TUC

BETTER OFF IN

Working people and the case for remaining in the EU

Foreword

So far, this referendum debate has been dominated by business interests. Turn on the television and the odds are you'll see a captain of industry accompanied by a politician in a hi-vis jacket talking about the pros and cons of the EU. We urgently need a more balanced debate, with the voices of workers and their unions getting a fair hearing. After all, it will be the votes of ordinary working people which decide our future in Europe – not those of business, the City or the political establishment.

That's why the TUC is publishing this report about the risks of leaving the EU. It shows that working people will be worse off if we vote Leave. And this would come on the back of a difficult period for working people. The crash, deep recession and crisis in our living standards have all cast a long shadow – as has the government's fixation with spending cuts. With debt rising, housing costs spiralling, and jobs becoming more insecure, is this really the time to unleash a new wave of economic uncertainty?

I strongly believe workers should vote to Remain for three key reasons.

Firstly, being in the EU means higher wages. TUC research shows that a typical worker would be £38 per week worse off if we vote to leave. And that would be a huge blow at a time when real wages for workers are still £40 per week below their pre-crisis levels.

Secondly, our membership of the EU delivers more and better jobs. As our report highlights, the EU supports hundreds of thousands of high-pay, high-skill, high-productivity manufacturing jobs. And they are concentrated in our most economically-disadvantaged regions, outside London and the south. With half our manufacturing exports going to the EU, the majority of our largest trading partners in the EU and half of foreign direct investment coming from the EU, the risks of Brexit are clear.

And thirdly, the EU has delivered important rights for working people, particularly women. A Leave vote would give Conservative ministers the green light to repeal laws they have long dismissed as burdens on business. But what they call red tape makes a difference to the lives of millions of workers: maternity and family-friendly rights; equal pay; tougher health and safety laws; stronger anti-discrimination protections; equal treatment for part-timers, agency workers and temps; rights for workers outsourced or at risk of redundancy; limits on working time; and guaranteed paid holidays. Post-Brexit, it isn't hard to imagine a Conservative government watering down some of these protections for some or all workers.

The EU is not perfect – and this paper sets out significant trade union criticisms of its path in recent years. But I have no doubt that Britain's workers are better off in the EU – and best off in a reformed EU. Our vision of reform, however, is very different from David Cameron's. We urgently need to rebuild an EU that puts workers and citizens first. That's why the TUC has joined forces with our sister trade union movements on the continent to call for investment in infrastructure, a plan to nurture the low-carbon industries of the future, and a new deal for young people across Europe who have paid a desperately high price for the economic crisis.

The best way for working people to win that change is by voting Remain – by engaging with Europe, not retreating from it.

Frances O'Grady, general secretary, TUC

Introduction

Membership of the European Union, the world's largest single market, brings substantial economic benefits for people at work across the UK. This is both as a result of increased trade and higher investment flows, as well as the employment rights and protections that are critical for the market's success. The TUC's long held view is that a single European market supported by strong rights, social protection and a voice for workers is critical to delivering decent UK jobs and living standards.

The financial crisis shook the foundations of global prosperity – and eight years on, working people continue to pay the price. The actions taken by policymakers here in Britain and worldwide led to lowered demand, reduced growth and a crisis in both earnings and the quality of work. And the underlying fragility has not been resolved, with levels of personal debt and asset prices still very high relative to historic norms.

In economic terms leaving the EU would add a significant further hit on demand, through both the direct impact on trade and the indirect impact of uncertainty in the financial markets.

Not all economic commentators share the TUC's analysis of the present fragility of our economy. But many recognise a real threat of recession in the short term if the UK were to vote to leave the EU, and the longer-term scenarios are also concerning. TUC analysis of four economic forecasts by key economic institutions shows a hit to average wages of between £28 and £48, with a central estimate of £38 a week by 2030. This would add further pressure on working people whose average earnings are already below their pre-crisis peak.

Not only will wages be hit, but more jobs will be characterised by low quality and low pay if the UK leaves the EU. With the majority of trade still in goods, the manufacturing sector is likely to bear the brunt of Brexit. This will in turn hit Scotland and Wales and English regions outside London harder, exacerbating already extreme imbalances.

This paper looks at the likely impact of Brexit on the core concern of trade unions: good jobs with decent pay. Critically it does not start from a sunny assessment of where working people are now, but from a deep understanding that for many working people, wages and living standards have not recovered from the crash. Unlike some, we do not pretend that everyone in the UK is doing well. Trade unions do not believe that the UK economy is delivering enough good jobs. But our analysis is that voting to leave the EU would make that worse, not better.

