date: March 2015
embargo: for immediate use

Budget 2015

TUC Budget Statement

Budget 2015: TUC Budget Statement

TUC

Contents

5 **Overview**

Summary of recommendations

Invest in boosting growth

Address long-run productivity challenges

Secure a fairer recovery

10 **Economic analysis**

Our recovery has been poor

Substantial spending cuts have hit growth

Growth has been unbalanced

Reliance on monetary stimulus has introduced new risks

Poor growth has depressed productivity

Living standards have faced a historic squeeze

Deficit reduction has failed

Future austerity is set to be even more severe

We need a new approach

21 **Recommendations for a stronger, sustainable, fairer recovery**

Invest in boosting growth

Focus fiscal policy on securing a strong recovery, including by giving the UK's state investment banks immediate borrowing powers

Recognise the importance of public investment, including a new programme of investing in one million new homes

Immediately address NHS and local government funding gaps

Protect social security benefits from further cuts

Address long-run productivity challenges

Introduce a comprehensive industrial policy seeking to boost skills, innovation and sector based support for high employment growth

Reform corporate governance by reframing director's duties and restricting voting rights to long-term shareholders

Secure a fairer economy

Pilot new sectoral approaches to tackling low pay and lift the public sector pay cap

Introduce worker representation on remuneration committees to tackle top pay, along with new measures to ensure representatives can be elected fairly

Introduce a job guarantee scheme to prevent long-term unemployment creating a lost generation

Commit to fair taxation

Section one

Overview

Over the last five years the government's approach to managing the UK's economy has fundamentally failed.

We have seen the slowest recovery from recession on historical record, with the UK economy still far smaller than it was at the equivalent point in the economic cycle following any previous downturn since the 1830s. Other developed nations were back to their pre-recession peak years before the UK was even close. On a per head basis our level of activity has not even been restored to the pre-crisis level.

The recovery that we have seen has also done little to address the economic challenges we faced before the financial crisis. The investment and export led growth we were promised in June 2010 have failed to emerge, with consumer debt increasing responsible for powering the UK economy. While the service sector has returned to its pre-recession peak, the manufacturing and construction sectors remain smaller than they were in 2008. With the Bank of England the key source of support for our demand-depressed economy reliance on monetary stimulus has led to new risks. Expanding bank balance sheets via QE may have helped stave off a depression, but has not led to any real improvements in our productive potential or consumer incomes.

Poor economic performance is also storing up wider problems for the future. Productivity rates are well down on their pre-crisis performance and slow growth means far too much of our economic potential is underutilised, risking longer-term hysteresis if improvements are not secured soon. Some claim that the UK's productivity puzzle shows we have somehow lost the capacity to grow strongly. But our analysis suggests the answer is more straightforward – poor productivity is the consequence of poor demand.

The impacts of such stagnant and slow growth have been substantial, with people across the economy suffering unprecedented falls in their living standards. Households remain on average £2,500 a year worse off than in 2010 in real terms. At current rates of progress it will take at least five years before living standards even return to where there were before the crisis.

While job levels are up, the quality of work available in the UK has taken substantial hit, with under-employment and growing insecurity a daily reality for millions. While recent months have seen small increases in real earnings, these have been driven by falling global commodity prices rather than substantial increases in rates of nominal pay growth, which remain far below their historic average.

Of course those at the very top have continued to do well. Over the last five years FTSE 100 CEOs have seen their real earnings rocket by a substantial 26 per cent – an astronomical rise compared to the years of pay cuts that everyone else has had to endure.

The government has even failed against its stated core objective of reducing the deficit. The key reason why deficit reduction is off track is not runaway spending, but poor performance of government receipts. As wages have failed to meet even modest expectations, tax revenues have disappointed, in-work benefit costs have risen and the improvement in the public finances (despite significant and damaging cuts to vital public services) has fallen way short of the original plans. At the same time the government has engaged in tax giveaways which have failed to deliver promised economic gains but have further reduced vital revenues. As a result, we are set to borrow over £54 billion more this year than it originally planned (two thirds of which is a direct result of poor growth in wages).

A continued deficit does not mean that spending has not been slashed - it's poor growth not any hesitation on service cuts that has left the government off target. Severe and substantial public service spending reductions have still been imposed, causing unprecedented damage to vital services, with those on the lowest incomes being forced to bear most of the pain. At the same time, in-work tax credit cuts have cost low and middle earners thousands of pounds a year. The government's approach has managed to drive down the quality of our public services and undermine our vital social security safety net. Behind this approach lies real human misery: according to the Trussell Trust, 913,138 people received three days emergency food from a foodbank in 2013-14, up 163% from 346,992 in 2012-13.

Decimated services, an underperforming economy and years of real income falls are no basis to build the new economy we need. The UK urgently needs to change course. This Budget statement sets out the key policy changes we need to deliver an alternative.

Our analysis illustrates the substantial and immediate benefits that could be gained from taking advantage of current very low rates of government borrowing to invest more in securing higher rates of GDP growth. The UK's lacklustre recovery and poor recent productivity record are not inevitable. With more government action to invest in growth we can turn our poor economic performance around.

A more expansionary fiscal policy would focus immediately on securing a faster growth rate and improving short-run productivity falls. Action here could include giving the green and British state investment banks' immediate borrowing powers, boosting public investment (in vital infrastructure including new homes and better transport) and addressing areas of most acute need in public service spending with immediate action taken to address NHS and local

TUC

government funding gaps. Social security, which provides a vital boost to those in and out or work on the very lowest incomes, needs protection.

But while the immediate priority has to be strengthening the UK recovery, achieving a better balanced future approach to growth, and addressing the long-run challenges that were highlighted so acutely by the financial crisis, also has to be key. An industrial policy, developed with genuine social partner involvement, focused on growing more and quality employment, is essential. A renewed focus on supporting adult vocational learning and training, innovation and prioritising science, are key to moving us away from our current economic overreliance upon financial and housing bubbles. Substantial reform of corporate governance is required if we are to focus our firms more on investing for the long-term rather than simply on securing short-time share price gains.

Sustainable consumer demand depends on higher incomes – we simply cannot go back to the debt-fuelled growth of the previous decade. New approaches to setting higher minimum wages, along with fair public sector pay and measures to tackle excessive executive remuneration are all vital. Higher household incomes also depend on better jobs and tackling unemployment blackspots – an ambition which could be achieved with the introduction of a meaningful job guarantee.

Growing international economic evidence also sets out the economic damage the rapidly rising inequality bring. A stronger future UK economy must also be more equal and that is why we need fair tax. With the public finances remaining under some strain, along with a pressing need for new revenues to secure our social care, childcare and health services in the years ahead, it is only right that those at the top should make a larger contribution. Fair tax is both economically right and socially just.

The UK needs to move towards a strong, sustainable, better balanced and high productivity recovery, and this Budget Statement sets out how we can make a start.

The Chancellor's future proposals would take us in precisely the opposite direction. The scale of the public spending cuts he is anticipating are even greater than those we have already endured, and would decimate our public services, taking spending on them (as a proportion of GDP) back to where it was in the 1930s. With such substantial reductions in government spending, growth would likely slow, with an even poorer recovery (and even worsening prospects of living standards) the most likely result. Further tax giveaways from those at the top, accompanied by further cuts in the vital in-work benefits that support the incomes of those at the bottom, would exacerbate inequality.

At the same time wider economic risks would no doubt continue to grow, poor wages meaning that household debt would have play an increasing role in propping up spending, which on current forecasts is set to rise even higher than

before the financial crisis. At the same time the Chancellor is already doing what he can to support a new housing bubble, putting far more government support into guaranteeing mortgages than our future infrastructure needs. More of the same will simply set us on the road to another financial meltdown.

Another parliament of Osbornomics will also have implications for the deficit. If earnings growth undershoots the OBR's forecast by the amount seen in this parliament, £44bn a year will be lost through lower income tax and NICs receipts and higher benefit spending by 2020. More giveaways to those at the top will further damage our public finances.

Five more years of failure will leave us in a slow growth, badly balanced, increasingly unequal economic mess. It is a risk that we simply cannot afford to take. In this statement we therefore call on politicians from across the political spectrum to recognise the government's failure on growth, deficit reduction and living standards, and to support our urgent call for an alternative.

TUC

Summary of recommendations

There are ten immediate areas where we believe the next government should act to secure the stronger, productive, sustainable and fairly shared growth we urgently need.

Invest in boosting growth

1. Focus fiscal policy on securing a strong recovery, including by giving the UK's state investment banks immediate borrowing powers.
2. Recognise the importance of public investment, including a new programme of investing in one million new homes.
3. Immediately address NHS and local government funding gaps.
4. Protect social security benefits from further cuts.

Address long-run productivity challenges

5. Introduce a comprehensive industrial policy seeking to boost skills, innovation and sector based support for high employment growth.
6. Reform corporate governance by reframing director's duties and restricting voting rights to long-term shareholders.

Secure a fairer recovery

7. Pilot new sectoral approaches to tackling low pay and lift the public sector pay cap.
8. Introduce worker representation on remuneration committees to tackle top pay, along with new measures to ensure representatives can be elected fairly.
9. Introduce a job guarantee scheme to prevent long-term unemployment creating a lost generation.
10. Commit to fair taxation.

