globalisation

and the comprehensive spending review

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Section one

introduction

In July 2005 the Chief Secretary to the Treasury announced that the Government was to carry out a Comprehensive Spending Review (CSR) reporting in 2007. In 2006 the preparatory work for the CSR includes an examination of key long-term trends, together with an assessment of how public services should respond. One of the most important of these trends is globalisation.

This document presents the TUC's views on globalisation as it affects the UK economy. It addresses the Treasury's priorities of stability, flexibility, skills, innovation and regulation. It supports the Government's emphasis on innovation and skills, but argues that de-regulation should not be a priority and calls for an effective UK industrial strategy.

In this report we argue that the impact of globalisation on jobs and living standards in the UK and the EU has so far been limited. Contrary to popular assumptions, the EU's ability to trade successfully has not been impaired – the EU is significantly more successful at exporting than the United States. Nonetheless, EU workers are exposed to international developments, and this is particularly true of the UK, which continues to be a very open economy.

On the whole, the UK gains from globalisation, but the gains are not spread evenly, and some workers face unemployment or lower wages. One of the key tasks for public policy is the question of how to provide for the future of those workers whose jobs are most at risk. At present, when companies switch production to other countries the workers who lose their jobs do not get a fair deal.

Although protectionism is not the route forward for UK policy, we do think it important to support individual workers and their jobs. We agree with the Chancellor that the best response is to raise UK productivity by fostering innovation and skills. While economic flexibility is an important factor, it must be combined with security - the UK response to globalisation must incorporate an adequate minimum level of employment protection, and be linked to further enhancements of in- and out-of-work benefits.

Section two

analysing globalisation

This paper sets out the major themes and questions faced by the UK economy. Its economic analysis draws heavily on, but is not restricted to, *Globalisation and the UK: strength and opportunity to meet the economic challenge*, a major report published by the Treasury in December 2005 - the same department that is conducting the CSR. We also refer to *Global Europe: full-employment Europe*, a pamphlet the Chancellor published in October, containing proposals for Europe to grow faster and cut unemployment, emphasising the need for action in three areas: competition, skills and openness.

What is globalisation?

The most widely accepted economic definition of globalisation is increased flows in trade in goods and services and capital across national boundaries, and there is also a case for adding flows of labour, as falling transport costs and persistent economic imbalances encourage large-scale migration. The Treasury report speaks of "fundamental changes in trading patterns and in the use of technology, and bringing radical changes to economies across the world".

Later on we address the question how much has changed as a result of globalisation, but it is certain that trade has grown substantially in recent years. The International Monetary Fund calculates that world trade grew by an average of 7.0 per cent per annum between 1988 and 1997, and is heading for an average of 6.4% for 1998 – 2007. [1]

There is also little doubt that the drivers of this activity are trade liberalisation, rapidly falling transport and communications costs, higher productivity in tradable sectors and an acceleration in specialisation between high labour cost and low labour cost economies. A major underlying factor has been the internationalisation of production processes. Multinationals are increasingly locating different stages of the production process in different parts of the world. Indeed, some estimates suggest up to 50 per cent of world trade in manufactured goods now consists of movements within companies.

The Treasury is clear that, overall, this process is benign; *Globalisation and the UK* argues that "Globalisation has the potential to increased global output, income and wealth in all economies, whether advanced, industrialised or developing."

[1] *World Economic Outlook*, IMF, 2006, table 20.

But arguing that globalisation is, on the whole, a positive development, is not the same thing as assuming that it poses no challenges. The key question is how to recognise the problems and make globalisation work for everyone; as the World Commission on the Social Dimension of Globalisation put it:

"The potential for good is immense. The growing interconnectivity among people across the world is nurturing the realization that we are all part of a global community. This nascent sense of interdependence, commitment to shared universal values, and solidarity among peoples across the world can be channelled to build enlightened and democratic global governance in the interests of all. The global market economy has demonstrated great productive capacity. Wisely managed, it can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty.

"But we also see how far short we still are from realizing this potential. The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits. They also have little or no voice in shaping the process. Seen through the eyes of the vast majority of women and men, globalization has not met their simple and legitimate aspirations for decent jobs and a better future for their children. Many of them live in the limbo of the informal economy without formal rights and in a swathe of poor countries that subsist precariously on the margins of the global economy. Even in economically successful countries some workers and communities have been adversely affected by globalization. Meanwhile the revolution in global communications heightens awareness of these disparities."[2]

This is not just a matter of solidarity with developing countries. One theme to emerge from the Treasury reports is that economies are increasingly inter-connected; as a result, shocks in one part of the world are soon felt everywhere else. Another is the importance of flexibility, innovation and skills for success and failure in this inter-connected world. And there is an underlying sense that the risks and opportunities are significant, and that governments can make a difference.

The task is not just to make the most of the opportunities offered by globalisation, but also to protect those threatened by it. As the Chancellor argued in *Global Europe*, "we reject the argument that technological change and globalisation must in themselves bring social fragmentation. Globalisation can be managed well or badly, fairly or unfairly, and we believe that through policies that combine flexibility and fairness, Europe's long-standing social values can be advanced alongside economic prosperity."[3]

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[2] *A Fair Globalisation: Creating opportunities for all*, World Commission on the Social Dimension of Globalisation, ILO, 2004, p x.
[3] *Global Europe: full-employment Europe*, Gordon Brown, HMT, 2005, p 2.

