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TUC Budget Submission 2013

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Section one

Introduction

1.1 As we approach Budget 2013, in the run-up to the Coalition Government's third anniversary, it is clear that austerity has failed. The TUC has consistently argued that the Government's approach to deficit reduction would be both socially divisive and economically disastrous. It gives us no pleasure to have been correct on both counts.

1.2 On 22nd June 2010 the Chancellor of the Exchequer told us that his Budget would deal "decisively with our country's record debts", support "a strong enterprise-led recovery" and protect "the most vulnerable in our society". The Chancellor's programme of massive public spending cuts would, we were told, run alongside a rebalanced and growing economy, where saving, business investment and exports increased as a share of GDP.

1.3 But ever since the UK's economic performance has been disastrous. In the ten quarters following the June Budget of 2010 the economy has contracted five times and total growth has been just 1.1 per cent. The economy 'double dipped' into a technical recession in 2012 and, after growth fell once again in Q4 2012, we face the risk of an unprecedented triple dip if growth in early 2013 remains negative. But either way, the longer term picture is of an economy that is essentially stagnant.

1.4 There is no evidence that the economy is rebalancing. Indeed there are worrying indications that slow growth, weak demand and lower real wages are encouraging the growth of low-productivity sectors, risking trapping the economy in a lower-wage, lower-productivity path. As well as causing untold damage to our immediate economic prospects, we are increasingly concerned that the Chancellor's plans will have serious negative implications for growth and living standards in the future.

1.5 Weak growth has also resulted in the Government missing its targets for deficit reduction and breaking its own fiscal rules. While the Government originally intended to close the structural deficit by 2014/15, this target has now been pushed back to 2016/17. The Chancellor has also announced that his second target, that debt/GDP would be falling by 2015/16, will also be missed. The impacts for our public finances are severe, with the most recent OBR projections[1] showing that the Government will borrow £212bn more than it originally intended over the period 2010-2016.

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[1] Economic and Fiscal Outlook, OBR, December 2012 http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-december-2012/

1.6 Our appalling economic performance, combined with the Chancellor's iniquitous policy choices, continue to damage the prospects of working people across the UK. The squeeze on living standards has been prolonged, with real wages set to fall for close to four years, the longest period for such a squeeze in living memory. Unemployment remains unacceptably high, and young people face an unjustifiable struggle as they seek to enter the labour market. Many who have remained in work are still unable to make ends meet, with under-employment remaining at record highs.

1.7 Public sector workers face a particularly challenging time. 370,000 have already lost their jobs and the OBR forecasts that at least as many again will face unemployment in the years ahead. For those who remain in work frozen pay and increased pension contributions mean that the living standards squeeze, particularly for those already on the lowest incomes, is extreme.

1.8 Across the country public services are suffering from austerity, and as funding plummets the poorest are the most severely affected. TUC analysis shows that under current plans by April 2017 the poorest households will have lost services equivalent to over 30% of their income, compared to a loss of just 2.5% for the richest. Our research also shows that families are the biggest casualties of the Government's austerity plan, as they are set to find that £7,000 a year less will be spent on their public services by 2018. These cuts come on top of the continuing social security squeeze, with low and middle income families hit hard by ongoing social security cuts and some set to lose thousands of pounds in vital working tax credits just days after the Chancellor's next Budget. Women have been particularly hard badly affected, being twice as likely as men to be feel the impact of spending cuts.

1.9 While presiding over a stagnating economy, falling living standards and unacceptably high unemployment, the Chancellor has also chosen to remove the 50p rate of tax for the highest UK earners, grant the largest corporations significant tax cuts and raise the rate of VAT, one of the UK's most regressive taxes. Despite many warm words around the need to tackle tax avoidance, little concrete action has been taken and HMRC's resources have faced continued cuts. While reductions in the personal allowance have brought some respite for hard-pressed workers, they disproportionately benefit higher income families, delivering limited benefits at extremely high cost to Government. For many low and middle earners the amount they gain is far less than they will lose as a result of tax credit cuts and the recent decision to uprate benefits below the projected rate of inflation will make life even tougher for those on the lowest incomes, both in and out of work.

1.10 We still have an opportunity to change course. In the TUC's view, Budget 2013 should be used to ditch austerity and go for growth. We need to create a modern, efficient economy based on investment in sustainable industries and high quality public services. Our ambition should be the creation of decent, well paid jobs along with new measures to secure a fairer distribution of the rewards of growth. In our submission below, which covers areas including infrastructure and capital spending, industrial policy, green growth, skills policy, modern public services and support to tackle unemployment and boost living standards, we set out the practical policies that could be introduced now to start to bring about such change.

1.11 In particular, the TUC is calling on all the political parties to re-commit to full employment as a primary goal of economic policy. As Beveridge wrote, a key ambition of Government should be to ensure that unemployment is only for short periods and there are sufficient vacancies to meet the demand for jobs. Unemployment is linked to poor physical and mental health, low levels of satisfaction with life and problems such as alcoholism and drug addiction. It is a major cause of poverty and long-term unemployment is linked to the inter-generational transmission of disadvantage. Ensuring that the UK returns to pre-recession employment and under-employment rates as quickly as possible needs to be a top political priority.

1.12 The TUC repeats its call for an interventionist industrial strategy. Lord Heseltine's review, 'No Stone Unturned in Pursuit of Growth', contains some important ideas that should be considered, including the creation of a National Growth Strategy, with concrete commitments to which Government can be held to account, and a National Growth Council, chaired by the Prime Minister, with a cross government focus on driving growth and wealth creation. The TUC believes such recommendations should be introduced in Budget 2013 and that the voices of industry and trade unions should be represented on the National Growth Council. We further agree with Lord Heseltine that procurement policy should play a far greater role in supporting the UK's industrial base and in the building of modern technologies.

1.13 We also call for Government recognition that this recession has affected those in work as never before. With living standards facing a historic squeeze, on top of a longer-term stagnation in the earnings of middle and lower earners, it is time for a new approach to securing fair pay growth. The Government needs to recognise that way we share the proceeds of growth matters for our economic health as well as our overall growth rate, enabling sustainable consumption and boosting living standards. As an immediate measure we are therefore calling on the Government to reverse its decision to cap public sector pay rises well below inflation, and to abandon the forthcoming one per cent cap on benefit and tax credit rises. The Government should commit to pay the Living Wage across all Government Departments with immediate effect and use its procurement powers to extend the Living Wage amongst private contractors. The Government should also restore ACAS's duty to promote collective bargaining, to ensure that more workers can benefit from the improved working lives that union recognition brings.

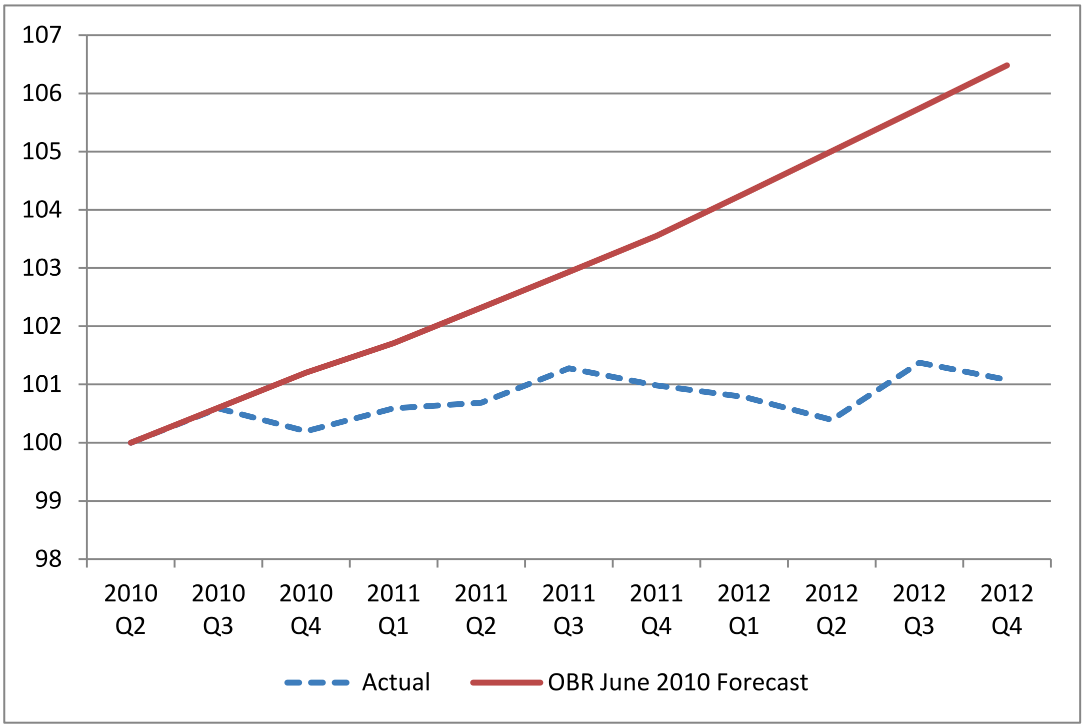
Section two

Our Economic Prospects

The current state of the economy

2.1 Our recent economic performance has been abysmal, with growth of 1.1 per cent since Q2 2010 far below the Office for Budget Responsibility's (OBR's) forecast of 6.5 per cent growth over the same period[2].

