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TUC

A Budget for jobs and green growth

TUC Budget Submission 2009

Contents

Section one

Executive summary

1.1 Traditionally, TUC Budget Submissions, like Budgets themselves, set out our assessment of the state of the economy and the public finances. They go on to describe the tax and benefit changes that we seek to improve the economy and to make British society fairer.

1.2 But this is not a traditional Budget. The TUC's vision of a fairer society, and our belief in the need for a more efficient economy, remains intact. To that end, our call for more funds to end child poverty, a call that the TUC has made in every recent Budget Submission, is included here.

1.3 Yet our focus in the document that follows is on the immediate need to bring the UK through the current economic crisis with as little pain as possible.

1.4 This is a time for choices. The TUC rejects the choice that the UK should embark on no further fiscal stimulus. The argument that more spending today will load future generations with debt rings hollow at a time when, if no such stimulus is forthcoming, those generations may inherit a scorched earth economy.

1.5 So this Budget Submission calls for a Public Investment Programme of £25 billion to 2010-11. This amount would take the size of the UK's stimulus package to roughly 3.25 per cent of GDP, when added to the 1.6 per cent already committed in last year's Pre Budget Report. The arguments of our critics, that a further stimulus cannot be afforded, or that monetary policy alone can bring us through the crisis, are addressed in the pages below.

1.6 The proposed Public Investment Programme is set out in detail. We call for a short-term working subsidy of £1.2 billion, an intermediate labour market programme of £2 billion, a tax credit stimulus of £3.5 billion, an increase in Jobseekers Allowance of £1.5 billion and a green public works programme of £16.8 billion.

1.7 The elements of the Public Investment Programme, including how we would like to see the money spent in each of the five areas described above, are also set out in detail. The green public works programme includes: a commitment to green manufacturing and renewable energy; a green rail stimulus; progress on making the UK a leader in low carbon vehicles; action on home insulation and fuel poverty, along with retrofitting houses to adapt to climate change; a major house building programme; and the development of our communications infrastructure.

1.8 We call for action to prevent unemployment, as well as support for those thousands of trade unionists and other workers who lose their jobs. A proposal for a major intermediate labour market programme is included in this submission.

1.9 This Budget Submission concludes by calling for a new economic vision. Such a vision should seek to narrow the gap between rich and poor, build world class industries and companies on solid foundations, not asset bubbles and financial wheezes, and build more social solidarity in the world economy.

Section two

Introduction

2.1 As Budget 2009 approaches, it is widely accepted that the world faces its biggest economic challenge since the Great Depression of the 1930s. We are fast running out of superlatives, so suffice to say that the UK is in recession, unemployment is already over two million and forecast to reach three million by the end of 2010, and we may be heading towards dangerously low inflation.

2.2 It doesn't end there. Past recessions have taught us that unemployment goes on rising and remains stubbornly high for years, even after economic growth has returned.

2.3 This recession originated in the United States, as a result of the credit crunch and the ensuing financial crisis. The old adage, "When the US sneezes, the world catches a cold", continues to hold true.

2.4 But let us not pretend that others did not have a part to play: from a UK perspective, the relentless focus on building the City of London, vital though it is, coupled with a housing bubble, was always risky, to say the least. The behaviour of a number of high street banks has been reckless in the extreme. Of course, with huge financial rewards to be had, much of UK society, including its major political parties, was collectively myopic about the risks of focusing so directly on the financial sector, to the detriment of the real economy. With the pain of the current economic downturn comes the opportunity to reassess the way in which we build an economy, to reflect our wider social, environmental and, indeed, moral values.

2.5 This Budget Submission calls for a Budget for jobs and green growth. It is immediate in its focus, stressing steps that can be taken to ease the downturn, thereby making the recession as shallow as possible. Where jobs can be saved, we wish to see that happen. Where job losses are inevitable, supporting the victims, through proper benefits, but also through skills to help them back into work, is key.

2.6 Specifically, the TUC is calling for a Public Investment Programme of £25 billion to 2010/11. This amount would take the size of the UK's stimulus package to roughly 3.25% per cent of GDP, when added to the 1.6% already committed in the Pre-Budget Report of 2008. 3.25 per cent is the average stimulus for advanced economies recently examined by the International Monetary Fund.

2.7 The TUC's very clear view is that the costs of action, high though they are, will prove to be much better value than the cost of inaction. More specifically, 2.8 The following table shows the fiscal stimuli as a percentage of GDP in selected OECD countries in the years 2008–2010:

Stimulus packages in large countries (as % of GDP)

Canada	2.7
China	4.4
France	1.3
Germany	3.4
India	0.5
Italy	0.3
Japan	2.2
United Kingdom	1.5
United States	4.8
Average 1/	3.4

2.9 Source: OECD 1/ PPP GDP –weighted average

2.10 As the table shows, the size of the UK stimulus is low compared to other comparable countries. China, the US, Germany and even Canada have considerably higher packages.

2.11 Furthermore, the UK's public debt projections for 2009 are the lowest of the nine large countries studied by the OECD, as the following table shows:

Fiscal Balance and Public Debt Projections for 2009 (in % of GDP)

	Overall fiscal balance		Public debt	
	Pre-Crisis	Current	Pre-Crisis	Current
Canada	0.8	-1.5	61.0	63.0
China	-0.9	-2.0	13.4	22.2
France	-2.5	-5.5	63.0	72.3
Germany	-0.5	-3.3	61.1	76.1
India	-5.0	-8.5	69.8	82.7
Italy	-2.3	-3.9	104.1	109.4
Japan	-3.7	-7.1	194.2	217.0
UK	-2.1	-7.2	42.9	58.2
US 1/	-3.2	-8.5	63.4	81.2

Source: OECD World Economic Outlooks, October 2007 and January 2009

2.12 1/ The estimate of deficit for the US in 2009 excludes 3.5 per cent of GDP in financial sector support included in the January 2009 WEO projections. January 2009 WEO projection is also augmented with information on the final US stimulus package.

2.13 The statistics are not all good news, from a UK point of view: as this table also shows, the UK's current balance of public spending against borrowing is above average, at -7.2 per cent of the UK, compared to -5.3 per cent on average. The UK balance was -2.1 per cent before the crisis – exactly the average. However, there is evidence to suggest that UK spending on bailing out the banks was higher than that of other countries. For example, new data published by the International Monetary Fund shows that the UK has spent by far the largest proportional amount on helping the banks. We have spent 19.8 per cent of GDP, compared with an average of six per cent for Europe and North America.

2.14 It appears, then, that a much larger amount has been spent on saving the banks than on stimulating the real economy, compared to other countries. It was expected that the Government's approach would both kickstart bank lending and prevent financial meltdown. The second objective may have been achieved, but the first has not.

2.15 There are a number of lessons that can be drawn from these figures. What is not in doubt, however, is that the UK's stimulus package has not been excessive. Far from it. The package of measures outlined in this submission is certainly affordable. Rather than further pump priming the financial sector, the TUC argues that it is also much more desirable.

2.16 Some in Government may respond that such a measure is unnecessary as IMF data shows that while the 'discretionary' element of the UK's current stimulus is small relative to equivalent economies, the IMF has also acknowledged that the UK's automatic stabilisers are larger than those same economies.

2.17 The actual size of the automatic stabilisers is a moot point. Size is very difficult to estimate, and attempts to measure them have come to different conclusions; it is, in any case, doubtful how relevant these attempts are to the unprecedented difficulties facing us now. There is, however, consensus among economists that the automatic stabilisers increase with the size of the public sector, the progressivity of the tax system and the generosity of benefits (especially those for unemployed people); none of this suggests that the stabilisers are likely to be more effective in this country than in other large European countries.

2.18 Whatever the assessment, we feel that the type of discretionary measures outlined here are still required over and above any effect of the automatic stabilisers, for four reasons. Firstly, there is a need for a much more clearly targeted set of discretionary measures, than is provided by the automatic stabilisers, to address unemployment which is rising in the UK at twice the rate of the European average. Secondly, we do not believe that automatic stabilisers combined with a relatively small fiscal stimulus is enough to address the increasingly serious problems of demand and consumer confidence which will require a very focused and significant state intervention. Thirdly, it should not be forgotten that the IMF is also predicting that the recession in the UK will last longer than any other major European economy;

for this reason, the UK policy response needs to be more significant than our neighbours' response. And finally, the UK economy was already falling behind our major competitors in creating a vibrant environmental sector, even prior to the recession. This needs to be addressed now through highly proactive state action if the UK is to recover from the crisis in a condition which allows it to compete in the global marketplace.

2.19 For these reasons, the proposed Public Investment Programme would be made up of five elements with funds divided as follows:

- Short-time working subsidy: £1.2 billion
- Intermediate Labour Market Programme: £2 billion
- Tax Credit Stimulus: £3.5 billion
- Rise in Jobseekers Allowance: £1.5 billion
- Green Public Works Programme: £16.8 billion

2.20 We estimate that this package could safeguard or create 1 million jobs to 2014 while laying the vital foundations for the UK to become a highly competitive low carbon economy.

Can we afford a further economic stimulus?

2.21 The voices arguing against any further economic stimulus on the grounds that the public finances are too weak are growing more numerous and louder every day. Leading the charge are the Conservative Party and the CBI. Much attention was given to the comments of the Governor of the Bank of England, Mervyn King, who urged the Government to be "cautious" about the idea of a second stimulus. However, to be fair, King specifically did not rule out targeted and selective measures. Furthermore, the Prime Minister has pointed out that when he signed the G20 communique, Mervyn King accepted the need for action to be taken to restore growth.

2.22 One of the main objections to raising Government debt further through a stimulus is that it will burden future generations with higher taxes. Whatever this argument's political resonance, it can be rejected on economic grounds. Government debt and spending always rises very strongly during a recession as a result of higher social security bills and declining tax revenues. This is a fact of life. Both Margaret Thatcher and John Major presided over significant rises in spending and debt despite their 'small state' Conservative credentials.

2.23 In addition, the notion that holding off on further state action to limit the impact of the recession now will save our children and grandchildren from higher tax bills is not credible. Failure to act will only prolong the recession and raise unemployment further. This will ensure public spending stays high and for longer. It will also hard-wire in expensive extra public services for decades, such as long term unemployment benefit and extra healthcare, policing and education services for those families and communities forced into intractable deprivation.

2.24 How much public money might have been saved over the last thirty years, for example, if the Conservative Party had taken forthright and effective action in the 1980s to deal with the unemployment that arose in that recession and which has created deep problems in a variety of communities across the UK ever since?

2.25 In short, the only thing which will genuinely reduce the potential future tax burden is to create the conditions for a recovery buoyant enough to generate the tax revenues to pay off the debt. We believe only a significant economic stimulus can create those conditions.

2.26 The more serious objection to raising public debt further is that it will sooner or later scare the markets into refusing to lend any more money to the UK state, or raising the cost of what it does lend to much higher levels. In the worst case scenario, if there is a real fear about the solvency of the UK Government, then there could be panic selling of sterling. Any or all of these eventualities would, of course, make the UK economic situation much worse.

2.27 But is this likely? The truth is no-one is sure. The global economic situation (and increasingly the political situation) is so volatile that it is difficult to know exactly how the markets will respond at any one time in the future. However, there are a variety of mainstream voices who do not share this view.

2.28 In their contribution to the Institute for Fiscal Studies Green Budget, a team of Morgan Stanley economists (that included David Miles, who has just been appointed to the Bank of England's Monetary Policy Committee) acknowledged the "ballooning budget deficit" which will require the Government to borrow almost twice what was predicted in the 2008 Budget. However, they argued that demand for gilts (essentially opportunities to lend money to the Government) will remain high, with banks particularly keen to lend. If they are right, then the higher deficit is less risky than might be supposed.

2.29 The highly respected *Financial Times* commentator, Martin Wolf, has also asserted without any equivocation that the notion of a state insolvency for any advanced economy as a result of this crisis is fanciful. As Wolf states, the fiscal cost of the advanced economies' aging populations will be far higher than the cost of this crisis and that has not spooked the markets to date. Wolf also makes a very telling point when he argues that it is very odd to avoid an economic stimulus which could limit the worst excesses of a definite economic crisis now in order to avoid a hypothetical fiscal crisis later. As he puts its "this would be like committing suicide in order to stop worrying about death".