How much is actually changing?

Clearly, some things *are* different. Take, for instance, the fundamental role that China and India are playing in the globalisation of the 21st century. Firstly, these are very large economies, so their growing role in international trade has massive repercussions throughout the world. The Chancellor, Gordon Brown, told the TUC's 2005 Congress that China now produces 30 per cent of the world's TVs, 50 per cent of the world's cameras and 70 per cent of the world's photocopiers – and consumes 10 per cent of the world's oil.

Secondly, neither is happy to confine itself to low value-added goods and services. Western nations recognise that they need to move to more skill-intensive industries, but the new exporters are also keen to compete here. India now produces 260,000 engineers a year, and China around two million graduates each year (compared to 250,000 in the UK); more than 200,000 Chinese postgraduate students are expected to graduate in 2005.[4] Furthermore, rapidly developing emerging economies such as China and India are increasingly investing in technology and Research and Development. For example, the Chinese Government aims to develop China into a major player in biotechnology.

On the other hand, much of the international trade that appears in commonly quoted statistics has not travelled very far. If we treat the EU as a single trading block, the average of imports and exports from outside that block, expressed as a share of GDP in 2003 was under ten percent, and we get similar proportions for the USA and Japan:

Trade as a percentage of GDP, 2003[5]

EU25	9.3%
Japan	10.0%
USA	9.3%

In the battle between social models some commentators assume that globalisation must be decisive in illustrating European weakness. In fact, the European Union is the biggest exporting power of all the major economies; unlike the USA its shares of world imports and exports are roughly in balance:

[4] *Globalisation and the UK*, HM Treasury, December 2005.
[5] Calculated from *Basic Structural Statistics*, OECD, 2005, for USA and Japan, and *European Economy*, European Commission, 2004, tables 39 & 43.

Shares of World Trade (%)

	European Union (25 countries)	Canada	USA	China (incl Hong Kong)	Japan
Share of national imports in world imports	19.1	4.1	22.7	8.4	6.8
Share of national exports in world exports	19.2	5.0	14.4	9.4	9.0

Source: Eurostat

Embarrassingly, while the UK makes a very full contribution to EU imports, our export performance is less healthy:

Member States' contribution to extra-EU25 imports, 2004

Country	Share
Germany	19.6
United Kingdom	16.3
Netherlands	11.7
France	11.3
Italy	11.0

Source: Eurostat

Member States' contribution to extra-EU25 exports, 2004

Country	Share
Germany	27.3
France	12.9
United Kingdom	12.0
Italy	11.8
Netherlands	6.1

Source: Eurostat

There is some hype about globalisation and the UK and the USA, as we can see from the following table, which compares the volume of trade in goods and services with the size of countries' GDP in 1990 and 2004:

Trade as a percentage of GDP, 1990 - 2004[6]

Country	Merchandise trade (% of GDP)		Trade in services (% of GDP)	
	1990	2004	1990	2004
United Kingdom	41.2	38.1	10.6	15.4
United States	15.8	20.0	4.6	5.4
World	32.4	44.9	7.8	10.5
Low income countries	24.1	37.8	6.5	*9.4*
Middle income countries	34.4	61.5	7.1	10.2
High income countries	32.3	41.5	8.0	10.5
Europe EMU	44.4	59.4	11.1	14.8

In the past tables such as this have become misleading because they only looked at trade in goods, but trade in services has been growing recently. In this table, merchandise trade is the sum of merchandise exports and imports divided by the value of GDP, trade in services is the sum of services exports and imports divided by the value of GDP.

The USA is such a large economy that trade relative to GDP is actually a much smaller proportion than in most countries; nonetheless, trade in goods has grown substantially. In the UK we see a different pattern. This country was already highly involved in trade in both goods and services, and trade in services has grown substantially in recent years. But merchandise trade has actually *fallen* as a percentage of GDP; this is not common, as a comparison with other European economies shows:

[6] *World Development indicators 2006*, World Bank, table 6.1, integration with the global economy, downloaded from http://devdata.worldbank.org/wdi2006/contents/Table6_1.htm#source on 5/14/2006 2:22 pm.

Trade as a percentage of GDP, 1990 – 2004, Western Europe[7]

Country	Merchandise trade (% of GDP)		Trade in services (% of GDP)	
	1990	2004	1990	2004
Austria	54.8	80.5	22.7	32.6
Belgium	120.4	168.0	26.4[a]	40.9[a]
Denmark	52.6	60.1	17.3	28.9
Finland	39.1	60.3	9.0	11.9
France	36.4	44.7	11.1	10.2
Germany	45.5	59.4	8.7	12.2
Greece	33.2	33.0	11.4	23.0
Ireland	93.9	90.8	18.2	64.4
Italy	32.0	41.7	8.8	9.9
Netherlands	87.5	117.0	20.0	24.7
Portugal	58.3	54.1	12.7	14.6
Spain	27.2	41.1	8.4	13.7
Sweden	46.6	64.0	12.8	20.7
United Kingdom	41.2	38.1	10.6	15.4

We can also see that the USA, which often uses globalisation as an ideological prop, is actually less exposed to international trade than any of these European countries. The UK's declining merchandise trade/GDP ratio probably reflects two factors – a booming economy, so GDP is higher than it would otherwise be, and the decline of manufacturing.

