'. It has offered young long-term unemployed

---

[71] http://www.telegraph.co.uk/finance/jobs/8267501/Jobcentre-Plus-to-axe-9300-jobs.html
[72] http://www.ssac.org.uk/pdf/minutes/11-10.pdf

people (and some older disadvantaged unemployed people) a real job, paid at at least the minimum wage for work of benefit to the community. By October 2010, there had been a little over 75,000 starts to Future Jobs Fund vacancies. The Future Jobs Fund is designed to be time-limited, so participants have to use their experience to move into the open labour market – they aren't "locked in" to their FJF jobs – and there is less risk of displacement. ***The TUC believes that the cancellation of the FJF was a serious error and we would urge the government to re-create this programme.*** The original Fund was set at £1 billion, to run from late 2009 to March 2011 and we believe that, at a time of very high youth unemployment, a similar level of investment is justified.

Wages

7.106 As noted in the economic analysis section above, wage rises have fallen far below the rate of inflation. This is causing, in the Governor of the Bank of England, Mervyn King's, words, "so much unhappiness" and, as the Institute for Fiscal Studies' Green Budget points out, it is resulting in income growth contributing little to consumption. The role of demand in economic recovery is therefore undermined.

7.107 Relatively little has been said about the contribution of falling wages to the economic crisis. In fact, the global economic crisis followed the unsustainable build-up of debt in the US. A part of the reason many working people found themselves in financial difficulties was stagnant or falling real wages for most workers. Stagnant wages, combined with easy access to mortgage and consumer loans (access which was easy because, as workers had less money, financial institutions had to relax loan conditions in order to stay in business themselves) led to the rapid rise of household debt. This US phenomenon is familiar to the UK, where astronomical house price rises in recent years often required potential homeowners to borrow beyond their means in order to get onto the housing ladder.

7.108 Economic recovery and growth in the years to come will require an increase in household consumption. Indeed, as the public sector spends less, the private sector must make up the shortfall. The Coalition speaks of the private sector filling the void created by the retrenchment of the public sector. But the private sector must sell the goods that it produces and that, by definition, requires people to buy those goods. Some, especially manufactured goods, could be exported. But some, and certainly much of the service sector, requires domestic buyers.

7.109 Meanwhile, ordinary consumers are finding it harder and harder to make ends meet. RPI inflation is running at 5.1 per cent, while the median pay increase in November 2010 was 2.2 per cent. For years, the rhetoric of politicians, from all parties, has tried to double bind trade union pay negotiators: if the economy is doing well, healthy pay settlements could threaten its success; if the economy is doing badly, it cannot afford healthy pay settlements. Either way, trade unionists legitimately negotiating pay deals for their members have been portrayed as actual or potential wreckers of the economy.

7.110 It is, of course, beyond the remit of this Budget Submission to call for higher wages, whose level, at least in the private sector, is agreed between employers and employees. The TUC deeply opposes the public sector wage freeze and we discuss this further below. However, the TUC has long been interested in high performance workplaces. Such workplaces have been shown to have a major, positive impact on levels of productivity and profitability. They often excel at innovative working practices, therefore linking to the section on innovation above. But they also have a tendency to result in higher wages. More high performance workplaces, therefore, could result in higher growth, more innovation, more successful companies and better paid workers.

High Performance Workplaces

7.111 High Performance Workplaces (HPWs) come in different forms, but their common thread is that achieving and sustaining high levels of performance requires a positive workplace environment and practices that develop and leverage employees' knowledge and ability to create value. While the specific practices need to be tailored to fit different industries and occupations, they generally include selection, training, mentoring, incentives, knowledge-sharing, collaborative employment relations and other shared decision-making mechanisms. These practices are most effective when they are implemented together and in concert with new capital or technological investments.