2.30 Wolf's fellow FT commentator, Samuel Brittan, writes that in times of war, far higher debts and deficits have accumulated than anything in prospect now. Tellingly, he asks “Why should it be more alarming for governments to get into debt to put people into useful work satisfying human needs than to borrow for guns and tanks whose only aim is to kill other human beings?”

2.31 A very sober paper from the IMF also asserts that rising public debt is far from being on the "explosive" path which can lead to a collapse in market confidence. The IMF is clear that this does not mean market confidence can be ignored, but that it needs reassuring through the adoption of clear policies to address deficits once economic conditions improve.

2.32 We believe that one key plank of those clear policies must be the raising of taxes on the wealthiest UK citizens to pay for the extra cost of the recession. The TUC has conducted extensive work over the last year on the amount of revenue denied to the Treasury as a result of tax avoidance and evasion, most notably in the Touchstone Pamphlet, *The Missing Billions*. We have outlined there and in further papers a number of measures that could be taken by the Government to generate higher tax revenues, including a minimum tax rate for those earning over £100,000 which we calculate could generate an extra £5 billion for public funds. In this regard, we welcome recent international moves to end the activities of tax havens.

2.33 However, we also believe it is now time for the Chancellor to build on the 45% higher tax rate announced in the Pre-Budget Report. For example, using the IPPR tax-benefits model designed by Landman Economics, we have calculated that a rising higher rate of tax progressing from 50% on earnings over £100,000 to 55% on earnings over £150,000 to 60% on earnings over £250,000 would generate an extra £7.5 billion for the Treasury.

2.34 The TUC is not suggesting that such a measure need be adopted with this detail, but it does illustrate how a very significant amount of revenue can be generated to meet the costs of recession and calm markets through a higher tax on a very small section of the population. Of course, such measures could be introduced on a temporary basis, to be reversed once the economy and the public finances are on a sounder footing, but the TUC does believe, and has stated elsewhere, that the tax system in the UK is neither progressive enough nor appropriate for the creation of a competitive, high productivity, high value economy. This issue must also be addressed in the medium term.

2.35 One might also add that reining in spending now may actually cause a deterioration in market confidence. Given that the biggest negative impact on the UK's public balance sheet has been the fall in tax revenues resulting from the recession itself, action which suggested that the Government had gone cold on fighting the slowdown and may actually be making things worse - by withdrawing public funds from the economy and sacking public servants – could well have a more negative effect on perceptions of UK sovereign solvency than a stimulus.

2.36 The TUC suspects that some in the group of anti-stimulus voices are not actually looking at this issue dispassionately and are led by other concerns. All probably have a visceral dislike of Government debt, which is essentially a hangover from Mrs. Thatcher's commitment to a "household economics" approach to the public finances. But over and above this, many probably simply find the idea of the state leading us out of the recession an anathema. It weakens the well-established claim that business always knows best and it means that the state may end up being involved in many areas of the economy that many see as purely the preserve of commercial organisations.

2.37 The TUC believes that when an economy is in as serious a condition as the UK economy, policy must, of course, be carefully considered, but it needs to be shaped by an informed boldness, not a fearful caution.

Isn't monetary policy enough?

2.38 One common argument against any further fiscal stimulus is that the UK has been bolder on cutting interest rates and then embarking on quantiative easing than any other nation. The TUC remains sceptical, however, about how effective such measures alone will be in a recession that has now extended its grip beyond the credit crisis and now includes a collapse of global demand, a serious decline in consumer confidence and a high risk of deflationary pressures.

2.39 Following much discussion about the pros and cons of so-called 'quantitative easing', the Bank of England embarked upon this policy in March. This is dubbed as the Bank of England printing money, although money will not actually be printed. Instead, the Bank will inject up to £75bn into the economy in the next few months, by purchasing government gilts and commercial assets. The Chancellor, Alistair Darling, has given permission for £150bn, or ten per cent of the economy's annual output, to be created.

2.40 Historically, economists have discussed quantitative easing when there is a danger of the economy entering into deflation and when interest rates have been cut to zero or almost zero, thereby reducing the ability of the Bank of England to use interest rates to influence the amount of money being spent. In practical terms, quantitative easing is recognised as a policy that was pursued by the Bank of Japan as a weapon in the fight against deflation in the early part of this century.

2.41 The theory behind quantitative easing is that, if banks swap their securities for reserves, their balance sheets will shrink. If they want to maintain their current amount of assets, they will start lending to end-borrowers, thereby increasing the liquidity in the economy.

2.42 Quantitative easing takes the economy into uncharted territory and, for that reason alone, it has been viewed as a last resort. Having said that, these are unprecedented times and if this approach could help the economy out of its current difficulties, it is right that we have tried it.

2.43 Economists disagree on how successful quantitative easing has been in Japan. It doesn't seem to have done any serious harm, in the sense that GDP did not shrink and inflation remained low. Yet GDP growth was moderate and was not sustained after quantitative easing ended. In addition, the policy was adopted at a time of large public spending, so it isn't clear how much either policy contributed to Japan's economic recovery. The same would apply in the UK, of course. Quantitative easing, like any other economic policy, would not be practiced in isolation.

2.44 Critics warn of the dangers of inflation, yet the TUC believes any major increase in inflation is both unlikely and is a risk that we have to take. Examples of high inflation after nations "printed" money include France after the French Revolution and the time of the Weimar Republic, yet neither historical example bears close relationship to the state of the UK economy today.

2.45 Writing in *The Independent*, Stephen King highlights the potential problem that there could be an absence of willing borrowers. This is an important point. There has been much focus on the unavailability of credit to firms, yet for others this isn't the problem. The main difficulty faced by larger companies, such as motor manufacturers, is not that they cannot borrow money, it is that they cannot sell their products. The reason is partly that thousands of people have lost their jobs, but the main issue is that, out of a fear of losing their job that may not come to pass, people are not spending money – just in case. King argues, therefore, that "the Bank of England may have turned itself into a lender of last resort for the economy as a whole, but a successful printing press also requires a borrower of last resort, likely to be the government". The TUC agrees with this analysis.

Addressing the credit crisis

2.46 When the economic history of the current recession is written, Friday 10th October 2008 will be a very interesting date to examine. This is the date when the UK's banking industry came close to collapse. In the words of Treasury Minister, Lord Myners, "There were two or three hours when things felt very bad, nervous and fragile … The steadying influence of what we did should not be underestimated."

2.47 £50 billion was committed bailing out the banks last October. A further £450bn was spent either underwriting lending or on short-term loans. The TUC fully supported the bail-out, as a modern economy simply cannot function without a working banking sector. Of course, we recognise the real anger that so many people, most of whom have tried to manage their own finances perfectly responsibly, feel about having their taxes spent in this way, with the prospect of job losses, housing repossession, and future public service cuts as a result of the recession or the need to pay to get through it.

2.48 Action will continue to ensure that we have a workable banking system, designed to support the economy. Such action has the support of the TUC. In future, we wish to see a return to simpler banking, with more straightforward products and proper, but not excessive, salaries for bankers. The public anger described above is, of course, fuelled by stories of the very same bankers whose behaviour has caused this crisis continuing to pay themselves massive salaries and huge bonuses. However, perhaps the best advice is that given by the Prime Minister in his speech at St Paul's Cathedral on 31st March: bankers should live by the standards that they teach their children. They should work hard, do their best, and not take risks that would put themselves or others in danger. Perhaps we could add that they should not expect something for nothing, be it a high return on a short term, risky investment, or a bonus that has not been earned.

Section three

The UK economic outlook

UK economic growth

3.1 If a week is a long time in politics, a year seems like an eternity. At the time of last year's Budget, the Treasury forecast growth to slow from three per cent in 2007 to 1.75-2.25 per cent in 2008, before picking up to 2.25-2.75 per cent in 2009 and 2.5-3.0 per cent in 2010.

3.2 By the time of the Pre Budget Report (PBR 08), the full force of the recession was becoming apparent. PBR 08 forecast economic growth in 2008 of just 0.75 per cent, a figure which disguised negative growth in the second half of the year. In 2009, growth was forecast at -1.25 to -0.75 per cent. Growth was then expected to return positive in 2010, 1.5-2 per cent, before returning to trend at 2.75-3.25 per cent in 2011.

3.3 On 4th February 2009, the National Institute of Economic and Social Research predicted that the economy would shrink by 2.7 per cent this year, a decline that will be slightly tempered to 2.5 per cent by spill-over effects from President Obama's fiscal boost, which was not incorporated into the forecast.

3.4 In January, the average of independent forecasters[1] predicted GDP growth of -2.1 per cent for 2009. However, growth predictions have been revised downwards as the economic situation has worsened over recent months. Those forecasters included Bank of America (-2.9 per cent), BNP Paribas (-3.0 per cent), Deutsche Bank (-2.5 per cent), the Centre for Economics and Business Research (-2.9 per cent), Morgan Stanley (-1.1 per cent) and the OECD (-1.1 per cent).

3.5 The Treasury will certainly downgrade its growth forecast in Budget 09. However, the Institute for Fiscal Studies said, at the unveiling of its Green Budget, that it was relatively optimistic about the UK economic outlook. Its central forecast suggested that the policy stimulus coming from Government meant the UK would avoid a deep and prolonged recession. Collectively, the stimulus could give a boost to demand of around five per cent of GDP. The central economic and political message from this most respected of economic think tanks is this: active policy matters.

Global economic growth

3.6 The drop in GDP in the UK reflects what is happening across the wider world. According to its latest assessment of the world economy, published to

[1] As quoted in "Forecasts for the UK economy", HM Treasury, January 2009

coincide with the meeting of Ministers and Central Bank Governors from the G20 in London on 13-14 March, the International Monetary Fund argued that global economic activity is falling, with advanced economies registering their sharpest declines in the post-war era, notwithstanding forceful policy efforts. Its latest forecast predicted that global activity would decline by around 0.5 to one per cent in 2009 on an annual average basis, before recovering gradually in the course of 2010.

3.7 Breaking this down, the IMF expects real activity to contract by around 2.6 per cent in the United States, 3.2 per cent in the euro area and 5.8 per cent in Japan, in 2009. Emerging and developing economies will also suffer. Activity is expected to expand only weakly in 2009 before recovering gradually in 2010. Some emerging economies will suffer serious setbacks.

Inflation

3.8 Meanwhile, as consumer price index (CPI) inflation rose to 3.2 per cent in February 2009, which is well above its two per cent target, retail price index (RPI) inflation fell to exactly zero per cent, as a result of sharp falls in mortgage interest payments and house depreciation.

3.9 Launching the Bank of England's inflation report in February, the Governor of the Bank, Mervyn King, said the near term path of inflation is uneven, reflecting changes in energy prices and the temporary cut in VAT. But in the medium term, inflation falls well below the two per cent target. Importantly, the central projection of the Bank of England is that inflation will remain positive (in other words, we will avoid deflation) throughout the downturn. We may not miss deflation by much (inflation of around 0.5 per cent is forecast), but for an upward movement in prices to remain is both an economic and psychological victory. This projection sees inflation falling in the first half of 2009, rallying slightly in the second half, before falling again in 2010. Of course, it is a projection. It could underestimate or overestimate how low inflation goes. Yet, for the moment, it remains important.

Unemployment

3.10 Unemployment reached 2.03 million in the three months to January 2009, up 165,000 over the quarter and up 421,000 on a year earlier. The psychologically important two million unemployed has now been breached. Furthermore, for unemployment to rise at the current rate is devastating, both on a personal level and for the UK economy.

Interest rates

3.11 After a very slow descent in the early part of last year, interest rates have fallen sharply in recent months. Incredibly, at the time of the last Budget, they stood at 5.25 per cent. They fell to 5.0 per cent in April 2008, where they remained until October. The TUC repeatedly called for rates to fall further during this time. In October, by which time the scale of the economic crisis was apparent, interest rates fell to 4.5 per cent. In November they fell by a massive one-and-a-half per cent, to three per cent. In December they fell to two per cent, in January to 1.5 per cent, in February to one per cent and in March to 0.5 per cent.