The USA and UK are, however, *very* heavily involved in international investment. The most recent data from the UN Conference on Trade and Development[8] reveals that the USA was the world's number one recipient of FDI (Foreign Direct Investment) inflows, followed by the UK and China. The UK is also a major *supplier* of FDI - almost half of all FDI came from the USA, UK and Luxembourg, in that order.

The best indicator of the quality of FDI is investment in R&D and an UNCTAD survey of the world's largest R&D spenders in 2004-5, found that nearly half already have a presence in the UK, second only to the USA. The picture was different though, when they were asked about their plans for 2005 – 9, though the UK was still quite high:

[7] *World Development indicators 2006*, World Bank, table 6.1, integration with the global economy, downloaded from http://devdata.worldbank.org/wdi2006/contents/Table6_1.htm#source on 5/14/2006 2:22 pm a = includes Luxembourg.
[8] *World Investment Report*, UNCTAD, 2005, pp 1 – 26.

Current foreign locations of R&D, 2004

USA	58.8%
UK	47.1%
China	35.3%
France	35.3%
Japan	29.4%

Most attractive R&D locations, 2005 – 9

China	61.8%
USA	41.2%
India	29.4%
Japan	14.7%
UK	13.2%

To sum up our attempts to distinguish the myths and realities of globalisation:

- The emergence as major trading powers of large previously under-developed countries is new and significant.
- A great deal of international trade, however, takes place within major trading blocks. Trade outside the blocks amounts about one tenth of the GDP of the three great groups of developed countries (USA, Japan and the EU).
- The EU continues to be a major trading power, with a great deal of export success.
- The UK does not contribute as much to EU exports as it does to EU imports.
- The trade/GDP ratio is lower in the USA and the UK than in many other European countries.
- But that ratio has been rising for the USA in both goods and services, and in services for the United Kingdom.
- The UK, like the USA, is heavily involved in FDI, both as a supplier and a recipient.
- The UK is a popular location for high-value R&D investment, but less so than in the past.

How should we respond to globalisation?

This paper is designed to influence the Comprehensive Spending Review, and therefore mainly concentrates on the UK agenda established in Treasury reports on globalisation. It does not, for that reason, address the debates about world trade rules and international migration, which are intimately linked to policy in this area. Nonetheless, a trade union submission on globalisation cannot be written as if the implications for workers in developing countries were of no concern to us.[9]

For the TUC, fair globalisation is impossible without the promotion of core labour standards into multilateral trade agreements. The Treasury has emphasised the importance of the UK's contribution in promoting open markets through international agreements;[10] the TUC would strongly encourage the Government to give equal prominence to core labour standards.

These standards are set out in the International Labour Organisation's 1998 Declaration on Fundamental Principles and Rights at Work, and embody four basic freedoms:

- from child labour,
- from forced labour,
- from discrimination at work, and
- of association and collective bargaining.

Workers in all countries have a right to these freedoms, and the UK Government should promote them as energetically as open markets. Women workers would particularly stand to benefit (the ILO calculates that 60% of the world's working poor are women), especially in Export Processing Zones, where women are a majority of the workforce.

In this paper we discuss evidence that globalisation can lead to higher growth and higher living standards in the United Kingdom. Riches built on the labour of workers denied these freedoms would be unbearable. Workers in many of the countries energetically involved in expanding trade – including India and Brazil – are demanding through their unions that globalisation must deliver better jobs as well as higher profits. The TUC strongly supports them in this, and is developing strategic partnerships with the trade union movements in Brazil, India and South Africa as well as developing countries. A separate piece of work is underway to address the specific circumstances of China.

"Decent work is the battle cry of trade unions in efforts to improve the lives of workers and the society through full respect for core labour standards, decent employment and income, social protection, and social dialogue/partnership. Decent work can be achieved only when work is carried out in conditions of freedom, equity, security, and human dignity. This implies that workers should work under working conditions that can enable them to live decently as human

[9] For more detail visit the TUC micro-site on globalisation, http://www.tuc.org.uk/theme/index.cfm?theme=globalisation
[10] See for instance *Globalisation and the UK*, HMT, 2005, pp 32 – 3.

beings and sufficient income to meet a decent standard of living and having time for families and leisure as well."[11]

That is why the TUC is concerned about the lack of democratic or human rights in China. While British and other Western economies can respond to Chinese competition by switching to higher value-added goods and services, this option is not realistic for most developing countries. Around the world, workers in developing countries have found their pay and conditions and their unions attacked by employers and governments desperate to match Chinese competition.