7.112 Researchers have documented the impact of high performance work practices on efficiency outcomes such as worker productivity and equipment reliability, on quality outcomes such as manufacturing quality and customer service, on financial performance and profitability, and on a broad range of other performance outcomes. Many studies have found that these work practices explain significant performance differences among, for example, auto assembly and parts plants, steel mills and finishing lines, call centres, airlines, banks and high technology firms. The magnitude of the effects is substantial, with performance premiums ranging between 15 and 30 per cent.73

7.113 High performance work practices have been shown to work in three different ways. They foster development in human capital, creating a performance advantage for organisations through processes such as increasing employee skill development and improved customisation by employees in service industries. They enhance the motivation and commitment of employees, creating an organisational and employee relations climate that motivates and supports employee engagement in problem solving and performance

[73] 'High Performance Work Practices and Economic Recovery', Eileen Appelbaum et al, November 2008.

improvement. And they build organisational social capital, which facilitates knowledge sharing and the co-ordination of work, and thus improves performance.

7.114 Trust is enhanced by managerial behaviours such as sharing and delegation of control (e.g. allowing or encouraging workers to participate in decisions, singly or in teams), demonstration of concern for the employee, behavioural integrity and consistency, and communication. Managerial behaviours that encourage participation are an important aspect of high performance work systems and can be expected to be positively related to trust. What is more, trust should also be positively related to skill, and it has been argued that trust is more vital in knowledge-intensive industries.

7.115 Indeed, a study of high performance work systems in the steel, apparel and medical instruments industries in the US found a positive correlation between such work systems and trust.[74] Autonomy in decision-making and communication significantly enhance trust in each of the three industries. Trust is also related to skill and incentives. Indicators that management is engaging in trust-enhancing behaviours, such as providing employment security and undertaking changes needed to keep the organisation competitive, are positively related to trust in all three industries.

7.116 Intrinsic rewards (as distinct from monetary rewards) represent the extent to which workers feel that their jobs are rewarding, challenging and meaningful. Workers who have some responsibilities for determining the content of their jobs have more autonomy over their work, and this has been strongly shown to enhance one's experience of intrinsic rewards.[75]

7.117 Organisational commitment is a multidimensional construct that reflects a worker's identification with the employer (loyalty), attachment to the organisation (intention to stay) and willingness to expend effort on the organisation's behalf. These dimensions represent a mix of attitudinal and behavioural aspects of an employee's relationship to the employing organisation. Once again, high performance work systems are shown to enhance organisational commitment. Interestingly, perceived fairness of pay and the company's help in dealing with work-family conflicts are positively related to commitment in each of the three industries in the study quoted above.

High performance work systems and pay

7.118 Studies show that workers in companies using high performance work systems enjoy higher pay than those in more traditional systems. There are a number of direct and indirect reasons for this.

---

[74] 'Manufacturing Advantage: Why High Performance Work Systems Pay Off', Eileen Appelbaum, Thomas Bailey, Peter Berg and Arne L Kalleberg, Economic Policy Institute, 2000.
[75] Ibid.

7.119 Some managers believe that linking pay to actual performance elicits greater discretionary effort on the part of employees. Participatory workplaces are more likely to receive compensation through pay systems such as profit or gain-sharing, or bonuses for meeting quality or production targets. Alternatively, the process may work the other way around. Employers may pay higher wages in general in the expectation that workers will reciprocate with greater productivity. Economists call these efficiency wages.

7.120 Less directly, workers in high performance systems require higher skills and there is a straightforward human capital argument that higher skilled workers enjoy higher pay. The classic ‘Taylorist’ production system is based on simplifying tasks to reduce the required skills and allow faster achievement of proficiency. In contrast, members of a team are expected to be involved in their fellow employees’ work. Even when workers are expected to perform a single task, managers believe that high performance systems are most effective when workers at least understand the role and function of co-workers and other team members. Workers in a high performance system carry out a greater number of technical tasks and are responsible for broader supervisory functions than is the case in a traditional production system. All of these factors should result in higher wages for workers in high performance systems.

7.121 Finally, earnings and psychological benefits such as intrinsic rewards and trust are not the only advantages that workers can gain from innovative work organisation. Many of the managers in the plants studied in one US research project hoped that high performance systems would allow them to continue to produce goods and employ workers in the United States. Even if costs did not drop, managers expected new work organisation to enhance the competitive advantage of domestic producers through better quality, faster throughput, timely delivery and improved customer service.[76]

High performance work systems and unions

7.122 What does this have to do with unions? The answer is that high performance work systems benefit from good industrial relations. Neither highly adversarial battles over union organising nor on-going adversarial labour management relations are conducive to implementing and sustaining high-performance work practices or achieving positive results. However, labour-management relations based on mutual respect for worker, union and employer rights and responsibilities have been shown to achieve high performance by facilitating employee participation and related high performance work practices and by creating social networks in and across organisations.