3.12 The TUC believes that interest rates remained too high for too long, but we have fully supported the falls in rates over recent months. Equally important, of course, is for banks to pass those rate cuts on in lower mortgages and lending. Even more important is for banks to lend at all. Freeing up the flow of credit remains one of the most important ingredients in getting us through the downturn.

Manufacturing

3.13 Manufacturing employment has returned to its downward trajectory, after a stage in which job losses stemmed. Workforce jobs in manufacturing fell by 100,000 between September 2007 and September 2008. This is more than double the decline between September 2006 and September 2007, yet it does not include recently announced job losses, such as 3,400 jobs at Hewlett Packard, 1,000 jobs at Bombardier in Northern Ireland, 850 jobs at BMW in Cowley, 220 jobs at Pioneer, 220 jobs at Bentley, 850 jobs at Ford, 300 jobs at Bombardier, 35 jobs at Denby Pottery, 142 jobs at Mahle Engine Systems, 242 jobs at GKN, 450 jobs at Perkins Engines, 2,500 jobs at Corus, 700 jobs at TT Electronics, 370 jobs at International Paper Scotland, 170 jobs at Cambridge University Press and 240 jobs at Pfizer.

3.14 Policy prescriptions discussed below will include measures to stimulate green manufacturing, both to help the UK economy out of short term difficulties, and to build a sustainable economic, social and industrial infrastructure in the medium to longer term. Overall, the UK's low carbon environmental goods and services (LCEGS) industries together employ some 880,000 people. These industries include not just environmental services like pollution control, but renewable energy technologies (e.g. wind and tidal power), and emerging low carbon products such as biofuels. With the right policy framework and Government support, they have the potential to grow at 5% a year, despite the financial crisis, adding almost 400,000 jobs by 2014. Potentially strong manufacturing employment growth in these industries could add 138,000 jobs by 2014 (from 272,000 to 410,000 jobs).

Strategic industrial policy

3.15 The TUC has long championed the cause of strategic industrial policy. In our view, the long-term strength of the economy can only be built on high growth, strategic sectors. This is discussed further in a TUC paper, 'Building a Competitive, Sustainable Economy'. For the purposes of this submission, let us simply say that, if we are to take advantage of the UK's comparative advantage, that there are industries where we are or could become competitive, and others, which are based on low skills, low value and low cost, where will we lose out to developing nations.

3.16 For this reason, the TUC argues for a government focus on the type of high technology sectors whose high value and high skills content allow us to compete. Later in this paper, we discuss green manufacturing and renewable energy, two high value industries of the future. However, much traditional industry could also be made 'greener'. Below, we discuss the motor industry. Motor cars give freedom to travel to millions of people, who will continue to use them. However, there is a need, and a demand, for cars to become greener. The need comes from the fact that motor cars contribute to the pollution of the planet. The demand comes from the fact that the younger generation are the most environmentally aware group of consumers that there has ever been, and that trend will only continue. Companies that continue to produce polluting cars will simply become uncompetitive, as consumers go elsewhere.

3.17 So we can talk about 'green' industries, such as the building of wind turbines, and we can talk about the greening of traditional industries, such as motor manufacturing.

3.18 Motor manufacturing is an interesting example, not least because an assumption sometimes exists that the motor industry will move to lower cost, Eastern European plants. Of course, some of it will, but the best days of motor manufacture in Western Europe are most certainly not over.

Case study: the motor industry

3.19 We begin this section by commending the words of the Business Secretary, Peter Mandelson, in his statement to the House of Lords on 27 January 2009: "The automotive industry – with nearly one million employees, from manufacturing to retailing, and £10 billion worth of added value to our economy – is in the front line of the downturn, with output falling faster and further than any other sector since the summer. We need to counter this to prevent an irreversible loss of capacity, skills and technology. The health of the automotive sector is vital to the strength of manufacturing in Britain and is at the heart of many of our regional economies."[2]

3.20 Referring to Government plans to help the motor industry, Mandelson added: "This industry is not a lame duck and this is no bail-out. The industry has been transformed over the past decade. Productivity has risen, catching up and overtaking that in both France and Sweden. In Britain today, we have some of the world's most productive car plants."[3]

3.21 There is not a word quoted here with which the TUC would disagree. We also endorse Mandelson's quote, "Britain needs an economy with less

[2] House of Lords *Hansard*, 27 January 2009, col. 177
[3] Ibid, col. 178

financial engineering and more real engineering". Peter Mandelson used his statement to offer guarantees to unlock loans of up to £1.3 billion from the European Investment Bank, together with a further £1 billion of lending, or loans, where appropriate, to cover worthwhile investments not eligible for EIB support or which will bring special value to Britain.

3.22 An interesting comparison can be made with Spain, which unveiled a four billion euro aid package for its motor industry on 13th February. Spain argued that its package was second only to that of France in its generosity. The Spanish Ministry of Industry, Tourism and Commerce calculated that the support plan would cost 26,062 euros per affected worker, compared to 16,216 euros in the UK and 2,307 euros in Germany. On this basis, only France has done more, with 33,406 euros per affected worker.

3.23 The Spanish motor industry employs 300,000 people, accounts for six per cent of gross domestic product and a fifth of exports. The TUC particularly supports a clause in the Spanish proposal which denies state aid to companies that cut their workforce without trade union agreement.

3.24 Other countries have also been proactive. The French Government has offered to give up to 6bn euros to the country's motor industry, in return for a promise by companies to keep all domestic plants open. In return for the aid package, automobile companies will also be asked to forswear bonuses for executives and to freeze share dividends.

3.25 The TUC endorses the Society of Motor Manufacturers and Traders call for a scrappage incentive scheme, to boost the UK new vehicle market. The scheme envisaged by the SMMT would allow both cars and light commercial vehicles over nine years old to be scrapped in return for a £2,000 cash incentive towards a new or nearly new vehicle. Similar schemes adopted in Germany, France and Italy have proved successful, significantly boosting the market and reducing CO2 emissions by taking some of the older vehicles off the road. SMMT estimates that up to 250,000 cars and 30,000 LCVs could go through the scheme over an 18-month period.

3.26 When discussing the UK motor industry, we naturally think of companies such as Ford, Vauxhall, MG Rover, Honda, Nissan and Toyota. However, of the 200,000 people directly employed in the car industry in the UK, 75,000 work for component makers. Of those, around 50,000 work in the West Midlands. The Birmingham Chamber of Commerce estimates that as many as 20 per cent of the local car industry's supply chain staff are already either on short time working or have been laid off. That equates to 10,000 people.[4]

[4] "Car Makers Brace for Multiple Pile-up", Sarah Arnott, *The Independent*, 17 September 2009.

3.27 As well as a scrappage incentive scheme, the SMMT wants the Bank of England's Special Liquidity Scheme, which allows banks to convert illiquid assets into cash, to be extended to car makers' finance arms.

How deep is this recession?

3.28 A lot of newspaper coverage has been given to this recession and how it might compare with previous downturns. The comments of the Children's Secretary, Ed Balls – a former Chief Economic Advisor to Gordon Brown when he was Chancellor – that this will be the worst recession for 100 years, sparked much discussion.

3.29 Writing in the *Financial Times*, on 11 February 2009, Chris Giles examines the evidence. Giles quotes Angus Maddison, emeritus professor at the University of Groningen in the Netherlands, who estimates that advanced economy gross domestic product – Western Europe, the United States, Canada and Australia – contracted by 4.9 per cent in 1930, 6.5 per cent in 1931 and 7.2 per cent in 1932, a cumulative 18 per cent loss of output. By contrast, the International Monetary Fund thinks advanced economies will decline by a cumulative two per cent in the current recession, falling by that amount in 2009 alone.

3.30 Regarding UK economic history, according to Brian Mitchell's 'British Historical Statistics', the economy contracted by 5.6 per cent in 1931, after which there was a slow recovery. Output also fell by a similar amount in the early 1980s. Even if it were to fall by a higher amount in this recession, it would be very unlikely to reach the 24 per cent fall after the First World War or the 14.7 per cent drop between 1943 and 1947.

3.31 None of this is to say that we should be complacent or that things are not as bad as some commentators fear. Trade unionists know that this recession is deeply damaging, because our members are feeling the very real pain that comes with job losses and, in some cases, the loss of homes as well. But it is the TUC's firm belief, like that of the Institute for Fiscal Studies, that public policy will make a crucial difference to the fortunes of our economy in the months ahead. It is this to which our attention will shortly turn.

Public services

3.32 As the recession has taken hold, political discussion has focused on the plight of the private sector, which is where the bulk of job losses are expected to fall. Of course, much of any green public works programme will be public sector led. However, it is necessary to give wider consideration to the role of the public sector and its importance at a time of economic slowdown.

3.33 Public services are needed to get us through the recession. For example:

- Local authorities are reporting a rise in demand for debt counselling, housing advice employment guidance, community finance and business support.

- Voluntary organisations are also needed to respond to a greater incidence of mental illness, relationship breakdown, domestic violence and homelessness.
- Public service workers are needed to lay the foundations for recovery and a better future: a skilled and healthy workforce, strong and prosperous communities, working infrastructure and a clean environment.

3.34 Looking forward, another million workers are going to be needed over the next fifteen years to provide quality care to an ageing population.

3.35 Alongside the green public works programme discussed below, the expansion of public services could create employment opportunities and secure the future of our public services. Public sector apprenticeships would have to increase by 40 per cent simply to match the private sector. Providing apprenticeships should, in our view, be a requirement on private firms contracted to provide public services. That would be totally consistent with European procurement law. Furthermore, trade union involvement is essential to ensure that apprentices are properly paid and properly trained.

3.36 Were public sector jobs to be lost, this would deepen the recession by taking demand out of the economy. Research has shown that every pound spent on local public services generates an additional 64 pence of spending in local businesses, helping regeneration.

3.37 Economists from the Work Foundation have argued that “for some cities and regions, public sector employment will pay a very important stabilising role in the downturn. Reductions in public expenditure would have a pro-cyclical effect and will make it more difficult for these cities to weather the economic storm.”[5]

3.38 Economists further argue that paying back the money for the stimulus package will take many years, perhaps decades. For example, the Institute of Fiscal Studies argues that the Government – or its successor – will need fresh tax increases or spending cuts worth an extra £20bn a year by the end of the next Parliament, it is to expect to repair the public finances as planned in November’s Pre Budget Report. Even if it acts, public sector debt may well not return to pre-crisis levels for more than 20 years.

3.39 In reality, it is likely that this money will be clawed back through a mixture of tax increases and spending cuts. The TUC is firmly of the belief that the pain of this downturn must be shared. In particular, with regard to tax increases, it is vital that those who are able to shoulder a little more of the burden are required to do so.

3.40 Debates around future spending cuts will take place at a later date, but the consequences of swingeing cuts to public services are clear. Moreover, such

[5] *Hard Labour: Jobs, Unemployment and the Recession*, The Work Foundation, November 2008

cuts disproportionately affect the poorest in our society, who rely on public services the most.

Section four

A public investment programme

4.1 As outlined in the introduction, the TUC is calling for a Public Investment Programme worth £25 billion to 2010/11 to fund the following initiatives:

- Short-time working subsidy: £1.2 billion
- Intermediate Labour Market Programme: £2 billion
- Tax Credit Stimulus: £3.5 billion
- Rise in Jobseekers Allowance: £1.5 billion
- Green Public Works Programme: £16.8 billion

4.2 Despite the origins of the slowdown, it is clear that we are now in the grip of a crisis of demand as much as a crisis of credit. Large manufacturers who are not struggling to obtain credit are seeing demand for their products rapidly depleted as consumers feel the effects of the recession – or cut back on spending in anticipation of potential effects. At the same time, major projects to develop our national infrastructure and put the UK in a position to be competitive in a future low carbon economy are in danger of stalling as private finance dries up.