TUC

Section two

Economic analysis

Our recovery has been poor

Over the last five years the UK has experienced the slowest economic recovery on record. Our growth rate has been even worse than was the case after the Great Depression of the 1920s and while the economy has stopped shrinking current GDP performance remains poor relative to pre-crisis trends. On a per head basis the level of activity has not even been restored to the pre-crisis level.

Substantial spending cuts have hit growth

In 2010 the government inherited an economy that had begun to recover from the financial crisis of 2008-09, following the concerted action of governments and policymakers across the world. But withdrawing fiscal stimulus at an early stage had disastrous effects. Figures confirm that weak GDP growth has been driven by spending cuts.

The most relevant measure is government final demand, which includes government consumption and investment expenditures.[1] Chart 1 shows cash increases in government final demand have been very subdued relative to increases in previous years. The post-crisis annual increase in spending averaged £2½ billion a year, compared to the four pre-crisis years at around £19½ billion. There has (just) still been a net injection of demand. (Figures suggest spending in 2014 has been stronger, see below.) But compared to previous trends, there has been a net reduction of around £17 billion a year in demand across the five years of parliament, a total of around £85bn. Chart 2 shows nominal GDP growth slowing exactly alongside government spending.

[1] Transfers such as debt interest and benefit and pension payments tend to be excluded as they are (broadly) non-volitional, and any associated flows of spending are captured elsewhere in GDP (e.g. in household spending).

Chart 1: General government demand, annual change £bn

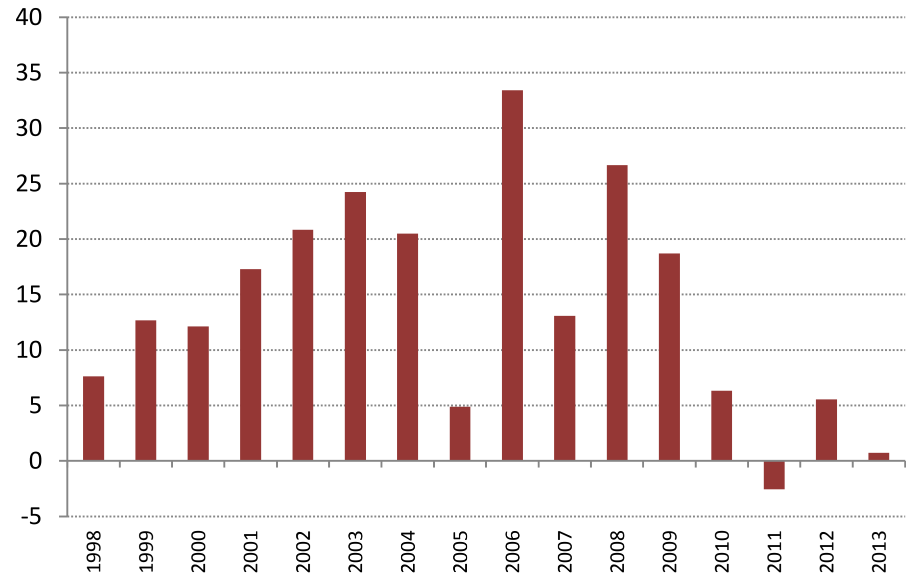


Chart 2: GDP and government final demand growth, per cent

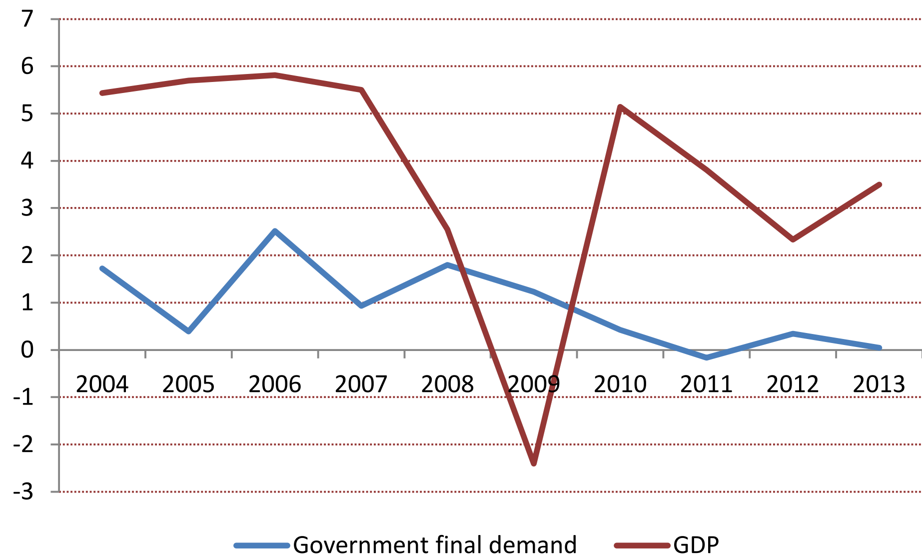
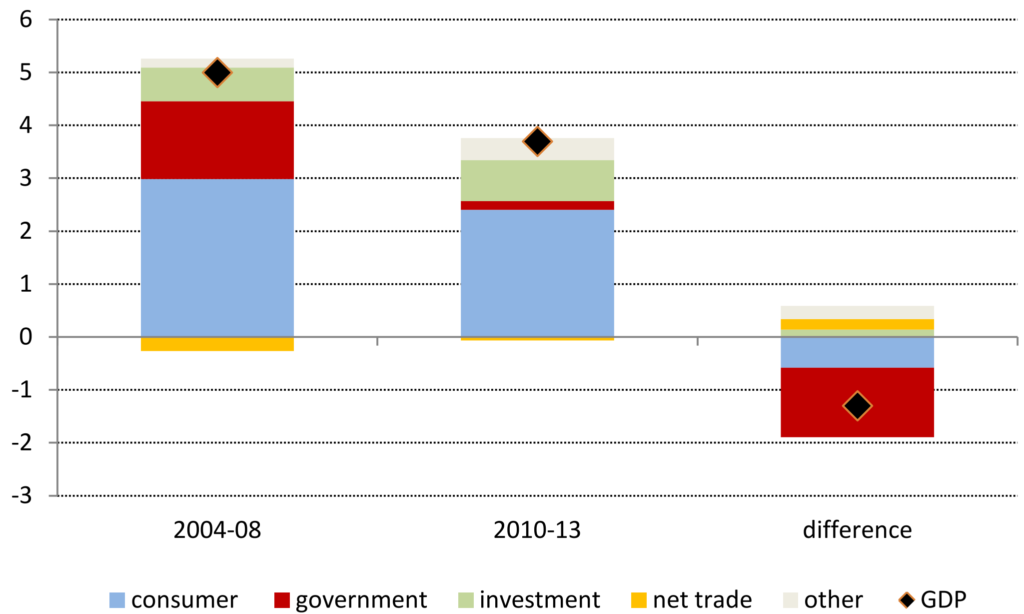


Chart 3 shows a fuller decomposition of the expenditure contributions to GDP growth, first ahead of the crisis, then under the current government, and then the differences. It is very clear that the shortfall in growth of 1.3 percentage points is accounted for by the reduced contribution of government (in fact -1.31 of -1.30 ppts).

Chart 3: Contributions to GDP growth, percentage points



In the most recent period the government does seem to have moderated the extent to which government spending has contracted. The major monetary initiatives of this parliament came around the 2012 Autumn Statement, when growth and deficit reduction were already falling short. At this point, policy doctrine should have demanded a further intensification of austerity. But the government held back. This is not to say that substantial public service and social security cuts have not taken place – but that the overall impacts of all of the government's fiscal policies (including substantial tax cuts) have been to reduce expenditure by less than they had originally anticipated.

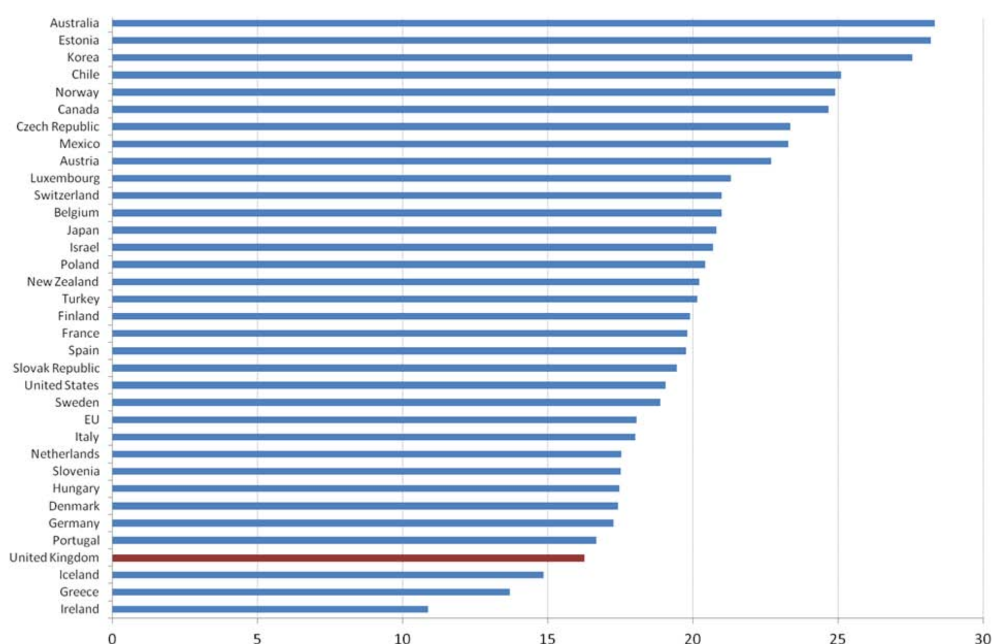
Growth has been unbalanced

The economy also remains unbalanced, with the UK's long-run challenges (many of which contributed to the financial crisis) remaining unaddressed.

