Working people must not pay the price for the vote to Leave

A national action plan to protect the economy, jobs and workers' rights

WORKING PEOPLE
MUST NOT PAY THE
PRICE OF BREXIT

Introduction

After the vote to leave the European Union, the UK is in uncharted waters both politically and economically. The TUC did not seek this outcome, but accepts the decision of the British people. Yet with so many still so scarred by the effects of the 2008 financial crisis, working people and their communities must not pay the price – again – of economic slowdown and uncertainty.

In this interim period before a new Conservative leader begins the process of leaving the EU, the government must act decisively to minimise the negative impact on the economy of extreme uncertainty. The governor of the Bank of England's statement and actions on the morning after the referendum illustrate how decisive action can help protect financial markets. But there are limits to how much can be expected of monetary action. The chancellor's statement on Monday 27 June was also welcome, but the reaction of the markets demonstrates the need for a bolder strategy. And of course, the TUC does not agree with the chancellor that the fundamentals of the UK economy are strong: one need only point to the concentration of wealth, jobs and investment in London and the south-east and the decades-long decline in manufacturing to see that the UK is exposed to significant risk compounded by the economic uncertainty of a vote to leave the EU.

In this short paper, the TUC proposes specific actions which can be taken immediately or in the coming weeks, with regard to:

- protecting jobs, apprenticeships and livelihoods
- industrial planning, public investment in infrastructure and financial support for economic activity
- using government spending rather than monetary policy to stimulate demand, while still defending sterling
- protections for working people's employment rights, pay and pensions, and the role of trade unions.

Of course, in the longer term, the UK needs a plan to retain access to the single market. More widely, the government must acknowledge and seek to heal the wounds evident in the country – those of the enduring crisis in living standards, of the financial crisis and of the uncontrolled impacts of globalisation. And our political establishment needs to reflect on the causes of the anger and disaffection of many voters. These topics are not those of this paper – although in the coming months the TUC will return to these themes.

Instead, this paper seeks only to be an immediate response to the looming impact of the vote to leave the EU on the lives, jobs and wages of working people in the UK.

A national action plan for British jobs and British industry

The UK needs a national action plan to protect British jobs. The two key roles would be to support the economy in the present climate of extreme uncertainty and prevent recession, and to begin the task of mending the divisions in the UK economy that the referendum result has exposed.

Responsibility – and, crucially, resources – for implementing the National Action Plan should be shared with the devolved nations, English local enterprise partnerships, combined authorities and city regions as well as the relevant government departments.

Immediate help for industry

Our union representatives report that industry will face immediate challenges as extreme uncertainty hits demand and impacts on their order books. Automotive, aviation, agriculture, retail and financial service industries are immediately the most vulnerable. The government must make available emergency aid, as well as helping with extra costs associated with the implications of the referendum vote, if necessary through guaranteeing bank and other loans, and assistance with the costs of currency movement. A task force of national, regional and local government, unions and business should monitor the situation in sectors and regions, to provide early warning of problems, and lay the foundations for a changed approach.

A modern industrial strategy

At the heart of the plan should be a modern industrial strategy to revitalise the UK's manufacturing industry. The strategy should include:

- understanding the UK's existing and potential industrial strengths, and developing an agenda for nurturing those sectors where the UK can remain competitive, rely on extensive research and development and have great export potential – and which could provide the well-paid, highly skilled jobs of the future
- the development of an industrial roadmap that meet the UK's economic and industrial needs, at both regional and sectoral level, and put the UK on track to meet its commitments to CO_2 reduction under the Paris Agreement
- close working with the higher education sector and a skills strategy for the whole workforce – including a substantial role for apprenticeships; as a subsidiary goal, UK investment in research and development should be increased to three per cent of GDP.
- the immediate announcement of a smart procurement strategy, so that key infrastructure investments, defence and security procurement and public spending commitments are used strategically to support industry, including steel production.

Increased infrastructure spending

The national action plan should also announce an immediate increase in infrastructure spending. Spending on infrastructure will be lower this parliament than the last as a share of GDP, even accounting for recent increases.