The TUC's has supported the World Trade Organisation as the best route to a rule-based system of trade, and as a positive alternative to protectionism. But the WTO must give a higher priority to human rights, including workers' rights if we are to stop globalisation turning into a 'race to the bottom' in terms of employment and social conditions. We believe that:

- WTO agreements should be preceded by an impact assessment to identify what effect they will have on jobs (just like all UK and EU regulations);
- WTO agreements should not undermine core labour standards by forcing people to compete in a race to the bottom; and
- WTO agreements should allow democratic developing countries to determine the pace at which they open up their markets, so that they can meet environmental and social objectives.

[11] "Making decent Work An Asian Goal", Govindasamy Rajasekaran, President of the International Confederation of Free Trade Unions Asian and Pacific Regional Organisation for the *Asia 2015* virtual conference in March 2006.

Section three

the Treasury agenda

In *Globalisation and the UK* the Treasury sets out four factors which, taken together, form its analytical framework for responding to globalisation:

a. Macroeconomic stability: globalisation will increase the speed with which economic shocks, such as financial market volatility or national economic downturns, in one part of the world can be transmitted to other regions. Entrenching macroeconomic stability is therefore essential;

b. Flexibility: without the flexibility and adaptability to respond to change, exposure to competition in new markets and to new technologies may result in falling relative earnings or long-term unemployment, especially among lower-skilled workers. In the short-term, flexibility may bring insecurity and change as companies move from traditional activities into expanding industries. Flexibility must therefore be accompanied by necessary support for individuals to meet the challenge of change;

c. Comparative advantage: this is straightforward and simply means that more labour-intensive, lower-technology production will take place in countries with an abundance of low-cost labour, while advanced economies with higher labour costs and more developed skills will focus on skill- and capital-intensive goods and services. This benefits everyone in the long run, by increasing the global potential for growth. It also means the pattern of comparative advantage will change over time, as emerging economies invest more in advanced skills and technology;

d. Agglomeration: New economic geography, based on theories of agglomeration, or clustering, suggests that the presence of high skilled pools of specialised labour and networks of expertise make it more profitable for firms in the same industry to locate near each other. Furthermore, successful clusters, once created, can become increasingly attractive locations in which to set up a business. Location decisions taken today could therefore have long-lasting effects on industrial development, a phenomenon known as 'path dependency'.

According to the Treasury, these four factors, taken together, provide a framework for thinking about how globalisation will affect the UK. The Treasury goes on to argue that the UK is starting from a strong position, with:

- Historically unparalleled macroeconomic stability;
- A good regulatory record by international standards, with the UK ranked highest in the OECD on measures of economic flexibility;
- A robust policy framework in the ten-year Science and Innovation Investment Framework;
- The improvement in the UK skill base since 1997;
- A strong track record on employment; and
- A reduction in greenhouse gas emissions by over 12 per cent by 2003 from the Kyoto 1990 baseline, with emissions of carbon dioxide down by more than four per cent.

The Treasury argues that there are five policy areas in which the UK needs to make substantial further progress in order to benefit fully and secure the gains from globalisation:

- To raise the UK skills profile and ensure the workforce has the skills and flexibility to take advantage of changes in technology and new opportunities offered by globalisation;
- To continue to improve the UK's capacity for science and innovation, through investment in the science base and improving links with business;
- To continue to strive to minimise undue regulatory burdens, by ensuring that regulation is only used when necessary;
- To ensure the planning system is flexible and responsive to changing economic needs and realities;
- To ensure that the UK's transport infrastructure supports a flexible and enterprising business sector, by reducing costs and congestion, enabling access to skilled labour and encouraging agglomeration benefits.

This paper will now consider the factors and challenges set out by the Treasury, from a trade union perspective.

Macro-economic stability

Globalisation does not seem to be harming macroeconomic stability in the UK. The Treasury likes to quote the OECD's description of the UK economy in its 2005 report, in which it described UK macroeconomic performance over the last decade as "a paragon of stability". Indeed, in *Globalisation and the UK*, the Treasury goes on to say that since 1998, the UK has had:

- The most stable GDP growth in the G7 and the second most stable GDP growth in the OECD;
- The most stable output gap in the G7 and OECD on the OECD's measures;
- The most stable inflation in the G8 and OECD.

The document adds: "The challenge for the UK is to entrench this stability in response to a more integrated global economy, and to ensure fiscal sustainability in the face of the long-term demographic challenges facing all developed economies."

The TUC applauds the Government's record on macroeconomic stability. That record is one of the most important achievements of the current administration. However, we echo the views of business, expressed recently at a meeting of the Manufacturing Forum, that whilst business cannot succeed without macroeconomic stability, such stability, by itself, does not guarantee economic success. Other factors also matter.