Reduced spending and improved public sector finances were meant to boost confidence in the private sector and lead to a revival in activity. But, as the Chart 3 above shows, investment spending was little changed, and over the entire period consumer demand fell.

As a share of GDP, UK investment performance remains well short of other countries (the chart shows 2012 figures, given availability of figures for other countries, but the UK share did not change significantly into 2013, to 16.4 per cent from 16.2 per cent in 2012).

Chart 4: Gross fixed capital formation[2] as a share of GDP, current prices, 2012



Business investment performance, previously forecast by the OBR (in June 2010) to grow by a substantial 10.9 per cent on the year in 2013, has consistently disappointed (in fact only achieving around half that growth rate and thus far still failing to get close to it).

The OBR has argued that the slowdown followed from weakening overseas demand after the euro area crises, but in both the pre- and post- crisis periods net trade has made a negligible contribution. While the international environment has undoubtedly had some impact on UK growth prospects it has not been the main driver of our problems. Trade has also been weak over 2014; while exports and imports growth picked up slightly towards the end of the year, in 2014 the annual growth of exports was only 0.4 per cent and imports rose by 1.8 per cent. It is neither the cause of our economic challenges nor responsible for recent growth.

[2] Gross fixed capital formation (GFCF) is the broadest measure of investment used by economists. It captures private and public sector physical investment in its broadest sense from the building of new homes to offices and from purchasing computers to buying new machinery.

Instead it is a falling savings ratio and rising consumer spending driving the UK economy. Spending is still outstripping income growth, meaning that while the saving ratio rose to 11 per cent in 2010 in 2013 it was down to 6.4 per cent.

Reliance on monetary stimulus has introduced new risks

Where efforts have been made to strengthen growth they have often had wider negative implications for the economy. In particular, interventions in the housing market (such as 'Help to Buy' where the government provides home buyers with mortgage guarantees) have served to increase asset prices and interest payments from households to banks while leading to a net reduction in household sector purchasing power[3]. The housing market is now dysfunctional, unaffordable for great parts of the population. There are also legitimate fears that the expansion of central bank balance sheets as a result of the significant monetary stimulus provided by QE has served mainly to foster various other asset price inflations, including in equity and government and corporate debt markets. The OBR has strongly emphasised high household debt levels and the significant deterioration in the UK's current account and international investment position. All measures indicate that expansionary monetary policies have served mainly to increased expenditures rather than leading to genuine improvements in domestic production and income. This is not to suggest that monetary stimulus has not been important, but that a more targeted fiscal approach would have had better outcomes.

Poor growth has depressed productivity

The UK's low economic growth has had the knock on effect of dampening productivity.

There has been much discussion about low levels of productivity, with many commentators arguing that this is due to supply side factors, such as poor capital stock, a dysfunctional financial system or poor workforce skills.

But our analysis shows that productivity will not grow significantly without greater levels of demand in the economy. In previous recessions, inadequate demand has been reflected in high levels of unemployment. But this time around, employment has held up but household incomes have been squeezed. As productivity is defined as GDP over employment, the result has been slower productivity growth.

So while many policymakers believe the UK economy now has limited spare capacity, the TUC disputes this interpretation. In our view there is substantial scope for stronger demand to boost productivity. While wider supply side measures will also be needed, in particular to address long-run pre-crisis

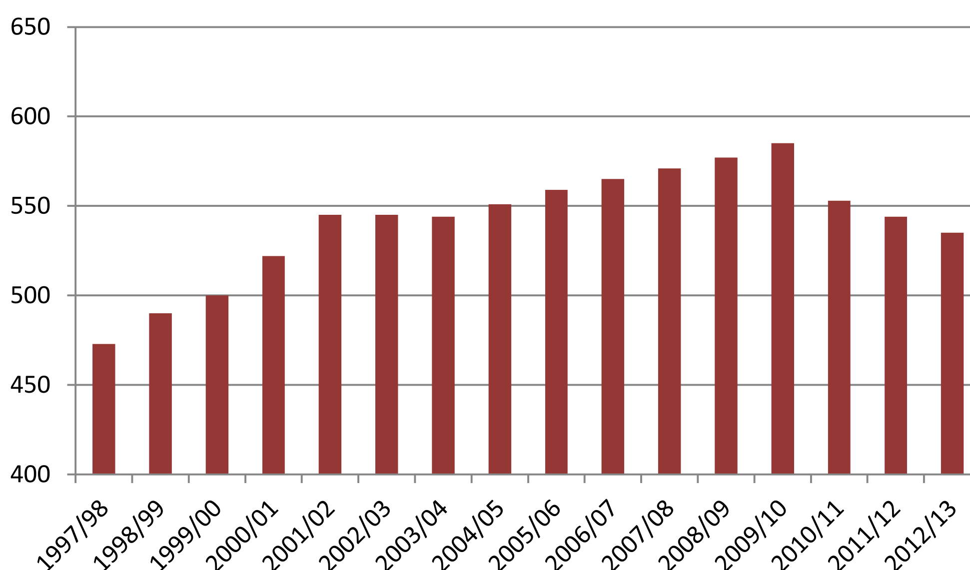
[3] Although there was a GDP impact in the short term, through various fees and potentially increased capital expenditure.

productivity challenges, their necessity should not divert us from the immediate task of ensuring our economy is running at full capacity now. The worry is that without a substantially stronger recovery, low productivity will simply become locked in to our economic model, leaving us with depressing living standards for years into the future.

Living standards have faced a historic squeeze

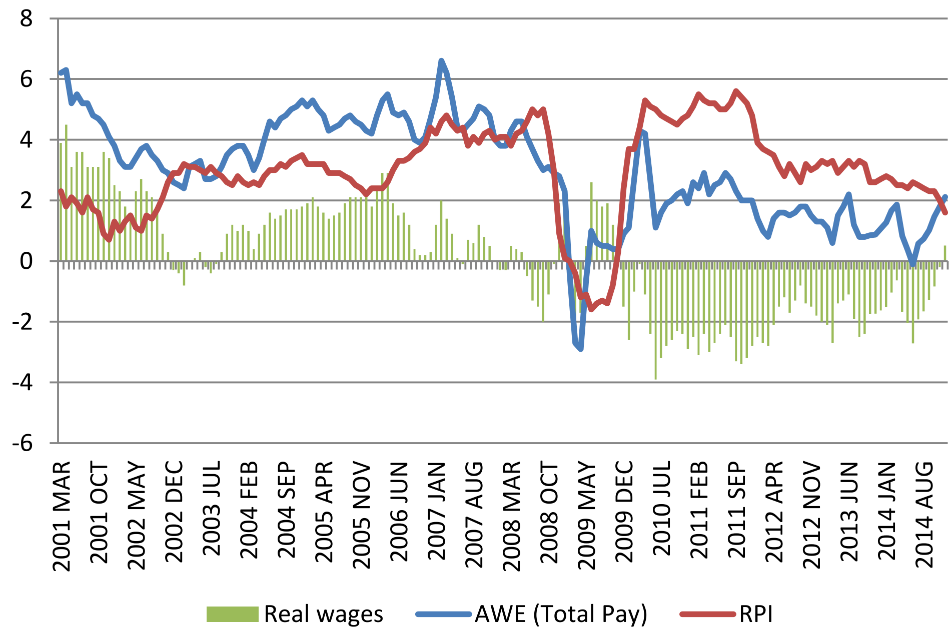
Depressed growth has had substantial impacts for working people's living standards. There has been a severe collapse in pay growth and the types, security and quality of work have deteriorated. Mean incomes are, as Chart 5 below shows, back to where they were at the beginning of the century.

Chart 5: Mean incomes in 2012/13 prices, from Households Below Average Income series 1997/98 - 2012/13



The UK continues to suffer stagnant real earnings. The increase in average weekly earnings has only just overtaken inflation as recorded by the Retail Price Index (the measure normally used for wage bargaining) and the recent convergence of inflation and earnings is much more the result of falling inflation than rising earnings – which are still rising at historically low rates.

Chart 6: Real earnings (AWE-RPI), from ONS



During the past year number of employees paid less than the living wage increased by 147,000, taking the total to 5.3 million (22 per cent). 10 per cent of UK employees earn less than £6.66 per hour with excessive reliance on low pay leaving too many UK households in poverty.

