Building a secure high productivity economy

TUC statement in advance of CSR 2015

Introduction

The UK's economic recovery has been the slowest on record. Economic activity per head is still marginally below its pre-crisis level. In spite of stronger growth towards the end of the last parliament, a great deal of economic and human potential remains wasted. The UK economy remains far smaller than it was at the equivalent point in the cycle following any previous downturn since the 1830s, in contrast to other industrialised nations which were able to return much more quickly to their pre-crisis position. This slow recovery has prevented the government from achieving its core objective of reducing the deficit: government tax receipts have been so low that despite significant cuts to public services we are set to borrow over £50 billion more over 2015-16 than the government originally planned.

The manufacturing sector is in recession again and the construction industry has weakened markedly since 2008. Instead of the investment and export-led growth promised by the Chancellor in 2010, investment as a share of GDP has fallen to a position last seen in the 1950s, and economic growth is too reliant on consumer spending. With real wages only just starting to grow, the risk is that recent increases in unsecured consumer debt continue to power much of this expenditure – storing up further challenges for the future along with significant financial pressures for households.

Employment rates have shown better growth. But this is only a partial picture, as recent years have seen substantial falls in living standards. Real wages are still far lower than they were before the recession and despite historically low levels of inflation, increases in average weekly earnings only crept above prices earlier this year. The average employee remains £50 a week worse off than they were before the crisis. One in five workers is paid less than the living wage. While job levels have risen, the quality of work has fallen, with the growth of under-employment and precarious work creating employment insecurity and in-work poverty. Part-time self-employment is up 400,000 since the crisis.

The UK faced a productivity challenge before 2008 that has worsened since. Productivity in the UK is 17 per cent lower than it would have been had it continued to increase during and after the financial crisis at the average rate for 1982 to 2007The longer performance remains poor, the more time it will take to even start to make up the lost ground. In the 1980s productivity grew at an average rate of 2.34 per cent per annum (output per hour worked, quarter on equivalent quarter of previous year), in the 90s at 2.21 per cent and in the 00s up to the recession at 2.27 per cent; since the recession, the equivalent growth rate has been negative, at -0.04 per cent.

With the employment level 4.3 per cent higher than it was pre-recession (over one and a quarter million) and weekly hours worked 4.8 per cent higher, given that output is still slightly below the pre-recession peak, productivity per worker and productivity per hour are still necessarily lower. Fewer workers are unemployed, but many suffer lower earnings, worse working conditions, insecurity and casualisation. In other words, the labour market is adjusting to weak growth through price rather than quantity: low productivity is a symptom of inadequate growth.

Productivity is key to sustainable economic growth – the size of a country's workforce and capital stock, and how efficiently it uses these two key resources determine its capacity to produce goods and services. The UK's productivity is now between 23 and 32 per cent lower than Germany, France, the Netherlands and Belgium. While much of this gap long predates the crisis, our poor recovery has only made things worse, leaving too much economic capacity underutilised and heightening the risk that low productivity business models will become entrenched.

Without increases in productivity, there is a strong danger that real wage growth will remain low, permanently holding back living standards. We need strong productivity growth to drive up wages and living standards and to encourage investment and innovation in both the manufacturing and service sectors. Effective measures to boost productivity are also central to tackling regional inequalities, and are one factor that contributes to varied economic performance throughout the regions and nations of the UK.

The TUC believes that a stronger recovery, supported by both fiscal and monetary policy, is an essential means to address our productivity shortfall. Severe government spending cuts have reduced demand, held back the recovery and mean that we are still failing to achieve our full potential after more than seven years of recession, stagnation and insufficient growth. The immediate priority should therefore be to increase output. Inflation outcomes rooted around zero affirm the existence of a significant amount of spare capacity. Interest rates are low, especially on government debt, pointing to a golden opportunity for investment in public infrastructure. It's time for a major boost to public investment. Given the volatile international environment and financial market instability, this is definitely not the time to press on with severe spending cuts.

But any solution must tackle demand and supply in tandem. We need an institutional framework that addresses the micro-economy and the world of work, alongside sectoral policies that can address the needs of specific industries. Success will rely not only upon a better approach to managing the public finances but also on a strong industrial policy, a framework that protects employment rights and promotes workforce voice, the development of better opportunities for young people and the provision of high quality public services.

There is an urgent need for the government to put in place a detailed and comprehensive plan for tackling these areas in order to lay the foundations for the high quality growth the UK and its people need. This document sets out the TUC's plan for a recovery that works, a plan that should be introduced in this year's Autumn Statement.

Industrial Strategy

For many years, the TUC has championed the need for a modern, sustainable industrial strategy. Happily, industrial policy has enjoyed cross party support, with senior ministers such as Lord Mandelson and Vince Cable, and respected ex-ministers such as Lord Heseltine also supporting this concept. Support for industrial policy gained further strength from the degree to which industrialists and the business lobby, including both the CBI and EEF, recognised its value.

It is with some concern, therefore, that the new Secretary of State for Business, Innovation and Skills, Sajid Javid, has not spoken of the continuation of the government's industrial strategy, but instead refers more generally to the government's "industrial approach". It is fully understandable that a new Minister would wish to enter office with an open mind rather than simply accept existing concepts, but it is to be hoped that, six months after taking up his post, the Secretary of State now recognises the strength of the cross-industry, cross-party commitment to industrial strategy.