Even before the referendum vote, the OECD argued that action on infrastructure spending was urgent to support demand and break free from stagnation and low growth. They emphasised that this spending has a high multiplier, so it delivers a strong short-term boost to demand and stimulus to activity across the whole of the economy. Moreover, in the longer-term, infrastructure spending strengthens the supply side of the economy – with the potential to create a permanent increase in GDP of up to 0.5 per cent.[1]

Following the referendum, action to increase infrastructure spending is urgent. As part of its action plan the government should announce its intention to implement a significant and sustained programme of spending, with a strong regional dimension. This should include:

- a construction programme for affordable homes to rent and buy
- announcing further expansion of high-speed rail, including detailed plans for Crossrail 2 and HS3, and additional support for HS2
- giving the go-ahead to a new runway at Heathrow, in line with the recommendation of the Airports Commission
- support for a new generation of nuclear power stations
- rolling-out ultra-fast broadband across the UK and other spending on information and communication infrastructure
- a full-scale carbon sequestration programme for power and industry, focussed on carbon capture pipeline and storage infrastructure (CCS) in key industrial regions
- increase in the proportion of UK expenditure on renewable energy sources, likewise aimed at the industrial heartlands
- an expansion of domestic energy efficiency programmes, including community energy projects.

The housebuilding programme should be of the order of 75,000 to 100,000 new homes per year, of which a significant proportion should be council housing. In addition to supporting skilled jobs growth, this will have the additional benefit of supporting the aspirations of a generation of young people who have given up on the prospect of a home of their own.

More generally British banks and the financial industry are not meeting the challenges British industry faces. The authorities need to:

- devise better ways to mobilise resources in pension schemes towards industrial projects
- roll back plans for the privatisation of the green investment bank

[1] National Institute of Economic and Social Research, *Macroeconomic Impacts Of Infrastructure Spending – report to Trades Union Congress,* p6 www.tuc.org.uk/sites/default/files/tucfiles/infrastructure_spending.pdf

- introduce vital borrowing plans for the British Business Bank
- conduct a review of the implementation of the 'Vickers' / Independent Commission on Banking proposals to ensure that the UK banking system is capable of serving the wider economy, including discussion of for example regional banking.

Fiscal and monetary policy

We need major changes to recent fiscal and monetary strategy to deal with the implications of the referendum vote to leave the European Union.

For the past six years, so-called fiscal consolidation has meant severe spending cuts. Instead, expansionary action has relied on monetary policy – not least quantitative easing (QE), but also schemes such as funding for lending. Obviously in present circumstances no expansionary action should be ruled out: it may be that a quick dose of QE will help to calm markets and the financial system. But as the OECD has now recognised, too much has been asked of monetary policy, and fiscal policy needs to be brought into play. We need decisive action to support the real economy as well as asset values. Government spending is the most effective means to support aggregate demand, providing direct employment and/or higher incomes, as well as boosting the private sector when new or increased incomes are spent.

The government should make it clear that any immediate investment will be financed by borrowing rather than raising taxes or cutting spending elsewhere, which would suck demand out of the economy when the imperative is the opposite. Even in spite of heightened fears about government finances over the past six years, markets have never been readier to lend to governments in major economies (and because they are regarded as a safe asset UK government bond interest rates are falling after the referendum, so government borrowing is getting cheaper). Looking ahead it is likely that actions to protect or strengthen the economy will be looked upon favourably by financial markets. Future public finance outcomes depend on the condition of the economy: spending now will help to prevent an economic crisis and therefore will support tax revenues into the future.

Ahead of the referendum, the Monetary Policy Committee warned of a potential policy dilemma between action to prevent the inflation that an exchange devaluation might cause and those needed to support the economy. In the immediate aftermath of the exit vote, the TUC argued for steps to shore up the pound or at least limit its fall. Living standards need to be protected from price rises for basic goods – as, for example, the UK imports 40per cent of its food. Since the financial crisis sterling has traded at an average exchange rate of around $1.60 (2009-2015), and at around $1.40 since the start of the year. In the wake of the exit vote, it has traded between $1.30 and $1.40. The announcement by the governor that the Bank of England could use reserves of up to £250bn to protect markets helped to moderate any sterling decline and supported other financial markets but is not adequate without government action. With inflation still at historic lows and spare capacity likely greater than generally thought, monetary policy should remain on an expansionary setting and ultimately be supportive of government spending.

Rights at work and pay

Working people must not pay the price of economic uncertainty after the referendum. Higher wages would not only stimulate the economy, but would begin to redress anger at inequalities and injustices that may have played out in this vote. After all, average real wages are still £40 a week less than they were when the global financial crisis began, the longest and deepest crisis in earnings since the early 1800s. While there were some gains in 2015, these have already began to retreat. The TUC supports the government's higher minimum wage (the so-called 'national living wage'), but more needs to be done. The lowest paid are in the greatest need of protection: the government should commit to significant progress towards a real living wage, ensuring that young workers are not left behind.