Many in work also remain underemployed. Recent TUC analysis[4] on under-employment showed there were 2.3 million people under-employed in late 2007 and that under-employment increased rapidly following the recession to reach 3.2 million in late 2010. Between 2010 and late 2013 under-employment had increased even further to nearly 3.4 million. Since late 2013, under-employment has been slowly falling and by late 2014 it had reduced by 110,000 people to just over 3.2 million. But improvements are very slow. Our analysis has found that that if under-employment continues to fall at the same rate, it will not return to the pre-crisis level of 2.3 million people until early 2023.

In macroeconomic terms, gains in employment have been more than offset in terms of aggregate impact by the shortfall in earnings. Chart 7 shows contributions to the income measure of GDP, across the same periods as the Chart 3.

Reduced GDP growth is accounted for by both reduced labour income (compensation of employees, which includes wages and salaries and employers' contributions to pensions) and reduced profits (more properly, gross operating surplus). Other income – which includes self-employment income, thought to

[4] http://www.tuc.org.uk/economic-issues/labour-market/britain-needs-pay-rise/under-employment-won%E2%80%99t-return-pre-crisis-levels

be expanding rapidly – is little changed. The only component of GDP to rise (on this cash basis) is taxes, which follows from the increase in VAT introduced early in the parliament.

Chart 7: Contributions to GDP(I) growth, percentage points

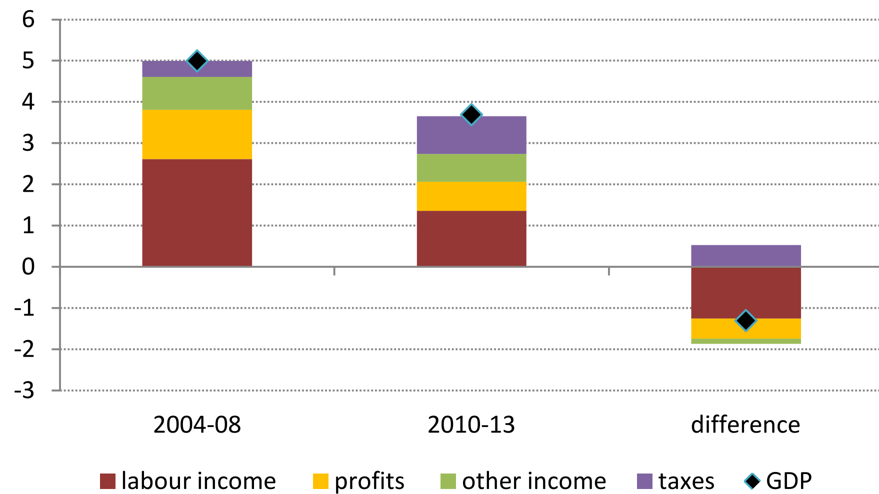
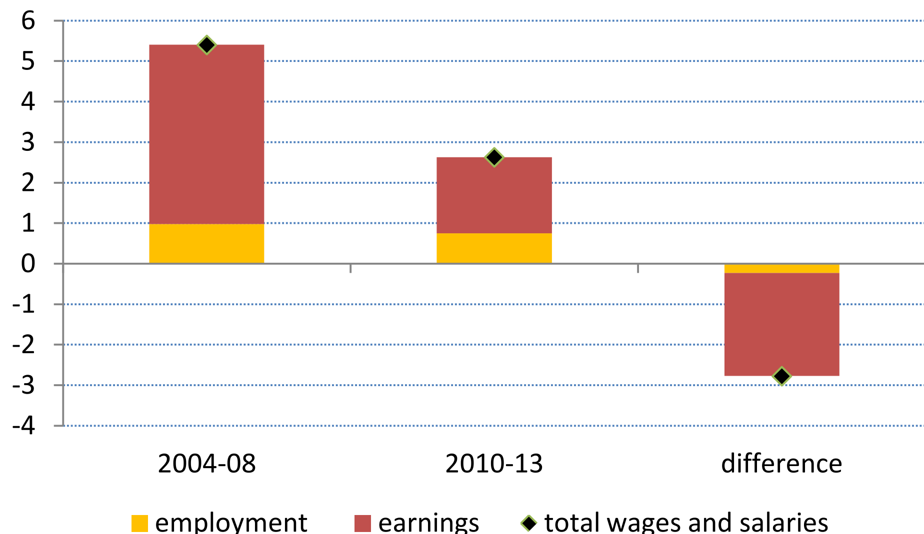


Chart 8: Decomposition of wages and salaries growth



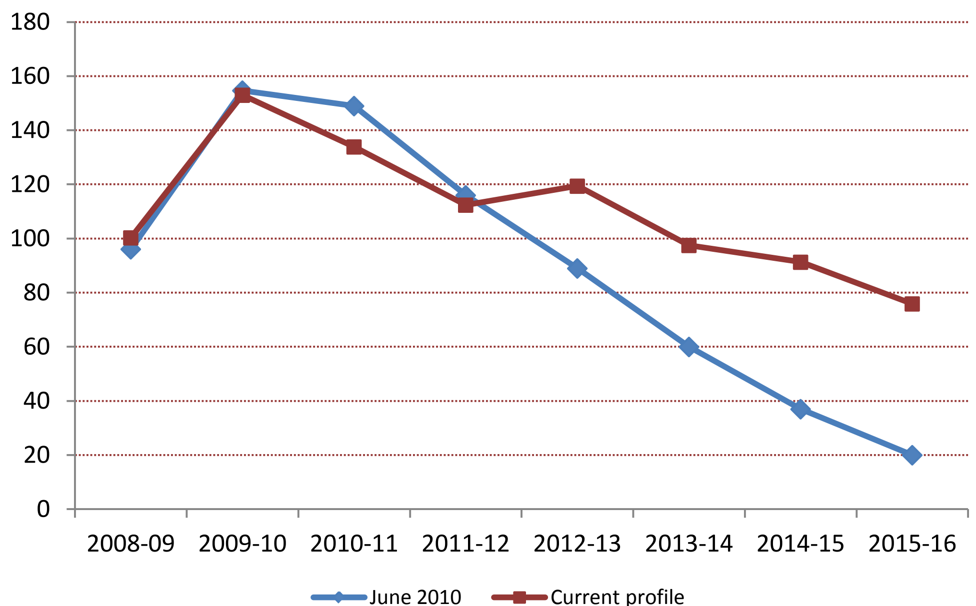
The main adjustment of the labour market has been within the ‘wages and salaries’ component of compensation of employees. Chart 8 shows how employee incomes have been affected by both changes in earnings and employment over recent periods. As with GDP, these are shown before and after the crisis.

While the government has welcomed recent jobs growth, in aggregate terms, as with GDP growth, labour income growth has been substantially reduced. Within the labour market, the reduction in economic growth has simply been met (almost) entirely by lower earnings growth rather than lower employment growth.

Deficit reduction has failed

Chart 9 compares the most recent forecast for public sector borrowing with the original OBR projection from June 2010. The government's failure to meet its fiscal objectives is clear.

Chart 9: Public sector net borrowing, £ billion



By 2012-13 the outturn had fallen £30 billion short of the original profile, with that gap increasing by around £10 billion each subsequent year[5]. The cumulative shortfall against the original profile (i.e. to 2015-16) is £153 billion, with the deficit only halving in 2015-16 relative to the peak, compared to the original plan to have closed it almost completely.

The impact on the public finances has been significant. Our recent analysis[6] shows that the government is set to collect £33.4bn less in income tax and national insurance than official forecasts suggested because of the lack of

---

[5] This is likely to flatter the actual outcome given the latest figures include transactions such as the Bank of England returning to the government interest payments on government debt that has been purchased as part of QE and that were not anticipated in the original profile.
[6] https://www.tuc.org.uk/economic-issues/public-spending/economic-analysis/britain-needs-pay-rise/wage-stagnation-has.

earnings growth in the UK. But if earnings growth had been in line with the Office for Budget Responsibility (OBR) forecast for June 2010, the Treasury would have collected £308.4bn this year, instead of the £275bn now expected. These data show just how significantly deteriorating labour market conditions have impacted on the public finances across the whole of the parliament.