The need for this government commitment is becoming urgent. In late September and during October, the UK steel industry faced a crisis. 2,200 job losses in Redcar were followed by 1,200 in Scunthorpe and Motherwell. The loss of a further 1,800 jobs in the West Midlands threatened a further 52,000 manufacturing jobs in the region over the next five years, according to the West Midlands Economic Forum. The TUC calculated that one-in-six of all UK steel jobs were threatened by this series of announcements. The TUC welcomed the steel summit that followed, the £80m package of training and other support to help redundant workers in Redcar and the work of the Scottish Steel Task Force. But wider measures to help the industry survive, and details of a new industrial strategy, have not yet been forthcoming.

The TUC calls on the Chancellor, in his Autumn Statement, to reaffirm the government's commitment to an active, sustainable industrial strategy. Such a simple statement would bring much needed reassurance to industrial communities. The TUC believes an industrial strategy should fully engage social partners, including trade unions.

Support for both high and low productivity sectors

In the UK, previous industrial policy has focussed on support for high value-added manufacturing industries such as the automobile and aerospace industries. The TUC has fully supported this approach. We have also welcomed the government's transitional support for our energy-intensive industries and the 2050 roadmaps for industrial decarbonisation.

While continuing to support these sectors, and in particular to support their ability to boost the number of skilled jobs they are able to offer, we need an industrial policy that extends its reach to less productive areas of the economy that employ large numbers of people. The government should explicitly focus on low-productivity industries where employment is high, and work with stakeholders to enhance the capacity of those industries to provide quality jobs through driving up productivity and pay.

A central feature of the previous coalition government's industrial strategy was the 11 sector councils which developed sector specific strategies. . The new government should retain and enhance thse counils, , ensuring they benefit from a workforce perspective by making a union seat mandatory (and developing alternative mechanisms for workplace representation in sectors without a strong union voice).

The TUC believes that social partnership also has a vital role to play in helping low-paid sectors increase both productivity and wages. New industrial bodies should be piloted in a number of low-paid sectors, drawing on lessons learned from the old wages councils as well as the current Low Pay Commission. As well as agreeing wage rates, such bodies would aim to address issues such as low productivity that currently act as a brake on wage growth and are holding back the strength of the recovery.

Some in government have suggested that the way to drive up productivity growth in low wage sectors is to cut tax credits for low earners. But this is exactly the wrong approach. Tax credit cuts will simply reduce the extent to which work pays, making paid work harder for many families and leading to substantial increases in in-work poverty. Using the IPPR tax-benefits model, the TUC has estimated that should the proposed changes go ahead working families in the poorest fifth of the country would be £560 a year – more than ten pounds a week – worse off. In the second poorest fifth the losses would be even greater: £670 a year. If no changes are made to the proposals, 11,400,000 people, in 3,500,000 households, will lose. In the face of such significant concequences for low income working families, the Chancellor should recognise his mistake and protect the tax credit and Universal Credit budgets, so that these vital in-work benefits can continue to make work pay in the period ahead.

Government support for industry

High productivity depends on high-quality science and innovation. The TUC welcomed the freezing of the science budget in cash terms under the previous government. A freeze in cash terms is a cut in real terms, but we recognise that in the context of much tougher spending cuts taking place elsewhere, science did better than expected. This settlement is now under threat, with speculation that cuts to the budget of the Department for Business, Innovation and Skills in the forthcoming Comprehensive Spending Review will be so severe that this will reduce funding for science. As the UK tries to build a more productive, competitive economy, such a move would be a massive own-goal. The TUC urges the Chancellor to protect the science budget in his Autumn Statement.

We must also protect research and development funding. While international comparisons of spending are not straightforward (as different countries measure such spending differently), the National Audit Office quotes OECD figures showing the UK in 17th place when comparing spending on research and development as a percentage of GDP (so-called 'R&D intensity') in 2011. The UK's percentage spend of 1.77 per cent of GDP fell significantly short of the Europe 2020 target of three per cent. [1] Moreover, as noted in the TUC report *The Way of the Dragon*, published in 2013, South Korea spends five times as much on R&D as does an average European country. South Korea is currently in the catch-up stage of its industrial development, meaning that Europe can withstand this difference – for now. In the longer term, however, without a more strategic approach to supporting industry (which might focus on greater direct funding for research, development and innovation, rather than successive badly targeted corporate tax cuts), the UK will continue to fall behind its competitors.

Direct government investment in new infrastructure and technology is also central to boosting our productive potential, as well as securing the UK's climate change objective (with two standout priorities being carbon capture and storage technology and improving domestic energy efficiency). Over the last parliament, general government net investment broadly halved as a share of GDP, from 3.3 per cent in 2009-10 to 1.7 per

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[1] https://www.tuc.org.uk/economic-issues/budget/chancellor-must-tackle-uk%E2%80%99s-%C2%A350bn-investment-gap-budget. Doesn't seem to mention R&D?

cent in 2014–15. TUC commissioned research has highlighted that investing £30bn in infrastructure projects over the next two years would boost growth in the short term, whilst increasing the UK's potential economic output in the longer term. This research, written by NIESR and using that organisation's highly regarded macroeconomic model NiGEM, found that such an investment in infrastructure would raise potential output and thus GDP by up to 0.5 per cent on a permanent basis.[2] Capital spending is key to productive growth and our current rates are simply too low.