Taxation

Globalisation and the UK is very positive about the UK's record on business flexibility, especially on rates of business taxation.[12] Undoubtedly the UK does have low rates; a Congressional study of America's tax competitiveness found that, of the large advanced economies quoted in the study, only Germany and some Canadian provinces had a lower rate of corporation tax:[13]

Rates of corporation tax in large advanced economies, 2003, main rates

Country	Rate
USA	35% (plus state rates, varying from 0% to 12%)
Spain	35%
France	34.33%
Italy	34%
Australia	30%
Japan	30%
UK	30%
Germany	27.9575%
Canada	24.6 - 38.6% (includes provincial rates)

Further reductions should not be a priority for the Spending Review. It is sometimes argued that globalisation forces OECD economies to reduce public spending to provide a more business-friendly environment (which is always taken to mean lower taxes). This simply is not true; if we turn back to the table on page 11, we can see that the countries with very high trade/GDP ratios include Austria, Belgium, Denmark, Germany, the Netherlands and Sweden – all of which have large public sectors. As the OECD has noted:

"international economic integration is compatible with a large public sector, since public spending exceeds 50 per cent of GDP in a number of OECD

[12] *Globalisation and the UK*, HMT, 2005, p 39.
[13] *How Competitive Is The US Tax System*?, Joint Economic Committee, US Congress, 2004, table 1

economies that are very open to international trade. There even appears to be some tendency for government spending to be higher in the OECD countries where trade is largest relative to GDP."[14]

Flexibility

Trade unions recognise the value of flexibility, which is broken down by the Treasury into product market, labour market, and capital market flexibility.

Product market flexibility is described as "the ability of firms to respond to changing market conditions, allowing them to exploit new opportunities and to deal with potential challenges effectively". Labour market flexibility "ensures that workers can move quickly from declining sectors to expanding ones … A highly skilled workforce will be key for advanced economies looking to move into high-value areas of economic activity." Capital market flexibility simply ensures that capital is employed effectively and that business and entrepreneurs have access to funds to develop their ideas.

It is labour market flexibility that is of most significance to trade unions, although, in fact, the operation of these three forms of flexibility, taken together, is crucial. And if trade unions are sometimes nervous about debates on flexibility, it is because this word has often been used in the past as code for driving down terms and conditions.

The use of atypical working practices, such as fixed term contract work and occasional working from home, are sometimes held up as examples of a new flexibility, in contrast to the rigidity of full-time, permanent jobs. Of course, if people wish to adopt such practices, for example to balance work and family life, they are worthwhile. However, British use of alternative, atypical forms of employment probably reflect weaknesses as much as strengths. As in Europe, about one worker in three would prefer an alternative job but is unable to get one. The UK has very high levels of 'occasional' working from home, but this is likely to be the long-hours culture in another guise, rather than evidence of genuine flexibility. Similarly, the large number (by EU standards) of low-hours, part-time jobs reflect factors which are unrelated to the flexibility story – lack of childcare, the tax-benefit system and the rising number of students taking on jobs to finance their education.

Globalisation and the UK stresses the reintegration of the long term unemployed and marginalized groups into the workforce, promoting geographical mobility, developing skills and improving labour market opportunities, in its discussion of labour market flexibility. It mentions "enhancing wage and employment flexibility", without giving further detail. The TUC would contend that positive flexibility, based on increased skills and

[14] "Trade-adjustment Costs in OECD Labour Markets: A Mountain or a Molehill?", *Employment Outlook*, OECD, 2005, p 48

better working practices, is the true route to economic competitiveness in a globalised economy.

Two further points are necessary, on the subject of flexibility. First, *Globalisation and the UK* notes that, "in the short term, flexibility may be associated with considerable changes as labour and capital are redeployed from traditional activities into expanding industries. At any point in time, these costs will fall disproportionately on particular individuals and particular industries."

This point was addressed in the TUC document, *An Industrial Strategy for the United Kingdom*, which was published in December 2005. That document noted that, following the Corus restructuring, which resulted in over 7,000 job losses in 2001, the Government provided funding to the company and the steel trade unions, to set up retraining programmes for displaced workers. After the loss of MG Rover in Spring 2005, the Government provided help and aid to the tune of £150 million. The near closure of the UK's coal industry in the 1980s devastated mining communities and in 1999, the Labour Government established the Coalfields Regeneration Trust to assist those areas.

Such support was most welcome, yet in the same quarter as 6,000 jobs were lost at MG Rover, another 21,000 manufacturing jobs were lost across the UK, with little national publicity and no dedicated development funds. The workers displaced had no immediate access to retraining and many will have had to take lower paid and lower skilled work, which in turn will have pushed those with even lower skills into unemployment.

The TUC paper recommended an audit of local and regional support in the different parts of the UK that is available to assist in the training and retraining of workers who have been made redundant or whose skills are out of date. Armed with this information, it further recommended the establishment of community development funds, administered at the regional level, to meet this need for retraining and to ensure that employees from all companies, not just those with a high public profile, are assisted through the process of economic restructuring.

Second, it is important to recognise that many thousands of workers in the UK have met every flexibility challenge put before them – but still their jobs have been exported to other countries.