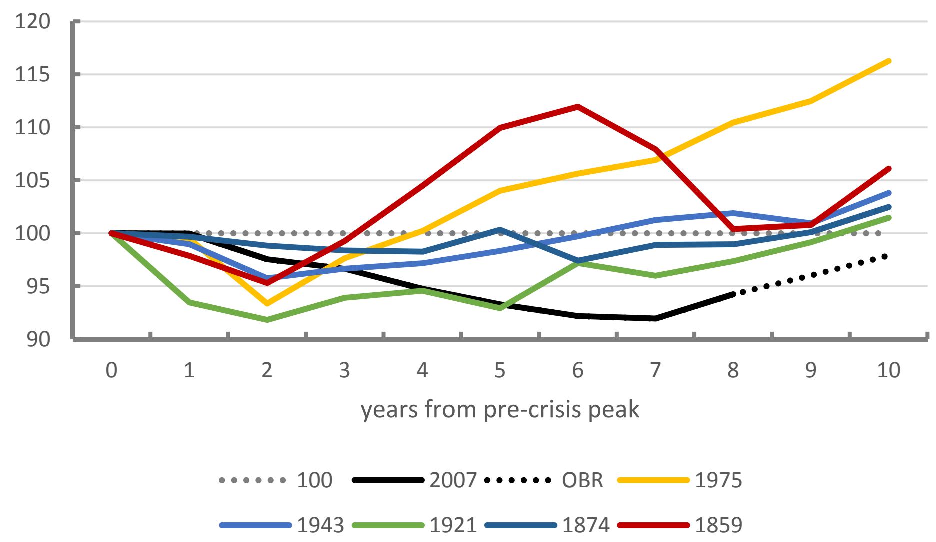
Conversely, the pressures on the economy and on workers that we see will not be resolved simply by a vote to remain in the EU. We have no truck with an argument that says that reducing government and attacking workers' rights will resolve a crisis inflicted by financial sector excess – either in the UK or in the EU.

An existing (and enduring) crisis in earnings and work

Workers in the UK have endured the longest and steepest decline in real earnings for a century and a half. Chart 1 shows that after eight years, real earnings are still 6% below the pre-crisis peak (in 2007) – and far below any other comparable decline.

In 2015 real earnings began to rise for the first time since the crisis, with real average weekly earnings up 2.5%. The increase was, however, more down to lower inflation than to higher wages. In 2016, wage increases have already fallen back (to 1.8% on the latest figures), and inflation is up a little (0.3%), so the OBR forecasts included on the chart already look optimistic. But even on the basis of these forecasts, real earnings are not expected to return to their pre-crisis peak after a decade. If this happens, it would be unprecedented on the basis of historic experience.

Chart 1: Real earnings through recessions designated by start year (indices, pre-crisis peak=100)



In the public sector, pay has been hit particularly hard by a prolonged pay freeze and now a 1% pay cap, as well as other changes that are detrimental to the conditions and experience of work. Separate figures on earnings by income decile show that this decline is shared across the income distribution. While earnings declines are a little lower at the lower end of the income distribution, the impact of inflation is a little higher on the lower end of the income distribution. Table 2 shows real earnings changes are almost the same towards the top (90th percentile) and bottom (10th) and in the middle of the earnings distribution. (The figures are based on the annual survey of hours and earnings, with CPI figures for various income deciles that are available only to 2013.)

Table 2: Earnings growth, percentage change 2008 to 2013

	90th percentile	median	10th percentile
Nominal earnings	7.7	8.5	10.2
CPI inflation	15.8	15.9	18.1
real earnings	-8.1	-7.4	-7.9

Alongside the crisis in earnings, there is also a crisis in the quality of work. While the government has pointed to a record employment rate over recent months, behind the headlines there has been a major shift to lower-quality work since the 2007 crash.

First, there has been a material reduction in the number of full-time employee posts. Currently 62.5% of all jobs are full-time employee posts. This is down from 64.4% ahead of the crisis. This shortfall of around 2% corresponds to around 600,000 full-time jobs.

Second, 3.2 million people are underemployed – which is up around 900,000 since the crisis. Part of this increase is driven by a very sharp rise in self-employment, which now stands at 4.7 million, up from 3.9 million ahead of the crisis. Likewise there are 8.5 million part-time jobs, up from 7.5 million ahead of the crisis.

Recent ONS statistics also continue to report an increasing number of zero-hours contracts. For October–December 2015, the number of workers on zero-hours contracts had increased by 15% over the previous year to reach 801,000. This represents 2.5% of people in employment – 1 in 40 workers.