4.3 There is therefore an urgent need for the state to step in as investor and consumer in order to stimulate demand in the short and medium term. As William Keegan put it in January: "The most important thing about the UK, US, and indeed world economies at the moment is that they are suffering from a deficiency of what economists refer to as "aggregate demand" - total spending on goods and services, by the private and public sectors. This is seriously deficient, and still heading in the wrong direction……. for all the worries about the size of budget deficits, when the private sector is having withdrawal symptoms and the financial system is experiencing a nervous breakdown, only government spending can fill the gap"[6]

4.4 This paper will now provide more detail on each element of the programme.

Green public works

4.5 The TUC believes that the centrepiece of the economic recovery package must be a major programme of public works. Only such a programme can

[6] "When There's no Cashflow, Mr Cameron, Saving Won't Save Us", William Keegan, *The Observer*, 11 January 2009

address the triple challenge of declining demand, rising unemployment and looming climate change. The projects implemented as part of this programme must be labour intensive (to ensure they maximise impact on unemployment) and they must focus on turning the UK into one of the most advanced and industrially diverse low carbon economies in the world. The programme must also address the severe shortage of decent public housing in the UK by undertaking an ambitious house building drive.

4.6 These measures will help to stimulate demand by putting money in workers' pockets and providing work for unemployed people, and ensure that when the UK comes out of the recession it will be well placed to compete on a more sustainable footing in the global market.

4.7 The economic rationale for supporting such an approach is clear. Investing in infrastructure is likely to be significantly more effective in generating short term growth than alternative approaches to fiscal stimulus: IMF data indicates that the economic multiplier effect of spending on infrastructure is three times that of spending on tax cuts.[7]

4.8 We support the call by environmental NGOs including the WWF and environmental organisation E3G for a significant proportion of the stimulus to focus on low carbon investment and, crucially, that the remainder should not be spent on environmentally counterproductive measures.

4.9 Investment in low carbon technologies and energy efficiency measures will help to protect the economy against future rises in oil prices. Work by E3G suggests that the net costs of investing in this type of programme become cheaper as oil prices rise; indeed, the net costs would be zero when prices reach $90-$120 per barrel.[8] Given that the International Energy Agency estimates average oil prices of $100 per barrel from 2010, the global economic benefits of investment in energy and climate security are clear.

4.10 The careful design and strategic planning of such a programme will be vital to ensure its efficacy. In particular, it must be based on five core principles:

- Projects must be diverse and sequenced to ensure that the employment benefits can be felt as early as possible, but continue to have an impact throughout the recession and into the recovery. Major engineering projects, such as upgrading the rail system, will take time to get underway, so quicker projects, such as a programme of improved energy efficiency in residential and commercial properties, must also be included.
- Where possible projects must be co-ordinated by local and regional authorities in close co-operation with employment and training services – this will ensure the best match between local need, the labour market and

[7] IMF, 2009, staff note to Group of 20 Deputies meeting January 31–February 1 2009
[8] Nick Mabey, March 2009, D*elivering a Sustainable Low-Carbon Recovery – proposals for the G20 London Summit,* E3G.

skills.

- Contractors involved in public works schemes must be contractually obliged to co-operate fully with employment and training services to ensure their activity is having the optimal impact on unemployment.
- The jobs provided by the public works scheme must be decent, well-paid and with full access to union organisation.
- The projects must contribute to the development of a low-carbon and resource efficient economy, which will support the UK's recovery, resilience and future competitiveness in an environmentally sustainable way.

4.11 The TUC believes that a number of areas provide fertile ground for a programme of public works, including green manufacturing and renewable energy; home insulation, retrofitting and housebuilding; developing our rail infrastructure and stepping up progress towards low carbon vehicles; and developing the UK's communications infrastructure. To support this, local and regional delivery and transparent national planning and co-ordination will be essential.

4.12 The TUC recognises, of course, that the demands of each of these sectors cannot be met equally and fully in one public works programme worth £16.8 billion, but we believe that with careful planning and fully monitored implementation, the groundwork can be laid for the economy of the future while generating a significant number of jobs at a time of great pressure on the labour market.

Green manufacturing and renewable energy

4.13 Much of the debate around a potential fiscal stimulus has rightly focussed on the idea of 'green jobs' – developing green manufacturing and renewable energy to deliver the changes needed to reduce the UK's emissions and move towards a low carbon economy, more resilient to future changes such as increases in oil prices.

4.14 This was demonstrated by the cross-government Low Carbon Economy Summit held in London on 6 March 2009, where the Prime Minister, accompanied by the Business and Environment Secretaries, spoke to business and trade union leaders, saying that the UK could not hope to have the strength of recovery needed without it being a low carbon recovery and pledging to work for a global green new deal.[9]

4.15 At the Summit, the Government estimated that the UK's low carbon environmental goods and services (LCEGS) together employ some 880,000 people, with a combined market value of £106.5 billion in 2007/08. The Government's definition of environmental industries includes three sub-sectors:

[9] Gordon Brown, speaking to Low Carbon Economy Summit, 6 March 2009 http://www.number10.gov.uk/Page18530

traditional environmental industries such as pollution control; renewable energy technologies (notably wind); and emerging low carbon industries such as biofuels and carbon capture and storage. Of the 55,000 companies involved, one-third (17,300) are involved in manufacturing. The sector is expected to grow at 5% a year, despite the financial crisis, with the potential to add 393,000 jobs by 2014. Of these, manufacturing employment could increase by 138,000, from 272,000 to 410,000. This sector is far larger than described in the UK's 2008 manufacturing strategy, which narrowly covered jobs environmental goods and services.

4.16 Nevertheless, in the development of green technologies, the UK lags well behind European neighbours such as Denmark, Germany, the Netherlands or Spain. Germany has managed to generate 250,000 jobs in its renewable energy sector alone, while the UK employs around 16,000. The environmental services/low carbon technology economy as a whole employs 1.5 million in Germany.

4.17 Developing the renewable energy sector will be a central pillar of a green public works strategy for the UK over the medium term. The UK now has a clear deployment target for renewables – to generate 15% of the UK's *total energy supply* from renewable sources by 2020. This implies 30% of all electricity generation from renewables by that date[10], compared with around 4% today.

4.18 To meet our renewables targets, jobs in the sector as a whole will need to grow from the current 16,000 to 133,000 to manufacture, construct and operate the new technology[11]. In the period to 2020, on- and offshore wind farms are likely to generate over 80% of the 38.5 GW (gigawatts) of installed renewable electricity capacity. Up to 36,000 direct new UK jobs could be created in the wind energy sector. (See *Employment Opportunities and Challenges in the Context of Rapid Industry Growth*, Bain and Company, 2008). Micro-generation will contribute a smaller proportion of total energy, although this emerging sector, comprising small scale wind and solar devices for domestic, small business and community users, has the potential to create a large and sustainable industry in the manufacture, installation and servicing of smaller scale renewable technologies.

The wind industry

4.19 The wind industry is now established as one of the highest-growth industries in Europe – expanding at an average rate of 12% over the last 5 years. By 2007, the cumulative installed capacity was 57 GW (gigawatts), with

[10] *Building a Low-Carbon Economy*, page 193. Assumes the UK's burden share of the EU's 20% target is 15% of energy from renewables by 2020.
[11] *Supply Chain Constraints on the Deployment of Renewable Electricity Technologies* Douglas Westwood, 2008.

significant job creation –145,000 people were employed in the European Union (EU) wind energy sector at the end of 2007.

4.20 Germany, Spain and Denmark have secured the majority of the benefits from that growth and now account for more than 70% of the EU's installed capacity. Moreover, due to significant exporting from Germany and Denmark, these three countries account for more than 90% of the EU's wind-sector employees.

EU Member State	Installed wind capacity, end 2007	Wind employment, end 2007
Germany	22.3GW	80,000
Denmark	3.1GW	21,600
Spain	14.7	31,500
UK	2.2	5,000

4.21 Bain's analysis points to four factors that were common to these countries and critical to the rapid growth of their wind industries:

- support schemes to reduce commercial uncertainty (e.g. feed-in tariff)
- rapid building of new infrastructure (e.g. the grid) to accommodate the wind industry
- a swift process for gaining planning consent
- support for wind energy in local communities – with opportunities for participation in ownership of wind farms or through tax revenues paid to local authorities for tangible benefits to the community
- the offshore market is still emerging, and the UK is strongly positioned to capture a significant share of installations due to its excellent offshore wind conditions. (See Bain and Company, 2008).

4.22 The Government needs to pull together a coherent strategy on how the UK can be a global leader in the nuclear supply chain, as well as renewables, where we have the capability of being a global leader at the original equipment manufacture (OEM) level.

4.23 The nuclear new build programme is likely to involve at least four new power stations in the UK generating low-carbon electricity by around 2018-2020. We need to ensure UK manufacturing and service companies will be suppliers of choice to the major nuclear OEMs, by supplying major key components, to smaller sub-components, parts, maintenance, servicing and decommissioning.

4.24 We also need to ensure our service industries, including consultancy, law, finance and project management, are engaged and playing a full part in the global nuclear/low carbon economy.

4.25 In order to do this the strategy should:

- have an understanding of what the opportunity is for UK companies in the services and products that they can supply and to whom in the supply chain
- understand what strategic alliances need to be made to expand and capture new markets
- understand how much value could be derived from this opportunity, as well as anticipating possible barriers to entry
- identify how much money and knowledge is necessary to make the necessary investments, in such a way as achieves the required quality and standard marks
- gain the trust and respect of the nuclear and renewables OEMs, their trade unions, and gain access to their supplier lists to bid for work
- ensure the development of an effective nuclear skills and workforce development strategy.

4.26 Government support could be provided in helping companies understand and meet the relevant nuclear standards required to be part of the supply chain and in some specific strategic investment, particularly in the development of heavy forgings and advanced technical manufacturing. If such encouragement were made in this area it would draw in support from some other big potential UK market entrants.

4.27 The successful development of carbon capture and storage technology offers huge new employment opportunities. In Yorkshire, the Regional Development Agency is drawing up plans with National Grid for a pipeline around the Humber estuary, to capture, transport and store CO_2 emissions from Britain's largest coal and gas-fired power stations, steel works and other sources. The aim is to capture CO_2 emissions, liquefy the gases under pressure, for transport by pipeline and storage in geological formations beneath the North Sea. The £2 billion project will create 55,000 jobs in the construction phase, and 2,400 jobs for the long term in management, maintenance and other activities. National Grid has stated its intention to be ready to operate its first carbon pipeline system within three years. We look to Government to develop a framework of support that enables projects like that of Yorkshire Forward to pursue a cluster approach to CCS.

4.28 Our coal and gas-fired power stations together emit 37% of the UK's CO_2, and are a key target for the low carbon economy. The UK will have to replace at least one-third of its ageing fleet of power stations by around 2015, so CCS technology is an essential component in decarbonising our energy supply system. Resolving the public funding of expensive new CCS technology lies at the heart of the decision over the approval of the new 1.8GW coal station at Kingsnorth, north Kent. The plant itself involves £2.5 billion of private investment, would create 1,000 high quality UK manufacturing, engineering and construction jobs, peaking at 2,500, and a permanent staff of several hundred workers. Estimates suggest that public funding for CCS at this site would add 25% to the cost of the plant, say £600 million, creating several hundred more jobs.

4.29 Budget 2009 therefore presents an opportunity to stimulate investment and employment in renewable energy projects:

- setting a long-term feed-in tariff for micro-generation, as an incentive for consumers, sending the market signal essential to stimulate mass markets in micro-wind and solar installations – the British microgeneration industry is indeed micro - perhaps under 1,000 employees in 2006, according to the Energy Saving Trust[12]
- immediate financial support for large scale renewables - such as the London Array, known to be facing difficulties completing a £3bn funding package
- further support could come from loan guarantees, reforms to the Renewables Obligation, or for the Government to bear the cost of grid extensions to offshore wind farms. One option is boosting the number of ROCs (Renewables Obligation Certificates) available to developers per megawatt of offshore power installed, from 1.5 to 2 ROCSs/MW, to reflect the challenging capital costs of deepwater windfarms
- decisive public sector support for at least one fully-funded carbon capture project in 2009, at a cost of up to £1 billion, would then trigger £2.5 billion of private investment over four years for the construction of Kingsnorth power station and its CCS technology.

A green rail stimulus package

4.30 A second major area for investment as part of a green public works programme will be public transport, including intercity and local light rail. Whilst developments in this area tend to have a longer lead time than some other public works projects, they are a central element in providing a sustainable long term investment in low carbon transport and the skills that underpin it.