Comparative Advantage

The theory of comparative advantage seeks to explain the location of economic activity and patterns of trade. To quote the Treasury: "Comparative advantage predicts that, when economies have the flexibility to adapt to more open markets, labour-intensive, lower-technology production will take place in countries with an abundance of low-cost labour, while advanced economies, where labour costs are higher but physical capital and expertise are more prevalent, will concentrate on exporting more skill- and capital-intensive goods."[15]

The Treasury notes that China has utilised FDI inflows and an increasingly skilled workforce to move rapidly into higher value-added manufacturing, for example exporting computers and telecommunications equipment. It is important to recognise, but not to be over-wrought, by the Chinese threat. True, China currently enjoys export growth of 25 per cent and, according to the OECD, will become the world's biggest exporter by 2010, with exports to the value of $1.5 trillion. Yet China has no international brands. Non-Chinese firms make 98 per cent of high-technology products and 55 per cent of all products. Labour productivity is just four per cent of the level of the United States.

The Treasury list elements of comparative advantage for the UK as:

- A tradition of open and competitive markets;
- Strength in science;
- A highly creative economy;
- A transparent and well respected regulatory tradition;
- Historical linkages to overseas markets;
- Use of English as the international language of business;
- World-class universities.

Notable by its absence from this list is a satisfactory quantity and quality of workplace skills, a point that will be returned to below. However, the TUC's major concern on this matter is that, having identified an opportunity for the UK, the Treasury refuses to take it. *Globalisation and the UK* states:

"These developments mean that countries need to identify which characteristics play the most important role in strengthening their comparative advantage. The theory enables a consideration of how competitive strengths may change over time. It allows policy makers to look back at past industrial development trends and, as emerging economies grow and technologies change, to develop an informed view about where the UK's future comparative advantage may lie."[16]

The TUC's *An Industrial Strategy for the United Kingdom* argued precisely for a focus on strategic industrial sectors. It argued that historically, the UK has been strong in defence, aerospace, motor cars and motor components, and pharmaceuticals. Looking forward, the UK's strength in pharmaceuticals should enable a positive development into environmental technology.

[15] *Globalisation and the UK*, HM Treasury, December 2005, p 19.
[16] *Globalisation and the UK*, HM Treasury, December 2005, p 21.

The concept of strategic industrial sectors is criticised, because it is likened to 'picking winners'. Yet the whole argument of comparative advantage is based on the notion that low-cost, low-skill work will go to countries with lower labour costs. By its refusal to adopt an industrial strategy that recognises where the UK's present and future success will lie, as other successful industrial nations do, the UK Government puts us at a disadvantage.

If we are to meet the challenge of globalisation, the TUC will continue to press for a recognition of strategic companies and industries which:

- Provide high value to the UK economy;
- Provide capabilities that, if lost, would be difficult to recreate in the future;
- Make a major impact locally, demonstrating a high number of quality UK jobs and how these benefit a local or regional economy.

Agglomeration

The Treasury argues that countries often create leads in dynamic sectors, as firms build on an initial strength, and develop this into an internationally competitive sector. Agglomerations, or clusters, develop over time, generating benefits both for and from their constituent firms. As this happens, the existence of the clusters themselves becomes part of the locational comparative advantage. Key factors that influence the locations of firms into industrial clusters include access to a pool of skilled labour, the exchange of 'tacit' knowledge between firms and between individuals, and the ability to draw on specialised suppliers.

Sectors that demonstrate such characteristics are often referred to as 'sticky', because once a cluster is created, no single firm in the cluster is likely to gain from relocating elsewhere, making it difficult to prise them apart. Sticky industries and clusters in the UK include: financial services; business services; legal services; pharmaceuticals; creative industries; and high-value manufacturing. Firms that are part of a sticky cluster are more likely to buck the trend and resist the temptation to move to a lower cost production location.

The Treasury discusses 'path dependency': "Evidence shows that countries or regions that start out with the same endowments of capital, labour and environmental resources can follow significantly different growth paths as a result of one country taking an initial lead in an industry, particularly in industries that exhibit increasing returns to scale … Galli provides an example of how later take-up of IT technology in the EU compared to the US may have led to long-run productivity differences, suggesting that catch-up is not inevitable."

However, the Treasury then reaches the wrong conclusion: "Policies that seek to promote or support specific sectors, beyond tackling market or government failures, risk distorting economic incentives, and crowding out the development of new high-growth clusters."[17]

Yet, to take one topical example, other EU countries have made great progress in developing their environmental technology sectors. In Denmark, 29,000 people work in the renewables sector. After 15 years of investment, wind power contributes 16.7 per cent of energy generation and wind technology is a major export industry. In Germany, 30,000 people work in wind generation, with renewables contributing nine per cent of energy needs, against a national target of 12.5 per cent by 2010.[18]

Those developments didn't just *happen*. They came about because the Danish and German Governments made a conscious political choice to specialise in this industry of the future. Similarly, the Swedish Government is keen to stimulate new industries and products that can compete in global markets. As much as two billion Swedish Krona of public money is being allocated by the state over the next ten years to encourage the formation of new firms "in the borderland between ideas and products". A new innovation company, Innovationsbron AB, has been established by the state to carry out that purpose.[19]

Clusters also have implications for regional policy. For example, the Regional Economic Strategy produced by One NorthEast, the Regional Development Agency for North East England, as far back as 1999, saw a central role for cluster development, considering it to be crucial for the development of the region's manufacturing industries. The TUC in the North East, which is represented on the RDA, continues to promote the development of clusters today.