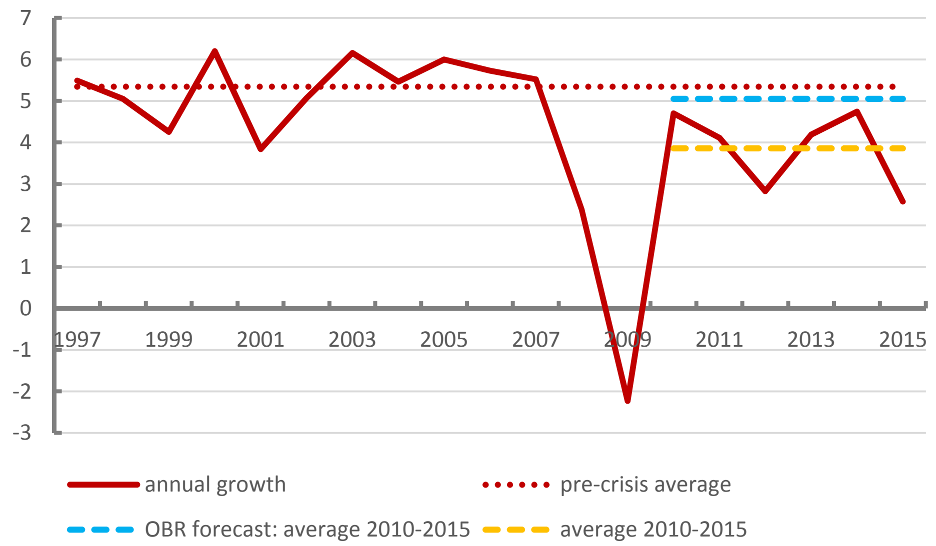
While some of these changes may reflect changing preferences, for many working people these changes will not have been through choice, and amount to a severe deterioration in the quality and experience of work.

An existing (and enduring) shortfall in growth and productivity

These changes to the labour market come as economic growth has been subdued, moving forward in only fits and starts. Chart 3 shows GDP growth in nominal terms (i.e. not adjusting for inflation): on short-term horizons, wages depend on the growth of the economy in cash terms (as do government revenues from taxation). In 2010 the OBR expected growth to average 5.0% a year, only marginally below the pre-crisis average of 5.3%; instead growth has averaged 3.9% a year. This corresponds to a total cash shortfall of £140bn (TUC, 2016).[1]

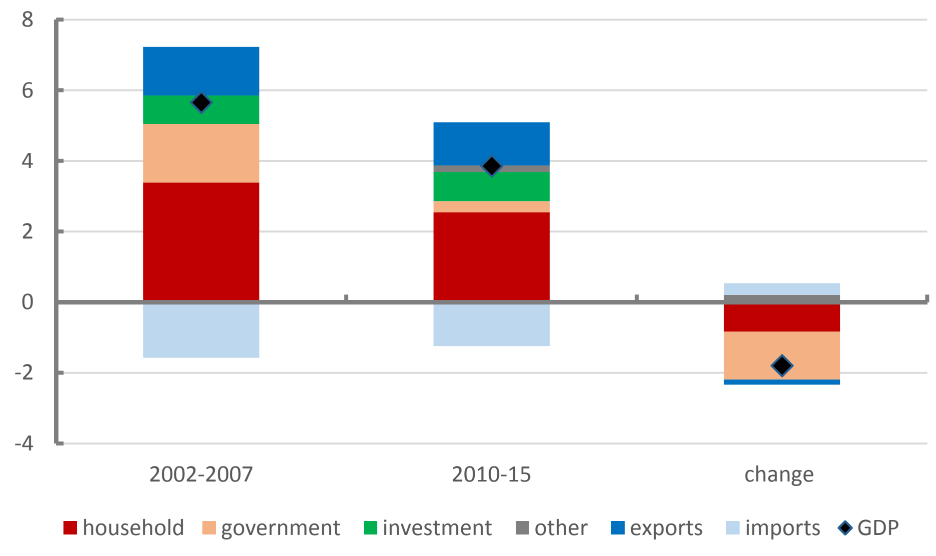
[1] TUC (2016), *Budget Statement*: https://www.tuc.org.uk/economic-issues/budget/tuc-budget-statement-2016

Chart 3: Nominal GDP growth, per cent



Contrary to recent government pronouncements, such as at the recent state opening of Parliament, the latest figures show the economy weakening not strengthening. Nominal GDP growth in 2015 was 2.5%; since the war lower figures have been recorded only through the financial crisis of 2008–09. Quarterly figures show weak growth continuing into 2016, with some private sector measures showing growth at a near standstill.[2] Demand measures show any momentum coming only from consumer spending.

Chart 4: Annual average GDP growth and contributions, percentage points



The chancellor attributes this weakness to a failure of productivity – a structural and global failing rather than a result of policy:

> "Productivity growth across the west is too low … The OBR also note that this reflects concerns across the West about low productivity growth. The Secretary General of the OECD said last month that

[2] In particular the Markit/Cips PMI, e.g. https://www.theguardian.com/business/2016/apr/05/uk-services-sector-markit-cips-pmi-eu-referendum-slowing-global-economy

> 'productivity growth… has been decelerating in a vast majority of countries'."[3]

However, the TUC believes that recent low productivity outcomes are the effect not the cause, simply mirroring the decline in the economy and the shift to low-wage, low quality work.[4] Figure 4 above shows that the reduction in demand caused by government spending cuts led directly to reduction in growth, with anticipated compensatory gains in private sector demand not materialising. Second, the labour market has adjusted to reduced growth through reducing wages growth rather than reducing employment growth. Similar outcomes are common to nearly all OECD countries that made spending cuts, with most also seeing a disproportionate adjustment on wages.