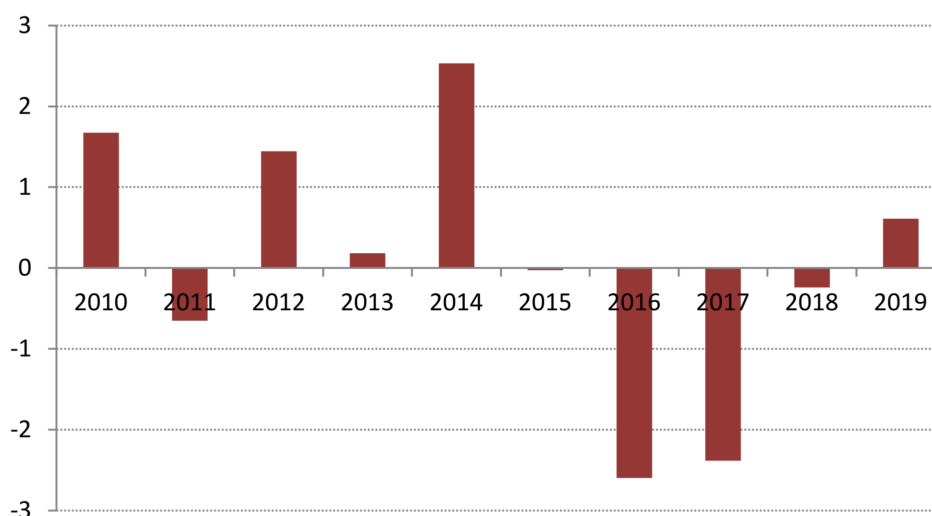
But while economic underperformance has driven this shortfall, the lack of progress on the deficit is also a result of tax giveaways. In particular, there have been significant rises in the personal allowance and reductions in corporation tax. This was highlighted in December 2014 by Paul Johnson, the Director of the Institute for Fiscal Studies (IFS), who told the Treasury Select Committee, "It's been very striking over this Parliament how £12bn or so is being spent on increasing the personal [income tax] allowance [and] something like £7bn-£8bn on reducing corporation tax." Johnson continued: "Those are remarkable choices, as it were, in the context of the deficit reduction that you have got, and therefore then spending cuts that you have got. Clearly cutting taxes makes the arithmetic more difficult."

Future austerity is set to be even more severe

The Chancellor's future plans are for more of the same pointless pain.

The OBR projections, based on the government's future plans, now show that the Chancellor's proposals involve actual cuts in nominal government final expenditure (Chart 10). This type of austerity has no precedent outside the disastrous 'Geddes Axe' of the 1920s.

Chart 10: Government consumption and investment expenditures, annual change



In their December 'Economic and Fiscal Outlook', the OBR set out how painful this would be. But the analysis here suggests the impacts may be even worse than the OBR anticipates. On the basis of the experience of the current parliament, the proposed scale of cuts are likely to lead to greater reductions in GDP growth, even lower wages, and an ongoing failure to reduce the deficit. In the context of an increasingly fragile global outlook, as well as deflationary conditions at home and overseas compounding the drag from the underlying indebtedness of the private sector, resumed recession is a real risk. At the very least an unchanged policy course will continue to degrade services and social conditions in parallel to further undermining economic conditions and living standards.

We need a new approach

The government's economic management has failed to deliver. Progress on the deficit has been far slower than intended – primarily as a result of poor growth, although poorly-targeted tax-giveaways have also played a role. At the same time public services and social security benefits have faced an unprecedented attack and living standards have undergone a historic squeeze. The growth there has been has continued along the same unsustainable lines as those followed before the crash – the promised investment, exports and wage led recovery has failed to materialise. This is a story of economic failure, with those who already had the very least hit the very hardest.

Instead, we need an alternative, focused on an immediate boost to growth, a better balanced recovery and a sound basis for tackling our long-run economic challenges. In the next section we set out how this change could be achieved.

TUC

Section three

Recommendations for a stronger, sustainable, fairer recovery

Invest in boosting growth

1. Focus fiscal policy on securing a strong recovery, including by giving the UK's state investment banks immediate borrowing powers

As our analysis has shown, the government's fiscal rules have tied it to an extreme austerity programme which has failed to deliver. The next government needs to adopt a more expansionary approach.

There are some within the current government who accept this argument. Speaking to his party conference in September 2014, the Business Secretary, Vince Cable, said: "There is a role too for more public borrowing by central and local government to finance productive investment in transport, housing and innovation. When interest rates are so low, borrowing for investment is a no brainer and is nothing to do with deficit reduction. Of course we need to protect the next generation from too much public (as well as private) debt, but the next generation would certainly not thank us for a legacy of underinvestment, over-stretched infrastructure and unaffordable homes."

A key means to facilitate such a move would be to make far better use of the UK's state investment banks.

The TUC has welcomed the establishment of the British Business Bank but believes it is far too limited in scope. The Bank should be able to invest directly in infrastructure projects and provide long-term financing for small and medium-sized businesses across the whole economy. **The British Business Bank needs significantly more capital, full borrowing powers and a much wider remit.**

The introduction of the Green Investment Bank (GIB) has also been a welcome development. With its £3.8 billion initial capitalisation it has a vital role to play in supporting our decarbonisation commitments and already some GIB-supported projects have realised over six times the amount of capital committed.

Yet there is so much more that could be done. With an enhanced capital base of around £15bn the bank would be able (at current leverage rates) to kick-

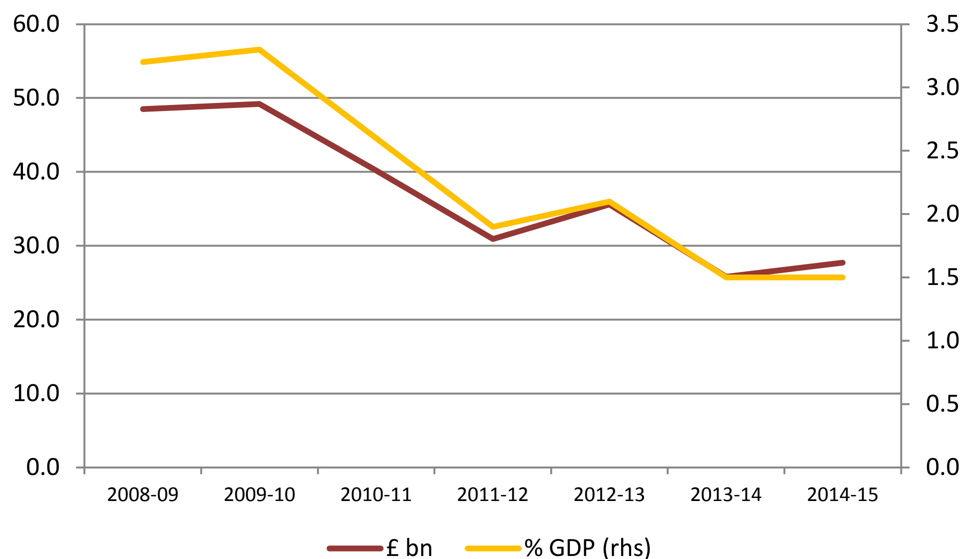
start £60bn-worth of investments[7], or more than half the minimum needed to modernise Britain's crumbling energy infrastructure. Far more support could also be provided to the new technologies that will allow the UK's energy intensive industries to further reduce their carbon emissions.

But without independent borrowing powers the GIB's role has been limited. **The next government should lift the restrictions on the Green Investment Bank's ability to borrow in the capital markets.**

2. Recognise the importance of public investment, including a new programme of investing in one million new homes

Government capital investment has a significant role to play in delivering a stronger economy. As the chart below shows, while much has been made of recent capital commitments, public investment has fallen significantly over the parliament, with net investment down over 40% (£20.8bn) on where it was before the crisis.

Chart 11: Net public sector investment 2008/09 to 2014/15



This has meant that key investment priorities have gone unaddressed and that the potential for government spending to directly improve the outlook on growth has been wasted.

Housing is an area of particular concern. The UK suffers from an entrenched housing shortage, which has a detrimental effect on the nation's health, education and labour mobility.

[7] http://www.theguardian.com/environment/2014/jun/19/green-investment-bank-borrowing-restrictions-60bn-capital-markets

TUC

Investing in homes is implicitly desirable in its own right, but it is also an effective way of stimulating the broader economy. For example, the National Housing Federation estimates that building 10,000 extra affordable homes each year would add about £1.1 billion to the UK economy[8], whilst Oxford Economics have said that for every £1 spent on housing (whether public money or private) £1.40 of wider economic benefit is generated[9].

More housing is also needed to secure a better balanced recovery. The only way to avoid re-inflating the housing bubble is to build more new homes, but house building has only revived to 64 per cent of pre-crisis levels, and the figures fell back towards the end of 2014.

Given the severity of the homes crisis, the DCLG's housing budget should be increased during the coming year. The Help to Buy Programme, which has subsided more than 30,000 purchases since 2012, should be more tightly targeted on first-time buyers.

A step change of scale is urgently needed. A new programme of investing in a million homes should be prioritised, and this must include a massive programme of building social and affordable homes.

The social housing stock is currently being eroded by the combination of Right to Buy and a low rate of new build. The government needs to support and incentivise local authorities to build more social and affordable housing. This means that direct financial support for local government should not suffer a further cut this year, and that local authorities should be allowed to borrow more against future rental income in order to build more homes.

3. Immediately address NHS and local government funding gaps

Austerity has had a major negative impact on the quality and capacity of our public services. To date we have seen cuts to services, reductions in staffing, increasing rationing of services through targeting and thresholds and a significant squeeze on funding across both the public and voluntary sectors.