4.31 The Government has committed to a long-term goal of doubling the level of demand rail can accommodate[13], acknowledging that rail's potential to provide a safer and lower-CO2 alternative to car and lorry is much greater than seemed possible even ten years ago.

4.32 Yet contrary to this policy, up to 700 of Network Rail's track and signal maintenance jobs are at risk, with NR implementing "huge reductions" in track renewals. NR acknowledges that these cuts will have a "major impact" on supply chain companies, from steel to quarrying. The underlying reason is NR's need to address the 13% "efficiency savings" over the period 2009-2014 called for by Office of Rail Regulation (ORR) in 2008. But the

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[12] "Potential for Microgeneration: Study and Analysis", EST, November 2005, p.26.
[13] *Towards a Sustainable Transport System: Supporting Economic Growth in a Low Carbon World*, DfT, October 2007

immediate reason lies in NR's business plan and management response, which is frontloading staff cuts – at a time of recession.

4.33 At a time of severe economic downturn, the Government must ensure that Network Rail does not defer renewal programmes, but rather, increases them. If necessary, in Budget 2009, Government should find replacement funding for the ORR settlement, to help secure direct and supply chain employment in the rail sector.

4.34 The TUC welcomed the announcement in PBR 2008[14] of a green fiscal stimulus package of £535 million "to support low carbon growth and jobs", accelerating capital spending on rail transport, energy efficiency, and adaptation measures. £300m was set aside for 200 train carriages, to be made at Bombardier, Derby. However, on detailed examination, none of the rest of this package will create rail industry jobs before 2012. The £54m of new money for rail freight works in North London will not start until after the Olympics, late in 2012.[15]

4.35 There are abundant opportunities for the rail industry to emerge as a powerhouse for promoting "green jobs", in mainline rail, light rail and tram projects. For example, Merseytram line 1, which has all necessary powers and contractors in place, would create 1,000 construction jobs on Merseyside and 300 permanent local jobs in operations and control centre functions. The £350m project would also provide employment for train manufacturer Bombardier in Derby, where the trams would be made. Government funding is required.

4.36 The TUC would support bringing forward other local rail projects, such as station upgrades and local capacity improvements for passenger and freight traffic. Some of these are already in Network Rail's programme but could be accelerated; others not currently in the NR programme could be easily progressed and have good local transport and employment benefits. We would urge the Government to ensure that Budget 2009 includes a coherent green rail stimulus package for immediate low carbon employment growth.

4.37 For the longer term, the TUC welcomes the Government's decision to set up High Speed Rail 2[16], a company dedicated to the development of major new rail links, both North-South, and to connecting to a new Heathrow International interchange station on the Great Western main line. HSR 2 notes the environmental benefits of the project, which would "expand a transport mode that is generally more energy-efficient than short haul air and long distance road journeys". Given that this project is at least as ambitious as Crossrail, it is essential that the Government follows the Crossrail model, by

[14] PBR 2008, section 7
[15] DfT statement, 28 November 2008
[16] *Britain's Transport Infrastructure High Speed Two*, DfT, 2009

announcing steps to ensure that likely transport corridors will be protected for the long term.

Low-carbon vehicles

4.38 Motor manufacture makes a vital contribution to the UK economy. The UK has world-leading car factories and many of its best designers. Inevitably, as noted above, our starting point in this Budget Submission is to encourage the Government to maximise its support for the motor industry, building on the £2.3 billion rescue package announced in January 2009.

4.39 But as well providing immediate support, Budget 2009 should grasp the green public works potential offered by low carbon vehicle development, by consolidating the various support packages announced in recent months into a single strategic initiative to fast-track low carbon vehicle manufacture in the UK.

4.40 The January 2009 rescue package included £1 billion for research and development for green car production. Together with the £250m set aside for low carbon vehicle innovation (part of the Heathrow announcement) and the £100 million package of green car initiatives announced in autumn 2008, the Government has allocated around 1.4 billion for low carbon vehicle development.

4.41 None of the green cars on UK roads are made here. The Toyota Prius is imported from Japan, while the UK's top-selling electric vehicle, having sold nearly 1,000 cars, is the Bangalore-built G-Wiz.

4.42 The TUC believes that two key steps are needed in Budget 2009 to help the motor industry make the vital steps changes needed towards developing mass markets and high volume manufacture of low carbon vehicles:

- There must be further reforms to Vehicle Excise Duty (VED), encouraging consumers to switch to cleaner cars and fleet renewal. The Government has already announced reforms to VED with the introduction of a new banding system, incentivising the purchase of lower-emission vehicles, with no driver paying more than £5 extra in 2009. However, the TUC believes that the Government should improve the incentive to shift to lover emission vehicles by reducing the VED payable on cars emitting less than the proposed EU target of 120 gm per kilometre.
- There must be consolidation and acceleration of recent government and European Investment Bank support for greening the motor industry, expanding on the current £2.3 billion package, to promote radically higher fuel efficiency in the current petrol/diesel engine technology; and further boost for electric vehicle/hybrid vehicle R&D.

4.43 A recent Government study showed that there could be some 1.3 million electric vehicles (EVs) on the roads by 2020 with a high level of Government commitment.

4.44 Demand stimulation through public procurement is key: the Government should set up a far more ambitious version of its Low Carbon Vehicles Partnership, with its modest target of buying 200 vehicles in 2009-2010. Instead, we seek a concerted Government agency procurement programme for a vehicle performing in the region of 50 to 60mpg.

4.45 The proposed funding package would therefore support two key technology developments in road transport:

- Developing advanced petrol engines with our plants making vehicles that do 60 to 70 miles per gallon (mpg). A recent example is Ford's announcement of an £70m investment in its EcoBoost engine, which is likely to help secure 2,000 jobs at Bridgend plant. A full hybrid petrol engine will have around 50g/km fewer emissions.
- Electric vehicles – including battery-powered electric vehicles (EVs), plug-in hybrid electric vehicles (PHEVs) and, in the longer term, hydrogen-powered vehicles. The main issue holding back electric cars is battery capacity, weight and cost. A major role for plug-in electric cars in the new car market is highly feasible by 2020, or sooner with sufficient investment. These technologies are applicable to the electric car market.

Home insulation and fuel poverty

4.46 One of the fastest and most cost-efficient ways to combine economic stimulus with green initiatives is a major programme of home insulation. As Sir Nicholas Stern and colleagues make clear in their latest publication[17], energy efficiency measures for buildings and industry are among the most effective ways to combine environmental outcomes with a fast economic stimulus. The report rates these measures highly given that they are quick to implement, time-limited and offer long-term social and environmental impacts and immediate job creation opportunities.

4.47 Estimates in *Building A Low-Carbon Economy*[18] reveal that millions of homes require "weatherisation" treatment through measures such as improved insulation (loft and cavity wall) and improved boiler efficiency. Significant annual CO2 savings are achievable. Furthermore, major employment and skills opportunities are at stake in meeting this challenge.

4.48 However, the Carbon Emission Reduction Target must be reformed to allow a council-led area based national insulation programme, providing basic insulation to the 10 million homes that do not have these measures installed.

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[17] Bowen, Fankhauser, Stern and Zenghelis; February 2009. *An Outline of the Case for a 'Green' Stimulus,* Grantham Research Institute on Climate Change and the Environment / Centre for Climate Change Economics and Policy.
[18] Published on 1 December 2008, this was the first report of the Committee on Climate Change, established by the Climate Change Act 2008. http://www.theccc.org.uk/reports/

The cost of the programme is estimated at £5bn – rolling it out at £500m a year would create an additional 20,000 jobs.[19]

4.49 Furthermore, seven million homes require solid wall insulation. A modest national energy loan fund reaching £1bn over seven years, providing for interest free loans to householders, repayable when the home is sold, would enable 300,000 householders to install solid wall insulation. This would create another 5,000 jobs a year.

4.50 An area based approach will deliver scale economies driving down costs to provide a much needed boost to semi-skilled employment, alleviate fuel poverty and reduce household energy bills. Kirklees Council's Warm Zone, a partnership with Eaga, has created 80 full-time jobs and saved approximately £1m a year on household energy bills. The overall economic benefit to the area is calculated at over £50m.

Retrofitting housing to adapt to climate change

4.51 Opportunities also exist in responding to the need for investment in retrofitting existing housing stock to make it more resilient to the impacts of climate change. We now know that emissions from previous decades have led to a certain amount of irreversible climate change. Whilst this makes efforts to reduce future emissions all the more urgent, at the same time it means that we must adapt to hotter, drier summers; milder, wetter winters; and more extreme events such as storms and floods in the UK.

4.52 Insulation programmes as set out above have a double benefit, helping to keep homes warm in the winter and reduce energy use on heating, but also helping to regulate temperatures throughout the year, keeping homes cool in the summer months and reducing the need for energy intensive and expensive air conditioning.

4.53 But adaptation brings other challenges, particularly dealing with the risks of subsidence or of flooding, and much of the UK housing stock is not well-adapted, as the devastating consequences of the 2007 floods demonstrated.

4.54 The Government has announced a new £5m grant scheme to encourage householders to install flood resistance and resilience measures, in response to the Pitt Review of the 2007 floods. A first round of bids from local authorities is being sought in 2009. Given the urgency of the problem and the short timescales involved, this is an opportunity to provide jobs to workers in construction and maintenance, and for these workers to enhance their skills and future employment prospects by working on adaptation projects which will be useful in future.

[19] *Creating Green Jobs, Developing Local Low Carbon Economies*, LGA, 2009.

House building

4.55 The recession has had a number of damaging consequences for housing. The number of mortgages approved halved in 2008. After a decade of house prices spiralling upwards we are now seeing a sharp fall, with the Land Registry recording a 15 per cent fall in prices in the year to January 2009. This has stalled house building efforts and has led to a dramatic increase in repossessions. As a result, the housing crisis that the Government set out to address though its vision of three million more homes by 2020 is currently worsening.

4.56 The Government must ensure that banks start lending for mortgages again as soon as possible, but the housing market is likely to be slow to recover at best. There is therefore a strong question about how much housing the private sector can deliver during the period covered by the Budget.

4.57 A public works programme should therefore include a major programme of housebuilding to address the dire shortage of decent affordable housing in the UK, to ensure that we have a stock of good quality and environmentally sustainable housing for the future, and to protect and provide jobs in construction and associated industries.

4.58 The collapse in mortgage lending as a result of the credit crunch has led to a severe drop in private housing supply and poses serious challenges for the stability and capacity of the house building industry. Figures released by the Department for Communities and Local Government in February show that new house building in the last quarter of 2008 was down 27 per cent on the previous quarter and 58 per cent on the same point in 2007. New housing output has failed to keep pace with demand for years, and if there is a period of decline in building, this gap in provision will be widened, with impacts on families, workers in the construction industry, and the wider economy.

4.59 Figures from the Council of Mortgage Lenders show that repossessions reached a 12 year high in 2008, with a 55 per cent rise from the 2007 figures. The high number of borrowers in arrears suggests that repossessions are likely to rise again in 2009, although Government initiatives to support borrowers have had some impact, meaning that repossession levels were so far not as high as forecast. Every unnecessary repossession is both a human tragedy and a drain on the economy, which the Government should strive to minimise.

4.60 The UK continues to suffer a severe shortage of social housing, with 1.77 million households on local authority waiting lists in April 2008. The recession is already exacerbating the situation, particularly as housing associations are now struggling to raise private finance for new supply.

4.61 There have already been some signals that the Government intends to address this crisis, with £550 million in spending on social housing is to be brought forward from 2010-11.

