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TUC Statement on the HM Treasury ‘Spring Statement’:

Time for action

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At the Autumn Budget the Chancellor looked to "a future that will be full of change; full of new challenges and above all full of new opportunities". But policy actions fell short of the rhetoric.

At the Spring Statement the Chancellor is likely to report on the public finances, but he is not expected to take significant policy action. Given the weakness of the economy and threats going forwards – not least from interest rate rises and the approach of brexit - there are major areas where TUC believes policy action to be essential. To take the Chancellor at his word, we focus only on those most relevant to the forecasts.

The TUC calls for the Chancellor to use his statement to:

- invest in public services and public servants
- upgrade our economic model, with a major boost to investment targeted through a National Investment Bank

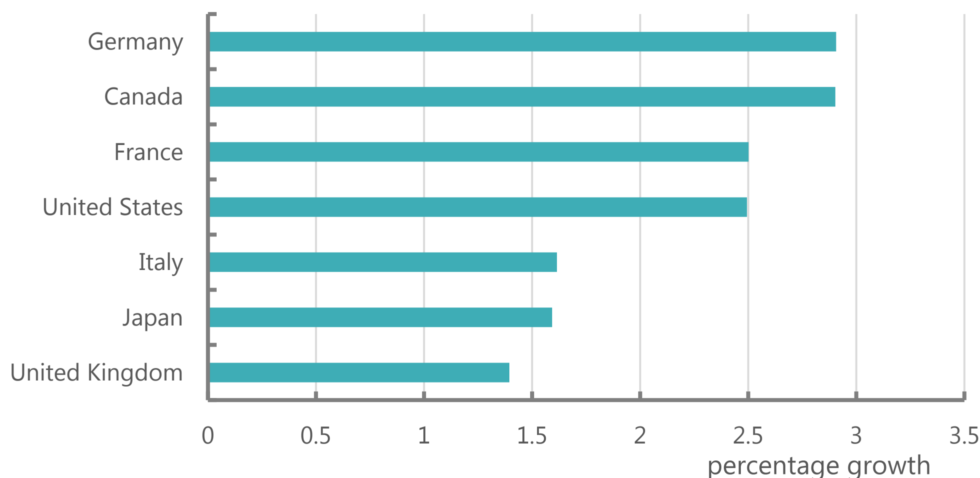
While we are highly sceptical about claims that the government has now 'balanced the books', the Chancellor is running out of excuses not to end the planned cuts and to start investing in UK public services and infrastructure, and delivering pay rises across the board.

The economy

The UK economy grew by 1.7 per cent in 2017, up slightly on the Office for Budget Responsibility (OBR) forecast for 1.5 per cent, but down on 1.9 per cent in 2016.

The latest figures show growth in the second half of the year a little stronger than in the first half of the year. But four-quarter growth of 1.4 per cent is the lowest for five years, and, as the chart below shows, the lowest of all leading (G7) economies.

GDP growth, year to 2017 quarter four



Source: ONS and OECD

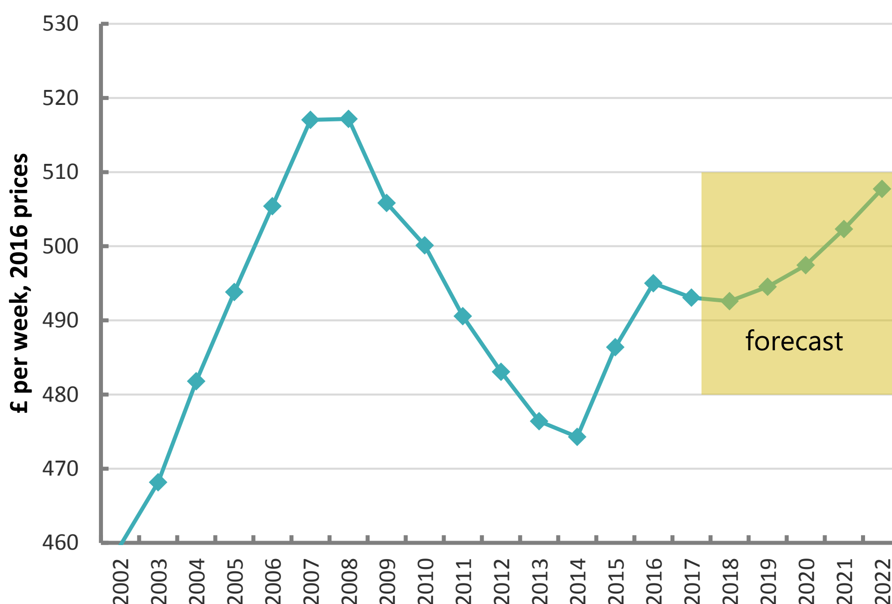
Over the year the slowdown has been driven by weaker consumer demand, as inflation hit real incomes and the volume of purchases. This was partly offset by a stronger trade performance and modest improvements to investment. Export strength follows more a revival in the world economy than any particular windfall from the sterling devaluation.