It should be noted that the United States, often held up as the prime example of neo-liberal economics, also pursues direct public investment as part of its active industrial strategy. For example, as the economist Mariana Mazzucato has outlined, Apple Inc. received its early stage funding from the US Government's Small Business Innovation Research programme. All the technologies which make the iPhone 'smart' are also state funded.[3] Even the CBI states: "Like the UK, the United States doesn't explicitly engage in industrial strategy. Scratch beneath the surface, however, and it becomes clear the US model is built on support for radical innovation, delivered primarily through public procurement, combined with further incentives such as R&D tax credits."[4]

State investment banks

State investment banks can act as a vital tool to boost investment across the private sector. They can be particularly valuable in supporting risky start-ups which often struggle to find funding from commercial banks, but are also important as a source of support for investment in innovation in existing firms.

The TUC has welcomed the establishment of the British Business Bank, but 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 firms across the whole economy. To do this, it needs significantly more capital, full borrowing powers and a much wider remit.

The Green Investment Bank (GIB) was also a welcome development with a vital role to play in supporting the decarbonisation of our economy. But it too needs a significant increase in its capital base to £15 billion (up from its initial capitalisation of £3.8 billion), and its privatisation should be reversed. Like the British Business Bank, the GIB should be able to borrow in the capital markets to enable it to operate effectively.

Corporate governance

Corporate governance reform remains essential to address the short-termism that is endemic in UK boardrooms. A major driver of short-termism is the primacy given to shareholder interests in the UK's system of corporate governance and company law. Many shareholders are increasingly short-term in their focus and even so-called long-

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[2] See full research here: https://www.tuc.org.uk/economic-issues/economic-analysis/%C2%A330bn-infrastructure-spend-could-boost-growth-and-reduce-long-term.

[3] See 'How to make 'smart' innovation-led growth also 'inclusive' growth' in 'New Perspectives on Industrial Policy for a Modern Britain', ed. Bailey, Cowling and Tomlinson, Oxford University Press.

[4] http://www.cbi.org.uk/media-centre/case-studies/2012/03/industrial-strategy-usa/

term shareholders rely increasingly on share trading, rather than long-term share ownership, to generate returns. If shareholders are focused on short-term returns and selling their shares for more than they bought them for, they may encourage company directors to pursue short-term strategies to raise the share price, rather than investing in long-term, organic growth. The TUC believes that directors' legal duties should be reformed so that directors are required to promote the long-term success of their company as their primary duty (as, for example, is the case in the German corporate governance code). Serving the interests of shareholders and the stakeholder groups currently included in directors' duties should be secondary to this central aim. In addition, shareholders' corporate governance rights should be subject to a minimum period of shareholding of at least two years.

Another important driver of short-termism is the UK's mergers and takeovers regime, which is one of the most open in the world. In the US many companies adopt 'poison pills' which allow them to prevent hostile takeover bids and in Continental Europe companies often have more concentrated shareholdings which gives some protection against hostile takeovers. In the UK, the only strategy that a board can adopt to protect against a hostile takeover is to keep its share price high. This can encourage companies to keep shareholder returns high even in times of financial difficulty, and can discourage them from investing significantly in R&D, especially long-term research that may take many years to deliver returns, thus holding back innovation and productivity. Repeated studies have shown that hostile takeovers generally have a poor record and destroy economic value overall[5]. The TUC recommends that the Government should commission or carry out a review of the UK's merger and takeover regime with the aim of investigating reforms that would reduce the extent of hostile takeovers of UK companies.

In addition, the TUC believes that the time has come for the UK to recognise the interests and rights of other stakeholders in corporate governance, and in particular those that companies often say are their greatest asset: their workforce. The UK is one of a minority of EU countries that has no rights for the representation of workers in corporate governance. The government should move towards introducing a mandatory system for worker representation on company boards in UK listed companies.

Closing regional gaps

TUC research has found that the recovery is characterised by regional economic inequalities. From 2010 to 2013, the London economy grew twice as fast as the rate of

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[5] See for example work by Colin Mayer of Said Business School http://www.sbs.ox.ac.uk/community/people/colin-mayer

the UK economy excluding London (14.5 per cent versus 7.4 per cent). London grew over three times as fast as Northern Ireland and the North West.

From 2010 to 2014, jobs growth in London (11.5 per cent) was virtually three times as fast as the UK as a whole (4.2 per cent), three times as fast the West Midlands (3.7 per cent) and South West (3.6 per cent), four times as fast as the North East (2.9 per cent) and Wales (2.7 per cent), and six times as fast as the North West (1.8 per cent).

The UK is over-centralised and the TUC accepts the case, in principle, for the devolution of economic powers. Evidence suggests, however, that devolution succeeds when cities operate in wider circles than the government is proposing – sub regional, national, European and beyond.[6] Any devolution of economic powers must therefore fit into an overarching national economic development strategy. Furthermore, devolution cannot truly succeed without adequate resources for the cities and regions of the UK. In his proposals for the Northern Powerhouse, the Chancellor must devolve opportunities, not just problems (with the scale of public service cuts facing local government in the period ahead, as discussed later in this statement, a particular area of concern).

It is also essential that trade unions are involved in the development of City Region Economic Strategies. All City Regions should recognise the importance of creating good, sustainable jobs as a central part of their strategic approach.

Skills

There is a general consensus that workers' productivity depends greatly on their skill levels, as well as on how these skills are deployed and utilised. Unfortunately, the UK performs badly on both counts. Too many workers lack basic skills but at the same time significant numbers of workers are over-qualified for the jobs that they perform. These two factors act as a drag on UK productivity and economic growth.