---

[76] ‘Manufacturing Advantage: Why High Performance Work Systems Pay Off’, Eileen Appelbaum, Thomas Bailey, Peter Berg, Arne L. Kalleberg, Employment Policy Institute, 2000.

7.123 The United States airline industry has been characterised by a range of approaches to industrial relations, from management attempts to avoid or suppress unions, to shared governance of the company, to more generally promoting a positive attitude towards workplace culture and labour-management relationships. Some interesting observations about this sector were published in 'Mutual Gains or Zero Sum? Labour Relations and Firm Performance in the Airline Industry', published by the Industrial and Labour Relations Review in 2004.

7.124 From 1987 to 2001, Southwest Airlines was, by almost any measure, the highest performing firm in the US airline industry. During those years, it had the highest operating margins, the lowest service failure rate, the highest labour productivity and the second highest aircraft productivity, despite its reliance on short-haul flights, which tend to reduce productivity. The company attributed part of its superior performance to the quality of its relationships with employees. Organisational practices included profit-sharing, extensive communication with employees, high levels of supervisory involvement with front-line employees, selective recruitment for teamwork skills, flexible work rules, and the use of cross-functional performance measures. These practices support a high-level of trust and co-operation among employees and between employees and their managers, contributing to faster airline turnarounds (and therefore higher aircraft productivity), higher labour productivity, and higher levels of service quality.

7.125 Following a history of poor industrial relations, and after emerging from its second bankruptcy in 1993, Continental began a remarkable turnaround. By 1995, Continental achieved the highest profits in its history and by 1999, it ranked near the top of most service categories. Whereas Continental's relative level of complaints was extraordinarily high during its anti-union era of 1983 to 1991, it then dropped below the industry median after 1994. After 1991, both the pilots and the mechanics were re-unionised, but contract negotiations were smooth and relatively short. And whilst Continental's labour contracts have raised wages significantly, they also kept fewer work rules than average, which allowed Continental to operate more efficiently than its rivals.

7.126 Drawing conclusions from the industry, the paper states:

> "The results presented in this paper indicate that employee gains in labour relations do not necessarily lead to firm losses in the airline industry. In fact, firm performance seems to improve on certain dimensions in the presence of unions. Specifically, as expected, union representation levels are associated with higher wages. But union representation is also associated with higher aircraft productivity, presumably due to higher levels of co-operation and discretionary effort that enable aircraft to be turned around more quickly at the gate and to be otherwise more efficiently used. This productivity enhancement is

> apparently enough to offset the wage premium, given that union representation is associated with increased rather than reduced profitability."

7.127 The authors go on to say:

> "Thus, efforts to build an effective labour relations system by focusing on the quality of the relationships among employees, supervisors, and managers, and on reaching collective bargaining agreements in a timely and peaceful fashion … appear to offer considerable potential for improving firm financial performance and the industry's overall service quality."77

7.128 Interestingly, these findings appear to coincide with a growing desire among employees for union representation. In a briefing prepared for the Employment Policy Institute by Richard Freeman in February 2007, workers in the United States reported that they wanted a greater say at their workplace as much as or more than they did in the 1990s. What is more, they wanted unions more than ever before. A majority of non-union workers in 2005 said they would vote for union representation if they could, up from roughly 30 per cent who would vote for representation in the mid-1990s. Workers sought a workplace committee form of representation, but saw management opposition as a major reason for their inability to obtain the workplace representation and participation that they sought.

7.129 As the TUC has consistently argued, achieving economic growth is the most pressing issue facing the country. Improving productivity and rebalancing the economy are vital. A major way to increase productivity and profitability would be to increase the proportion of high performance workplaces in the UK, an outcome that would also result in higher skills and better wages among employees. Trade unions have been shown to be a positive influence on the development of such workplaces.