The government should remove the one per cent cap on public sector pay rises, and should encourage private sector employers who can pay more to do so. There is a virtuous circle: with the government acting decisively, firms will be more confident to give pay rises, and these will quickly be returned to firms through more spending. The IMF have just advised Japan to require profitable employers to 'comply or explain' against a target of 3per cent wage increases in the private sector; the UK should pursue a similar policy. The government should also promote collective bargaining, which is the best means to delivering rising living standards and greater equality.

The government should also act to protect working people's pensions. The shock experienced by investment markets since the referendum risks inflating pension scheme deficits and undermining trustees' funding plans. The Pensions Regulator should allow maximum flexibility in scheme funding to ensure that short-term volatility doesn't lead to a fresh round of pension fund closures and a hit to both the long-term savings of UK workers and the capacity of British companies to invest for the future.

UK workers should also not pay the price of voting to leave the EU in terms of reduced rights at work. The European Union has played a central role in protecting working people from exploitation, combating discrimination and promoting good employment practices. Politicians from both sides defended these rights as part of the referendum campaign. The government should commit not to repeal any of the rights which are guaranteed by the EU. Watering down or dismantling this legislation would amount to a direct attack on the basic rights, security and standards of living working people and a denial of campaign promises. It would also risk further damaging confidence and spending, when it is vital not to let demand in the economy weaken.

Recognising how trade unions can help Britain succeed

The government must recognise that trade unions have a constructive role to play in the post-referendum environment. Throughout the recent steel crisis, unions worked constructively with government and business to safeguard jobs and investment. The involvement of employers and unions in the German response to the global financial crisis from 2008 onwards was a key factor in Germany's earlier recovery than the UK's.

In the wake of the vote to leave the EU, unions and employers can, by working together, help prevent investors from fleeing the UK. This could help secure deals with employers to preserve jobs (and in some places, sustain whole communities) through this time of uncertainty. For workers, involvement in decisions about how the referendum result may affect their workplaces will help counter disaffection with those in authority stemming from economic vulnerability and a sense of powerlessness. The government should set an example by involving unions in its planning, and should require employers seeking assistance from the national action plan to do so in consultation with the unions representing their workforces.

Preparing for exit negotiations

The voters have been clear that they want the UK to leave the European Union. The task for the UK's leaders is to work out how that can be achieved without working people paying the price. Years of uncertainty will be unhelpful for investment and would leave working people unable to plan their own futures. Investors will postpone job-creating investment until they know the UK's future path, and people will put off major life decisions such as whether to marry, change jobs, start a family or buy a home.

The government must urgently bring together a team of people to plan Britain's next steps. This team must be cross-party, and have members not only from regional government, the Northern Irish, Scottish and Welsh administrations (as the prime minister indicated in his resignation statement) but also representatives of business, unions and civil society.

The top priority is to protect access to the EU's single market, to which nearly half of our manufacturing and much of our services are exported. Polling the week before the referendum suggested that 57 per cent of voters – including half of those planning to vote to Leave – would favour the same relationship with the EU that Norway has, rather than the looser, less beneficial arrangements of countries like Canada and Switzerland. We need to build the growing consensus in favour of an arrangement that would guarantee jobs and rights at work, while respecting the wishes of the electorate to leave the EU.

But as the situation develops in the coming months, the TUC will doubtless return to the theme of which model for Britain outside the EU would best support the living standards and aspirations of working people, and how best we should approach our impending exit from the EU.

Rebuilding confidence and common purpose

The UK now needs to move on from the decision made in the referendum without rancour or recriminations. There is evidence of an increase in racist hate crime. Politicians must step back from divisive and inflammatory rhetoric, whilst racist incidents must be firmly dealt with, both in workplaces and in the wider community.

And the government must confirm the continued right of EU citizens currently living and working in the UK to remain here permanently.

And the government – and the whole political class – must consider anew how to recognise and act upon the legitimate concerns of many voters about immigration. The TUC will return to this topic in a major new project speaking out for the concerns of those left behind in the UK economy, but for now we propose some initial actions that could be taken in the coming months.

The government should reintroduce a migration impacts fund so that the benefits of migration are shared fairly with the communities and public services in the areas of highest immigration and highest pressure. And the UK needs firmer rules and tougher enforcement to prevent unscrupulous bosses using migrant workers to undercut local labour. If all companies were required to respect collective agreements, this would ensure that employers were unable to use migrants to undercut pay rates – which would additionally help prop up demand in areas of high immigration.

Published by
Trades Union Congress, Congress House
Great Russell Street, London WC1B 3LS
tuc.org.uk

June 2016