Chart 1: Actual vs OBR 2010 estimates of GDP



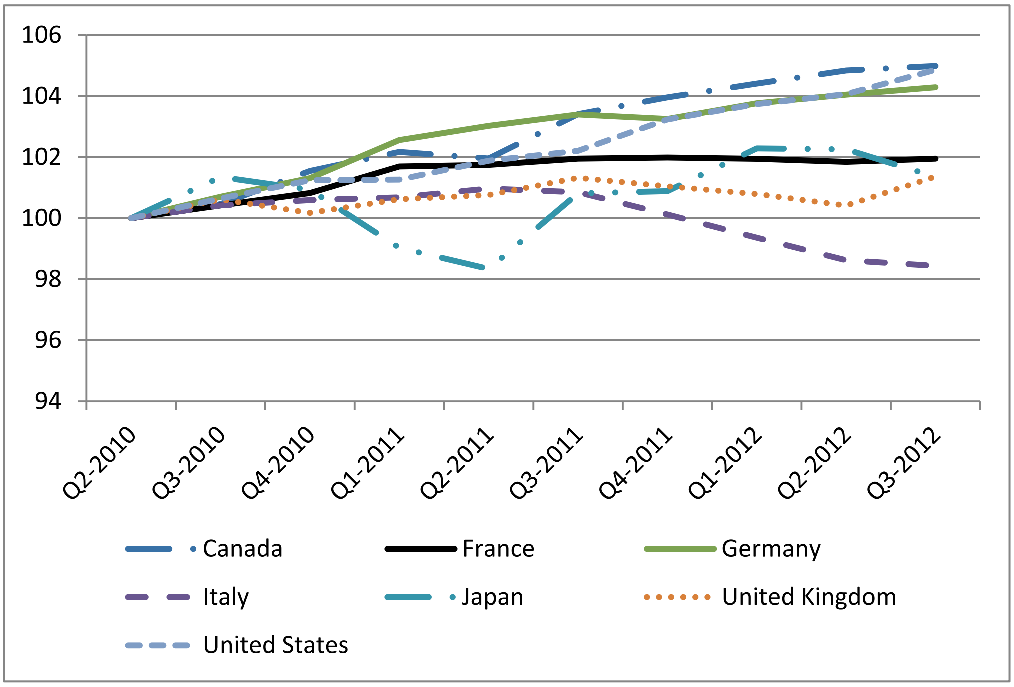
2.2 UK GDP consequently remains 3.2 per cent below its 2008 peak making this the weakest recovery in modern British economic history. The most recent data from the National Institute for Economic and Social Research[3] puts the

[2] Budget Forecast, June 2010, OBR http://budgetresponsibility.independent.gov.uk/wordpress/docs/junebudget_annexc.pdf
[3] Monthly GDP Estimate, NIESR, January 2012 http://www.niesr.ac.uk/pdf/110113_144225.pdf

UK's recent performance in its historical context, showing that in the recessions of the 1990s, 1980s, 1970s, 1930s and 1920s UK output recovered in a much shorter time frame. On the OBR's current forecasts it will be late 2014 before output reaches 2008 levels.

2.3 The UK's recovery is extremely weak not just by historical standards but also compared to our international peers. The Government frequently recognises that the UK is engaged in a 'global race', but to date has failed to point out that we are losing it: the UK has experienced the second worst growth in G7 over the past two years with only crisis-hit Italy enduring poorer performance. In the time period Q2 2010 to Q3 2012 the UK economy grew by just 1.4 per cent, while in the same time the German, US and Canadian economies expanded by over 4 per cent, close to three times as fast.

Chart 2: GDP growth across the G7 countries Q2 2010 – Q3 2012



2.4 Whether measured by comparison with international peers, with historical performance or with the Government's initial forecast, UK growth over the past two and half years has been appalling. But while the Government's fiscal plans were premised on much stronger growth than the UK has actually experienced, fiscal policy has not been modified and austerity has continued to drive our economy into the ground.

2.5 Weak growth has resulted in the Government missing its targets for deficit reduction (as we set out above). Critics of the Government's fiscal policy, including the TUC, warned back in 2010 that aggressive austerity risked becoming self-defeating. Spending cuts and tax rises can suck demand out of the economy leading to slower growth, which in turn means higher unemployment, higher social security spending and lower tax receipts. This has proved to be the case in the UK. With the deficit currently growing, and the Government set to borrow billions more than it originally intended, our public finances remain in a parlous state. Our economic pain is not bringing any gain.

2.6 There is also no evidence that the Government's secondary economic objective of rebalancing the economy will be met.

2.7 It is now widely acknowledged that on the eve of the crisis in 2008 the UK economy was unbalanced – growth was too concentrated in too few sectors and in too few geographic areas. In addition, the distribution of the rewards of growth had become far too unequal. But since 2010 growth has not only been weak but it has remained 'unbalanced' and neither business investment or exports are performing as hoped[4].

2.8 Business investment remains depressed. Whilst the economy is some 3.2 per cent below peak, business investment is down around 15 per cent. The UK's trade performance has also disappointed[5]; after a partial recovery in 2011, the trade deficit widened again in 2012. It is now no better than in 2005-2007 despite a much weaker exchange rate.

2.9 There is also no evidence of a rebalancing occurring at the sectoral level. The most recent output data show that since Q2 2010[6] manufacturing output has fallen by 0.4 per cent and construction output by around 9 per cent while service sector output is up by 3.1 per cent.

2.10 The Government has been keen to blame the UK's poor performance on a weak global economy and in particular to single out problems in the Eurozone. However, this explanation does not fit the data. It cannot explain, for example, if this is indeed a global or a specifically European problem, why France and Germany have grown by more than the UK in the last two years. Whilst the difficult international environment is no doubt impacting exports, it cannot explain all of the UK's poor performance.

2.11 In the November 2012 Inflation Report the Bank of England[7] identified four factors holding back growth in 2010-2012 – fiscal consolidation, the squeeze on household incomes, tight credit conditions and the impact of the

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[4] TUC Economic Report 3,
http://www.tuc.org.uk/tucfiles/359/EconomicReport3.pdf
[5] UK Trade Statistics (2012 data up to November), ONS
http://www.ons.gov.uk/ons/dcp171778_291789.pdf
[6] Q4 2012 Preliminary estimate of GDP, ONS
http://www.ons.gov.uk/ons/rel/gva/gross-domestic-product--preliminary-estimate/q4-2012/index.html
[7] Inflation Report, Bank of England, November 2011
http://www.bankofengland.co.uk/publications/Pages/inflationreport/ir1204.aspx

Eurozone crisis. Three of these factors are primarily domestic and all relate to an immediate demand problem which it is within the Government's grasp to fix.

The impact for jobs and living standards

2.12 The impact of weak growth on jobs and living standards has been severe with increases in the costs of food and energy hitting household incomes as well as weak pay growth. In recent months the labour market has performed better than many analysts expected but it is far too early to speak of a labour market 'recovery'. Although the headline figures of rising employment and falling unemployment have been good, a more detailed look at the labour market reveals rising under-employment and large falls in real wages contributing to a squeeze on living standards.

2.13 Despite falling over the course of 2012, unemployment remains 854,000 higher than five years ago and long-term unemployment continued to rise in 2012. Youth unemployment remains at almost one million.

2.14 Much of the 'strength' of the labour market can be explained by rising 'under-employment'. Since 2007 full-time employment has fallen by 341,000 and part-time employment has risen by 660,000. In the past year 43 per cent of net job creation was in part-time positions and a record number of people are either working on temporary contracts when they want a permanent position or working part-time when they want a full time job. One in ten workers report that they want to work more hours[8].

2.15 Real wages (nominal weekly earnings minus RPI inflation) have been falling for three years, and the average worker on a median salary of £25,000 has already lost around £4,000 in real terms over the past 3 years. Until real wages begin to rise it will be impossible to speak about a 'recovery' in the labour market in any meaningful sense.

2.16 The OBR originally forecast that real wages would start to grow in 2012, which was later pushed back to 2013 and has now been revised back to 2014. The OBR's current forecasts suggest that median real wages will be at 1999 levels in 2017, in effect British workers will have experienced a 18 wage freeze[9]. When the impacts of changes to the tax and benefit system are also

[8] Labour Market Statistics, January 2012, ONS
http://www.ons.gov.uk/ons/dcp171778_292911.pdf
[9] Autumn Statement Analysis, Resolution Foundation.
http://www.resolutionfoundation.org/publications/resolution-foundation-analysis-2012-autumn-stateme/

considered, real household disposable income[10] is currently no higher than in 2006. Living standards have not risen for six years.

Medium term prospects for growth

2.17 In the medium term economic growth is driven by productivity, and the UK's productivity performance before 2008/09, by most objective standards, was reasonably good. But since the financial crisis it has been poor.

2.18 ONS data[11] shows that, after a bounce back following the recession, productivity growth has 'double dipped', falling in the first three quarters of 2012. This is in sharp contrast to other advanced economies. For example by the end of 2011 US labour productivity was some 5 to 6 per cent above its pre-2007 level, whilst UK productivity was flat[12].

2.19 Low productivity growth since the crisis has therefore led to a wide ranging debate as to whether the UK currently faces demand or a supply problem.

2.20 Supply pessimists believe the economy is supply-constrained and that a stimulus to demand would be more likely to generate inflation than growth. By contrast, supply optimists believe the UK's primary problem is a lack of demand and that could it be expanded (for example through a fiscal stimulus) there would be a boost to growth.

2.21 In recent months this debate has become increasingly polarised, but it is possible to argue that both positions contain an element of truth. The UK economy actually faces both demand and supply problems and getting back on the right track will mean dealing with both. In the short term the UK urgently needs a demand stimulus but in the medium to longer term it also requires reform of the supply side (although not of the deregulatory nature that the Government has discussed).

2.22 In a 2011 paper the economist Bill Martin[13] noted that both the UK and the USA experienced similar crisis in 2008/09 - a banking collapse, a contraction in bank lending, a rapid falling away of demand and a deep recession, but the impact on their respective labour markets was very different.