In contrast to much of the rest of Europe, the UK lacks a social partnership framework for its apprenticeships and wider skills system. In many countries, social partnership facilitates the provision of high quality training in line with the needs of employers, sectors and individuals. The national skills body that advises government – the UK Commission for Employment and Skills (UKCES) – has 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.'[7]

A recent analysis of the relationship between education, skills and productivity jointly published by the BIS and Education Select Committees highlights that the growth in higher level skills in the UK – largely generated by the expansion of participation in higher education – has been a positive factor influencing productivity trends in the UK over the past two decades. [8] In fact the report concludes that the recent decline in

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[6] See Parkinson et al. 'Second Tier Cities in Europe: In an age of austerity, why invest beyond the capitals'.
[7] UK Commission for Employment and Skills (2014), Growth Through People
[8] Education, Skills and Productivity: commissioned research, House of Commons, November 2015

productivity in the UK would have been even deeper without the continuing positive contribution of higher level skills.

However, this research paper also highlights that the UK lags behind other European countries when it comes to developing intermediate and higher level skills through high quality apprenticeships and the provision of continuing training for adult employees. The analysis concludes that "employer commitment to apprentice training in the UK continues to be limited by comparison with Germany and some other Continental European nations" and also that the "average volume of job-related adult training fell by about a half between the mid 1990s and 2012."

The TUC has welcomed the government's decision to introduce an Apprenticeship Levy to require all large employers to make a contribution to the funding of apprenticeships. In addition to increasing revenue, this should prove a powerful catalyst for incentivising much greater investment in apprenticeships and skills by employers that currently rely largely on recruiting skilled labour. The introduction of the levy also offers an opportunity to address some other key policy challenges, including the need to embed high quality "industry standards" for all apprenticeships that are defined by employers and unions, as is the case in many other European countries.

The government's target of creating three million apprenticeships is also a welcome move, but it will be important that investment in these new places does not come at the expense of wider further education services and that quality is given as much focus as quantity. The recent introduction of new procurement regulations is another welcome policy reform that should contribute to driving up the number of high quality apprenticeships.

As highlighted in the Select Committee research paper, the scale of the UK's productivity challenge also means that we need to empower the existing workforce to improve their skills. However, government funding for adult FE and skills has been cut back heavily since 2010 and it is notable that independent advisors to government, such as Professor Alison Wolf, have argued that these funding cuts are untenable in the long-term.[9] New analysis showing that four in ten colleges may have to shut if the government proceeds with its anticipated spending plans has further heightened concerns that there will be even fewer opportunities for adults to re-skill or up-skill in the coming years.

Government also needs to pay much more attention to how training and skills are influenced by other external factors in the workplace, especially the impact of employee engagement in maximising skills take-up and improved utilisation. For example, a recent research report from Leeds University showed that union members are a third more likely to receive regular training, and that union engagement in learning and skills in the workplace is directly associated with higher wages, better job security and improved organisational performance.[10]

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[9] Heading for the Precipice, Policy Institute, Kings College London, June 2015
[10] Professor Mark Stuart et al (2015) Skills and Training: the union advantage, TUC Unionlearn

Independent evaluations of the Union Learning Fund (ULF) have consistently demonstrated the added value of the government's investment in this innovative programme. One recent analysis undertaken by the University of Exeter showed that each £1 invested in the ULF generates a total economic return of more than £9 through a combined boost to productivity, earnings and sustained employment.

Finally on skills, any plan to boost productivity must consider the demand for skills. The UK has too many companies that are happy to remain in low skill, low specification industries, rather than seeking to move up the value chain. Addressing this challenge goes wider than skills policy, requiring a social partnership economic model based on an ambitious industrial strategy designed to foster high skill industries.

Decent employment rights

Decent employment rights that protect working people against abuse and unfair practices are an essential part of a civilised society. They are also essential to sustainable and equitable economic growth.

It is well documented that good employment practices boost workforce morale and motivation, which has a direct impact on productivity and profitability. Going beyond this, however, good employment practice can also facilitate innovation and change. 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. Thus investing in positive employment relationships plays a vital role in facilitating innovation, productivity and true adaptability.

While the TUC would encourage employers to embrace best practice, statutory employment rights provide a vital minimum floor of protection in a wide range of areas that many people now take for granted – including limits to working hours, the right to paid holidays, the national minimum wage, rights to maternity, paternity and parental leave, health and safety requirements, protection from discrimination and much more. These rights are not impediments to business, they set out a floor in terms of employment practice which both offers protection to workers and helps to encourage employers to invest in raising productivity and innovation, rather than relying on increasing working hours and holding back wages to generate profits. The government should recognise the vital role that employment rights play in safeguarding fair standards at work, in ensuring the skills and talents of the entire workforce are properly utilised and encouraging employers to invest in high-end jobs.

If the government tries to use the negotiations over the European Union to limit or reduce rights at work it will not only risk making life harder for people at work, but will also pull our productivity performance down. While working people strongly value their rights to paid holidays and rest breaks, rights to equal treatment and the other important employment protections that stem from EU Directives, these important rights are also key to securing high productivity growth.

More needs to be done to encourage compliance and swift resolution of complaints within the workplace too. Supporting union representatives by giving them adequate time off to do their duties leads to productivity gains and helps to reduce the costs associated with increased sickness absence and recruitment and retention problems that result from poor employment practice.[11] Rather than trying to use the Trade Union Bill to take this important facility time away, the government should recognise the important productivity benefits it brings.