Skills

The Treasury's analysis has led it to conclude that securing the 'right skills profile for the global economy' is one of the six key policy challenges facing developed countries such as the UK. *Globalisation and the UK* recommended that "the first area where there is a particular need for further progress is therefore to raise the UK skills profile and ensure the workforce has the skills and flexibility to take advantages of changes in technology and new opportunities offered by globalisation."[20]

The Leitch Review of Skills has been charged with identifying the skills profile the UK should aim to achieve by 2020 in order to maximise economic growth, productivity and social justice, and to consider the policy implications of achieving the level of change required. Its interim report argues that the UK

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[17] *Globalisation and the UK*, HM Treasury, December 2005, pp 28 & 33.
[18] *Greening the Workplace*, TUC, 2005.
[19] *Sweden's new Social Democratic Model*, Robert Taylor, 2005.
[20] *Globalisation and the UK – strength and opportunity to meet the economic challenge*, HMT, December 2005, p 4.

requires a huge step change to achieve a world-class skills base by 2020 and the review is currently considering the implications of this for future policy.

TUC has agreed with most of the analysis of the interim report, but we do not believe it is possible to act on it without a genuine post-voluntary framework for skills policy. Too many UK firms are locked in a low skills equilibrium, producing low-specification goods or services that can only support a low price, low wage business strategy. As a recent report from the Sector Skills Development Agency argued, these firms "are often unable to break free from this equilibrium [and that] demand for skill is therefore limited" as a result.[21]

To break out of this trap the UK desperately needs to develop a consensus that employers have an obligation to train their employees to meet the requirements of their present job. When it comes to the wider needs of the workforce, employers, employees and government should be seen as having a joint responsibility. Union recognition and collective agreements between employers and unions would do much to help deliver such a strategy.

Unions are certainly willing to play their part. Union Learning Reps have already demonstrated their ability to build a learning culture at work, especially among those employees who are least likely to be offered training by their employer. The TUC has recently launched a new organisation – *unionlearn* – to help build the capacity of unions to make a vital contribution to UK competitiveness.

Science and Innovation

The Government has introduced the 'Science and Innovation Investment Framework 2004-14', which highlights the long-term priority being given to science and research and development. The Government has also introduced a system of R&D tax credits, which has so far resulted in over 17,000 claims and over £1.3 billion of support being claimed.[22] However, whilst the UK science base is performing strongly, this must be turned into rising levels of business R&D and innovation. The UK currently lags behind the US, France and Germany in this regard.

While the TUC applauds the efforts of the Treasury and the DTI in encouraging research and development through tax credits, it is clear that these measures are not delivering the change that is needed if UK plc is to remain competitive. In *An Industrial Strategy for the United Kingdom*, the TUC called for an inquiry into the 'failure of voluntarism' that exists among UK business. We welcome work that is just beginning on the Manufacturing Forum on this issue, but voluntarism is failing across industry, not just in manufacturing. For this reason, a wider examination of the failure of UK companies to undertake research and development to necessary levels is required.

[21] *Market Failure in Skills*, Ewart Keep, Sector Skills Development Agency, 2006.
[22] *R&D Intensive Businesses in the UK*, DTI Economics Paper No. 11, 2005.

A further policy priority set out by the Treasury is to encourage still stronger links between industry and the science base, and enhance the UK's current and future comparative advantage. The DTI Innovation Report noted that "there is a very pronounced concentration of research and development activity in the Southern and Eastern areas of England, even when adjustments are made for population differences. This largely reflects the decision of a few large companies in R&D intensive industries to locate their activities there."[23]

The Government's support for science through public spending is welcome, but it needs to consider ways to spread this work outside Oxbridge, the South East and the Home Counties.

Regulation

The Treasury is convinced that "over-burdensome regulation imposes constraints on firms, taking up resources that could be more productively used if firms had the flexibility to respond to new opportunities offered by globalisation." *Globalisation and the UK* describes a policy priority to continue to strive to minimise undue regulatory burdens by delivering the Hampton and Better Regulation Task Force reports, ensuring that regulation is used only where absolutely necessary to support justifiable policy aims, and that the administrative burdens of understanding and complying with regulations are as low as possible.

In 2002 Richard Freeman looked at countries' economic performance and their labour market institutions, product market regulation and regulations on business formation and found "no discernable link". He concluded that "the most natural" explanation for this "is that the observed patterns do not support the superiority of particular brands of advanced capitalism. Within the range of variation in institutions that differentiate the US, UK, Germany, Sweden, Japan, and so on, there is either a relatively flat or a multiple peaked link between institutions and outcomes. Outside that range institutional variation may have large effects on outcomes, but once a country has a strong tradition of basic market freedoms – protection of property, rule of law, private ownership rights, viability of contracts, etc – it has considerable leeway in the precise way it structures its institutions. Advanced capitalism is a sturdy economic system that allows for diversity in institutional arrangements."[24]

And in any case, as the TUC has repeatedly pointed out, the UK is not over-burdened by regulation. The fact that this issue is given such prominence is more as a result of an intensive lobbying campaign by business groups than because of any real problem.