7.130 ***The TUC calls on the Chancellor to announce, as part of Budget 2011, a study into the ingredients needed to implement high performance work systems, based on partnerships with worker representatives, and tax incentives that could be offered to high value, high skill companies that seek to implement such work systems.***

Our international Commitments

7.131 Finally, whilst the focus of this Budget Submission has been on growth and social cohesion at home, the TUC has not forgotten its international commitments. Specifically, we have consistently supported the target set under the last Government, and reiterated by the current Government, to spend 0.7

[77] 'Mutual Gains or Zero Sum? Labour Relations and Firm Performance in the Airline Industry', Jody Hoffer Gittell, Andrew von Nordenflycht, Thomas A Kochan, Industrial and Labour Relations Review, Vol 57 No 2, 2004.

per cent of Gross National Income on overseas aid – the UN target. The Government is committed to meet this target by 2013, but where the previous government planned to increase the proportion of GNI spent on overseas aid from the current level of 0.56 per cent to 0.7 per cent progressively, the current administration has pegged overseas aid at 0.56 per cent until 2013. In effect, this means that in 2011 and 2012, overseas aid will be £2.3bn less than it would be if the rise was progressive. The TUC believes that overseas aid will be £2.3bn less than it would be if the rise was progressive. The TUC believes that overseas aid should increase this year to 0.6 per cent of GNI and to 0.65 per cent in 2012, meaning that overseas aid spending should increase by £0.9bn to £9.3bn this coming year, and to £10.6bn in 2012, reaching £12bn in 2013 as the Government proposes.

Section eight

Conclusion

8.1 In the Comprehensive Spending Review last year, the Coalition Government unveiled a package of spending cuts that are deeper and will come into effect more quickly than anything experienced in living memory. Some of those cuts have started to bite. Others will come into effect from April. As the weeks go by, people are beginning to understand just how damaging these cuts will be. The idea that the cuts would only affect back office services and that those public services that people most value, such as health and education, will be protected, was never credible. Sadly, figures obtained in February for the False Economy website, using freedom of information requests, showing 53,000 confirmed, planned and potential NHS job losses, including doctors, nurses and dentists, exposed the truth. Government complaints of union scaremongering will ring hollow to the hundreds of thousands of NHS patients, who will experience a poorer service, longer pain or worse as a result of these cuts.

8.2 Trade unions oppose the cuts for a number of reasons. The fact that the public, and especially the most vulnerable members of society, stand to suffer so much is one of them. The fact that cuts on this scale, at this speed, were never necessary, is another. The fact that cuts will undermine efforts to create the very economic growth which the Government claims to be pursuing is a third.

8.3 In this submission, we call, again, for the cuts programme to be reversed. This would be the single most important thing the Government could do to promote genuine economic growth and to bind our society together. This submission also puts forward long-term proposals designed to deliver patterns of growth that match the best countries in the world. To do that, we will need an active industrial strategy, a step-change in our approach to skills training, and institutions designed to deliver new sources of finance for industry, most obviously a Green Investment Bank. We make the case for innovation. There is no magic bullet to make our industry more innovative. But this Budget Submission argues that mass, quality education, with targeted measures for those who, for reasons of poverty or social exclusion, extra help is needed, are the basic ingredients for creating an innovative, engaged workforce.

8.4 This submission draws on the wealth of evidence which shows that compulsory work schemes are ineffective and that targeted, tailored help delivers results as we seek to get people from welfare to work. Workers are at their best when they are challenged, motivated, involved, engaged and properly rewarded. We make the case for high performance workplaces, which are good for the economy, good for individual companies, and good for the workforce. In many instances in this submission, we have tried to highlight the valuable role that trade unions can and wish to play in the workplace and as wider partners in civil society.

8.5 But for a strong private sector, we need strong public services, at national and local level. In turn, these require motivated public service professionals. The Government's directon of travel could almost be designed to undermine the work of employees in the public sector. At the very least, those earning the lowest, including those in local government, should be protected from the public sector pay freeze.