All economically dependent workers must benefit from the same basic floor of rights if the productivity gains associated with more secure employment are to be realised. The growing number of workers employed on a casual, freelance or zero hour contract basis lack access to rights such as unfair dismissal protection and statutory sick pay, or are afraid to assert the rights that they do have because of the precarious nature of their work. Adequate funding needs to be given to enforcement agencies and there needs to be a more proactive inspection regime with priority given to sectors where zero hours and other forms of casual work are prevalent. Enforcing labour rights is a necessary condition for improving productivity, as a robust set of minimum standards are necessary to give employers confidence to move away from “low road” competitive strategies.

In particular, fairness demands that hard-pressed low paid workers should always get at least the National Minimum Wage. Yet our most conservative estimate suggests that at least a quarter of a million workers are still underpaid. In addition, allowing employers to cheat on the minimum wage puts reputable firms at a disadvantage, as they are undercut by those using poverty wages. This depresses productivity as a race to the bottom on pay squeezes out investment, training and better work organisation.

The government has taken some steps to tighten enforcement, in terms of increasing resources, higher civil penalties and some naming and shaming, but more should be done. In particular, more inspectors are still needed, as is better statutory guidance, enforcement of statutory holiday pay rights, and more prosecutions and naming and shaming of cheating employers.

The government is currently consulting on proposals to improve the effectiveness of the enforcement of employment rights to protect workers from exploitation. These include establishing a statutory Director of Labour Market Enforcement who would set priorities for HMRC’s National Minimum Wage enforcement team, the Employment Agency Standards Inspectorate, the Gangmasters Licensing Authority and enforcement of the Home Office immigration rules.

The TUC estimates that about 25 per cent of employers who cheat on the National Minimum Wage are caught. If funding the various enforcement agencies were to be seen as a zero-sum game then there would be some losers, with the result that more working people would be left to suffer injustice with no route of redress. Therefore the government should plan to expand the funding available to enforce these labour rights throughout the next Spending Review.

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[11] https://www.tuc.org.uk/sites/default/files/tucfiles/thefactsaboutfacilitytime.pdf

In addition, the government's new proposals to tackle labour exploitation will not work unless there are sufficient resources for the enforcement agencies to adapt to new ways of working and for a reformed Gangmasters' Licensing Authority to take on a much wider remit. There needs to be increased investment in the whole spectrum of work that ensures compliance with labour rights. Targeting new resources solely on investigating and prosecuting the most extreme forms of labour exploitation will not be as effective as a more balanced approach that also invests in workplace inspections, accessible advice and support for vulnerable workers and other measures that tackle non-compliance early and prevent it escalating into the most extreme forms of abuse.

It is also vital that newly-introduced employment tribunal fees are abolished. The government's own figures show alarming reductions in cases since the introduction of tribunal fees – for example sex discrimination cases have declined by over 80%.[12] It is absolutely unacceptable for justice to be available only for those who can afford it and for so many to be priced out of securing their rights. Making it easier for employers to get away with abusing their workforce is not the way to promote a sustainable recovery supported by the creation of high quality jobs.

Recent research from BIS and the EHRC found 54,000 women a year are forced out of work because of pregnancy or maternity. The failure to retain women when they become mothers is a huge waste of women's education, skills and experience. It also highlights the scale of non-compliance with well-established employment rights and how few individuals are willing or able to take claims to tribunal. In the past year there were just 788 claims of pregnancy-related dismissal or detriment lodged at tribunal.

A reasonable limit on excessive working time is also needed. There is more than a century of evidence to show that long hours harm labour productivity, as workers become tired, slow down and make more mistakes. There is also concern that a requirement to work excessive hours is helping to keep those with caring responsibilities (predominantly women) out of some better-paid careers. Most starkly, regularly working more than 48 hours per week significantly increases the risk of developing a range of illnesses, including heart disease, strokes, diabetes, depression, and stress. Long hours are thus associated with burnout, serious ill-health and high turnover. In contrast, sustained productivity increases demand a different model, which concentrates on smarter working, sees employees as an asset, and thus ensures sustainable working patterns and a decent work life balance.

It is therefore essential that the rights in the working time directive are fully enforced in the UK. These rights, which apply to the European Union as a whole, set a series of minimum standards on maximum working time and minimum rest breaks and holiday entitlements that are both fair and easily accommodated. In the UK, workers have found it difficult to enforce the 48 hour week, as responsibility is split between the Health and Safety Executive and local authorities, neither of whom see the issue as a high priority. Holiday rights and rest break entitlements can only be enforced by

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[12] Tribunal Statistics, January to March 2014 https://www.gov.uk/government/statistics/tribunal-statistics-quarterly-january-to-march-2014

individual workers taking cases to employment tribunal, which is both stressful and increasingly costly. All the working time rights should be enforceable by both the enforcement agency and the tribunal system. Ironically, the transitional provision which allows individuals to opt out of the 48 hour week average limit has not promoted free choice but has instead been widely abused by employers, thus perversely stopping many people from exercising their working time rights. If the opt-out were to be phased out over a period of a few years, then employers would have no problem in accommodating the limits, and the process could be linked to initiatives to improve productivity.[13]

Voice at work

Working people want and need a greater say in decisions at work. At the moment, workers leave their democratic rights at the door when they enter the workplace and have no right to be automatically informed and consulted about decisions that will affect them. According to the most recent WERS survey, just 35 per cent of employees thought that their employer was good or very good at 'allow[ing] employees and representatives to influence decisions', while 31 per cent said their employer was poor or very poor[1].