But households have remained under severe pressures. In the labour market, jobs continue to expand, but real wages have continued to fall. Employment grew by 1.1 per cent in 2017, the weakest annual growth for five years – though the whole of the increase was accounted for full-time employee posts.

In 2017 real wages declined by 0.5 per cent (using CPI), the seventh annual decline in the nine years since the global financial crisis. The OBR expects further decline in 2018, when the OECD expects the decline to be the biggest of advanced countries.[1]

In every other forecast the OBR has said that real wages will recover to their pre-crisis peak before the end of the parliament, but in the autumn real wages were no longer predicted even to meet that very limited goal. That's 14 years of lost real wage growth – and no end in sight (and likely to remain that way, even if any updated assessment of productivity is marginally less bad). These falls have hit younger workers particularly hard, and the young have also borne the brunt of insecure work and underemployment.

Real wages, £ per week, 2016 prices



[1] 'UK to be bottom of the wage growth league in 2018, TUC head to warn in New Year Message', TUC, 29 December 2017. https://www.tuc.org.uk/news/national/uk-be-bottom-wage-growth-league-2018-tuc-head-warn-new-year-message

Source: OBR and TUC calculations

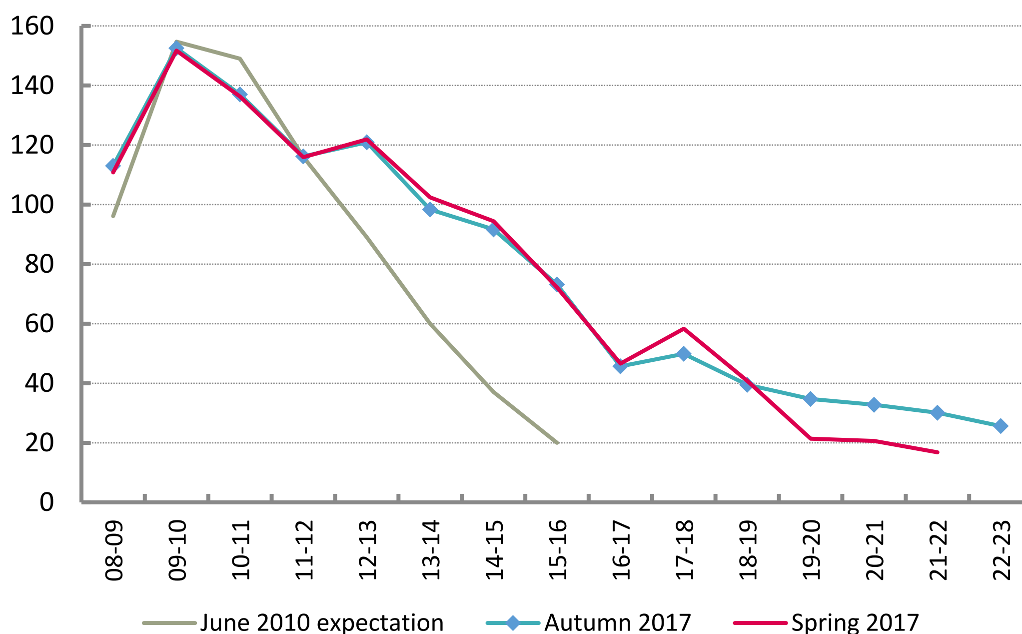
The OBR expected real household disposable incomes to fall in 2017 as well. The Bank of England has become alarmed at the scale of credit growth, and a number of analyses show severe pressures from indebtedness on low income households in particular.[2]

The public finances

In its autumn forecast the OBR showed a significant deterioration in the public finances, as it reassessed the prospects for activity going forwards. The chart below shows how earlier goals of reducing borrowing steadily towards zero were effectively abandoned, with public sector net borrowing stuck between £20 and £40 billion for the next five years.