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10 The Economic Position of Households, ONS
http://www.ons.gov.uk/ons/dcp171766_283109.pdf

11 Whole Economy Output per worker, Labour productivity Q3 2012, ONS
http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2012/stb-lprod-q312.html

12 International Comparisons of Productivity, First Estimates 2011, ONS
http://www.ons.gov.uk/ons/rel/icp/international-comparisons-of-productivity/2011---first-estimates/stb-icp-sep2012.html

13 "Is the British Economy Supply Constrained? A Critique of Productivity Pessimism.", Bill Martin, Centre for Business Research, Cambridge University.
http://www.cbr.cam.ac.uk/pdf/BM_Report.pdf

2.23 In the USA unemployment soared, whilst in the UK the adjustment came not from a huge increase in unemployment (although unemployment has risen considerably, the increase has been less than could be expected given the scale of the recession) but rather from a collapse in real wages.

2.24 This fall in real wages maintained employment at a higher level than it otherwise would have done and also supported corporate profits. But, given weak demand, higher employment means (all things being equal) lower output per worker. As Martin explains:

"America's demand deficiency is registered in a high unemployment rate coupled with high productivity. In the UK, greater real wage moderation averted the large increase in unemployment. Demand deficiency was instead registered in the post-2007 productivity shortfall."

2.25 In other words, via the connection of real wages, the UK's weak productivity growth may be a function of low demand rather a problem affecting the supply side of the economy. This means that if demand were to increase then firms would see rising sales and, as output rose, output per employee would also increase, and hence so would measured productivity.

2.26 But the UK does also face real supply side issues. There are particular challenges with the financial sector, which recorded very strong productivity growth before the recession but has been much weaker subsequently. The Bank of England's Andrew Haldane has argued that[14] much of the measured increase in financial sector productivity in the years before 2008 simply reflected banks gearing up their balance sheets and increasing leverage. Higher leverage allowed higher returns on equity for banks which was assumed to reflect higher productivity. Without excessive leverage measured productivity would have been much weaker. In the post-crisis era leverage is likely to be lower and hence productivity in the financial sector will not return to pre-2008 levels.

2.27 Weak credit growth may also be constraining the supply side. Since the financial crisis, credit conditions for UK firms have been tight. This, as the Bank of England[15] has argued, can have a direct impact on productivity.

2.28 It does therefore seem likely that, as supply pessimists are prone to argue, tight credit conditions have contributed to a slowdown in productivity growth. However this also suggests that policies that raise the supply of finance to firms would have a positive impact on productivity growth in the future.

[14] The Contribution of the Financial Sector. Mirage or Miracle?', Andrew Haldane, 2010 http://www.bankofengland.co.uk/publications/Documents/speeches/2010/speech442.pdf
[15] Inflation Report, Bank of England, November 2012. http://www.bankofengland.co.uk/publications/Pages/inflationreport/ir1204.aspx

2.29 Some have argued that poor productivity can be explained by a lack of skills in the workforce. For example a recent report from the EEF warned of a skills shortage in manufacturing[16]. Skills shortages would make it harder for firms to expand output and could help explain the paradox of rising employment with flat output if more workers were required to produce the same level of goods and services. But such an argument can only provide a partial explanation for weak productivity performance - it is difficult to see how a skills shortage could have rapidly developed post 2008. It may be the case however that the UK has faced a significant skills shortage for some time but the symptoms of this shortage were disguised before 2008 by other factors – for example an increase in measured productivity in the financial services sector.

2.30 Firm level data[17] from the ONS provides some evidence that this may be the case. A recent study suggests that in the years before 2009 there was wide variation in productivity levels between firms. One explanation is that some firms were under investing in both physical and human capital, and that as long as other sectors and firms were outperforming this was less of an issue for productivity across the wider economy.

2.31 Weaker business investment, at least in part a consequence of our ongoing economic stagnation, than the government expected is also adding to a productivity problem. Weak investment implies a slower growth in productive capacity than would otherwise be the case. All things being equal faster business investment growth would imply a higher capital stock and higher potential output.

2.32 Finally it can be argued that the combination of weak demand and lower real wages are currently incentivising hiring by lower productivity firms. In a 2012 update to his 2010 paper Bill Martin argued (with Robert Rowthorn)[18] that the UK was becoming a 'demand-constrained, cheaper labour economy'. High productivity firms were more likely to hoard variable labour during the downturn and this showed up in the official data as lower productivity. But after labour costs fell it was low productivity firms (that tend to be more labour intense) that had the greater propensity to hire labour.

2.33 The end result is that falling real wages related to weak demand may explain not only much of the fall in productivity during the recession but also some of the changing sectoral composition of the UK economy since.

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[16] Skills for Growth, EEF, 2012. http://www.eef.org.uk/publications/reports/Skills-for-Growth-a-more-productive-and-flexible-labour-force-.htm

[17] Micro-data perspectives on the UK productivity conundrum, ONS, January 2013. http://www.ons.gov.uk/ons/rel/icp/microdata-perspectives-on-the-uk-productivity-conundrum/january-2013/micro-data-perspectives-on-the-uk-productivity-conundrum.html

[18] "Is the British Economy Supply Constrained II? A Renewed Critique of Productivity Pessimism", Martin & Rowthorn, Centre for Business Research, Cambridge University, 2012 http://www.cbr.cam.ac.uk/pdf/BM_Report3.pdf

2.34 But whilst there is strong evidence that weak demand, tight credit conditions, weak business investment and skills shortages are drags on productivity growth there is no evidence that excessive-regulation is a problem. This notion provided the underlying logic for the Beecroft Report and was the basis for much of Budget 2011's 'Plan for Growth'[19] . The argument is that excessive and burdensome regulation has constrained UK businesses from growing and innovating and hence held back productivity growth. The implied solution is a supply-side policy of deregulation similar to that pursued by the Thatcher Governments of the 1980s.

2.35 But there is no evidence that regulation is major factor holding back UK productivity or that further deregulation would provide a boost to growth. To start with the UK is already one of the least regulated developed economies. For example, in terms of employment protection it has the third lowest level of regulation of any OECD country[20]. Given this fact it seems highly unlikely that excessive regulation is a real drag on productivity, indeed many of the countries with higher levels of regulation also have much better productivity performance.

2.36 Second, as there has been no tightening of regulation since 2008 (indeed since 2010 there has been some deregulation) it is hard to see how regulation could have been a burden on productivity since 2008 but not before. As the UK's productivity performance was relatively good in the decade before 2008, over-regulation cannot be used to explain weak performance subsequently.

2.37 Weak growth is not just a short term problem. The longer output remains depressed the greater the risk of long term damage to the economy. Higher unemployment (especially long-term unemployment) risks the workforce losing skills whilst weak investment spending means a lower capital stock in the future. These factors alone risk lower productivity growth in the future with severe implications for living standards. The fact that employment growth is concentrated in lower productivity sectors is even more worrying.

2.38 Unless demand is restored soon and unless we see the right kind of structural reforms to banking, industrial policy, skills and corporate governance then the UK could become stuck on a lower-wage, lower productivity path. The policy choices made now will impact the UK for decades to come.

[19] Budget Statement. March 2011
http://www.hm-treasury.gov.uk/2011budget_speech.htm

[20] OECD Indicators of Employment Protection
http://www.oecd.org/employment/employmentpoliciesanddata/oecdindicatorsofemploymentprotection.htm

Conclusion

2.39 The Government's economic policy continues to cause untold damage, limiting our immediate growth prospects, depressing living standards and holding back young people's employment prospects. But our analysis suggests that it is also causing longer-term problems, risking permanent impairments to our economic capacity. Without a change of course on austerity, and a set of supply side reforms that tackle our investment and skills challenges, the future for British businesses and workers will become even bleaker.

Section three

Policy Recommendations

3.1 With our economy flatlining, and clear evidence that there is scope for increased demand to boost growth, in the short run we desperately need a fiscal stimulus, which would not only boost output and employment but also ease many of our recorded productivity problems. The Chancellor needs to abandon austerity and change course.

3.2 But while our productivity problems will be partly addressed by stronger demand, in the medium term, as we set out above, the UK does also require supply side reforms including a modern industrial policy to ease our over reliance on finance; a reformed banking system that provides better access to credit; a skills policy that increases human capital; and changes to corporate governance to encourage more long-termism from UK business. Simply cutting regulation and tax levels will do nothing to address the UK's real medium term challenges – indeed, such measures risk exacerbating these problems.

3.3 If these two steps are not followed (immediate demand stimulus followed by medium-term supply side reforms) then the UK risks continuing down the path of being a demand constrained, cheap labour economy – one marked by high under-employment, low real wages, low productivity and ultimately lower living standards in the future. Below we set out the key measures we believe are needed now if we are to avoid the economic pain that such a scenario would inevitably bring.

Investing for Growth

3.4 Whatever differences economists may have, there is common agreement that increasing investment is crucial both for short-term economic recovery and long-term prosperity. Investment (in areas including new energy infrastructure, public transport and housing) is key to boosting the UK's manufacturing and construction sectors, giving a short term boost while paving the way for longer term economic rebalancing and helping to 'green' the economy. In this context the TUC is extremely concerned that since taking office the Government has cut public sector capital investment by £22 billion. There is a strong case for immediate reversal of these cuts, with priority given to investment in housing, public transport and green infrastructure.

3.5 The UK economy continues to be seriously hampered by the failure of the housing market. In the context of our troubled economy, the lack of affordable credit means that fewer houses are being built[21], whilst house prices are continuing to fall in many parts of the country[22]. As a result, the number of people owning or buying their own homes has also started to decline[23]. Meanwhile, the demand for social homes has mushroomed whilst the supply has decreased, leading to the waiting list for social housing growing to 1.8 million[24].

3.6 The housing crisis has wider implications for the UK economy with the low level of investment in housing and modernisation hitting the construction sector particularly hard. While the Government has brought forward a number of initiatives to try to stimulate the housing sector they have so far delivered very modest results. The flagship Get Britain Building scheme has so far seen 900 starts, with another 2,440 approved, whilst the smaller New Buy scheme produced just 250 new homes in its first six months of operation.