Outside the immediate policy environment, there are numerous long-standing structural weaknesses in the UK economy – most obviously a financial sector that is orientated towards speculative rather than productive activity and an absence of any strategic approach to industry, investment, regions and skills.

But the key immediate issue is a serious deficiency of aggregate demand. The most obvious signal of this deficiency is the persistent and near-unprecedented weakness in inflation outcomes, with the annual CPI for 2015 the lowest since the end of the great depression in the 1930s. For as long as policymakers continue to interpret outcomes as driven by flaws on the supply side of the economy rather than deficient demand, they hold back expansionary actions (in particular government spending). In doing so they risk allowing disinflationary conditions to continue or intensify, and so exacerbate underlying fragilities and economic weakness going forwards.

The threat of Brexit to wages

Under normal conditions a major change to our trading relations would run the risk of being severely disruptive. Given the present weaknesses and fragilities of the UK economy, and what these have meant for working people since the 2007 crash, the prospect of Brexit is even more risky.

Although policymakers tend to be sanguine about private domestic demand, most see the possibility that an exit vote might be severely disruptive and lead to recession. Last week the Treasury predicted: "the effect of this profound shock [of leaving the EU] would be to push the UK into recession and lead to a sharp rise in unemployment".[5] Under their 'shock' scenario, growth reduces to -0.1% a quarter for a year, and unemployment rises by half a million (-0.4% and 800,000 if the shock is 'severe'). Leaving the EU impacts in three main ways:

- through a 'transition effect', as the UK becomes less open to trade and investment

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[3] Budget speech 2016: https://www.gov.uk/government/speeches/budget-2016-george-osbornes-speech

[4] TUC (2015b) *Productivity: No Puzzle About It*, https://www.tuc.org.uk/economic-issues/public-spending/labour-market/economic-analysis/%E2%80%98productivity-puzzle%E2%80%99-red-herring

[5] HM Treasury (2015) *The Immediate Economic Impact of Leaving the EU*, p. 5. https://www.gov.uk/government/publications/hm-treasury-analysis-the-immediate-economic-impact-of-leaving-the-eu

- through an 'uncertainty effect', that will impact on economic decisions
- through a 'financial conditions effect', arising from (increased) volatility in financial markets.

Of course, unlike the TUC, the Treasury does not concede that the impact is likely to be worse given the wider weakness of demand and the very limited room for monetary policy manoeuvre. While fiscal policy might be expanded to compensate, this is far from the path pursued by this government and the last to date. And it seems even less likely under a Tory-led Brexit. So those who have already been hit hard since the crash would experience Brexit as compounding their economic distress and displacement.

The key question is how this impacts on individual working people and their wages. Estimates of the longer-term hit on the economy, and hence wages and incomes, tend to step past the immediate shock and consider the disruption more generally into the future. On this basis, the TUC estimates that Brexit would mean a reduction in average wages of £38 a week. (See below for further information.)

ESTIMATING THE IMPACT ON WAGES

Most institutions' assessments of the long-run impact of Brexit are based on a broadly similar methodology, and come to similar conclusions. Most estimate the impact of Brexit on the level of GDP some years into the future (2030), from which an impact on household income is derived. This is the basis of the Treasury's estimated impact on household incomes of £4,300. The same GDP estimates can be put on an annual basis and used to project the impact on average weekly earnings, set against a baseline case from the Office for Budgetary Responsibility's long-term growth forecasts.

Table 5 on the next page looks at the average forecasts for the impact of Brexit on the level of GDP in 2030 across a number of leading economic institutions.[6] *The average view is that GDP will be reduced by 5.6% by 2030.*

This GDP figure is then used to underpin projections from average weekly earnings of £492 in 2015 under both Brexit and remain scenarios. Projecting forwards from 2015, the TUC estimate that the long-term impact of Brexit would be to reduce wages by £38 a week, with an upper and lower bound of £10 on either side.

Some context for the figure is necessary. The forecasts all assume the current position is a 'normal' environment. Under these conditions earnings are expected to advance by £220 if the UK stays in the EU and £182 if we leave. But as the TUC has demonstrated in this paper and

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[6] Johnathan Portes and Angus Armstrong (2016) "Commentary: the Economic Consequences of Leaving the EU": http://ner.sagepub.com/content/236/1/2.full.pdf Figures are drawn from Table 1, using figures derived on the basis of the World Trade Organisation arrangement on exit. Note that unlike other institutions NIESR make an explicit forecast for the impact on wages which is used in preference to their estimate of the impact on GDP.

elsewhere, the current situation is far from normal: today average weekly earnings are around £40 below the pre-crisis peak. Brexit would further set back gains from future economic growth.