More generally over the past decade (2008-09 to 2017-18) the Treasury has borrowed a cumulative £1 trillion, when it originally planned to borrow £720bn. This has fed through to a failure to meet its target for the public debt: originally expected to peak in 2013-14 at 70.3 per cent of GDP, the public debt ratio is now anticipated to peak in the current financial year at 86.5 per cent of GDP.

Public sector net borrowing, £ billion



Source: OBR

[2] 'The case for a household debt jubilee', March 2018, the centre for responsible credit and the Jubilee debt campaign, https://jubileedebt.org.uk/report/case-household-debt-jubilee

But irrespective of these departures, the more technical 'cyclically adjusted current budget deficit' was expected by the OBR to move into balance at 0.0 per cent of GDP in 2018-19, following a small deficit of 0.3 per cent of GDP in 2017-18.[3] Improvements in the economy relative to the OBR November forecast may mean the measure moves into surplus a little sooner. But this does not mean the public finances are resolved.

Public service cuts are currently expected to continue until 2022-23, and this is likely to further harm the economy not least given the threat of rate rises and the approach of Brexit.

As the TUC has long argued, austerity policies are counterproductive: the OBR and HMT have underestimated the impact of spending cuts on economic growth, and this is the root cause of the failure to meet targets for the public finances. The cuts to public services and infrastructure and the attacks on the pay and conditions of public sector workers are not only unjust and harmful from a social point of view, but unsound from an economic point of view. The best way to protect the economy and to ensure rapid improvements to the public finances is to reverse future cuts, begin to invest in the UK infrastructure and public services, and deliver pay rises across the board.

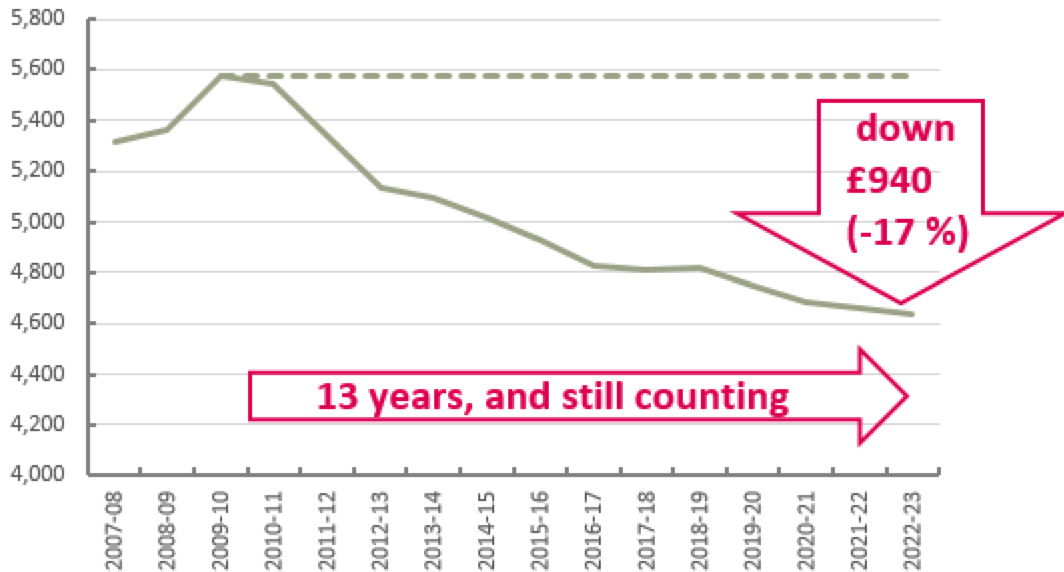
Investment in public servants and public services

Public servants have been waiting eight years for the end of real terms wage cuts. But in autumn the Chancellor had very little to say. And while hopes were raised in the NHS, other public-sector workers, including fire fighters, local government officers and prison officers were left out in the cold. The Treasury Red Book declares the end of the one per cent pay cap. However, aside from in the NHS, there was no new money to pay for this, and the likelihood is that any rises will come from already overstretched budgets.