3.7 The Department for Communities and Local government has a housing budget of £1.5 billion for the current financial year[25], but this has clearly not been enough to deal with the housing crisis. More Government investment in housing is essential at this point, and plans to cut the DCLG budget by 21 per cent during the next two years need to be urgently reconsidered.

3.8 The TUC welcomed the announcement in January that the new high speed rail route would be extended to Leeds and Manchester, describing the decision as a "game-changer for the UK economy if delivered properly". We recognise the jobs and regional growth potential, as well as the boost for our construction and manufacturing sectors, particularly if the project is supported by a strategic plan to UK businesses and workers to secure full benefits from the new investment. Major public transport infrastructure projects such as Crossrail and HS2 can also contribute to a broader and longer term integrated transport strategy by ensuring connectivity with other major transport hubs, such as Heathrow airport.

3.9 In addition to major projects, smaller and more focused investment in local public transport can provide quicker wins in the short run and boost economic

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[21] Housing starts in the UK fell from 219,000 in 2007/08 to 140,000 in 2010/11 and 130,000 in 2011/12. (DCLG Live table 208– Housing starts)

[22] House prices in England and Wales increased by 0.9 per cent in the year to November 2012 (the latest figures available). However, this increase was largely accounted for by a 5.9 per cent rise in London and smaller increases in the south east and Eastern regions. Meanwhile, house prices continued to fall in Wales and five of the nine English regions, whilst prices were static in the East Midlands. http://www.landregistry.gov.uk/media/all-releases/press-releases/2013/market-trend-data-november-2012

[23] In England, the number of owner occupying families peaked at 14.79 million in 2005/6, falling to 14.45 million by 2011/2012 – a net decline of 340,000. (DCLG, English Housing Survey Bulletin, July 2012 -https://www.gov.uk/government/publications/english-housing-survey-bulletin-issue-7

[24] Local authority waiting lists (England) April 2012. https://www.gov.uk/government/publications/local-authority-housing-statistics-for-england-2011-to-2012

[25] https://www.gov.uk/government/publications/dclg-business-plan-2012-to-2015

growth across all parts of the UK. Projects might include investment in light rail and tram schemes as well as new bus services and the construction and upgrade of bus stations and interchanges with rail. Across the rail network, investment in new rolling stock could further support UK manufacturing jobs as well as replacing ageing stock on many lines while also upgrading stock in line with disabled access requirements.

3.10 On green infrastructure our funding gap is significant, impeding progress towards the low carbon economy we need. Government funding has potential to make a real difference here, whether it's supporting the transitional cost premium of electric cars and the cost of a national battery charging network, increasing funding for home and workplace energy efficiency measures or supporting our core industries to develop the technologies that will allow them to become low carbon world leaders. Urgent action is also needed to realise the UK's carbon capture and storage (CCS) demonstration programme.

3.11 More specifically, there are particular infrastructure projects in areas of the UK that, following discussion with our regional offices, the TUC believes could make an important contribution to spatial economic strategies and that, therefore, should be prioritised. These include:

- Reducing bottlenecks on the A160/A180 trunk roads in the Humber region, as well as improving rail infrastructure in the area. These projects have been called for in 'A Plan for the Humber 2012-2017', developed by the Humber LEP, with the support of the Yorkshire and the Humber region of the TUC.
- Connectivity for the North East with the UK motorway network via the A1.
- Improved capacity on A1 Western Bypass.
- Improvements to the A19 junctions immediately on either side of the Tyne Tunnel.
- Improvements to the A19 junctions with the A689 and A174.
- Increased support for the Cornish Wave Hub.

3.12 We do however remain concerned that the abolition of the RDAs, and the limited resources of the LEPS which replaced them, have meant that the local delivery mechanisms which were previously in place to identify and deliver these investments are now lacking.

3.13 Of course, the UK's investment shortfall is not just a short-term problem caused by recent public sector capital spending cuts, important though these are. It is well-documented that UK infrastructure investment has been insufficient for decades. The Institute for Public Policy Research (IPPR) notes, for example, that since the early 1990s the public and private sectors combined have consistently invested less in fixed capital formation (as a percentage of GDP) than other countries with a similar level of economic development, and that the problem of under-investment existed for many years before then.[26] Even HM Treasury acknowledges that "since 2000 the rate of investment has fallen behind that of the rest of the OECD".[27]

3.14 In his report, 'No Stone Unturned in Pursuit of Growth' the former Deputy Prime Minister, Lord Heseltine, writes: "It is estimated that the UK requires over £250bn of infrastructure investment over the next five years, the vast majority of which will need to be provided by the private sector."[28] So, what is to be done? First, it must be recognised that, whilst most infrastructure investment will come from the private sector, there is still a role for the public sector to play. Indeed, interesting templates now exist for successful delivery of major infrastructure projects, thanks to the building first of Heathrow Terminal 5 and second the venues for the London Olympic and Paralympic Games. In both cases, delivery partners (BAA, the Olympic Delivery Authority and London Organising Committee for the Olympic Games) signed agreements with trade unions covering areas including a commitment to partnership working, encouragement of trade union membership, training, learning and continuous improvement, equality, diversity and inclusion and sustainability. It is surely no coincidence that these projects were delivered on time and on budget, with a dynamic role for trade unions. This model provides an ideal template for future large-scale publicly funded infrastructure projects in the UK.

3.15 Second, the TUC also strongly supports the proposal, outlined by the Business Secretary, to establish a British Business Bank. In our view, such a bank should focus on releasing funds for small businesses, as intended by the government, but it must also provide funds for infrastructure projects. Other features of a successful business bank that, in our view, could be confirmed in Budget 2013 would be:

- It is 100 per cent state owned.
- It should be capitalised with an initial £40bn over four years.
- It should be allowed to raise funds on capital markets by issuing bonds of up to a leverage ratio of 2.5:1, meaning it could have a balance sheet of over £140bn within four years.
- Its activities should not count towards the government's fiscal targets.

3.16 The TUC would also like to see a more diverse banking system in the UK. More mutually owned banks, for example, would help address some of the issues around short-termism in bank lending. In some countries the existence of regionally focused banks has also helped to address regional inequalities in access to finance.

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[26] 'Investing in the Future: Why we need a British Investment Bank', IPPR, September 2012.
[27] 'National Infrastructure Plan', HM Treasury, 2011, para 1.6
[28] 'No Stone Unturned in Pursuit of Growth', Lord Heseltine, paragraph 4.121.

3.17 A diverse banking system with many more players focused on different geographies, sectors and types of banking (including mutuals and credit unions) would be more supportive of the real economy, which would also be less at risk from the failure of any one institution. This could involve the Government providing initial capitalisation to a network of small regional development banks, which could draw on intelligence from local business people and trade unions. The British Business Bank could also lend, in the same way as Germany's KfW, directly to regional banks.

3.18 The TUC further welcomes the formal establishment of the Green Investment Bank, its decision to set itself targets for cutting carbon emissions and its first tranche of investments in green energy projects. But we remain opposed to the Treasury-imposed £3bn cap on the bank's borrowing capability. While the GIB's £3bn could unlock a further £15 billion in private sector co-investment, this is a fraction of the £200 billion that needs to be invested in UK energy infrastructure to 2020. Public banks established in other European countries borrow independently from the capital markets. For example[29]:

- Caixa Geral de Depositos in Portugal leverages its equity by x17.
- ICO in Spain leverages its equity by x24.
- KfW Bankengruppe in Germany leverages its equity by x28.

3.19 If the GIB is not allowed to borrow independently, the Government will leave the UK at a competitive disadvantage. If this policy made little sense in 2011, it makes even less sense now. The Chancellor should therefore put growth first and announce in Budget 2013 that the GIB can now borrow independently.

Taxation

3.20 The UK needs to move towards a fairer system of taxation, both to help rebuild our public finances and to support the longer-term capital and service investments that our future growth prospects depend on. Our immediate priorities for change are the introduction of a strong anti-avoidance principle in UK tax law and a significant increase in HMRC resources to offset significant ongoing staff cuts, which, as the OBR pointed out in its recent assessment of decisions taken at the Autumn Statement' 'could lead to less tax revenue being collected'[30]. As part of an urgently needed stimulus package, we also believe that the Government should cut VAT. It is very clear that raising it to 20 per cent was an error because of the impact that it had on living

[29] Borrowing from the capital markets, Clientearth GIB Briefing, October 2012.
[30] OBR policy costings

standards, inflation and reduced consumer demand. Cutting VAT helped stimulate the economy in 2009. We believe it could do so again now.

3.21 To help pay for that cut we believe that the Government should reduce some of the anomalies within the tax system that encourage tax avoidance. In particular we believe that aligning the capital gains tax rate that a person pays with their top rate of income tax, as Lord Nigel Lawson did in the 1980s, substantially reduces the incentive for people to transform income into capital gains for tax purposes. The result would be reduced tax avoidance, an increase in tax revenue and less abuse for HMRC to challenge.

3.22 We have welcomed Government moves towards the introduction of a General Anti-Abuse Rule, but are concerned that this rule will not tackle the types of tax avoidance by multinational corporations that have attracted recent publicity because the government has specifically designed it so that should not be the case. While the Government emphasises that tackling tax avoidance of this sort is its highest priority at the G8, its refusal to take measures to really tackle this issue within the UK at this time is an ongoing concern.

3.23 Finally, we are concerned at the anomalies now being introduced into the UK tax system by the cap on some types of tax relief. We have long suggested that this problem is best addressed by reducing the rate of tax relief given on most incentives and allowances to the basic rate. We do not believe it appropriate that those on higher rates of tax should get more tax relief on their giving, saving and tax incentivised investments than the 90 per cent of the UK's population who pay tax at basic rate and believe that significant simplification of the tax system could be introduced by removing higher rate tax reliefs and allowances from the UK tax system.