Table 5: Estimates of the reduction (percentage) in the level of GDP in 2030 under Brexit

	Lower	Central	Upper
OECD	2.7	5.1	7.7
LSE / CEP	6.3	7.9	9.5
HMT	4.6	6.2	7.8
NIESR (wage figure)	3.4	3.4	3.8
Average	**4.2**	**5.6**	**7.2**

So the gains of remaining in the EU are set against the loss of earnings so far. While these specific gains also depend on economic growth coming in line with the OBR's forecasts into the future, on this time horizon, even with much lower growth, the earnings impact of Brexit would not be greatly changed.

An alternative approach looks at the historic impact of joining the EU rather than projected impact of exit. These figures give a similar number: for example London First concluded wages would be down £35 if the UK had not joined the EU.[7]

The underlying methodology for both approaches is basically the same. The impact on UK exports to the EU under Brexit is assessed according to various possible alternative trading arrangements for the UK operating outside the EU. The reduced trade then impacts on the economy through reduced productivity. In general terms this follows because free trade is understood as integral to economic efficiency.

Any economic forecast is obviously subject to a high degree of uncertainty and the broader 'general equilibrium' approach that underpins these models is not uncontentious, not least in the light of failures exposed by the financial crisis and because demand factors are set aside. But the dangers given the current fragility of the economy and the impact of the longer-term reduction in trading relations on the economy are undeniable. In addition, there is no shortage of evidence of a likely impact from the shop floor. Senior workplace union representatives and their members have said that Brexit would damage their sales, reduce investment in major employment sites and lead to lay-offs – perhaps even relocation outside the UK.

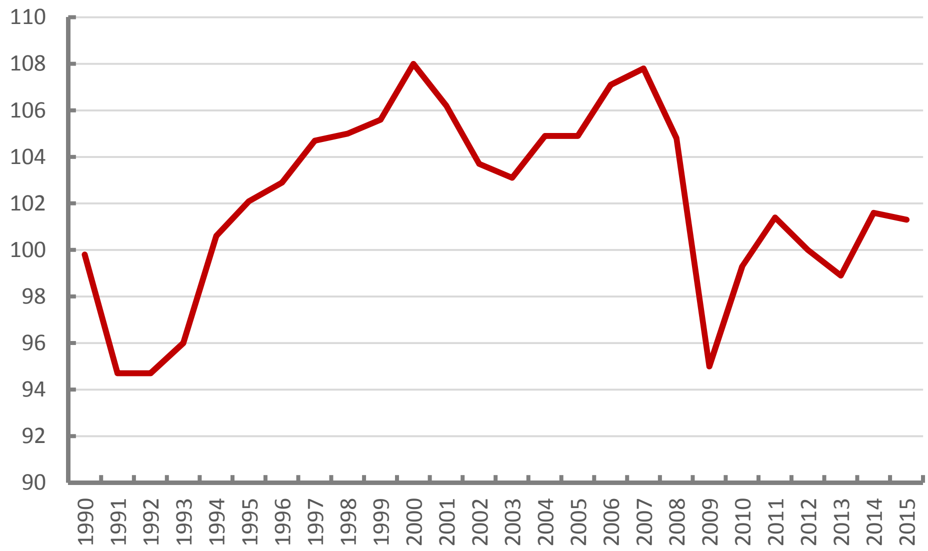
[7] Their actual estimate was £1,800 in annual terms: http://londonfirst.co.uk/campaigns/london-in-europe/

Overall, in spite of major uncertainties, it is not contentious to project a material further downward impact on living standards following Brexit.

The threat of Brexit to manufacturing

From the above, it is clear that Brexit is likely not only to put more downward pressure on pay, but also most likely intensify the shift to low-quality work. And in particular, the manufacturing sector will be hard hit.

Chart 6: Index of manufacturing, 2012=100



Manufacturing output was hit very hard in the financial crisis and recession of 2008–09. Since then, output has struggled to move decisively forwards – with manufacturing recessions in 2012, 2013 and 2015. Output remains 6% below the pre-crisis peak. With the global collapse in commodity prices, the steel industry is in crisis and (outside the manufacturing sector, but part of production) the oil sector is also in great difficulty. Under Brexit these relentless pressures would be intensified. UK trade is disproportionately skewed to manufacturing and, correspondingly, manufacturing is disproportionately reliant on trade.