Summary of Budget Recommendations

- ***The single most valuable announcement that the Chancellor could make in Budget 2011 would be that the spending cuts announced in last year's Comprehensive Spending Review will not go ahead.***
- ***We urge the Government to use the Budget to address the front-loading of cuts in local government, which appears to have no economic rationale and will be extremely damaging in terms of unemployment and loss of services.***
- ***The Chancellor should announce in the Budget that all local government workers will be covered by the £250 uplift for those earning under £21,000.***
- ***The TUC believes that the increase in VAT is harmful to the interest of the UK, the people of this country, the chances of economic recovery and to employment and as such recommends its reversal in Budget 2011.***
- ***The TUC recommends that the reduced band of Capital Gains Tax for "entrepreneur's relief" be restricted to £2 million and that all gains should be taxed at a person's marginal rate of income tax.***
- ***The Budget should include a 0.005% currency transactions levy and the extension of the current stamp duty to all share transactions.***
- ***The TUC has long-believed that Britain needs a modern industrial strategy and we call on the Government, working with the social partners, to begin to develop such a strategy.***
- ***The TUC calls on the Chancellor to announce, in the Budget, a task force, comprising Ministers and Officials from BIS, DWP, DECC, the Cabinet Office and the Treasury, to consider a procurement policy that increases the UK's levels of skills, sustainability and employability, as well as value for money, and to report in the Autumn. Employers and trade unions should be asked to give evidence to this task force.***

- *The Budget should announce that the Government will defer legislation on a CO_2 floor price until it has assessed and addressed concerns over the impacts on our energy intensive industries and on low carbon technology investments, notably the CCS development programme.*
- *Budget 2011 should confirm the creation of a Green Investment Bank operational within the next 12 months to contribute green investments at the necessary pace and scale. It should operate as an accountable public body, ensuring transparency and that its investments are made in the national interest.*
- *Any decisions to cut or reprioritise science expenditure, in this or any Budget, should be subject to an open and evidence-based assessment of the implications for UK scientific capacity and capability.*
- *Budget 2011 should announce a review of the current arrangements for tax relief for work-related training through the corporate tax and income tax systems.*
- *The Government should extend the Right to Request Time to Train to all employees as soon as possible. An announcement to this effect should be included in the Budget.*
- *The TUC recommends that employers and union representatives on Sector Skills Councils should be required by government to come together to draw up a number of skills targets (e.g. the growth in the number of apprentices in sub-sectors). If these targets are not achieved, there should be a process to trigger the introduction of regulatory measures to tackle employer under-investment in skills in a particular sub-sector or occupation.*
- *The TUC is opposed to the Government's proposals to mandate some claimants to participate in unpaid work. The TUC believes that these proposals will simply punish unemployed people who cannot find work and calls on the Chancellor to ensure that they are withdrawn.*
- *The TUC calls on the Chancellor to re-assess the Government's programme of welfare cuts, and in particular to ensure that benefits for children and families are protected from sweeping spending reductions.*
- *The TUC calls on the Chancellor to recognise the importance of investing in high-quality labour market programmes, to ensure that spending on such programmes is protected from cuts and to recognise the quality and value for money of the services and support that Jobcentre Plus can provide.*
- *We also believe that the Government should produce a detailed assessment setting out how the measures it proposes in its forthcoming Budget will impact on reducing child poverty, as per the requirements*

of the Child Poverty Act. We call on the Chancellor to make sure that such an assessment takes place.

- ***The TUC believes that the cancellation of the Future Jobs Fund was a serious error and we would urge the Government to re-create this programme.***
- ***The TUC calls on the Chancellor to announce, as part of Budget 2011, a study into the ingredients needed to implement high performance work systems, based on partnerships with worker representatives, and tax incentives that could be offered to high value, high skill companies that seek to implement such work systems.***

Trades Union Congress
Congress House
Great Russell Street
London WC1B 3LS

www.tuc.org.uk

contact: Tim Page
Author name: Tim Page
Telephone: 020 7467 1202
e-mail address: tpage@tuc.org.uk

For more copies of this title contact our ordering point on 020 7467 1294 or smills@tuc.org.uk. Bulk discounts may be offered.

All TUC publications may be made available for dyslexic or visually impaired readers, on request, in an agreed electronic format or in accessible formats such as Braille, audio tape and large print, at no extra cost.