Industrial Policy

3.24 Industrial policy has become the new economic orthodoxy. It was not always the case. The TUC's was a lonely voice in 2005, when we published our policy document, 'An Industrial Strategy for the United Kingdom'. However, following the economic downturn, interest has increased in the role that government has to play by taking an interventionist role and promoting growth and delivering a better balance across industries.

3.25 The most important recent statement from the Government on this issue is the report of the Heseltine Review. Early in his report, Lord Heseltine says: "what strikes me – and encourages me – is the unanimity of, among others, the CBI, TUC and The Times that Britain needs an industrial strategy". And whilst we have individual differences with certain policies, taking the document as a whole, the TUC believes it to be a very important report.

3.26 We agree with the Chancellor's comment that the Heseltine Review has "captured the imagination of all political parties". The Chancellor said that the Government would respond formally to the Heseltine Review in the spring, so we expect that response to be announced alongside the Budget 2013.

3.27 Among the Heseltine recommendations that the TUC would like to see implemented is the establishment of a National Growth Strategy which sets out the Government's vision and includes concrete commitments against which it can be held to account. We also believe the Prime Minister should chair a National Growth Council with a cross-government focus on driving growth and wealth creation.

3.28 These recommendations could be dismissed as bureaucratic, so why are they important? First, every Budget and Autumn Statement seems to have a section on the importance of growth, yet whilst those sections include individual initiatives – some of which are quite good – there is no sense that they link together. How will the government measure success? What will it do if it falls short? Unless we know what we are trying to achieve, it is difficult to drive policy to ensure that we achieve it. Similarly, if growth really is the number one economic priority, it must be the responsibility of the most senior minister in the government. The Prime Minister has the authority to push for results in a way than more junior ministers, however hard they might try, do not. The Prime Minister should also call on others to ensure delivery takes place, the role that a business-led National Growth Council could play. We would welcome the establishment of such a body, where we would also expect trade union voices to participate, but the buck should stop at No. 10.

3.29 Lord Heseltine calls for a sectoral economic strategy and for an Industry Council for each formal partnership between government and individual sectors. We welcome the fact that recent government policy has been moving in this direction already, as well as the growing recognition of the need to ensure trade union representation on such bodies, and hope to see confirmation in Budget 2013 that national and sectoral councils will be established with union representation on each. Our economy won't rebalance away from finance and towards sectors including manufacturing without an interventionist approach from Government and strong Ministerial leadership.

3.30 It is not only the TUC who believes that social partner involvement leads to improved policy making – across Europe many of our competitor economies benefit from improved structures to secure worker voice. For example, in the German Social Market Economy trade unions are welcomed as social partners and their voice in the future of the business is recognised and encouraged. The workforce and unions are informed and consulted about major company issues on a regular basis.

3.31 As a trade union federation, it is no surprise that the TUC would support such a move, but the strongest voices in support of the Social Market Economy in our recent 'German Lessons' publication came from management.

For example, Martin Rosik, the Human Resources Manager of Volkswagen, told us that in the German system: “There is a big common sense that competitiveness and labour welfare are directly linked to each other… Labour representatives expect the company to be competitive, they force the company to be competitive, and take care of the interests of their members. Here you don’t have the classic understanding of what is whose role in this game.”

3.32 If the UK is serious about industrial strategy, government must consider how employee voice is reflected, both to achieve a fairer capitalism and to ensure that the value of the most important and knowledgeable people working in the company, the workforce, is fully utilised. The TUC calls on the Chancellor to establish a working party comprised of business and union representatives to explore the issue of employee voice, giving particular consideration to how statutory information and consultation rights could be extended. This group should report back in the autumn.

3.33 Returning to Lord Heseltine’s report, we also welcome his call for procurement policy to be used in support of building the UK’s long-term technological advantage and its industrial base. The TUC acknowledges progress on this issue from the Cabinet Office in recent months. However, we would go further than Lord Heseltine: we believe that procurement policy can be used to support a range of social, employment and environmental objectives, including boosting apprenticeships and helping vulnerable employees into work. At a European level, negotiations on the new EU procurement directives are at a crucial stage and we call on UK representatives to ensure that these directives enshrine the ability to include social, employment and environmental objectives into EU law.

3.34 Lord Heseltine further calls for clarity over future airport capacity in the South East and for science and research funding to be maintained at a level which keeps pace with our international competitors. Both of these recommendations are fully supported by the TUC and we look forward to a positive response in Budget 2013.

3.35 Many other voices now call for a modern interventionist industrial strategy. Last year, for example, the EEF published ‘The Route to Growth: An Industrial Strategy for a Stronger, Better Balanced Economy’. While there are inevitably differences of emphasis between our priorities there are also shared ambitions around the need to create the right structures in government to deliver growth, get growth capital to the supply chain, embed a new approach to public procurement, invest in modern infrastructure and develop a responsive and well resourced skills system. This confirms Lord Heseltine’s view that industry and unions are in agreement on much of what our industrial policy needs to do.

Industrial policy for the green economy

3.36 The TUC believes that green industries are a vital source of future growth, and that industrial policy must pay specific attention to boosting capacity in these areas. Last year the green economy generated a £5 billion trade surplus[31] in goods and services, in contrast to the UK's continuing monthly trade deficit[32]. Low carbon goods and services sectors employed around 950,000 people in 51,700 companies last year. Strong growth in exports (up 3.9 per cent) and employment (2.8 per cent) point to a sector coming into its own. The need for industrial policy to take specific account of its potential is clear.

3.37 BIS figures reveal that the UK imported £6.8 billion of manufactured "green goods" in 2011-2012, such as wind turbines, solar panels and alternative fuel vehicles which we should by now be making at volume ourselves. The TUC believes that if we are to take advantage of these opportunities sector based industrial strategies are needed to complement the government's energy market reforms, starting with nuclear, offshore wind, oil and gas and coal. The emerging BIS strategy for offshore wind, "to promote innovation, investment and economic growth in the UK-based supply chains", is a welcome start[33].

3.38 Yet the UK's track record of developing new supply chains is not encouraging, as we set out below.

- Wind turbine manufacture: Of the 4,000 wind turbines now installed and operating in the UK few, if any, were manufactured in the UK.
- Solar power: In early 2012, changes to the solar power tariffs caused a supply chain "boom and bust"[34]. No-one who installed solar panels had any worry about receiving the price they were promised for the next 25 years. But while those who developed businesses in the supply chain grew, they were subsequently cut down as the tariff was curtailed.
- Carbon capture and storage: Carbon capture and storage (CCS) technology is an essential part of the UK's energy decarbonisation strategy to 2030 and beyond. But we are still a long way from capturing carbon emissions from coal and gas power stations and heavy industry. In 2011 the Government scrapped the CCS levy and launched a review of electricity market reforms. It now appears that just £200m, rather than £1bn, has been set aside in this Parliament[35] for the supposed £1bn CCS competition.

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[31] http://www.bis.gov.uk/assets/biscore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010-11.pdf
[32] http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/november-2012/stb-uk-trade--november-2012.html#tab-Value-of-UK-Trade-in-Goods
[33] https://www.gov.uk/government/publications/offshore-wind-sector-strategy-call-for-views
[34] Ian Temperton, Climate Change Capital, October 2012: http://www.climatechangecapital.com
[35] Financial Times 13 January 2013: http://touchstoneblog.org.uk/2013/01/hidden-cuts-jeopardise-ccs-industry/

3.39 It is not too late for the UK to take the lead in green industries, and to boost our supply chain capacity across the green energy sectors. In particular, we believe that Budget 2013 should explicitly reinstate the government's commitment to deploy the full £1bn budget for CCS technology in this Parliament.

3.40 Long-term certainty on energy policy is also key to securing green investment. Faced with decisions that will provide the UK with reliable, affordable and low carbon energy to 2030, investors would prefer certainty in energy policy and political commitment. But Ernst & Young have reported signs of a potentially significant slowdown in the pace of energy sector investment[36], "due primarily to the ongoing uncertainties around the deliverability and construct of the UK's reformed energy policy." Companies are currently "delaying investment decisions as they assess the economic environment and the development of new policies and regulations."

3.41 Treasury contributions to energy policy are adding to uncertainty. In Autumn Statement 2012, the Chancellor proposed far more 'unabated' gas in our power supply through to 2030 than advised[37] by the Committee on Climate Change. The independent committee has since argued that the gas generation strategy has undermined the investment climate.

3.42 The TUC is aware, for example, that leading wind turbine manufacturers would be likely to announce new investment if the government were to send stronger signals of a future for renewables, especially wind, in the energy mix well beyond 2020. But the big turbine makers want to know that UK demand will continue at high volumes into the future before they spend their money.

3.43 We therefore believe that the Government should announce in Budget 2013 that it will set a carbon reduction target for the Energy Bill in line with the advice from the independent Committee on Climate Change. The Government should make very clear its long term expectations to 2030 for renewable energy, new nuclear and carbon capture technology in the energy mix, to ensure that supply chain investors have long-term and stable volume certainty of work.

Energy Intensive Industries

3.44 The UK's industrial policy needs to take particular account of the energy intensive industries. With a combined turnover in excess of £86bn these industries account for one-fifth of manufacturing turnover. But while the

[36] Powering the UK, 2012, section 5, interviews with investors.
[37] http://hmccc.s3.amazonaws.com/EMR%20letter%20-%20September%2012.pdf.

Government's package of energy price compensation measures will bring important short-term relief both the TUC and the Energy Intensives Users Group (EIUG) [38] have urged the Government to urgently develop this approach into an sustainable industrial strategy for the energy intensive industries, a move endorsed by the Environmental Audit Committee's (EAC)[39] report into the Government's compensation scheme.