Across the board, departmental public spending (on schools, hospitals, local government, the police and other public services) is expected to be down by £940 a head from 2009-10 to 2022-23. At the Autumn Statement yet one more year of austerity was added: five years has become thirteen years of public service cuts.

[3] Any achievements here have been facilitated by the Bank of England returning to the Treasury £13.7 billion in 2017-18 of its interest payments on government debt.

Departmental spending per head, real terms (16-17 prices)



Source: OBR Economic and fiscal outlook, chart 4.5, ONS historic data and TUC calculations

TUC analysis shows the UK spending significantly less per capita on public services than comparable EU countries like France and Germany.[4] Of the 15 biggest EU economies, UK spending is more in line with the weaker countries.

- The UK spent £5,620 per person on public services in 2016; France spent £7,090 and Germany spent £6,760; Sweden spent £9,050 per person.
- Portugal spent £3,850, Italy spent £5,150, Greece spent £3,660 and Spain spent £4,810 per person.
- The average expenditure across the EU 15 was £6,220 per person.

Over the period of austerity as a whole, the UK has made larger cuts to expenditure than most other European countries.

Comparing average growth in public services spending from 2000 to 2008 with the average over 2008-2016, the UK cut its spending by a greater amount than both the EU average and the United States. The UK cut its average spending growth by 5.4 percentage points (ppts) a year; the EU reduced spending growth by 2.8 ppts a year, and the US by 4.9 ppts a year. Meanwhile Germany actively increased its spending by 1.9 ppts a year.[5]

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[4] The figures are based on OECD figures for general government final consumption expenditure compared using purchasing power parity exchange rates. See 'Time for a change – an end to austerity', TUC, March 2018. [LINK]

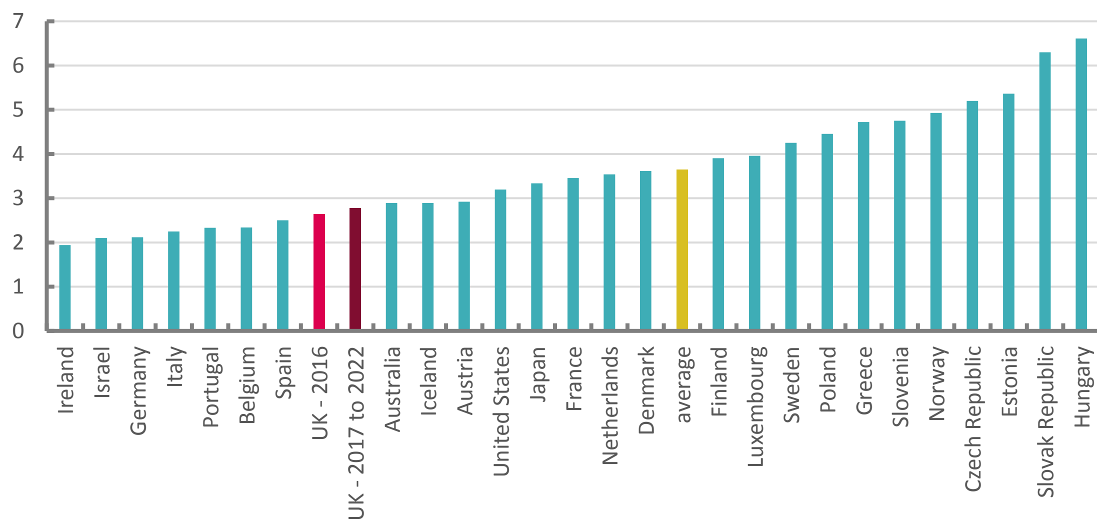
[5] Based on general government final consumption expenditure in nominal terms; the figures are not adjusted for population or price. See also 'Time for a change – and end to austerity'.

Boosting investment

The Chancellor got the rhetoric right when he said that "*The key to raising the wages of British workers is raising investment – public and private*." But once again, the reality was disappointing.

The average spend across the OECD on public investment is 3.5 per cent of GDP.[6] In the Autumn the Chancellor announced an extra £7 billion spread across the present parliament. But that gets us to just 2.9 per cent of GDP (in 2020 and 2021) – just a notch up from 2.6 per cent in 2016 (and it's back down to 2.8 per cent in 2022). It's no surprise that the OBR described the boost to growth provided by this measure as "modest".