In much of Continental Europe, working people have far stronger rights to voice in the workplace and evidence shows that this contributes towards the strength of those economies. Countries with high standards of workers' participation – meaning widespread rights and practices on workplace representation, representation on company boards and collective bargaining – score more highly across a range of important measures, including R&D expenditure, employment rates, educational participation among young people and educational achievement among older workers, than countries like the UK with low workers' participation standards. What is more, these countries achieve both stronger economic success and a more equitable economic settlement: poverty and inequality rates are both lower than in countries with weaker workers' participation rights.[1]

The TUC believes that strengthening information and consultation rights would bring considerable benefits both to working people and the organisations that employ them and the wider economy. All workers should have the right to be informed and consulted collectively on matters regarding their workplace. This could be done by reforming the Information and Consultation of Employees (ICE) regulations. Greater involvement in decision making could improve motivation and morale among workers and boost productivity, thus contributing to a stronger and more sustainable recovery.

Trade unions provide a vital role bringing people together in the workplace to promote their interests and protect them from abuse. Unions are the bodies through which employers can most effectively consult with their workforce on a collective basis and negotiate over terms and conditions. At national level, unions represent all working people, whether or not union members, in their role as advocates for rights and

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[13] See, for example, "Managing change: practical ways to reduce long hours and reform working practices", DTI, TUC, CBI (2005)

protections at work and their contribution to economic policy debate. Without unions, many vital employment rights that people and parties across the political spectrum now take for granted, including the national minimum wage, would probably not exist.

The development of union learning representatives shows how unions have developed their role in recent years to help working people access learning and develop their skills. Unionlearn - the learning and skills organisation of the TUC – has trained more than 30,000 union learning representatives (ULRs) who act as a focal point for training and learning in their workplace. Through ULRs, over 220,000 people are being given training and learning opportunities through their union every year. In a 2010 survey of 400 employers with a total of 6 million employees, 87 per cent said that they wanted to continue to support union learning, with two-thirds saying that it benefited the organisation and 81 per cent saying it benefited the individual. Union learning representatives have proved particularly successful in reaching the lowest skilled workers who are generally under-represented in workplace training – thus addressing a vital piece of the challenge of raising productivity.

The current government, rather than embracing this role and working with unions to enhance it, has chosen to seek to weaken it with its Trade Union Bill. But the introduction of tighter restrictions on the right to strike is likely to damage constructive employment relations in the UK, which generate extensive benefits for managers, employees and wider society.

Unionised workplaces are more likely to have family-friendly policies. According to the latest Worklife Balance Employer Survey, published by BIS in December 2014[14] seventy-seven per cent of unionised workplaces had a written policy on flexible working arrangements compared with 43 per of non-union workplaces. Such negotiated agreements provide clear benefits for those with caring responsibilities but also assist managers and businesses. They have a positive effect on recruitment and retention. They enable employers to recruit from a wider talent pool and lead to increased loyalty amongst staff.

Union workplaces are safer workplaces, largely due to tens of thousands of union health and safety reps being trained each year to internationally-recognised standards. Unions raise safety concerns through health and safety committees and collective bargaining arrangements and this leads to far fewer workplace accidents.[15] According to research commissioned by the Department of Trade and Industry (DTI, now BIS) in 2007, by

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[14] BIS (2014) Fourth Worklife Balance Employer Survey, published in December 2014, BIS Research Paper No. 184, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/398557/bis-14-1027-fourth-work-life-balance-employer-survey-2013.pdf

[15] Nichols, Walters and Tasiran, Trade Unions mediation and industrial safety, Journal of Industrial Relations 2007

reducing lost time from occupational injuries and work-related illnesses, union safety reps save taxpayers between £181m and £578m (2004 prices) every year.[16]

Negotiations between employers and unions also facilitate innovation and change. In a recent article a leading academic, Professor David Bailey from Aston Business School, acknowledged the important role which unions play in improving the performance and competitiveness of the UK motor industry:

> *"I would also add in another factor for the industry's success - the flexibility and hard work of workers and unions in pulling out all the stops to help make the UK a competitive place in which to assemble cars and source components (something the media all too often fails to recognise)."*[17]

Following the economic crisis of 2008, there have also been extensive examples of unions and managers engaging in constructive negotiations with a view to saving jobs and retaining skilled employment. For example:

- During the economic downturn, unions worked with employers at Jaguar Land Rover to avoid serious job losses and to protect the future of the company. Following a lengthy consultation, unions and their members agreed a one year pay freeze and a shorter working week. The unions also agreed to move labour between two plants to save jobs.
- At Bombardier, following the loss of the Thameslink contract to Siemens in 2011, the company announced mass redundancies, the closure of the Derby site and a review of their UK operations. Management met on at least a weekly basis with recognised trade unions. The consultation period provided unions and management with the opportunity to identify and win new contracts, to review shift patterns and staffing structures. The company, unions and government departments (including DWP and BIS) invited appropriate agencies to visit the site to assist in job searching. As a result of the ongoing discussions, all compulsory redundancies were avoided.

The BIS-commissioned Macleod Report,[18] endorsed by the current Prime Minister,[19] also suggests that managers should listen to the concerns expressed by employees and their representatives. It concludes that addressing these concerns will increase levels of employee engagement, thereby helping to deliver sustainable economic growth. Similarly, research undertaken by the Advisory, Conciliation and Arbitration Service (ACAS)[20] found that union representatives play an important role in improving workforce engagement and morale, by helping to ensure employees' concerns regarding

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[16] DTI (2007) Workplace representatives: A review of their facilities and facility time – was a comma at end- missing something?
[17] www.birminghampost.co.uk/business/business-opinion/uk-car-output-up-down-9902855#ICID=sharebar_twitter
[18] Department for Business, Innovation and Skills (2009)
[19] www.gov.uk/government/news/new-task-force-for-employee-engagement
[20] ACAS (2003) Information and Consultation at Work: from challenges to good practice. Research Paper 03/03.

their working conditions are listened to and addressed. This in turn can improve workplace productivity, the quality of services provided, and ultimately the financial performance of organisations.