3.45 In Germany, as the TUC's evidence to the EAC inquiry revealed, over the period 2010-2012 industries including energy intensive industries benefitted from a range of reliefs from duties, levies and taxes worth 26 billion euros, or some 8bn euros a year.

3.46 Although the UK compensation package is welcome, our research suggests that the costs burden is of a far greater magnitude than is recognised by the support that has been offered to date. The Chancellor should therefore signal in Budget 2013 a commitment to support an industrial strategy, backed by new resources, for the energy intensive industries, covering investment funding, innovative technology development and carbon policy costs.

Skills for the future

3.47 Levels of workplace training were too low before the recession, and there is increasing evidence that economic stagnation is further reducing its provision. The early findings from the 2011 Workplace Employment Relations Survey (WERS) finds that one in six employers reacted to the recession by reducing training expenditure and the authoritative National Employer Skills Survey (NESS) shows that in 2011 nearly half (47 per cent) of the workforce in England received no training at work compared with 37 per cent in 2007. This trend is likely to have exacerbated the "training divide" that has been a damaging feature of the UK labour market for many years, with previous TUC analysis showing that only 1 in 10 employees without a qualification are offered regular job-related training compared with around 4 in 10 graduate employees. At the same time as employers cut back, Government is also reducing skills funding with investment in further education and skills set to fall by 25 per cent over the spending review period. At a time when it's more important as ever that we boost our productive capacity to secure strong growth, it remains a matter of real concern to the TUC that across the economy skills provision is in decline.

3.48 Within the restricted spending settlement, priority has been given to funding of apprenticeships and also functional skills for adults. While consequent growth in apprenticeships has been welcome, the TUC also

[38] Building our low carbon industries, TUC-EIUG, 2012.
[39] Energy intensive industries compensation scheme, Environmental Audit committee, Sixth report, January 2013

remains concerned that increases have been driven by older apprenticeships, and that key policy challenges remain around securing high quality apprenticeships for young people. Research by a number of academics, including Dr Hilary Steedman of the LSE, has highlighted that we lag well behind much of the rest of continental Europe as regards the quantity and quality of our apprenticeships.

3.49 The Richard Review of Apprenticeships reported in December and the TUC welcomed the majority of the recommendations, saying that they "should go a long way towards improving the standard of placements currently on offer and encourage greater support from employers and young people alike". However, we also reiterated our concerns about the need for stronger enforcement of minimum standards, in particular relating to pay, with government findings showing that a fifth of apprentices are not paid the minimum wage the law says they should be. We believe that urgent action is necessary in order to drive up the quality of all apprenticeship programmes and to tackle exploitation by strengthening enforcement, in particular as regards minimum pay rates. We would like to see more HMRC resources dedicated to addressing non-payment of the NMW among apprentices.

3.50 The TUC also broadly welcomes Doug Richard's recommendation that employers and unions should have a greater say in the development of apprenticeship frameworks and standards through collaboration at the industrial level, with the aim being to make an intermediate (Level 3) apprenticeship the norm as in most other countries. The experience in other European countries is that a social partnership approach is an essential prerequisite of a successful apprenticeship system along these lines and it is essential that the Government looks to the "European model" when it takes forward the recommendations of the Richard Review.

3.51 Compared to most other European countries, employer involvement in apprenticeships in the UK remains relatively poor. The TUC believes that regulation needs to play a stronger role as it does in many other European countries. We would like the Government to consider a range of approaches to drive up employer engagement, in particular through more extensive use of procurement requirements. The Scottish Government is currently taking forward a Procurement Reform Bill and a recent consultation on this showed support for contractors having to "publish training and apprenticeship plans". The UK Government should emulate this approach and take forward similar legislation to build the role of procurement in across other parts of the UK.

3.52 A wider concern for the TUC is that young people pursuing learning and skills outside of apprenticeships are also facing huge disadvantage. A recent BIS research report[40] has highlighted the wide range of barriers to learning facing young people not in education, employment or training

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[40] Motivation and Barriers to Learning for Young People Not in Education, Employment or Training", BIS Research Paper no.87, February 2013

concluding that “around two-thirds of young people interviewed made reference to barriers to learning that they had either encountered in the past, or were currently experiencing, in relation to education or training”. Some of these barriers are clearly attributable to cuts in certain services (e.g. to careers advice and support, including the Connnexions Service) while in other cases the barriers were of a direct financial nature. One in six young people interviewed faced financial barriers to learning associated with the cost of the course as well as their wider financial situation with key issues including course fees, living costs, loss of benefit entitlements as a result of educational participation and transport costs.

3.53 The abolition of the Education Maintenance Allowance, which the TUC continues to oppose, will have exacerbated these pressures. We also believe there is a case for the Government to investigate wider financial support that could be provided to young people including support for transport costs or extending free school meals provision to this group.

3.54 Free school meals are not available to students aged 16-18 studying in further education colleges and sixth form colleges but are available for similarly disadvantaged students in sixth forms in schools, academies, free schools and university technical colleges. The TUC supports calls to reform entitlements to ensure that FE students aged 16-18 are treated as if they were in school.

3.55 Within wider skills policy, the Government is currently piloting major changes to the skills funding regime in England, testing out the impact of offering employers in England the opportunity to bid for direct access to public investment to design and deliver their own training solutions. The pilot is jointly overseen by the UK Commission for Employment and Skills (UKCES), the Department for Business, Innovation and Skills (BIS) and the Department for Education. Round 2 is currently open for bids from employers and partners and there is an emphasis on supporting a more strategic approach by funding bids from “industrial partnerships to take wider responsibility for skills development in a place or sector”. There are also clear links between the Employer Ownership approach and the welcome concept of developing industrial partnerships as set out in the Heseltine Review. While welcoming this agenda (as we set out above) the TUC is concerned that much more attention needs to be given both to addressing the capacity of LEPs to play a major role on skills strategy at the local level and to ensuring that in doing so they sustain a strong dialogue with both employers and unions. We also believe that any decision to extend this pilot on a nationwide scale should be given very careful consideration as a major reform of skills funding on this scale could have a significant impact on FE funding and the stability of the college and provider network.

Supporting people into work

3.56 The employment rate has risen in recent months, but remains one and a half points below its pre-recession peak; unemployment is still two and a half points higher than it was before the downturn and there are 1.3 million people who have been unemployed more than six months (double the pre-recession level). In addition, there is a continuing problem of underemployment, with two-thirds of a million temporary workers saying they chose their jobs because they could not find permanent work and 1.4 million part-time workers who say they work part-time because they could not get full-time jobs.[41]

3.57 Although much of the country was at full employment before our current economic predicament took hold there were still parts of the UK where unemployment was a continuing problem and disadvantaged groups with lower employment rates. The TUC therefore wants current and future governments to address the cyclical rise in unemployment (and under-employment) over the past five years and to commit to helping those districts and groups of people who benefited less when overall employment was high.

3.58 Employment programmes can make a difference to unemployed people's chances of getting jobs. The OECD's synthesis of the lessons from programmes around the world[42] suggests that 'activation' strategies, including effective re-employment services, must be combined with policies to expand the demand for labour. High quality employment programmes are not cheap, even the most successful tend to have significant deadweight and unemployed people need more intensive help the more disadvantaged they are. Unfortunately, current employment programmes are low cost; the wage incentive in the Youth Contract, for instance, is worth £2,275[43] - twelve years ago, the New Deal employer subsidy offered £1,560 plus a training grant of £750.[44] In total, it has been calculated that the Youth Contract measures will provide support for just one in ten of the young unemployed people it is advertised as helping[45] (and even this analysis rests on all available places being taken up, which anecdotal evidence to date suggests is unlikely). Our research also shows that the Youth Contract is worth 26 per cent less than the support that was provided under the Youth Guarantee, despite youth unemployment remaining at comparable levels.

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41 Labour Market Statistics, Jan 2013, ONS, http://www.ons.gov.uk/ons/dcp171778_292911.pdf
42 Employment Outlook, OECD, 2006, passim.
43 "Youth Contract – key initiatives", DWP website, http://www.dwp.gov.uk/youth-contract/key-initiatives/
44 Keeping Track of Welfare Reform, Jane Millar, JRF, 2000, p. 1, http://www.jrf.org.uk/sites/files/jrf/1859353436.pdf
45 Generation Lost, Paul Bivand, TUC, 2012, p. 31 http://www.tuc.org.uk/tucfiles/239.pdf

3.59 It is disappointing that the Government chose to abolish the Future Jobs Fund; as the DWP's evaluation[46] found, participants were substantially less likely to be on benefits and more likely to be in unsubsidised employment two years after participation. There was a net cost to the Exchequer, of £3,100 per participant, but this must be balanced against the net benefit to society, of £7,750 per participant. This is a very strong result, and we should also bear in mind the average net benefit to participants of £4,000 and the average net benefit to employers of £6,850. The Work Programme, by contrast, is substantially under-performing[47] and oral evidence to the Work and Pensions Select Committee indicates that "parking" of the most disadvantaged participants (offering them very little help) is a serious problem.[48] The TUC has always been cautious about the prospects for the Work Programme. The decision to exclude the public sector and operate on a payment-by-results basis has always risked the finessing of contract arrangements by Prime Contractors with more relevant experience than the Department with whom they negotiate.

3.60 The TUC believes that the lessons of the success of the Future Jobs Fund and the problems faced by the Work Programme provide strong arguments for the introduction of a job guarantee programme, initially limited to young people who have never been employed or who are long-term unemployed but gradually extended to other disadvantaged groups. Job guarantees should be real jobs, paid at least the minimum wage and with full employment rights to avoid exploitation and minimise the risk of displacing other workers. They should be limited to six months, so that participants are not trapped in a low value-added ghetto. At the same time, they should allow at least half a day a week for job search – applicants are far more likely to get another job if they apply whilst still working on their job guarantee job than after they have returned to unemployment. Because they are real jobs, the same benefit rules that apply to other jobs should also apply; claimants who turn down a job guarantee job without good cause should face benefit sanctions. Investment even only on the scale set aside for the Youth Contract would soon produce the strong results we saw with the Future Jobs Fund.