No area of public service has been immune. In the criminal justice system there has been a 40 per cent reduction in prison officers[10] in four years, with an anticipated 15,000 fewer police officers and 22 per cent reduction in police front desks in our communities by March 2015[11]. HM Inspectorate of Constabulary has identified three forces, including the Metropolitan Police, where there is a risk that the force "may not be able to provide a sufficiently efficient or effective service for the public in the future"[12]. The Howard League

[8] http://www.housing.org.uk/policy/localism/local-enterprise-partnerships
[9] www.oxfordeconomics.com/publication/open/224366
[10] http://www.politics.co.uk/news/2014/10/20/prison-crisis-scale-of-officer-cuts-revealed
[11] Policing in austerity: one year on, Her Majesty's Inspectorate of Constabulary, 2012
[12] Ibid

for Penal Reform refers to “a deepening prison overcrowding crisis and an alarming rise in the number of self-inflicted deaths in custody”[13].

Nowhere is the growing crisis more apparent than in local government and the National Health Service.

Local authorities will have received an estimated 37 per cent real-terms reduction in government funding from 2010/11 to 2015/1614. Councils in the top 10 per cent of most deprived areas have had an average cut of £228.23 per person compared to £44.91 per person in the top 10 per cent of least deprived councils.[15]

The cuts are having a significant impact on the sustainability of local authority services. According to the National Audit Office (NAO), over half of single tier and county councils are “not well-placed to deliver their medium-term financial plans”[16]. The Public Accounts Committee (PAC) found that “if funding reductions were to continue following the next spending review, we question whether ... all local authorities could maintain the full range of their statutory services”.[17]

Already we have seen the effects of this in the provision of adult social care. Spending on older people’s social care will have been cut by 20 per cent in the current Spending Review period[18]. Eighty-seven per cent of councils now only provide assistance in cases of substantial or critical need, compared to 47 per cent in 2005/0619.

The deficit in social care provision has certainly played a contributory role in the high profile problems currently facing A&E services in the NHS[20]. However, there is a much deeper and wider financial crisis affecting services across the NHS, borne of an unprecedented five year funding squeeze.

Sixty per cent of hospitals are currently in deficit, indicating that financial stress has spread well beyond the minority of hospitals with a track record of struggling to balance the books[21]. Sixty per cent of Clinical Commissioning Groups think that it is unlikely that their local health economy will be in overall financial balance by the end of 2015/16 and a third were not confident

---

[13] http://www.howardleague.org/prison-officer-numbers/
[14] *The financial sustainability of local authorities*, National Audit Office, 2014
[15] University of Sheffield Political Economy Research Institute, 2014
[16] Ibid
[17] Financial sustainability of local authorities 2014, HoC Public Accounts Committee, 2015
[18] *Paying for social care beyond Dilnot*, The Kings Fund, 2013
[19] Ibid
[20] http://www.localgovernmentexecutive.co.uk/news/chronically-underfunded-social-care-fuelling-ae-crisis-councils-warn
[21] *Autumn Statement briefing*, Kings Fund, 2014

of sticking to budget without compromising care quality in the next 12 months[22].

Endemic financial stress across the system is leading to a deterioration of outcomes for patients. Waiting times targets for hospital treatments, inpatients, diagnostics and cancer care are all being missed, A&E waiting times are at their highest for a decade and delayed transfers of care are 17.5 per cent higher than the previous year[23].

Despite government assurances funding increases for the NHS at around 0.9 per cent per annum has not kept up with increasing health care costs, growing at an estimated 4 per cent, as a result of increasing demand, an ageing population, growing in size and experiencing more chronic disease combined with increased costs of providing healthcare, including staffing, drugs and technology. Unless more funds are identified, NHS England's Five Year Forward View identifies a potential funding gap of £30bn by the end of the decade.

The next government needs to commit to funding that meets the long-term needs of the NHS and social care sector, based on a rigorous evidence-based assessment of potential productivity and efficiency gains through greater integration that does not compromise care quality.

It should also guarantee a sustainable funding settlement for local government, using a revised funding formula that better reflects need and demand for services, thereby addressing disproportionate impacts of cuts on the most deprived areas.

4. Protect social security benefits from further cuts

The reforms and cuts to social security benefits of the past four and a half years have mainly hit working families. TUC research[24] has found that annual cuts to key benefits will reach £30.5bn by 2016/2017. Working families will lose £17.9bn a year by 2016/17, twice the £6.2bn loss for out of work families - three-quarters of all welfare cuts to people of working age will be on working families. Working families with children stand to lose the most – £11.7bn a year. With out of work families with children losing a further £2.3bn a year, the total cost of welfare cuts to families with children will be £14.1bn a year by 2016/17.

In the early years after the announcement of plans for Universal Credit it could reasonably be claimed that the new benefit would go some way towards balancing this impact. But Universal Credit began to look less generous when it was announced that the 1% uprating cap would be applied to UC just like the

[22] http://www.hsj.co.uk/news/commissioning/exclusive-ccg-survey-deficits-threaten-hopes-for-radical-reform/5074409.article#.VMdbfWKp62x
[23] *Autumn Statement briefing*, Kings Fund, 2014
[24] http://www.tuc.org.uk/sites/default/files/BenefitCutsHouseholdType.pdf

rest of the tax credit and benefit system. Last year, the government announced the freezing of UC 'work allowances'. The work allowance allows Universal Credit recipients to earn a certain amount before their UC is withdrawn. In the last Autumn Statement, the Chancellor announced that these allowances will be kept at their current cash level for three years until April 2017, and not increased in line with inflation. The Office for Budget Responsibility estimates that this measure will reduce low-paid workers' incomes by £600 million a year by 2017-18.

The TUC is also concerned about the "six week wait" – the six weeks it will take most new claimants to receive any income after they first apply for Universal Credit. We know that much shorter waits for benefits caused by administrative delays already lead to substantial debt and hardship[25], forcing people to turn to payday lenders and we believe that this aspect of UC will exacerbate these problems.

The TUC and the Child Poverty Action Group have modelled the likely cost of various widely canvassed reforms of Universal Credit and their impact on child poverty work incentives. We found that two reforms were particularly effective: increasing the amount a claimant receives for each child and increasing the amount a claimant can work before their UC starts to be reduced.

None of the reforms are cheap, but a package costing roughly the same as increasing the personal allowance to £12,500 – including raising the per child amount by £80 a month, work allowances by 30% and introducing a second earner disregard at 50% of the main earner rate – would reduce the number of children in relative poverty by 654,000 and the number in absolute poverty by just under a million.

In the light of these comments it should come as no surprise that the TUC is calling on the next government to stop cutting social security and to prioritise tax and benefit changes that help those on low and middle incomes the most. In particular, we would urge against the current Chancellor's proposed £12 billion of further benefit cuts after the election, as announced in January 2014. The social security safety net has already been slashed, with low income claimants the hardest hit.

Address long-run productivity challenges

5. Introduce a comprehensive industrial policy seeking to boost skills, innovation and sector based support for high employment growth

Tackling the rapid reduction in skills investment that has occurred in recent years should be an immediate policy priority. The further education and skills

[25] See, for example, https://www.tuc.org.uk/publications/saving-our-safety-net-magazine

budget suffered a 25% cut in the government's initial three-year spending review and the adult (19 years+) skills budget is being reduced by a fifth (a cut of nearly £0.5 billion) during 2014-15 and 2015-16. Further recently announced cuts have led the Skills Funding Agency to estimate that non-apprenticeship learning is facing a funding reduction of 24% in 2015-16.

An increasing number of adults are now being obliged to take out a loan to pay for the costs of any vocational course at an intermediate or advanced level and it is anticipated that the government will shortly announce a further extension of this loan system. It is estimated that over the last five years more than half a million adults have missed out on employment-related learning and skills because of the combined effect of reductions in government funding and the introduction of the new loans.[26]

In addition to reviewing the scale of the forthcoming cuts to the adult skills budget and any expansion of the loan system, the TUC believes that further measures are required to stimulate more adults to engage in learning. One means of achieving this in a cost-neutral way would be to introduce a new Learning Allowance for adult learners, especially those coming within the remit of the FE loan system. This could be funded by reforming the current tax relief given to employers for work-related training. Previous research commissioned by unionlearn[27] estimated that the total cost of this relief to the Exchequer is in the region of £5 billion per annum, with little available data on how it is being used by those employers that qualify for it.

The next government should introduce a new Learning Allowance to provide financial support for adults undertaking vocational learning or training, with a view to helping them progress in the labour market. The Learning Allowance should not apply to any job-related training that employers are responsible for funding and/or any course that continues to attract a degree of government subsidy.

There is a general consensus that workers' productivity depends greatly on their skills level and also on how these skills are deployed and utilised. A shortfall in both dimensions of skills – a lack of skilled labour and poor deployment of skills – acts as a significant drag on UK productivity.

The latest edition of the largest employers' skills survey[28] highlights some disturbing statistics. For example, it shows that a third of employers offer no training at all and that nearly four tenths of the workforce say they receive no training at work. The same survey exposes that, by their employers' own admission, 4.3 million employees (16% of the workforce) are over-skilled and over-qualified for the job that they do. Recent analyses by the OECD have also shown that the UK compares poorly with other countries at both ends of the

[26] NIACE (2015) *Step change in loans 'not happening'*, Press release, 15 January

[27] Reed, H. (2011) Tax Relief on Training: investigating the options for reform, unionlearn, March 2011

[28] UK Commission for Employment and Skills (2014) *Employer Skills Survey 2013*

skills spectrum - too many employees lack basic skills and there are limited pathways in place to support enough citizens to attain the higher technical skills that are in demand in certain sectors.