The evidence base is clear: by engaging with trade unions, rather than by seeking to undermine them, the government will boost productivity.

Opportunities for young people

Opportunities for young people have been hit hard by government spending cuts. Cuts in further education funding, the abolition of maintenance grants for higher education, cutting the education maintenance allowance (EMA) for low income 16 to 19 year olds in further education, raising the cap for university fees, excluding some under-21s from claiming housing benefit, and leaving all young workers in their early 20s without the right to be paid the new adult minimum wage rate all make it harder for young people to access education and the secure start into adult life they need. Youth unemployment also remains far higher than before the recession. Young people are finding it hard to get their first step into the labour market and current government programmes are failing to deliver the help they need.

Giving young people a better start in life, and making use of all their skills and talent, will be vital to achieving high productivity economic growth. The challenges facing the current generation will take years to address, but there are many changes that could be made now to deliver an immediate improvement in their prospects.

Young people face unstructured, uncertain and insecure transitions from education to training and employment. Years are wasted, lost to the young people themselves and to the economy. There is a strong case for a Youth Employment and Skills Service, that would bring together the job-related support provided through Jobcentre Plus and what remains of the Careers Service for those aged under 25. Unfortunately, policy has moved in the wrong direction, with local authorities no longer expected to offer Connexions services, which were among those worst hit by the cuts of 2010-15.

In addition, the government should introduce a Job Guarantee scheme for young unemployed people and adults at risk of long-term unemployment. This would provide a route for young people to gain valuable work experience and help to open job opportunities to them. By reducing the time that young people spend out of the labour market, and limiting the scarring impacts of unemployment, such a scheme would have long-term impacts on their future careers, earnings potential and the productive contributions they were able to make.

The TUC is also concerned about the planned introduction in 2017 of the Youth Obligation, which will require unemployed young people who do not get an apprenticeship or training place to take part in a workfare scheme, potentially indefinitely. International and UK experience indicates that mandatory unpaid work leaves participants with less time to look for jobs in the open labour market and actually reduces their chances of obtaining employment.

Further education funding has suffered harsh spending cuts since 2010. While the schools budget has had some degree of protection, FE funding saw significant cuts under the coalition government, and spending was reduced still further in the Chancellor's July budget. Given that FE colleges tend to offer more vocational courses than schools and often cater for students for whom formal education has been more challenging, these cuts are making it harder for our education system to play its role in boosting the employability of the population. It is essential that the discrepancy between the funding of FE and other areas of education is addressed.

Just eleven per cent of UK employers employ apprentices, compared to three or four times as many in some other countries, and in addition 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. As discussed earlier in this statement, there is an urgent need for a revitalised apprenticeship programme that delivers the high-quality training and skills that young people need and offers fair wages for apprentices.

Young people need to be paid fair wages for the work they do. Otherwise they risk exploitation and being trapped in low-paid jobs that prevent them from enjoying a reasonable standard of living and starting to save for the future. The National Minimum Wage for younger workers and apprentices needs to increase quickly so that they are not left behind, and the new rate for over-25s announced in the July emergency budget should be extended to 21-24 year olds, who should clearly be treated as adults.

Housing Benefit cuts are another significant cause for concern. Under-35s have been entitled to only the shared room rate of Housing Benefit since 2012, making it harder for young people to find accommodation during the years when they are most likely to re-locate to establish themselves in their careers. Similarly, the exclusion of some 18-21 year olds from housing benefit (from 2017) will not only force many young people to remain dependent on their parents for accommodation for many years into adulthood, it will also prevent young people from being able to move to places where jobs might be more available, thus hampering their opportunities in the labour market too. There is also a grave risk that some young people end up on the streets with no home to go to. This is a start in life that no young person deserves. Proposals to exclude some 18 – 21 year olds from housing benefit should be immediately withdrawn.

High-quality public services

The provision of good quality public services is essential to support a high-skilled, productive labour force. Employers and their workforces benefit directly from the provision of high-quality health, education and transport services.

A good education is the foundation for building skilled and productive workforces. A wide range of basic and advanced skills and knowledge are learnt at schools, and good schools are one of the most important building blocks for a strong economy. Recent evidence shows how bringing UK educational achievement into line with that of Australia or Germany would result in huge increases to output[21].

[21] http://www.lse.ac.uk/researchAndExpertise/units/growthCommission/home.aspx

The vast majority of working people make use of the NHS during their working lives, generally very many times over. The quality of NHS care has a direct impact on the health of the nation's workforce and our ability to recover from illness and participate in the labour market. However, the government's top-down restructuring of the NHS and a prolonged funding squeezing have created endemic financial stress throughout the health service which is leading to a deterioration of outcomes for patients. A&E waiting times are at their highest for years, delays in transfers of care up 17.5 per cent on the year and targets for waiting times for hospital treatments, diagnostics and cancer care are all being missed. This prevents people from recovering as soon, and in some cases as well, as they could have done, and from getting on with their lives.