3.61 The TUC calls, therefore, for the re-establishment of a job guarantee, which we estimate will cost £1bn, in Budget 2013.

High quality public services

[46] Impacts and Costs and Benefits of the Future Jobs Fund, NIESR for DWP, 2011, http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/impacts_costs_benefits_fjf.pdf
[47] Statistics [http://research.dwp.gov.uk/asd/index.php?page=wp] show the Work Programme is not meeting the minimum performance criteria established by the DWP.
[48] Evidence session 19 December 2012, Q 51, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/uc835-i/uc83501.htm

3.62 The Government needs to urgently recognise the need to invest in public services rather than cutting them to the bone or pursuing outsourcing and privatisation that is not backed up by evidence of improved service quality or outcomes.

3.63 Under the guise of 'reform', the Government continues to make sweeping changes to our public services. The Prime Minister says that state structures will be dismantled, "brick by brick" and will no longer be the default provider of public services. In the Open Public Services White Paper, the vision is of services like health and education not as public goods nor institutions based on a collective ethos, but as "individual services".

3.64 At the same time, unprecedented cuts are changing the face of public services, as local councils, schools and hospitals struggle to deliver the high standards they take pride in with diminishing resources. Since the Government has been in power, almost 370,000 jobs have been lost across the public sector.

3.65 The portrayal of public services by ministers and parts of the media as monolithic and slow-moving, along with the demonisation of public sector workers as 'enemies of enterprise' has set the tone for this double attack.

3.66 But the vast majority of the public have a deep-rooted commitment to the public sector ethos and affection for our public institutions. Research by the Fabian Society for the TUC showed that 62 per cent believe public services should be provided mainly or only by government. A good majority also reject the notion that public services should be run like businesses, and instead prefer to rely on the values and ethos of the public good.

3.67 This damaging and inaccurate portrayal also elects to ignore the huge innovation that exists in the public sector, much of it driven by staff and their unions, through formal arrangements such as the Social Partnership Forum in the NHS or through initiatives at the workplace level, like efforts to tackle climate change led by unions and managers in tandem at Bristol City Council. More investment in building real public and staff involvement in the way services are designed and delivered can deliver improved services and better value for money.

3.68 Evidence from local authorities around the country shows previously outsourced services being brought back in house, where democratic control and accountability and closer control means that services can be more responsive, flexible and efficient.

3.69 Where services are outsourced and fragmented, new types of protection are needed to bring accountability and transparency. Whilst the Government has introduced ever more stringent requirements on public authorities to publish details of spending, pay arrangements and so on, private and third sector providers delivering public services are not subject to this scrutiny. The TUC believes that the Freedom of Information Act must be extended to apply to all private and third sector providers bidding to deliver public services, opening the contracting process to public scrutiny. All providers should also be subject to the same routine requirements as public authorities to publish information.

3.70 The TUC also believes that high quality public services are vital to help boost employment rates across the economy. Childcare and social care should be priorities for expansion because these services can help increase the employability of people who currently find it difficult to combine employment and family responsibilities. Unions would also welcome the expansion of Sure Start centres which provide children from disadvantaged families help designed to improve their health and educational outcomes.

3.71 In the longer term it is possible to go further; free universal childcare would make it easier for parents to move into employment and drastically reduce the incidence of in-work poverty. Save the Children has reported[49] that childcare costs are a particular problem for the poorest families, who have to reduce spending on essentials (including food and fuel) to pay for childcare. A quarter had had to give up jobs and a third to turn down opportunities because of childcare costs. These families will be hard hit by rising costs: the Daycare Trust's 2012 Childcare Costs survey revealed that a typical part-time (25 hours) place for a child under two now costs over £5,000 a year.[50] Unfortunately, despite a six per cent increase in childcare fees, the help available from the tax credits has been cut from 80 per cent of costs to 70 per cent: the average claim has fallen by £10 a week and the number of families getting this help has fallen by 44,000. In addition, the Local Government Chronicle has revealed that cuts in 'early intervention' funding for nursery places and Sure Start centres mean that 135 of 152 top-tier authorities will lose support. Despite the extra money for places for disadvantaged two years olds, the total budget for intervention services is six per cent lower in 2013/14.[51] The TUC calls for the Chancellor to commit to a target of free universal childcare in Budget 2013, and as a minimum first step to reverse previous cuts to the childcare element of tax credits.

3.72 Greater investment in childcare is also needed to bring down costs and support childcare workers. Deregulation and more cuts are not the answer and we do not believe that the approach outlined in "More Great Childcare" is the way forward. Increasing the staff-to-child ratio from 1:4 to 1:6 will lead to worse (and possibly dangerous) childcare, especially for those parents least able to afford rising fees. Measures to improve the status and pay of childcare workers are very welcome, but they will not compensate for Sure Start cuts

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[49] The Childcare Trap, Save the Children and Daycare Trust, 2011, http://www.daycaretrust.org.uk/data/files/Research/making_work_pay.pdf

[50] Childcare Costs Survey 2012, 2012, Daycare Trust, summarised at http://www.daycaretrust.org.uk/pages/childcare-costs-survey-2012.html

[51] "90% of councils set to lose early intervention funds", Kaye Wiggins, Local Government Chronicle, 16-1-2013, http://www.lgcplus.com/briefings/services/childrens-services/90-of-councils-set-to-lose-early-intervention-funds/5053673.article?blocktitle=Latest-Local-Government-News&contentID=2249

and even the best-qualified workers will struggle to cope with substantially higher adult-to-child ratios.

3.73 Another area where the public sector has real potential to boost long-term growth is adult social care. An ageing population[52] will necessarily require extra support, and so too do the inadequacies of current provision. The Dilnot Commission reported[53] that the number of people receiving residential and homecare services has fallen by 20 per cent since 2003, the numbers receiving community services has been falling since 2009 and the number of home care contact hours fell in 2010: at a time of rising demand these figures suggest a problem of growing unmet need. Other problems that cannot be justified include the 'post code lottery' of differing levels of provision from one local authority to another, the utter lack of transparency about the services people are entitled to and the continuing failure to integrate social care and the NHS. The TUC believes that the long-term solution to these problems is a National Care Service, free at point of need, but we support the recommendations of the Commission on the Funding of Care and Support[54] as a half-way house.

3.74 We have welcomed the Government's recent acceptance of the Dilnot report, although we strongly believe that the Commission's key priorities should not be diluted. We would therefore like to see the Government commit to a timetable over which they will seek to reduce the lifetime contribution to an individual's care costs to no more than the £35,000 proposed in the report. We are also urging the Government to commit to a national set of eligibility criteria, with portability of assessments.

Boosting falling living standards

Raising wages

3.75 Ensuring that work is justly rewarded with fair pay is a necessary condition for building an economic recovery that is sustainable in the long term. The UK has suffered from a long running trend for wages to fall as a share of GDP, which has disproportionately affected low and middle earners whilst those at the top have continued to see their incomes rise.

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[52] The European Union's 2012 Ageing Report forecasts that the proportion of the UK population aged over 80 will rise from 4.7 per cent in 2010 to 9.3 per cent in 2060. http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf table A 13.

[53] Fairer Care Funding, Commission on the Funding of Care and Support, 2011, fig. 1.7 https://www.wp.dh.gov.uk/carecommission/files/2011/07/Volume-II-Evidence-and-Analysis1.pdf

[54] Final Report, 2011, https://www.wp.dh.gov.uk/carecommission/files/2011/07/Fairer-Care-Funding-Report.pdf

3.76 Profits have not been directed from wages into investment, which might have raised the path of economic growth in the long-term. Rather, investment has fallen along with wages and it is profits and dividends that have grown. This state of affairs has clear implications for our economy. The TUC has calculated that each one per cent of national output moved into the wage share means £13bn of real income going to Britain's hard-pressed households. Even a three per cent rise in the wage share, which would still leave it lower than it was in the three post-war decades, would mean around £50 billion of additional spending power for Britain's' consumers, allowing a stronger domestic economy without the recourse to borrowing.

3.77 In addition, although it is a matter of consensus that a well-trained workforce is a necessary condition for sustained economic success, low wages make it much harder to encourage people to take up training or engage in life-long learning, whilst employers tend to shy away from training low paid workers.

3.78 There is therefore an economic and a social case for the Government taking a greater interest in raising the pay growth path. In recent years such a focus has been lacking. The National Minimum Wage performs the important function of prohibiting the worst excesses, and could be somewhat higher without causing adverse economic effects. The TUC wants to see the NMW raised to the highest level that can be sustained without generating significant negative side-effects such as net job losses, and our target for 2013 is that the NMW rates should increase by a higher percentage than earnings or RPI inflation, whichever is the greatest.

3.79 But the NMW will only ever benefit those who are in the bottom part of the income distribution. Now is the time for the Government to take a more positive stance towards those low wage workers who are just above the Minimum Wage, and those in the middle of the income distribution who have been feeling the pinch since the UK economy entered the current downturn nearly five years ago.

3.80 In the short-term improvements in real wages, at least in the private sector, will remain dependent upon our wider economic prospects. But there is scope for Government to act now to boost both demand and wages by reconsidering the one per cent pay cap in the public sector. Following as it does a long-running pay freeze, it is causing real hardship to public sector workers and is putting an intolerable strain on both their personal finances and their desire to deliver highly- motivated professional modern public services. At the moment the Government is simply failing to invest in its employees.

3.81 But if we are to address longer-term trends in wage stagnation a new direction is now urgently needed. This would include the adoption of the creation of good, well-paid jobs as a policy target central to industrial policy and a significant increase in support for work-related training and life-long learning.