4.62 In addition, the Department for Communities and Local Government is currently consulting on measures that would adjust the financing mechanisms for the building and rent incomes from social housing, making it more attractive for local councils to build new stock. Gordon Brown backed the proposals in a speech to a local government audience in January, saying: "if local authorities can convince us that they can deliver quickly and cost effectively more of the housing that Britain needs, and if local authorities can build social housing in sustainable communities that meets the aspirations of the British people for the 21st century, then we will be prepared to give you our full backing and put aside any of the barriers that stand in the way of this happening"[20]

4.63 However, the TUC believes that more radical and faster action is needed in order to deal with the crisis, as jobs are being lost and people made homeless now. The 2020 Group, which counts the TUC, National Housing Federation, Local Government Association and Shelter among its supporters, is calling for a programme of additional investment in new social housing and supporting infrastructure in England over the next two years. The group is calling for an additional £6 billion for local authorities and registered social landlords to build 100,000 new social homes over the next two years, including a £750 million infrastructure fund to pump-prime new developments that would not otherwise be started in the short term. This programme of investment would offset the reduction in the number of new market homes through the period of the downturn and bring about significant benefits including:

- Saving 30,000 jobs in the house building industry. Housebuilding activity indirectly supports employment across a range of other industries, including building materials, furniture and white goods. House building also provides a temporary stimulus to the local economy through the spending of construction workers, particularly if decent labour standards are upheld. If no action is taken to stimulate housing then a similar number of jobs could be lost across these other industries.[21]
- Preserving construction jobs and apprenticeships will help to prevent a loss of key skills that could take years to replace, and a shift towards a greater proportion of council, social and affordable housing units further provides an opportunity for the public sector to take the lead in driving innovation within the house building sector.
- Additional social housing will increase labour mobility, which is an important support for economic recovery. Making new council and social housing available can enable households to move to take up new jobs.

[20] Speech to New Local Government Network conference, 29 January 2009
[21] There are a range of estimates available for construction multiplier effects. The TUC's view is that the multiplier is very unlikely to be smaller than 1.8.

4.64 These new homes must be built to high environmental standards. The TUC supports this programme because it is well targeted on the most acute housing needs, and is most likely to deliver new homes and to deliver a fiscal stimulus within the next financial year.

Communications infrastructure

4.65 Another major area for a programme of public works is the development of our communications infrastructure. The UK's communications sector accounts for around 8 per cent of GDP: one of the three largest sectors in our economy and one of the fastest growing. In order to ensure our communications networks can meet the demands of a modern knowledge-based economy, it is essential that investment is put into developing a high speed, modern communications infrastructure. Such a programme of investment would help to increase the UK's future competitiveness, develop the skills of workers in the sector, provide a range of skilled and manual job opportunities and offer businesses ways to tackle their carbon footprint through technologies for remote working, teleconferencing and so on.

4.66 In order to make progress on these developments during the economic slowdown, an active industrialism approach will be necessary, including Government intervention around regulation, procurement and funding mechanisms such as potential tax incentives. Direct public investment will be needed in those areas where the market has failed to deliver, such as in rolling out broadband to remote and rural areas in order to ensure equality of access.

4.67 A co-ordinated and urgent effort from the industry, regulator and Government in consultation with stakeholders including trade unions, skills providers and employers will be key to ensuring the success of the proposals, and to bringing real economic and employment benefits. Jobs can be safeguarded through programmes to support engineers and other communications workers to develop the skills to deliver next generation broadband access, and created through bringing forward installation programmes.

4.68 Improving the UK's digital infrastructure provides opportunities for innovation in sectors such as online public service delivery (NHS Direct, for instance) and also has the potential to have a positive impact on the environment and on working practices, making it easier for people to work from home, teleconference, and balance work and home life.

Digital Britain

Launched in January 2009, the interim Digital Britain report (jointly published by BERR and the Department for Culture, Media and Sport) into the UK's digital economy sets out a series of recommendations on the developments needed to support digital communications, including infrastructure, improved access to digital networks and high-quality content. The report demonstrates the centrality of the communications sector to the UK economy, estimating that by 2012, £1 in every £5 of all new commerce in the UK will be online.

Digital Britain sets out an action plan including proposals to:

- upgrade and modernise wired, wireless and broadcast infrastructure;
- secure a dynamic investment climate for UK digital content and services;
- provide a range of high quality UK made public service content;
- ensure fairness and access, with universal availability and promotion of skills and media literacy; and
- develop the infrastructure, skills and take-up to enable widespread online delivery of public services.

Local delivery and implementation

4.69 The most effective way to deliver this programme of public works will be by setting a clear national strategy, with co-ordination of delivery devolved to the appropriate regional or local level. The local structures set up to manage the process should be led by local and regional authorities in close partnership with employers, trade unions, Jobcentre Plus, training and skills services and other key stakeholders. It is only through this approach that we can ensure the best possible match between local needs, the labour market and skills, and ensure that unemployed people have access to the new jobs created.

4.70 The Local Democracy, Economic Development and Construction Bill presents an opportunity to get the infrastructure for delivery right, including as it does proposals for the co-ordination of regional economic and spatial strategies, the creation of Economic Prosperity Boards, a statutory duty for local authorities to assess economic conditions and measures to encourage local authorities to collaborate at the sub-regional level.

4.71 But there is also a risk of a missed opportunity if stakeholders are cut out by the replacement of Regional Assemblies with new Leaders' Forums consisting only of local authority leaders. The TUC believes that stakeholders should be included in the development and scrutiny of regional strategies. The new legislation should therefore require RDAs and local authorities to agree with existing stakeholder groups the arrangements for the engagement of stakeholders in regional development and regeneration, particularly in the context of delivering public works.

4.72 The importance of partnership between stakeholders at a regional level was demonstrated by the South East of England Development Agency's decision to establish a Social Dialogue Forum bringing together the RDA, employers and unions. The Social Dialogue Forum has promoted good practice in areas such as tackling gender segregation, creating a healthy workplace and innovative workforce pooling initiatives. The TUC would like to see similar regional mechanisms set up to oversee the delivery of public works projects.

4.73 Contractors involved in delivering public works must be obliged to work with reference to this framework and in partnership with employment and training services to ensure that their delivery of the contracts are having the optimal impact on unemployment. They should also be obliged to apply equality standards in all of their work

4.74 European procurement rules allow us to let public sector contracts in such a way that helps us to address both the need for more skills training and the need to tackle unemployment. The TUC believes that no contract should be let, as part of the public works programme, to any company that does not commit to high quality training for its employees. Consideration should also be given to whether a local project has the capacity to take some long-term unemployed people into work. Such provisions should be used carefully, on a case-by-case basis. Nevertheless, whilst public works are worthwhile in themselves in the current economic climate, they offer a double benefit if they can be used to provide quality employment and skills, especially for those who find it difficult to access the labour market in normal circumstances.

Transparency, accountability and strategic co-ordination

4.75 In order to secure and maintain public support for the fiscal stimulus and public works programme, clear communication will be essential. There is rightly a public appetite for knowledge about how money is being spent, how it will benefit the economy and where jobs are being created. The Obama administration has set up a site (recovery.gov) which lists how and where the US recovery package is being spent, with regular reporting and updates. The UK government could replicate this at very little cost, but potentially great benefit in terms of public confidence.

Preventing unemployment

4.76 Unemployment has been rising sharply since last summer, with just under two million people unemployed during October – December 2008 and a national working age unemployment rate of 6.5 per cent. Not only will rising unemployment cause enormous hardship to individuals and their families but it

A public investment programme

4.77 The TUC believes that there are urgent steps the Government can and must now take to limit increases in unemployment. The key proposals which form part of the Public Investment Programme are the establishment of a short-time working subsidy, raising Job-Seekers Allowance and establishing intermediate labour markets. However, we also make reference to a number of other changes to improve the labour market situation. The full range of proposals include:

- making wage and training subsidies available to companies moving workers to short-time hours or making temporary lay-offs
- removing barriers to training and increasing access to a wider range of immediate training options both for those facing redundancy and for those who have recently become unemployed
- enabling Jobcentre Plus to provide more intensive and personalised support for the newly unemployed, and ensuring that the Rapid Response Service is able to support all workers in need
- increasing redundancy pay and Jobseekers Allowance (JSA) rates and ensuring that workers being made redundant are treated fairly
- revising insolvency arrangements to ensure that those who are facing redundancy when a company goes out of business do not lose out
- ensuring employers, receivers and administrators consult early and genuinely with trade unions or workplace representatives with a view to avoiding the need for redundancies
- protecting the delivery of high quality public services and ensuring fair pay for public servants.

4.78 These measures will both protect existing jobs and improve the chances of unemployed people moving back into work as quickly as possible. And for every job saved or vacancy filled there will be a multipler effect for the wider economy with more jobs being retained or created.

Support for employers moving staff to short-time hours or making temporary lay offs

4.79 We believe that Government needs to provide more support to viable firms struggling with short-term economic difficulties during the recession. While we welcome recently announced measures to support those facing unemployment of over six months, we believe that further action is necessary to prevent jobs from being unnecessarily lost in the first place.

4.80 Across Europe, Governments have made subsidy packages available to employers moving workers to short-time hours or making temporary lay-offs. Schemes are in operation in Germany, France, Spain, the Netherlands and Italy. Wales has also recently launched an innovative subsidy scheme (ProAct) which has already received praise from the Prime Minister. Furthermore, during the economic difficulties of the late 1970s, a national temporary employment subsidy (TES) was available to support employers. Where at least ten redundancies were threatened, the TES programme offered a subsidy of £20 a week for up to 12 months for each job saved.

4.81 We are therefore advocating a subsidy package for private sector employers who make short-term reductions in staff hours or temporary lay-offs as a means to save costs and give their businesses a better chance of survival, whilst simultaneously protecting employees' rights to redundancy pay and entitlements. But such a scheme should not be available indefinitely. In common with the examples above, we believe that support should be time limited, targeted at firms both in need and with strong long-term prospects and only available to subsidise a proportion of workers' previous wages.

4.82 Such support would enable employers to avoid immediate redundancies and retain essential staff and skills - making business success more likely in both the short- and long-terms. It would also reduce the personal and social costs incurred by long-term unemployment (evidence from previous recessions suggests that 30 per cent of those who become unemployed enter long-term unemployment) and increase economic demand by limiting the income reductions faced by workers on short-time hours or temporary lay-offs. If linked to training, it would enable longer-term workforce investment. The experience from Wales shows that such a scheme could be introduced quickly – ProAct was conceptualised in November 2008, and began operation in January 2009.

4.83 Our proposals for a national subsidy scheme comprise reform of Jobseekers Allowance (JSA) rules accompanied by a Government wage subsidy to employers and access to Train to Gain for workers on short-time hours or a temporary lay-off. These measures are set out below.

- **Reform benefit rules that force workers who are on short-time hours or have been temporarily laid-off to look for new work after 13 weeks on benefits.** Until 1996 workers who were temporarily laid-off could claim Unemployment Benefit (UB) for as long as the lay-off lasted. They had to be available for their normal job but there were no rules requiring them to give it up eventually. Similarly, when firms introduced short-time working, workers could claim UB for the weeks when they were not in work. When JSA replaced UB, these rules changed. Since 1996 there has been a 13-week period when the old rules apply, but after that claimants are expected to be available for full-time jobs even if it means giving up their existing post. It is clear from recent analysis that new claimants and the longer-term unemployed are already spending significantly longer on JSA than they could have expected to at the beginning of last year. But current rules mean that workers with real jobs will have to give them up to look for jobs that do not exist. Government should temporarily rescind these rules and return to the system that existed under Unemployment Benefit, enabling workers affected by reductions in hours or temporary lay-offs to claim benefits.

- **Introduce of a Government subsidy for firms moving to short-time hours or temporary lay-offs.** For some firms, a short-term Government subsidy to support payment of wages could prevent large-scale redundancies and the loss of essential skills, protecting jobs and enabling future growth. But there should be limitations on such a package so that support is targeted where it can have most impact and in the areas of greatest need. We therefore believe that support should be designed around the following key principles:
  - subsidies should be time-limited
  - the subsidy plus JSA entitlement should guarantee that workers receive 60 per cent of their previous wage for non-working days or weeks
  - the subsidy should be available for part-time workers
  - employers should be responsible for meeting workers' National Insurance contributions (at their subsidised wage level) during the lay-off or reduction in hours
  - where employers are able to make additional contributions towards wages the subsidy should not be lost, allowing workers an increase in wages up to 70 per cent of normal salary on subsidised days
  - access to the scheme should be contingent upon long-term business viability and genuine need, as assessed and agreed by an independent panel which would enable Government to take advantage of trade union and employer expertise
  - employers accessing support should enable workers on short-time hours or a temporary lay-off to access training via Train to Gain.
- **Extend new flexible access to Train to Gain.** Last Autumn the Government launched a new flexible Train to Gain package for small and medium enterprises (SMEs), which removed much inflexibility in order to support SMEs through the recession. For example, free training is now available to SMEs for 'repeat qualifications' and accredited units of training while in the past free training was only available for 'first full qualifications'. All employers, regardless of size, have been granted flexibilities to access free or subsidised training for unemployed people they recruit, and new training offers have been made available to those under notice of redundancy. Such flexible access, with an emphasis on training that will support business survival, should be extended to all companies accessing support under the subsidy programme.