In 2015, total UK exports were £0.5tn, 56% accounted for by goods and 44% by services. This was the lowest share of manufacturing exports on record, and reflects a decline that has been underway, in fits and starts, from the late 1980s, end of the 1990s and most decisively since the end of the millennium, after the corporate investment expansion associated with the 'dot.com' and 'new economy' moments went into reverse (Chart 7 over page).

The EU is more important to manufacturing rather than services exports, with (in 2014) half of UK manufacturing exports going to the EU but only 37% of services. With manufacturing accounting for only 10% of the UK economy, the disproportionate importance of trade to a manufacturing industry under relentless pressure for decades is obvious. ONS 'input-output supply-use tables' allow a more detailed comparison of the share of domestic production that is exported (Table 8 over page).

Chart 7: Goods as a share of total trade

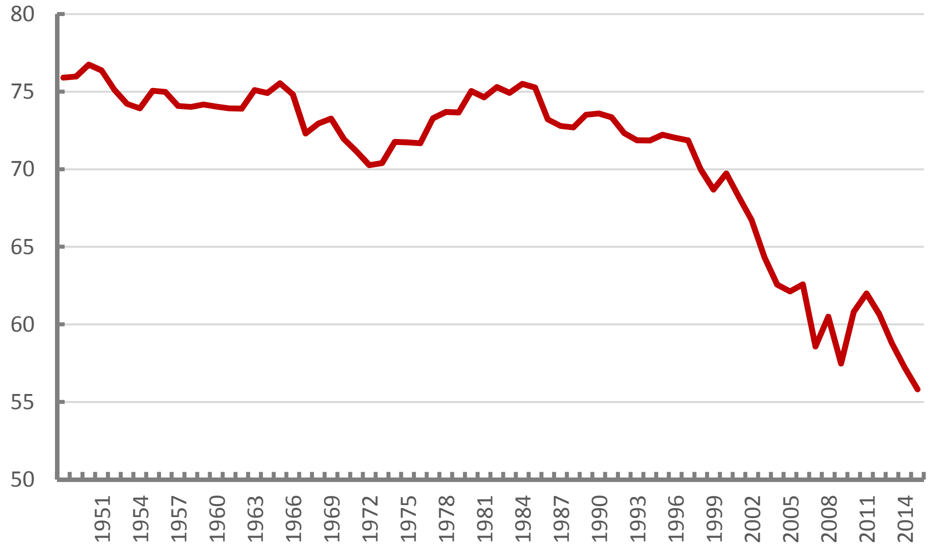


Table 8: Trade and domestic output by industry, 2013

	Domestic production, £bn	Exports, £bn	*Share, %*
Agriculture	26	3	*10*
Production:	642	308	*48*
Manufacturing	460	276	*60*
Energy	182	32	*18*
Construction	242	2	*1*
Services	2163	208	*10*
Finance	236	70	*30*
Services excluding finance	1927	137	*7*
Total	**3073**	**521**	***17***

So 60% of manufacturing output is exported, in contrast to only 10% of service output. It is complex to judge the respective impact of Brexit between the two main industry groupings, but the impact can be illustrated based on existing proportions. For example a £100bn reduction in trade (which corresponds roughly to the Treasury's long-run figure)[8] could mean a hit of roughly £60bn on domestic manufacturing output of £460bn, i.e. a reduction of 13%. A £40bn hit on services production of £2,163bn will only amount to 1.8%. On this view the manufacturing base is hit nearly seven times as hard as services by the impact of Brexit.[9]

It may be that trading arrangement and tariff changes under Brexit are less disadvantageous to manufacturing rather than services. But given trends over the past two decades as well as a likely reduction in foreign direct investment in industry, the sector looks highly vulnerable.

Manufacturing jobs are of course on average better quality work, as they are higher productivity and higher wage. Table 9 shows a derived measure of value added per head across high-level industrial sectors.

Table 9: Value-added per worker, £000s

	Employment, 000s	Gross value added, £m	Productivity, £000s
production	3005	226000	75
manufacturing	2616	168149	64
services	26869	1297300	48
finance	1125	123898	110
services excl. finance	25744	1173402	46

Manufacturing is therefore roughly a third more 'productive' than the service jobs. (Production even more so, but this follows from the very high value added in oil extraction.) Wages do not follow straightforwardly from productivity, not least because the cost of capital varies greatly by industry. That said, the latest AWE figures show average earnings are roughly £100 higher per week in manufacturing (£553) than services (£452).

[8] Under the WTO arrangement on exit, HMT estimate trade reduced by between 17% and 24%; HM Treasury (2016) *The Long-Term Economic Impact of EU Membership and the Alternatives*, p. 128. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf

[9] There are complexities associated with any such calculation that follow from global supply chains, where (in the simplest case) production is begun in one country and completed in another. The OECD have produced figures for the share of 'foreign content' in UK export figures as part of their 'trade in value-added' programme. For 2011 these show manufacturing exports accounting for 52% of domestic production and 24% for the whole economy. While it is not straightforward to work such figures through to domestic production, the overall ratio is unlikely to be greatly affected.