At the same time cuts to social care have hit vulnerable people and left families to shoulder a greater share of care responsibilities, making it harder for many carers to engage in paid work outside the home. Increasing numbers of vulnerable older people are increasingly reliant on expensive hospital care, rather than cheaper, more efficient preventative treatment at home which best meets the needs of the patient. NHS efficiency targets in recent years have been achieved on the back of cuts to tariffs, payments made to hospitals for different treatments, and pay restraint. Neither is sustainable and both are leading to crises of funding, morale and increasing problems of recruitment and retention that are undermining the service and impeding the ability to achieve real long term productivity gains.

The TUC recognises the need for new models of care that enhance integration between social care and all parts of the health service from hospitals to mental health. The fragmentation and complexity of commissioning brought about by the government's top down restructuring of the health service is acting as a barrier to the collaborative solutions required. Commissioners involved in some of the pathfinder projects delivering new models of integrated care have asked for the suspension of competitive tendering in order to address this. The time is right for a fundamental revision of the harmful marketization taking place across the health and social care system.

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

Government investment in childcare can make it easier for parents to participate in the labour market. International evidence shows that countries which invest in publicly funded childcare for children under two years old tend to have higher maternal employment rates.[22] Evidence from the UK shows a positive relationship between the availability of free early education places and mothers returning to the labour market. The IPPR has estimated that free universal childcare for pre-school aged children would generate net gains of between £5,000 and £20,000 for each parent returning to work, not including savings derived from social security costs.

[22] Ben-Galim, D, Making the case for universal childcare. IPPR (2011)

One of the government's priorities in the Spending Review is 'promoting growth and productivity, including through radical devolution of powers to local areas in England'. Local authorities are well place to play a dynamic role in boosting public service productivity through the delivery of responsive, joined-up services based on local need. However, since 2010 central government funding has been cut by 37 per cent in real terms, resulting in job losses, closure of frontline services and funding gaps growing to unsustainable levels.The Department for Communities and Local Government is one of the four departments reported to have agreed an average cut of 30 per cent going forward. Furthermore, councils in the top 10 per cent 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.[23]

The cuts are having a significant impact on the sustainability of local authority services. According to the NAO, over half of single tier and county councils are "not well-placed to deliver their medium-term financial plans"[24] and a survey by PWC this year found that nine out of 10 chief executives and leaders believe that some local authorities will get into "serious financial crisis" within the next five years[25]. Eight of out 10 chief executives state that local authorities will "fail to deliver the essential services that residents require"[26]. 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".[27]

Investing in high quality public services cannot wait for a strong recovery to take hold, and it is a false economy to try to pursue such an approach. Good public services are vital in order to secure a strong and productive recovery, yet over the next few years the biggest peacetime public service spending cuts since the 1920s are set to continue. As Paul Johnson of the IFS has observed, there is no "let up in the overall scale of cuts – other than for defence. Spending in unprotected departments (those other than health, overseas aid, schools and, now, defence) will still have fallen by about a third in real terms between 2010-11 and 2019-20"[28]. These cuts will have a devastating effect on all vital public services, with the police, transport, culture and social care for the old and housing set to be the most severely hit. If he is serious about a high productivity economy, the Chancellor should think again.

Conclusions

In this submission, the TUC has set out practical ways for the Chancellor to support a modern economy and boost productivity. In his statement, the Chancellor should announce the following actions:

- A significant boost to investment in infrastructure.

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23 University of Sheffield Political Economy Research Institute, 2014
24 ibid
25 The local state we're in, PWC, 2014
26 ibid
27 Financial sustainability of local authorities 2014, HoC Public Accounts Committee, 2015
28 http://www.ifs.org.uk/tools_and_resources/budget/505

- A stronger capital base and borrowing powers for the British Investment Bank.
- A new commitment from the government to a modern, sustainable industrial strategy, including measures to support the steel industry.
- A new approach to supporting low paid industries where employment is high and where driving up productivity could provide more quality jobs.
- A reversal of proposed tax credit cuts along with protection for in-work benefits (including Universal Credit) in the years ahead.
- An overarching national economic development strategy, within which any devolution of economic powers should be pursued.
- A recognition that all City Regions should commit to the creation of good, sustainable jobs as a central part of their strategic approach.
- A commitment to reform corporate governance to incentivise long-term investment.
- A review of the UK's mergers and takeovers regime with the aim of investigating reforms that would reduce the extent of hostile takeovers of UK companies.
- Particular protection for science, adult skills and local authority budgets along with a commitment to reverse severe public spending cuts.
- The embedding of high quality "industry standards" for all apprenticeships, as defined by employers and unions, as part of the government's welcome commitment to an Apprenticeship Levy.
- The government's commitment to maintaining the important employment rights secured through our membership of the European Union.
- Better enforcement of the National Minimum Wage, including improved statutory guidance, the enforcement of statutory holiday pay rights, more prosecutions and more naming and shaming of cheating employers.
- A commitment that new employment rights enforcement mechanisms will be supported with expanded funding.
- The abolition of newly-introduced employment tribunal fees.
- Reform of the Information and Consultation of Employees regulations, to give greater voice at work.
- Withdrawal of the Trade Union Reform Bill, which will undermine good industrial relations and hold back productivity growth.
- The creation of a Youth Employment and Skills Service, which would bring together the job-related support provided through Jobcentre Plus and what remains of the Careers Service for those aged under 25.
- The introduction of a Job Guarantee scheme for young unemployed people and adults at risk of long-term unemployment.

- The withdrawal of proposals to exclude some 18-21 year olds from housing benefit.