It is welcome that building a high quality apprenticeship route for many more young people is now a widely shared policy priority. In reality, we still lag well behind many of our European counterparts. Only 10% of our employers employ apprentices compared to 3 to 4 times as many in some other countries[29] and two thirds of our young people train to a level (Level 2) that would not even count as an apprenticeship in much of the rest of Europe. Exploitation of young people is also rife with too much low quality training and wide scale contravention of the minimum wage.

The TUC has long argued that our apprenticeship and wider skills system is flawed because of the lack of a social partnership framework found in much of the rest of Europe based on industry- and sector-led collaborations, comprising employers and trade unions. In many countries this social partnership approach governs the supply of high quality training, especially through the apprenticeship system, in line with the needs of employers, individuals and sectors. The national skills body that advises government – the UK Commission for Employment and Skills (UKCES) – has recently stated that "compared to countries with strong vocational systems such as Denmark, Germany and the Netherlands, industry leadership and partnership working in the UK is underdeveloped." [30]

The TUC is broadly supporting the introduction of Industrial Partnerships under the auspices of UKCES to test out a new industry-led skills framework. However, we are a long way off anything closely resembling a social partnership model. The next government needs to give its full support to such an approach.

The TUC has long argued for an intelligent industrial strategy that focuses on those sectors where the UK is or could become competitive in the age of globalisation. This is not "picking winners", it is about government focusing on those areas that are most likely to provide jobs and prosperity to the UK.

Whilst it is correct that industrial strategy should focus on those sectors likely to promote exports and economic growth, there should also be a drive to build capacity in those industries that can provide quality jobs and to boost productivity and pay in those sectors characterised by low paid work.

In the last ten years, the UK has moved from a policy stance that believed low inflation and steady growth would lead the market to identify the industries and jobs in which the UK would be competitive to one in which the government's role in identifying the most appropriate industries on which to focus has been recognised. **The TUC believes it is now time to take the next**

---

[29] UK Commission for Employment and Skills (2014) *Growth Through People*
[30] Ibid

step: the next government should consider and focus on those industries that are able to provide high quality, sustainable jobs in high numbers.

But to date the government's focus on 11 strategic sectors has been welcome. Business led sector councils have supported strategies, based on the successful model developed by the Automotive Council. However, in many of the industries covered by sector councils, trade unions are major stakeholders, yet the degree to which we have been invited to participate in the sector councils' work is patchy. On some, including the Automotive Council, unions have had a longstanding relationship. On others, including sector councils dominated by companies with strong trade union traditions, unions have been excluded from the process. This is disappointing, not least because a workforce perspective and the benefit of the expertise of trade unions are lost. **In sector councils where there is a strong trade union presence, a union seat on the council should be mandatory. In sectors where there is no union voice, a member of the sector council should be responsible for representing the views and experiences of the sector's workforce.**

Recent TUC research entitled 'The Way of the Dragon' identified that South Korea spends five times as much on research and development as an average European country. As South Korea is some way between being a developing economy and a developed one, Europe can withstand this difference – for now. A time will come, however, when the mismatch between developing Asia's level of R&D spend and that of countries like the UK will become unsustainable.

As the current Business Secretary has highlighted, Finland spends almost ten times as much per capita on its equivalent of the Technology Strategy Board (now Innovate UK) as we do, while we invest less than a tenth in our Catapult centres of what Germany spends on its Fraunhofer Institutes. This level of discrepancy necessitates action. The UK needs to commit to doubling our innovation spend over the lifetime of the next Parliament, with concrete amounts dedicated to this increase year on year.

6. Reform corporate governance by reframing director's duties and restricting voting rights to long-term shareholders

The TUC has long been concerned that key aspects of the UK's corporate governance system and in particular the relationship between companies and investors can drive economic short-termism, hampering both long-term corporate development and long-term investor returns. Reform of our corporate governance system is an essential part of creating an economy where long-term investment, high productivity and fair wages provide the basis for sustainable growth.

The UK's corporate governance system puts shareholders at its heart. Company law requires company directors to prioritise the interests of shareholders over those of other stakeholders and indeed the company itself.

Shareholders are the only stakeholder group with significant rights in terms of governance: shareholders elect company directors, vote on remuneration reports, vote on resolutions at company AGMs and can file shareholder resolutions and convene EGMs.

However, it has become increasingly clear that this system of shareholder primacy can encourage short-termism in corporate decision-making. In a context where many shareholders rely increasingly on share trading, rather than long-term share ownership, to generate returns, the interests of shareholders can diverge from the long-term success of the company, as the focus of share traders is on selling their shares for more than they bought them for, rather than on generating returns through long-term, organic company growth.

Changes in the pattern of share ownership have created practical obstacles to relying on shareholder engagement and voting as the main channel for discipline and accountability for companies. Institutional investors such as insurance companies and pension funds hold shares in hundreds if not thousands of companies, making it impossible for them to engage effectively with all the companies whose shares they hold across all the issues for which they are ultimately responsible. And the majority of UK company shares are now held by overseas investors, which has implications for the relationship between companies and the society in which they operate, diminishing the extent to which UK public opinion on issues such as executive pay or corporate responsibility is likely to affect corporate behaviour via their shareholders.

Shareholder primacy is sometimes justified using the argument that shareholders bear residual risk in companies; in reality, institutional shareholders hold thousands of shareholdings precisely to spread their risk. Workers, on the other hand, invest their labour, skills and commitment in the firm they work for and cannot diversity this risk. If things go wrong, they and their families pay a heavy price, with loss of employment and the loss of income, security, skills and all too often health that this can bring. If bearing risk carries rights to representation and protection of interests, this should create a right for workers to be represented in corporate governance.

The TUC therefore believes that the next government should act immediately **to reframe directors' duties to make directors' primary duty the promotion of the long-term success of the company, rather than prioritising shareholders' interests as at present. Serving the interests of investors should be secondary to this central aim, as is the case for the other stakeholder groups included in Section 172 of the Companies Act 2006 (employees, suppliers, customers and local communities). Shareholders' corporate governance rights in companies should become subject to a minimum period of shareholding of at least two years.**

The UK is currently in a minority of countries across the EU that has no rights for the representation of workers in corporate governance. Research shows that countries with strong rights for workers' participation – defined as widespread rights and practices for board representation, workplace representation and collective bargaining – do better than those with weak participation rights on a range of important measures, including R&D expenditure, employment rates and educational participation among young people, while achieving lower rates of poverty and inequality[31]. **The next government should therefore also move towards introducing a mandatory system for worker representation on company boards in UK listed companies.**

Secure a fairer economy

7. Pilot new sectoral approaches to tackling low pay and lift the public sector pay cap

After years of falling wages, a problem for middle earners even before the financial crisis, far more needs to be done to ensure that the returns of growth are fairly shared. The TUC has called on the Low Pay Commission and the government to enter "a new phase of more generous increases that are not bounded by the growth in average earnings" and to deliver a much more generous increase in NMW rates than in previous years. The minimum wage should also be enforced more effectively, with naming and shaming of non-payers, targeted enforcement in high-risk sectors and increased budgets for raising awareness about the minimum wage and the employment of 100 extra HMRC enforcement officers. Combined with the extension of the Living Wage in the public, private and voluntary sectors and the adoption of the Living Wage in public procurement contracts, these measures should make a significant difference to earnings at the bottom end of the pay distribution.

Furthermore, innovative new ways are needed to help low paid sectors to increase wages. For example, the TUC has argued for a new employment relations architecture, seeking a new form of wage setting drawing on lessons from the old wages councils as well as the current Low Pay Commission. The ambition would be to create new forward-looking tripartite bodies that would set wages for the main jobs in particular industries, not only minimum rates, whilst also addressing a range of issues that would make low paying sectors more resilient and successful, and thus more capable of sustaining higher wages. Trade unions and employers would be encouraged to join such bodies both by political imperative, and by some degree of government support. The agreements made would be binding on both parties, backed up by the force of law.

The government should announce that they will pilot new industrial bodies in a number of low paid-sectors. Government could help these sectors access

[31] http://www.worker-participation.eu/About-WP/European-Participation-Index-EPI

investment and increase productivity, with the clear aim of raising pay and setting binding rates.

Public sector pay is another area where action is needed.

The creation of decent public sector jobs will help empower employees to deliver the transformational change that we need in our public services, as well as boosting the demand we need for a sustainable and balanced economy.

But morale is rock bottom. Since the government took office, ministers have either frozen public sector pay or limited pay increases to well below the cost of living, leaving local government workers, NHS staff, teachers, fire fighters, civil servants and other public service workers on average £2,245 worse off in real terms[32].

In his Autumn Statement in December 2014, the Chancellor confirmed that public sector pay restraint will “continue in the next Parliament until we have dealt with the deficit”, suggesting that public service workers are facing pay stagnation until 2017/18 at the very earliest.