Lastly, manufacturing is more important to Scotland, Wales, Northern Ireland and all English regions outside London. In most regions and nations manufacturing accounts for around 13% of GVA in contrast to the UK at 10% and London at 2%.

Chart 10: Manufacturing share of 2014 GVA by region, %

Conversely, London is dominant in the financial and related business services industries, which are also likely to be hit hard. But the TUC is very clear future prosperity and decent work depends critically on a thriving industrial sector. While any quantification is highly uncertain, the broader impact from leaving the EU is clear: a reduction in exports will mean a further hit to the manufacturing sector and the nations and regions. This is likely to exacerbate inequalities and imbalances that have already become too entrenched in the UK, and intensify the shift to poor quality, badly rewarded work.

The impact of the EU on rights at work

Since the mid-1970s, action taken by the European Union has played a central role in maintaining employment, in protecting of working people from exploitation, in combating discrimination and social exclusion in and promoting good employment practices.

In response to campaigns by trade unions in Britain and the rest of Europe, the EU has adopted a diverse range of treaty provisions and directives that provide important employment protections, safeguard health and safety, and promote equality in the workplace. In some areas where the EU has legislated the UK already had laws in place such as equal pay, maternity rights, sex, disability and race discrimination, and health and safety. Even so, EU action in these areas has improved and extended rights and now underpins them, making it more difficult for the UK government to undermine them unilaterally.

In other areas, the UK had to legislate for the first time in response to EU requirements. In some cases laws that resulted directly from EU directives are now broadly accepted, for example around sexual orientation, age and religion or belief discrimination. But other rights would have been difficult to secure in the UK and would still be particularly vulnerable to attack if the UK were to vote to leave the EU. For example, UK governments strongly resisted equal treatment rights for agency workers, working time limits, and rights for workers to receive information and be consulted on changes in their workplace that could affect their jobs or terms and conditions. As Michael Ford QC has set out in his independent legal opinion for the TUC,[10] in a post-Brexit scenario the UK government would be able to pick and choose those employment rights it wished to retain. And this could lead to some workers – such as those perhaps in small or medium enterprises or those who work part-time or through agencies – losing the rights they take for granted.

These rights are not impediments to business nor a drain on national resources. Providing a floor in terms of employment practice both offers protection to workers and supports employers to build high productivity companies. Good employment practices boost workforce morale and motivation, which has a direct impact on productivity and profitability. Good employment practice can also facilitate innovation. Workers who feel secure in their employment are much more likely to embrace change and developments such as the introduction of new technologies or working practices. Workers who are consulted about the way in which change is introduced are much more likely to buy into that change, without their levels of commitment and morale being dampened. Investing in positive employment relationships plays a vital role in facilitating innovation, productivity and true adaptability.

Decent floors of employment protection also provide a direct economic boost. The legal right to paid holidays, for example, adds around £1,000 a year to the pay of a minimum wage worker on a 35-hour working week (equivalent to a one off 8% increase in gross income.) Equal pay legislation has had a similar impact on the wages of women workers. These measures help boost aggregate demand by transferring income into the pockets of people more likely to spend it.

EU safeguards have also reduced the risk of countries seeking to compete on the basis of lower pay and conditions and reduced employment protection. This could have led to a race to the bottom, with the social and economic benefits associated with such safeguards being lost, to the detriment of national economic outcomes and workers' living standards.

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[10] https://www.tuc.org.uk/international-issues/europe/eu-referendum/workers%E2%80%99-rights-europe-impact-brexit

Conclusion

Leaving the EU poses big risks for wages and good jobs – but the EU must rediscover its social mission if it is to deliver more for working people.

It is a paradox of modern politics that the 2007 financial crisis reinforced rather than undermined *laissez-faire* economic dogma. Since the crash, we have seen a worldwide attack on government power, attempted further liberalisation of product and labour markets, and continued efforts to reduce social provision. And in the EU, in part under pressure from member countries, business and global financial institutions, there has been a retreat from the social dimension that helped build support for the EU amongst working people. Even as the TUC argues that the risks to working people of leaving the EU are significant, we are clear that the EU must rediscover its social purpose and refocus on policies that bring benefits to ordinary workers.

The first key area is in rights at work and social protections. In recent years, the social pillar of the EU has done a better job than the UK government of extending protection to those on insecure work like agency workers and zero hour contract workers. Gains are more likely to come from EU than UK in future. But the EU must review the changing nature of work to ensure that European workers enjoy protection against new forms of exploitation. There are some current opportunities to progress social rights: for example, the European Commission is looking to revise the Posted Workers Directive to ensure workers temporarily posted from another country do not undercut the terms and conditions of the existing workforce. It is plain that such international action would help calm tensions where migration pressures are leading to undercutting by unscrupulous employers – and it is disappointing that some politicians oppose further progress in this area.