Public sector net investment as a proportion of GDP – before and after the budget



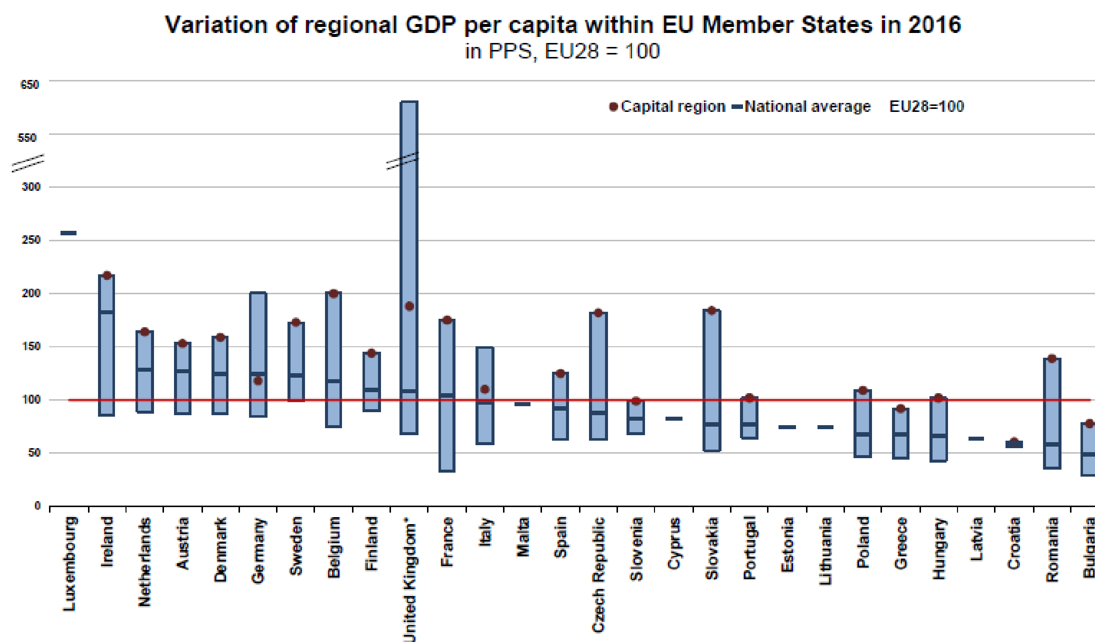
Source: OECD and TUC calculations

The government should *significantly* raise the level of UK public investment. A starting point would be raise expenditure to meet the OECD average.

There is a strong case for directing funds to public investment through a National Infrastructure Bank. The aim should be to go beyond finance, to operating as a centre of expertise in these vital initiatives, in support of a wider industrial strategy and getting the economy fit for future challenges. This will also require investment in workers to ensure that gains from new technology are fairly shared, and high-quality training is provided to help workers take advantage of new opportunities.

[6] 'TUC Submission to the 2017 Autumn Budget: Investing in the future', November 2017, https://www.tuc.org.uk/sites/default/files/investinginthefuture.pdf

Central to the remit should be addressing the regional inequalities within the United Kingdom. Newly issued figures (on the chart below) show the severity of these imbalances.[7]



These Eurostat figures show the UK having by far the most extreme divergence between the richest and poorest regions (on the NUTS level 2 classification). Comparing the capital as a whole to the rest of the country, the UK was also among the most unequal – fourth to the Czech Republic, Slovakia and Romania. Some parts of the UK have seen terrible declines in earnings, with annual falls of more than £2,500 in Flintshire in North Wales, South Lakeland in the Lake District and Maldon in Essex.

To a new deal for working people

In billing the Spring Statement as a non-event, the government seemingly distance itself from the problem of the economy and the hardships confronted by working people. With the economy among the weakest of all advanced countries and very real threats in the very near future, this is not the time for inaction.

It is now time to call a halt to austerity policies – belatedly hitting a technical measure has not meant the public debt has been repaired. There will be no decisive escape from the stagnation since the global financial crisis and failures on the public finances without ending the plans for five more years of cuts to public services and public sector workers. It is time for a new deal for working people.

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[7] 'GDP per capita in 276 EU regions', Eurostat, 28 February 2018: http://ec.europa.eu/eurostat/documents/2995521/8700651/1-28022018-BP-EN/15f5fd90-ce8b-4927-9a3b-07dc255dc42a