3.82 The TUC would also like to see important changes to company structures and law to avoid top executives awarding themselves profligate pay rises whilst taking a parsimonious view on the pay of their employees. Mandatory disclosure of company pay ratios and worker representatives on remuneration committees would help to drive fair pay in the private sector.

3.83 We also believe that Government should intensify its promotion and adoption of the living wage[55], which has drawn praise from both the Prime Minister and the Leader of the Opposition, and active support from successive London Mayors. A recent report by the IPPR suggest that the potential is quite large, as it indicated that most large employers actually could afford to pay their worker the living wage without generating any negative employment effects[56]. As a minimum starting point we believe that every Government Department should commit to pay the Living Wage to all of its directly employed and contracted staff.

3.84 The Government should reconsider plans to abolish the Agricultural Wages Board for England and Wales[57.] Whilst there may be some room to modernise the system, removing this special pay protection altogether would cause the average wage of farm employees to drift downwards over a period of time. The Government's own prediction that wages will fall by £131 million over ten years[58] greatly underestimates the likely impact on wages in the agricultural sector. The abolition of Wage Councils in other industries in the 1990s led to employment and pay both falling[59], as would-be employees avoided these sectors. Thus it seems very unlikely that wage deregulation would create any more jobs in agriculture.

3.85 There should also be an increased role for trade unions in wage setting. The ILO has identified the positive relationship between the growth of collective bargaining, higher productivity and higher wages. Trade unions are an effective way of delivering fairer pay, so the Government should use the opportunity presented by the Budget to promote collective bargaining, taking the immediate steps of restoring ACAS's duty to promote collective bargaining and supporting and extending existing collective agreements in the public sector.

Restoring social security

[55] The living wage is currently £8.55 in London and £7.45 elsewhere in the UK.
[56] IPPR, "beyond the bottom line: the challenges and opportunities of the living wage", January 2013. http://www.ippr.org/publications
[57] The devolved power in Scotland and Northern Ireland have pledged to keep their respective Agricultural Wages Boards, whilst the Wales Assembly has pledged to re-establish a similar mechanism if their AWB were to be abolished.
[58] DEFRA RIA, p4. Net Present Value.
[59] See, for example: Dickens, R and Manning, A *"after wage councils - abolition has not as yet led to an increase in employment"* (1995), *New Economy,* 2 (4). pp. 223-227;

3.86 Social security benefits are essential to the living standards of the poorest people. Statistics from the Office for National Statistics project on "Measuring National Well-being" show that, in 2010, for households in the lowest income quintile, 76 per cent of their weekly income came from benefits[60]. Benefits are not only important for the poor, however – for the middle quintile, cash benefits account for 27 per cent of disposable income and 25 per cent of final income.[61]

3.87 Recent policy changes affecting social security will reduce the incomes of all families who receive benefits and hit the poorest hardest. When Personal Independence Payment replaces Disability Living Allowance people with less severe impairments will lose £1 billion and changes to the eligibility test will mean that eventually 400,000 fewer people will qualify for an adapted care from the Motability scheme. Disabled people will also be hit by the restriction of contributory Employment and Support Allowance, the abolition of the Severe Disability Premium, the disability element of Working Tax Credit and the reduction in disabled child additions. By 2015, the freeze in Child Benefit followed by the one per cent limit to cost-of-living increases will have cost a family with two children more than £1,000.

3.88 The Welfare Benefits Up-rating Bill will cap benefit and tax credit increases to 2016 at one per cent, regardless of the rate of inflation. If the Bill is passed, people who receive a substantial proportion of their incomes from benefits and tax credits will face falling real incomes, the numbers facing hardship and deprivation will increase and the burden of household debt will grow. This will include people with low earnings who receive in-work benefits as well as those who are out-of-work. Based on OBR forecasts, some of the poorest people in the country face a cumulative cut of 3.5 to 4 per cent; the policy has been justified by reference to increases in earnings, but the same source suggests that earnings will rise two per cent in real terms.[62] An opinion poll for the TUC found that support for this policy is limited:

Benefits should be raised by less than either wages or prices	25%
Benefits should be raised in line with prices	34%
Benefits should be raised in line with wages	15%
Benefits should be raised in line with prices or wages, whichever is higher	15%
Don't know	12%

[60] For those in the highest quintile, on the other hand, 76 per cent was derived from wages and salaries and just 2 per cent from benefits. Measuring National Well-being – Personal Finance, 2012, Carla Seddon, ONS, 20 September 2012, http://www.ons.gov.uk/ons/dcp171766_278355.pdf

[61] The Effects of Taxes and Benefits on Household Income, 2010/2011, ONS, 26 June 2012, p. 9, http://www.ons.gov.uk/ons/dcp171778_267839.pdf

[62] Economic and Fiscal Outlook, Office for Budget Responsibility, table 1.1, figures for CPI and earnings, http://cdn.budgetresponsibility.independent.gov.uk/December-2012-Economic-and-fiscal-outlook23423423.pdf The OBR uses calendar years, so the figures for 2013, 2014 and 2015 are used here as the closes approximation to the period 2013/4 – 2015/6.

3.89 The one per cent benefit cap is clearly unfair and further undermines any claim from the Government that we are “all in this together”. If the Welfare Benefits Up-rating Bill is voted on, we hope Parliament opposes it. Better still would be for the Chancellor to use his Budget to confirm that it will not go ahead.

Section four

Summary of Recommendations

Economic strategy

- Budget 2013 should signal the end to the Government's misguided austerity programme and replace it with a programme to create a modern, efficient economy, based on investment in sustainable industries and high quality public services, which provide decent, well-paid jobs.
- Given the significant scope for increased demand to boost growth, leading to both output and productivity gains, the Chancellor should introduce an immediate stimulus package including a reversal of capital spending cuts (including in housing), a VAT reduction and an end to the one per cent public sector pay cap and freeze.

Investment

- The Government should prioritise immediate investment in public transport, housing and green infrastructure, in addition to local infrastructure projects which can help support spatial economic strategies.
- A strategic plan to ensure that UK suppliers and workers secure maximum benefit from the forthcoming HS2 investment should be urgently developed.
- The Government should announce that its proposed business bank will be:
    - 100 per cent state owned;
    - capitalised with an initial £40bn over four years;
    - allowed to raise funds on capital markets by issuing bonds of up to a leverage ratio of 2.5:1, meaning it could have a balance sheet of over £140bn within four years.
- The business bank's activities should not count towards the government's fiscal targets.
- The Chancellor should announce that the Green Investment Bank can now borrow independently.

Taxation

- Spending cuts at HMRC should be reversed.

- Capital gains tax should be aligned with the top rate of income tax.
- The Government should strengthen its proposed General Anti-Abuse Rule so as to enable it to take corporate tax avoidance into account.
- Higher rate tax reliefs and allowances should be removed from the UK tax system.

Industrial policy

- The Government should introduce a National Growth Strategy, setting out its vision and including concrete commitments against which it could be held to account, as recommended in 'No Stone Unturned in Pursuit of Growth', the report of the Heseltine Review.
- The Prime Minister should chair a National Growth Council, with a cross government focus on driving growth and wealth creation, as also recommended by the Heseltine Review. Any business-led organisation should include trade union representation.
- Further progress should be announced on sectoral economic strategies, including on securing trade union representation on each new sector council and strong Ministerial leadership.
- The Chancellor should establish a working party comprised of business and union representatives to explore the issue of 'employee voice' in industry and to report back in the Autumn. The group should give particular consideration to how statutory information and consultation rights could be extended.
- UK representatives should ensure that new EU procurement directives enshrine the ability to include social, employment and environmental objectives into EU law.
- Further clarity should be provided over airport capacity in the South East.
- The Government should commit to maintain science and research funding at a level that keeps pace with our international competitors.
- Specific consideration should be given to the importance of growing green industries, including sector based industrial strategies to complement energy market reform for nuclear, offshore wind, oil and gas and coal.
- The Government should reinstate its commitment to deploy the full £1 billion budget for Carbon Capture and Storage in this parliament.
- The Government should set a carbon reduction target for the Energy Bill in line with the advice from the independent Committee on Climate Change.
- The Government should give an explicit commitment to provide increased support to the UK's energy intensive industries.

Skills for the future

- More HMRC resources should be dedicated to addressing non-payment of the NMW among apprentices.
- UK Government should take forward legislation to require contractors to publish training and apprenticeship plans.
- The Government should investigate options for increasing financial support to young people in college education including providing additional support for transport costs and reforming free school meal entitlements to ensure that FE students aged 16-18 are treated as if they were in school.
- The Government should look to the “European model” when it takes forwards the recommendations of the Richard Review on Apprentices and the devolution of skills funding to industrial partnerships.

Supporting people into work

- The Government should commit to the restoration of pre-recession employment (and under-employment) rates as a key economic policy aim, and to helping those districts and groups of people who benefited less when overall employment was high.
- A job guarantee should be established for all young people who have spent more than six months out of work.

High quality public services

- The Freedom of Information Act must be extended to apply to all private and third sector providers bidding to deliver public services. All providers should also be subject to the same routine requirements as public authorities to publish information.
- The Government should commit to a target of free universal childcare. Recent reductions in the support provided by the childcare element of tax credits should be reversed.
- The Government should implement the main recommendations of the Dilnot Commission.

Boosting living standards

- The Government should reconsider the case for enabling worker representation on remuneration committees.
- The Government should commit to mandatory disclosure of company pay ratios.
- Government should commit to immediate payment of the Living Wage across all central Government Departments.
- The Government should use the opportunity presented by the Budget to restore ACAS's duty to promote collective bargaining and to support and extend existing collective agreements in the public sector.
- The Government should reverse the provisions of the Welfare Benefits Uprating Bill.

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

www.tuc.org.uk

contact: Timothy Page
Author name: Timothy 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.

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