The EU must also prioritise a return to growth across the continent. But a move in the direction of *unrestrained* free trade can create more risks for growth than gains. The current negotiations over the Transatlantic Trade and Investment Partnership (TTIP) are a case in point. By risking national investment in growth-enhancing social and economic policies (such as raising corporate taxes to fund increased skills provision or legislating for higher minimum wages which would boost population health, wellbeing and productivity), it has reduced public support for this trade deal and for the wider principle of free trade.

But the most severe and immediate damage to the EU's ability to deliver for working people has been in its macroeconomic response to the financial crisis and its aftermath (though this response goes way beyond the EU). It is plain that the programme of monetary ease and fiscal restraint has undermined real activity while exacerbating financial imbalances.[11]

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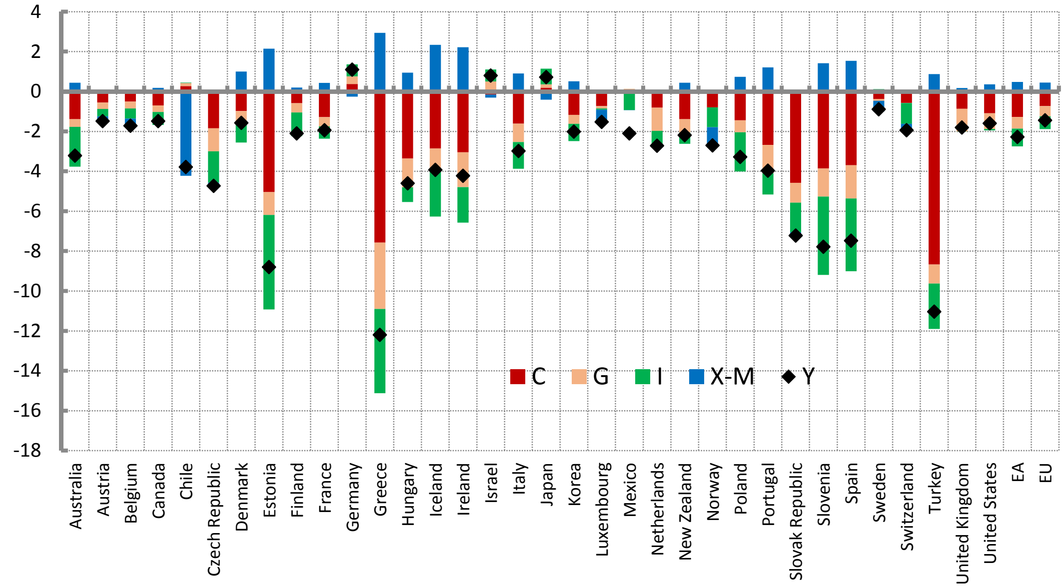
[11] Chart 11 replicates the calculations on Chart 4 for all OECD countries, showing the differences between nominal GDP growth ahead of the crisis (2003–2002) and since the crisis (2009–2014), and the contribution to change by sector: C, household consumption; G, government consumption; I, investment; X-M, net trade; and Y is GDP.

Chart 11: Contributions to the change in growth before and after the crisis, percentage points



The only three countries where GDP growth accelerated after the crisis were countries where government spending growth increased (Germany, Israel and Japan). Nearly all other countries cut spending growth, and GDP growth was greatly reduced. While the scale of cuts in some countries (most obviously Greece, Estonia and Turkey) has been brutal, nearly all countries have been damaged by cuts. Reduced economic growth has meant reduced government revenues (and increased expenditure on out-of-work and in-work benefits), so that deficit reduction has fallen far short of target, and throughout the world, high levels of public debt have not reduced. Spending cuts have proved self-defeating. But as chart 11 makes clear, these policies are not exclusive to the EU.

Both the IMF and OECD have now called for governments to expand infrastructure spending. The OECD now accept that expanding spending may improve public finances. The TUC and international trade unions are calling for a material and sustained expansion of loan-financed infrastructure spending - perhaps 2% of GDP, which would be around £35bn a year in the UK. This sort of investment could kickstart an industrial plan, foster regional growth, address the housing crisis, build transport infrastructure and give real momentum to the 'just transition' from carbon-intensive industries.

Internationally-coordinated government action is necessary to revive the moribund global economy, revive the possibility of decent well-paid work and address the global threat of climate change. The macroeconomic policies of the EU have been on the wrong trajectory for many years. But while there are fundamental failures with economic outcomes and policies these are far from exclusive to the EU, and originate in a global consensus that has gone uncontested for too long.

But the TUC is clear that the way to fight for reform is not to retreat from the world, but to engage with the world – and that means the UK must remain in the EU.

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