Improving access for training for workers at risk of redundancy and for the recently unemployed

4.84 It is welcome that employees under notice of redundancy are now able to pursue training for a 'repeat qualification', and that further funding (as part of the ESF/Train to Gain package being rolled out from April) is being made available to enable these workers to access training. The TUC believes that as new funding is made available employees under notice of redundancy should have access to the full package of flexibilities that SME employees benefit from, including access to training in accredited units designed to support business survival.

4.85 We are concerned that it remains difficult for recently unemployed workers to access training. Some changes have been announced to the 16-hour rule, which will enable those who have been claiming JSA for six months or more to access eight weeks of 'short, job-focused training'. Where personal advisers assess claimants to be in 'urgent need' of updating skills it has also been decided that they should have the discretion to lift the six-month requirement.

4.86 While we welcome these new flexibilities, and look forward to their national roll out, we remain concerned about the amount of training available to JSA claimants who have been unemployed for less than six months. In a more buoyant labour market, it could be argued that there is a case for limiting access to training by the short-term unemployed, on the grounds that many of these individuals would be able to find new employment quite quickly. However, the state of the current labour market means that many of the newly redundant will find it very difficult to find suitable employment, and offering them the opportunity to undertake training as early as possible in their claim will help them to achieve sustainable employment either in the short-term or over the longer-term as the economy recovers.

4.87 We also question whether the entitlement that has been provided for those who have been unemployed for six months is long enough. At present it is proposed that new flexibilities will limit JSA claimants to undertaking eight weeks of full-time training, which precludes access to many vocational courses.

4.88 We therefore believe that Jobcentre Plus should be enabled to refer claimants to a wider range of training at earlier stages in their claims. 16-hour rule flexibilities should apply to all claimants, not just those who have been unemployed for six-months or more. At present, the support for those unemployed for less than six months is largely limited to help with jobsearch which is not a sufficient response to a contracting labour market. In addition, all claimants should be enabled to access full-time training courses of longer than eight weeks.

Increasing Jobcentre Plus support for the newly unemployed

4.89 As well as access to training it is important that recently unemployed people are able to access the full range of other advice and jobsearch services that Jobcentre Plus (JCP) can provide. During recent redundancies at Woolworths, the JCP Rapid Response Service (RRS) played an important role for staff seeking new work, providing advice on where job opportunities are still available, which skills and qualifications offer the best route to employment and help applying for jobs. The service was also able to provide immediate access to benefit entitlements. Increasing service capacity, fully incorporating access to training and ensuring that the RRS continues to develop new models to deal with redundancies across multiple sites will all be important to enabling it to continue to deliver a fast and effective service to workers.

4.90 Early intervention is essential to the success of the RRS. We have therefore been concerned to hear that some employers and administrators are refusing access to the service. We believe that employers and administrators should have a duty to work with the RRS, and that unions should have rights to bring in the RRS to a firm where redundancies are being made. Furthermore, at present the RRS is marketed only as a service to employers. But as well as offering on site access, we believe that it could play a much stronger role helping individual workers whose jobs are at risk. This would involve Jobcentre Plus offering more services to people in employment but facing redundancy, regardless of whether the RRS is operating in their workplace.

4.91 For those who have been unemployed for less than six months Jobcentre Plus provides minimal support with the job search process, on the basis that state investment in those who will find work on their own should be limited. But in these difficult economic times, we believe that support should be increased and that earlier access to job search support could prevent unnecessary growth in longer-term unemployment. Providing access to well-resourced Job Clubs, which could be run by Jobcentre Plus, would provide an important and cost effective means of improving services. Job Clubs would provide individuals with the opportunity to work in an office environment, making use of IT access, stationary and job vacancy information to seek new employment opportunities. Where Programme Centres already exist these could provide one means to deliver such services, but should be made available to all newly unemployed people – at present those with longer durations of unemployment are prioritised for referral. And as Programme Centres are not available in all local areas, further investment will also be needed to ensure that Job Club services are available nationally. We believe that as a means to make the job search process more focused and easier to undertake, such services are deserving of investment.

Increasing redundancy pay and Jobseekers Allowance (JSA) and ensuring fair treatment for workers being made redundant

4.92 For workers who lose their jobs, Statutory Redundancy Pay (SRP) can be used to fund re-training and provide the springboard into a new career. But the value of SRP has been allowed to reduce in real value in real terms – and it is only available to workers with two years of service. The maximum amount a worker is legally entitled to is calculated as so many weeks' pay for each year of service (the number of weeks varies according to age), but there is a maximum limit to what counts as a week's pay – this is currently set at £350 per week. This severely limits the amount of redundancy pay available for anyone other than low-paid staff. We believe that Government should honour its 2005 manifesto pledge and raise the statutory weekly limit for calculating redundancy pay. The TUC has proposed that this should be raised to at least £500 and that the level of the statutory limit should be increased annually in line with average earnings or RPI, whichever is the greater.

4.93 The rules about tax and SRP also need updating. Redundancy pay under £30,000 is not taxed; above that it is liable to income tax. This tax limit was raised to £30,000 in 1988, but it has remained at that level for the past twenty years. We believe that the tax limit should be raised to £50,000, giving SRP the same value as it held in 1998. In addition, the length of service needed to qualify should be cut to one year.

4.94 The law on information and consultation on collective redundancies should be revised, in order to ensure that employers genuinely engage with unions at an early stage. As the UK courts have repeatedly confirmed, UK law does not comply with the EU Directive on Collective Redundancies as it states that employers' duty to consult arises when an employer is *proposing* collective redundancies as opposed to *contemplating* making redundancies. The timing of consultations between employers and trade union representatives can be critical. If consultation only takes place after the employer has formulated proposals on the numbers of staff to be made redundant, the opportunities for union officials to influence the employers' mind on ways of avoiding the dismissals, reducing the number of employees to be dismissed and mitigating the consequences of the dismissals are substantially diminished.

Revising insolvency arrangements to protect employees' interests where companies fail

4.95 Where companies are facing insolvency, insolvency practitioners will be appointed. The insolvency practitioner effectively acts as the agent for the employer and thereby has a duty to comply with employment law duties. The practitioners take on all the employment responsibilities for staff in the company concerned. However, too often the practitioners lack knowledge and experience of good employment relations. This includes requirements to inform and consult with recognised trade unions (or employee representatives where no union is recognised) in relation to proposed collective redundancies or where a business may be sold as a going concern and TUPE rights apply.

4.96 Too often the practitioners either ignore their duties or fail to take them seriously. This means that union proposals for avoiding redundancies are never explored and there is limited or no discussion of redundancy payments or training options for staff being made redundant. In situations where a business is to be sold on, it can also result in employees losing out on opportunities for early retirement. As a result, unions' only option is to seek protection from an employment tribunal. The TUC therefore believes that:

4.97 All insolvency practitioners should be trained in good employment relations practice. This training should emphasise the importance of practitioners meeting with trade union representatives and building a good working relationship at the earliest opportunity. The TUC has indicated that it would be willing to work with the Insolvency Service on the development of new training courses.

- Government guidance on insolvency should emphasise the importance of insolvency practitioners' complying with their duties to inform and consult and to comply with other employment law.
- Administrators should be required to train their staff in good employment relations.
- A duty should be placed on insolvency practitioners to protect employee interests and to avoid job losses. This would be particularly important where there is possibility for a business to be sold and staff to be transferred to a new employer.
- Guidance on insolvency and in training for insolvency practitioners should be improved, as some insolvency practitioners also appear uncertain when the duty to consult arises in insolvency situations. Given the high likelihood that insolvency will lead to redundancies, it is arguable that the duty on an employer to inform and consult is automatically triggered where an insolvency notice is issued. The TUC believes that this point should be highlighted in guidance on insolvency and in training for insolvency practitioners – and that it may also be helpful to amend the law to underline this point.

Increasing Jobseekers Allowance

4.98 As outlined elsewhere in this submission, the TUC believes that there is a pressing need for Government initiatives that will boost demand as quickly as possible. The fastest-acting fiscal policies are those that put money directly in the hands of people with low incomes. This is because poor people live on tight budgets and are unlikely to be able to save any extra income they receive.

4.99 Direct income transfers - benefits and tax credits - are most effective. They will out-perform tax cuts because they are targeted on the poor and, as the money will be spent quickly, provide a more immediate stimulus than bringing forward capital projects. A recent study by the US Congressional Budget Office[22] showed that extending Unemployment Insurance benefits and increasing food stamps was the most cost-effective stimulus option. A key means to achieve this in the UK would be to increase the rate at which Jobseeker's Allowance is paid; and this is not only a rational response to the recession, it is also socially just.

4.100 Currently Jobseeker's Allowance for a single person aged over twenty-five is £60.50 a week. This is not enough to live on – recent research into minimum income standards has shown that a single working age adult needs an income of at least £153 a week "in order to have the opportunities and choices necessary to participate in society"[23]. There are similar shortfalls for other family types.

4.101 British benefits have always been comparatively low, but they are even lower now than they were in the past because for nearly thirty years they have increased each year in line with inflation, not earnings. This means that people who rely on social security fall further and further behind people in employment, and that the UK's benefit rates relative to earnings are some of the lowest in the developed world.

4.102 If JSA had been increased in line with earnings over the last thirty years, the rate for a single person over twenty-five, would be over £100 a week. If it had been increased in line with earnings just since 1997 it would now be worth £75 a week – £15 more. An increase in JSA allowances of at least £15 would drastically reduce poverty and provide the economy with a fiscal stimulus that it desperately needs.

Redundancies and apprenticeships

4.103 During the downturn action to challenge unemployment among young people and the low skilled will be particularly important. Apprentices are potentially vulnerable. The Government has already taken steps in the construction industry to match apprentices at risk of redundancy with new employers and has given a commitment that all apprentices will be funded to continue their learning (e.g. day release in college) for up to six months while the option of a new employer is being pursued. However, the TUC believes that the more proactive approach being developed on this front in the construction sector should be applied in all sectors so that all apprentices are guaranteed to be matched with another employer in order to complete their training. This could also help fill the skills gaps that remain in many sectors

[22] *If, When, How: a primer on fiscal stimulus*, Hamilton Project, 2008, Douglas W Elmendorf and Jason Furman, p 17.

[23] *A Minimum Income Standard for Britain: What People Think,* Jonathan Bradshaw, Sue Middleton, Abigail Davis, Nina Oldfield, Noel Smith, Linda Cusworth and Julie Williams, JRF, 2008.

and support longer term development as we move out of recession. Government, working with partners including unions, should ensure that any apprentice can complete their training and stay in work. This may be with another employer in the same sector, or apprentices could transfer to other sectors with similar skill-sets.

The creation of intermediate labour markets

4.104 The TUC believes that this Budget provides an excellent opportunity to introduce a major intermediate labour market programme. This would, we believe, help us to deal with a problem regarding the timing of active labour market programmes and also help cope with a shortage of jobs for unemployed people to do.

The ups and downs of labour market policy

4.105 There is a cycle in labour market policy, which is not properly synchronised with the economic cycle. The New Deal programmes were designed as a response to the last recession. Consequently, the labour market began a recovery that was to last eight years. In 1998 the New Deal programmes were introduced in very different circumstances from those in which they were conceived.

4.106 For pretty much the whole of its existence, New Deal participants have been less likely to be the group it was designed for, and a much higher proportion have been people with extra labour market disadvantages than was originally intended.

4.107 Given the changed circumstances, the New Deal has been very successful. By November 2008, more than three and a quarter million people had started a New Deal programme and August more than 2 million participants had gained a job. But the extensive research into the programme has also revealed that it is less successful the more disadvantages a participant faces.