Growing problems with morale, recruitment and retention have led to staffing shortages, plugged by expensive agency workers. As the Health Foundation point out, “Trying to recruit additional staff while holding down pay against the background of shortage of key skilled groups such as nurses, has led to a significant increase in temporary staff. Last year the NHS’s temporary staff bill went from an already large £3.5bn to a whopping £4.5bn”[33].

The next government needs to lift the public sector pay cap in order to address the falling living standards of public sector workers and boost recruitment and retention.

8. Introduce worker representation on remuneration committees to tackle top pay, along with new measures to ensure representatives can be elected fairly

Securing fair pay also requires excessive executive remuneration to be addressed. The TUC strongly supports Labour’s commitment to introduce worker representation on remuneration committees and we call on other parties to follow suit. Such a practice would challenge the current mindset of remuneration committees prepared to agree ever-larger increases for company directors and would bring a dose of common sense to decisions on directors’ pay. There is evidence from other countries that where workers are represented on remuneration committees it has led to lower overall levels of executive remuneration and changes in the composition of executive pay, with less use of

[32] http://www.tuc.org.uk/industrial-issues/public-sector/pay-fair-campaign/public-sector-workers-lose-out-%C2%A32245-under
[33] http://www.theguardian.com/healthcare-network/2014/dec/03/autumn-statement-nhs-needs-more-money

stock-based remuneration[34]. Research also shows that companies with high wage differentials do less well on a range of measures, including product quality, productivity and overall firm performance[35].

Successful implementation of such a policy will depend on getting the election of representatives right. Where trade unions are recognised, worker representatives should be nominated through the recognised trade union(s) at the company. But where they are not, wider mechanisms will need to be put in place to ensure that elections can be held. This means that the UK's laws on information and consultation regulations need to be strengthened with the "trigger mechanism", which requires 10 per cent of employees to request information and consultation to be removed.

The next government should introduce worker representatives on remuneration committees, and reform information and consultation regulations to ensure that, where unions are not recognised, procedures are in place to ensure that elections for representatives can be held.

9. Introduce a job guarantee scheme to prevent long-term unemployment creating a lost generation

Youth unemployment remains far too high. There were 740,000 unemployed 16 – 24 year olds in October – December, up slightly from 737,000 in July – September. Long-term youth unemployment has fallen in the last year, but there is still a long way to go to get back to pre-recession levels.

Current employment schemes are failing to deliver. Most evaluations of the Work Programme have concluded that, for JSA claimants, it is now roughly matching previous programmes[36], but its performance for 'hard to help' groups, like ESA claimants is very poor. What's more, as David Webster of the University of Glasgow points out[37], "The Work Programme continues to deliver more sanctions than job outcomes. Up to 30 June 2014 there had been

---

[34] Board Level Employee Representation, Executive Remuneration And Firm Performance In Large European Companies, Sigurt Vitols, March 2010; and Arbeitspapier 163, Beteiligung der Arbeitnehmervertreter in Aufsichtsratsausschüssen, Auswirkungen auf Unternehmensperformanz und Vorstandsvergütung, Studie im Auftrag der Hans-Böckler-Stiftung, Sigurt Vitols 2008; both available from the TUC

[35] Pedro Martins, Dispersion in Wage Premiums and Firm Performance, Centre for Globalisation Research Working Paper No. 8 April 2008; Olubunmi Faleye, Ebru Reis, Anand Venkateswaran, The Effect of Executive-Employee Pay Disparity on Labor Productivity, EFMA, Jan 2010; Douglas M. Cowherd and David I. Levine, Product Quality and Pay Equity Between Lower-Level Employees and Top Management: An Investigation of Distributive Justice Theory, Administrative Science Quarterly, Vol. 37, No. 2, Special Issue: Process and Outcome: Perspectives on the Distribution of Rewards in Organizations June 1992

[36] See, for example, http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programme.pdf

[37] http://www.welfareconditionality.ac.uk/wp-content/uploads/2014/12/14-11-Sanctions-Stats-Briefing-D.Webster-Nov-2014.docx

545,873 JSA Work Programme sanctions and 312,780 JSA Work Programme job outcomes."

The other major employment initiative launched in recent years has been the Youth Contract. Most of the under-25s participating have actually been directed to compulsory work experience or Mandatory Work Activity, even though most publicity focused on incentives for employers to take on apprentices and a "wage incentive" encouraging employers to recruit young people. The latest data are for the period to May 2014, and show that there had been 60,000 wage incentive starts more than six months before that date, but only 20,000 individuals for whom a payment had been made, suggesting a very large drop-out rate[38].

One problem with labour market schemes like the Youth Contract is that they only address one side of the unemployment problem. Some people may indeed find it difficult to get jobs even during a period of full employment and special programmes to help them deal with problems they face are needed. But most unemployed people are unemployed because of the state of the economy, in particular because there is insufficient demand for the work they could do. An ideal labour market policy would address both the supply and demand sides of the equation but UK employment policy has, for a long time, been skewed towards the supply side.

Indeed, UK policy directed towards unemployed people assumes that they all need to change in some way – hence claimants' common experiences of being made to "jump through hoops", take part in courses that will do nothing to make them more employable, or learn how to write a CV for the umpteenth time. These useless activities are enforced by the toughest sanctions regime we have ever had (Policy Exchange estimates that 68,000 people a year wrongfully receive a lower tier sanction[39]).

The TUC has, for many years, argued that a job guarantee would act as both a supply-side and a demand side measure. Most people who lose their jobs are employable at that point; during recessions a job guarantee would allow them to stay in touch with the labour market and show prospective employers that they have recent relevant experience. At other times, such a guarantee would help unemployed people with extra problems to overcome those problems in an employment context. The best recent example of such as job guarantee has been the Future Jobs Fund (FJF). Jonathan Portes of NIESR has described this programme as "one of the most effective such [job] schemes in recent history."[40] **The next government should immediately introduce a job guarantee**

---

[38] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/354706/RR318A_-_The_youth_contract_for_16-_to_17-year-olds_not_in_education__employment_or_training_evaluation.pdf

[39] http://www.policyexchange.org.uk/publications/category/item/smarter-sanctions-sorting-out-the-system

[40] http://www.niesr.ac.uk/blog/future-jobs-fund-what-waste#.VMoRImKp7bi

scheme for young unemployment people and adults at risk of long-term unemployment.

10. Commit to fair taxation

Nobody likes paying tax, but a new approach to managing the economy needs to include a greater focus on fair taxation. Up to now, where tax rises have been introduced to improve the public finances they been at the expense of those on the lowest incomes, for example through higher rates of VAT, or very poorly targeted, for example the expensive increases in the personal allowance, which mainly benefit those higher up the household income deciles).

The HSBC scandal has put tax avoidance back in the public spotlight. If those with the broadest shoulders are to make a fair contribution to getting our public finances back into shape significant action is needed to reduce tax avoidance, an area where the TUC has campaigned for some time. The Finance Act 2013 introduced a General Anti-Avoidance Rule (GAAR) into UK tax law, but as we said at the time, the GAAR introduced was too narrow in its definition of what constituted abuse, included inadequate penalties for those using schemes to which the rule might be applied and created unnecessary uncertainty. The vast majority of tax abuse by large and multinational companies is completely outside the scope of the rule.

There are also multiple tax reforms which could ensure that those individuals with the highest incomes pay a fairer share of tax. Capital Gains Tax (CGT) is one key area for reform. At present the CGT rate is lower than income tax at both the basic and higher rate (18 per cent and 28 per cent) providing a significant motivation for those who are well off to turn income into gains so as to pay lower tax rates. But raising the higher capital gains rate by 12 percentage points to 40 per cent would both address this avoidance activity and raise an estimated £960 million for the Exchequer[41].

A net wealth tax, levied at the household level, is a further possibility. Such a tax could be applied to all worldwide assets, following models already in place in France, Norway and Switzerland. IPPR has estimated the effect of introducing a net wealth tax at the household level of one per cent on all non-pension assets greater than a threshold of £500,000, suggesting potential for this measure to raise roughly £6.9 billion a year in the UK.

By focusing future tax rises on the richest in society (who are most likely to save additional income) rather than on poorer people and those on middle incomes (who are most likely to spend) the government could ensure that tax rises do not hold consumer spending down.

While stronger growth will be key to improving the public finances in the years ahead, it is likely that even with a strong and secure recovery some new

[41] http://www.ippr.org/assets/media/images/media/files/publication/2013/12/taxing-times_Dec2013_11619.pdf

revenues will be needed to fully close the deficit. Fair tax would be the most economically sensible and socially just means to achieve this end.

The next government should strengthen the General Anti-Avoidance Rule, align capital gains and income tax rates and consider the role of a net wealth tax, seeking to introduce fair taxation as part of a growth focused deficit reduction strategy.

Conclusion

Together the immediate policy goals set out above reflect priority moves for the UK economy. Of course there is far more that could be done, but these policies set out ten immediate steps that could be taken to achieve the stronger, more productive and sustainable growth the UK desperately needs.

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

www.tuc.org.uk

© 2014 Trades Union Congress
£ price
ISBN 978 1 85006 ISBN

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

All TUC publications can be provided for dyslexic or visually impaired readers in an
agreed accessible format, on request, at no extra cost.