4.108 The TUC has argued for ten years for reforms that would provide the flexibility needed to meet the different needs of very different groups of disadvantaged unemployed people. Our concern that a single programme design is unsuited for people with extra labour market difficulties is now commonplace and there is a consensus around the need for support that can be tailored to the needs of each individual participant. The Flexible New Deal (FND) is based on this assumption (the TUC supports the flexibility of FND, but we are worried about the insistence on contracting it out) and is due to be in place from April 2009, with participants reaching contracted-out provider by October.

4.109 Ironically, just as the reforms needed in the early 2000s are being introduced, the labour market is returning to something like the state it was in prior to the design of the New Deal.

Looking to the future

4.110 It is too early to be definite about trends in this recession, but so far, the statistics show that, of all age groups, under-25s have seen the largest increase in their risk of unemployment.

4.111 There is a risk that this recession may follow a similar pattern to the last one. Well qualified prime age workers who lose their jobs will get new jobs quickly, but many young people will struggle; as employment recovers, we will rediscover the most disadvantaged unemployed people, who have difficulty finding and keeping employment, even when the labour market is strong.

The jobs shortage

4.112 From an unemployed person's point of view, the economic problem is simple enough: they are eager to get a job, but there aren't enough available. This runs counter to the Government's often-repeated argument that plenty of jobs are being created all the time, and there are enough opportunities within reasonable reach of most unemployed people.

4.113 In many parts of the country, this has undoubtedly been true for some years, but that picture is changing rapidly. One of the key features of the recession has been the sharp reduction in the number of vacancies.

4.114 If we take the simple expedient of dividing the January 2009 claimant count by the January 2009 level of vacancies we can see that, of 209 counties and unitary authorities in Great Britain, 122 have 10 or more people claiming JSA for every vacancy. The list of local authorities with high ratios includes a number of large cities and boroughs:

Large local authorities with a high ratio of unemployed people to job vacancies

Rank	Local authority	Ratio of claimant count to vacancies
1	Rhondda, Cynon, Taff	36.8
2	Lewisham	33.8
3	Greenwich	30.7
4	Lambeth	29.0
5	Redbridge	28.1
6	Wandsworth	26.5
7	Kingston upon Hull	22.0
8	Sandwell	20.4
9	Doncaster	19.4
10	Wirral	19.0

11	Medway	18.8
12	Birmingham	18.1
13	Ealing	17.7
14	East Sussex	17.5
15	Barnet	17.3
16	North Lanarkshire	17.3
17	Merton	17.2
18	Dudley	16.6
19	Stoke on Trent	16.4
20	Rotherham	15.7
21	Leicester City	15.4
22	Croydon	15.3
23	Walsall	15.3
24	Hounslow	15.0
25	Tameside	15.0

4.115 Local authorities with a population of over 100,000 and a ratio of more than 15 JSA claimants per job vacancy.

4.116 The TUC believes that there are places where there simply aren't enough jobs for all the unemployed people who need them. As the recession proceeds, more and more of the country will come into this category.

An intermediate labour market

4.117 The TUC's proposals are designed to address these two problems:

- to provide a programme that will meet the needs of people with labour market disadvantages but also be suitable for people who are job-ready but there are no jobs available
- to help fill the gaps in areas where there is an inadequate supply of jobs.

4.118 In areas with high unemployment, we call for a time-limited geographically-targeted local employment programme using 'intermediate labour markets' (ILMs). In our model, ILMs would have four distinguishing characteristics:

- They would provide public and non-market sector jobs, working on projects selected by local communities as being socially useful.
- They would have a strong training and job-search element and be supported by adequate childcare.
- Participation would be voluntary.
- They would pay the rate for the job, where no rate exists they would pay at least the national minimum wage.

4.119 These projects could fill a double role. They would soak up the temporary increase in unemployment at a time when jobs are hard to obtain. At the same time, they would provide a route in to employment in the open labour market for people with barriers to employment, who need a period of work experience to acclimatise themselves to a job and a longer period working in a realistic setting to prove to potential employers their suitability as recruits.

4.120 This latter function attracted Prof Paul Gregg, whose report argued that "the Intermediate Labour Market (ILM) model, which offers work placements along with the additional support and assistance required to find mainstream employment, can be particularly useful as a means of tackling these barriers and providers should be encouraged to provide these as an option for support."[24]

The non-traded sector

4.121 It is important that ILMs should offer work in the non-traded sector. Firstly, this will help minimise the displacement of other workers (where an employment programme has the perverse effect of pushing other workers out of jobs), as it means that the projects are those which would not have taken place otherwise. Secondly, we propose that ILMs should be established in areas where the market economy is not creating sufficient jobs – in those areas, relying on the market to provide ILM jobs is unlikely to succeed.

4.122 One of the lessons of job creation programmes around the world has been that they often face a dilemma: offering similar pay to that available in the open labour market is expensive, but low-paid jobs would threaten the pay of existing workers. Offering work experience outside the open economy gets round this problem, but it makes it very important that communities are helped to identify services or projects that would not exist without the ILM and which would improve the lives of the whole community. Involving the whole community in the selection of projects will also be of benefit to ILM participants – everyone will be more committed to their work when they know that their neighbours, friends and relatives have helped identify it as something that really is worth doing.

4.123 Examples of services that could be provided might include family services, such as childcare or eldercare, sports, cultural activities, community transport and energy saving schemes.

More than just work experience

4.124 Another lesson of job creation programmes has been that they can become badly-paid, make-work ghettoes. The programme would have

[24] *Realising Potential: A Vision for Personalised Conditionality and Support*, Paul Gregg, DWP, 2008, p 83.

community objectives, and participants would be expected to make a full contribution to achieving those objectives. But the purpose of our scheme would be to provide a route into open employment, not an alternative to it. To manage this tension, participants and their managers would be reminded that progression into open employment was their first goal by including at least half a day a week of off-site jobsearch as part of their duties, and incorporating entitlements to time off for training.

4.125 The time limit on participation could seem harsh – those who completed their maximum time on the scheme without obtaining a job in the open economy would return to unemployment – but it would be a necessary part of the commitment to the ILM as a stage in a transition, not an alternative career.

Realism in work experience

4.126 The TUC insists that the ILMs we would wish to see would have to be paid the rate for the job, be entered into voluntarily and offer childcare to participants. These are features that are needed to make the experience of working in the ILM as similar to work in the open economy as possible.

4.127 Our ILM proposal is designed to impress two groups of people: employers and participants themselves.

4.128 We believe that most employers do sympathise with unemployed people and want to offer them a fair chance. But, at the same time, they know that recruiting the wrong person for the job can have serious repercussions for their business, and they fear that long-term unemployment can have negative consequences for work skills and motivation.

4.129 One of the purposes of ILMs, like other work experience programmes, is to give unemployed people a recent experience of working that will help to convince employers that they are not a risky choice. Where the participants are people from groups employers may be particularly wary of, this experience may be particularly persuasive.

4.130 At the same time, the ILM aims to help the individual participant to stay in touch with the culture and disciplines of employment, and not to become acclimatised to unemployment.

4.131 Success in both these objectives depends on making the scheme as realistic as possible. One of the prerequisites is the fact that real jobs pay wages, not benefits, and employees have rights. Neither participants nor prospective employers are impressed by schemes that offer participants only their benefits, or a small supplement.

4.132 Participants know what the rate is for national minimum wage and quickly compare it with their pay. Everyone who has been involved in employment programmes can testify to how a rate of pay below this is will demotivate participants. Compulsory participation has a similar effect, but it is even worse, people who have had to be forced to take part by the threat of benefit sanctions are likely to be disruptive and thus reduce the value of the course for people who would have volunteered for it.

4.133 Compulsory participation is an even bigger negative for employers. They tend not to be impressed by a CV that includes time on a job where one was not paid, but they are extremely unimpressed by time on a job you had to be forced to do. The TUC objects to compulsory participation in work experience, and would be opposed to our ILM proposal being introduced on this basis.

Ending child poverty through a tax credit stimulus

4.134 It is traditional, in TUC Budget Submissions, to discuss other ways in which the Government should use the tax and benefit system to create a fairer and more equal economy and society. There are many demands on the public purse, many of them very worthwhile. However, in the light of the economic situation, this submission has focused specifically on measures to take the UK through the crisis and beyond.

4.135 There is, however, one call that we have made in successive Budget Submissions and that we repeat here. That is the call to stick to the pledge to end child poverty by 2020.

4.136 It is now ten years since the Government made its inspiring commitment to end child poverty within a generation. The Government proved that this was more than rhetoric by establishing a definition of child poverty and a timetable for action, with the number of children in families with an income below 60% of the median to be halved by 2010; the Government now plans to enshrine this commitment in the Child Poverty Bill. No other policy has attracted such enthusiastic support from the Government's natural supporters, and the policy remains a key test of its success or failure. Unions took an active part in the 'Keep the Promise' demonstration in Trafalgar Square on 4 October, when thousands of ordinary people from all over the country came together to remind the Prime Minister and the Chancellor about their commitment. This Budget is the time to live up to that promise. The financial crisis cannot be used as an excuse to let the commitment slip.

4.137 There were 3.4 million children in poverty in 1998-9. The Institute for Fiscal Studies predicts that with current policies, by 2010-11 that number will fall to 2.3 million – a tremendous achievement during a period when, in other advanced countries, the trend has been in the other direction. Nonetheless, this is still 600,000 short of the Government's target and further resolute action is needed to hit it.[25]

4.138 The TUC has been a strong supporter of the Government's policy of emphasising employment as the main vehicle for progress to this goal, but that strategy will be insufficient to hit the 2010 target. Over the next year it is likely that more children will fall into poverty because their parents lose jobs than will escape because their parents get jobs. The only strategy with any chance of achieving the Government's goals is to increase tax credits and benefits for children, and the TUC calls on the Government to adopt it.

4.139 Although the TUC does not believe that a major fiscal stimulus through tax cuts at this stage will be effective due to the very low levels of consumer confidence, we do believe that increasing tax credits to halve child poverty will act as an effective stimulus, purely for the reasons that this money can be guaranteed to go to people who have little choice but to spend rather than save any extra personal income.

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[25] *Micro-simulating Child Poverty in 2010 and 2020*, Mike Brewer, James Browne, Robert Joyce and Holly Sutherland, IFS, 2009.

Section five

Conclusion: a new economic vision

5.1 Speaking to the City Trade and Investment Dinner at the Mansion House on 4th March, the Business Secretary, Lord Mandelson, said, “There’s probably a proverb somewhere that says a crisis should not be wasted. Well, this is ours.”

5.2 This is, indeed, ours. Many predict that this will be the biggest crisis since the Great Depression. It will certainly cause real pain for millions of ordinary people in the UK, hundreds of thousands of them trade unionists. However, it just could also be a once in a generation chance to rethink the way that we structure our economy.

5.3 We face huge risks. As the Financial Times journalist Martin Wolf reminds us, the Great Depression led to xenophobia and authoritarianism. In 1930, the Nazis won 18 per cent of the German vote. In 1932, at the height of the Depression, their share had risen to 37 per cent.[26]

5.4 But if, in Mandelson’s words, we do not wish to waste this crisis, we must learn some lessons. Arguments for greater financial regulation have been put forward in many places. The TUC is aware that, incredibly, those arguments have still not been won. We are also aware that many fiscal conservatives may keep their heads down for a few years and then wish to rebuild the economy on a “business as usual” basis.

5.5 For trade unionists, the single most important possible achievement is that we emerge from this crisis with a new economic vision. We seek, as we always have, an economic approach that narrows the gap between rich and poor. We wish to build an economy that enhances the life chances of the poorest, through better health and education. We want real jobs, based in world class industries and companies built on solid foundations, not asset bubbles and financial wheezes. We celebrate those world class companies that have built up over the long term, through high skills and high value. We wish to build more social solidarity in the world economy, so the rights of workers across the globe are respected, through the abolition of slave labour, the upholding of International Labour Organisation conventions and an end to all exploitation. And, of course, the place of children, girls as well as boys, is in school, not in the workplace.

[26] “Seeds of its Own Destruction”, Martin Wolf, *Financial Times*, 9 March 2009.

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

www.tuc.org.uk

contact:
Tim Page
020 7467 1202
tpage@tuc.org.uk

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