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[23] *Productivity in the UK: the Regional Dimension*, HMT and DTI, 2001.
[24] *Institutional Differences and Economic Performance Among OECD Countries*, Richard B. Freeman, CEP Discussion Paper 557, October 2002, p 17.

In 2003, the DTI published *UK Competitiveness: Moving to the Next Stage*, a study commissioned from Professor Michael Porter. Professor Porter, a former adviser to US President Ronald Reagan, concluded that a 'red tape burden', high taxes or too many holidays and rights to time off are not holding British businesses back. In fact, Porter said that "the UK has the lowest level of product and labour market regulations in the OECD".

In 2005, the World Bank's World Development Indicators index on 'rigidity of employment' ranked the UK at 14, higher than the USA's score of 3, but lower than the world average of 41, Europe's average of 44, Denmark at 20, France 66, Ireland 33, Italy 57, Japan 19, Germany 55 or the Netherlands at 49.[25]

The OECD rankings for labour market regulation show that on heading after heading, the UK had among the lowest scores:

Overall strictness of protection against dismissal in ordinary employment, 2003[26]

	OECD score
United States	0.2
United Kingdom	1.1
Switzerland	1.2
Canada	1.3
Australia	1.5
Denmark	1.5
Ireland	1.6
Belgium	1.7
New Zealand	1.7
Italy	1.8
Hungary	1.9
Finland	2.2
Poland	2.2
Mexico	2.3
Norway	2.3
Austria	2.4
Greece	2.4
Japan	2.4
Korea	2.4
France	2.5
Spain	2.6
Turkey	2.6
Germany	2.7
Sweden	2.9
Netherlands	3.1
Czech republic	3.3
Portugal	4.2

[25] *World Development Indicators*, World Bank, 2006, table 5.3.
[26] OECD data.

Overall strictness of regulation of temporary employment, 2003[27]

	OECD score
Canada	0.3
United States	0.3
Slovak Republic	0.4
United Kingdom	0.4
Czech Republic	0.5
Ireland	0.6
Australia	0.9
Hungary	1.1
Switzerland	1.1
Netherlands	1.2
Japan	1.3
New Zealand	1.3
Poland	1.3
Denmark	1.4
Austria	1.5
Sweden	1.6
Korea	1.7
Germany	1.8
Finland	1.9
Italy	2.1
Belgium	2.6
Portugal	2.8
Norway	2.9
Greece	3.3
Spain	3.5
France	3.6
Mexico	4.0
Turkey	4.9

[27] OECD data.

Overall strictness of regulation of collective dismissal, 2003[28]

	OECD score
New Zealand	0.4
Japan	1.5
Korea	1.9
Czech Republic	2.1
France	2.1
Ireland	2.4
Turkey	2.4
Slovak Republic	2.5
Finland	2.6
Australia	2.9
Canada	2.9
Hungary	2.9
Norway	2.9
United Kingdom	2.9
United States	2.9
Netherlands	3.0
Spain	3.1
Austria	3.3
Greece	3.3
Portugal	3.6
Germany	3.8
Mexico	3.8
Denmark	3.9
Switzerland	3.9
Belgium	4.1
Poland	4.1
Sweden	4.5
Italy	4.9

[28] OECD data.

Overall strictness of employment protection legislation, 2003[29]

	OECD score
United States	0.7
Canada	1.1
United Kingdom	1.1
Ireland	1.3
New Zealand	1.3
Australia	1.5
Switzerland	1.6
Hungary	1.7
Denmark	1.8
Japan	1.8
Czech Republic	1.9
Korea	2.0
Slovak Republic	2.0
Finland	2.1
Poland	2.1
Austria	2.2
Netherlands	2.3
Italy	2.4
Belgium	2.5
Germany	2.5
Norway	2.6
Sweden	2.6
France	2.9
Greece	2.9
Spain	3.1
Mexico	3.2
Portugal	3.5
Turkey	3.5

The UK does not have an over-regulated labour market, and reforming it should not be a priority for globalisation policy.

Transport and access to work

An effective, integrated transport structure is essential to delivering high and sustainable levels of economic activity, as well as wider environmental and social inclusion objectives - a role recognised by *Globalisation and the UK,* which argues that it plays “a fundamental role in the operation of labour, capital and product markets. It has a key role in minimising the congestion problems that can arise from agglomeration of firms, which, if left unresolved, could drive clusters apart. Transport also plays a critical role in supporting trade and growth by integrating domestic and world markets.”[30]

[29] OECD data. We use version 2 of the EPL index, as change over time is not being measured.
[30] *Globalisation and the UK*, HMT, 2005, p 40.

The Regional Development Agencies are increasingly aware of the significance of the transport agenda within their regional economic strategies. For our part, the TUC has argued[31] that an integrated approach, devolved to regional level and below, is essential. We have welcomed Government initiatives in this direction, such as the Yorkshire and the Humber pilot regional Advisory Transport Board, established to evaluate how spending priorities can dovetail with regional priorities. Key issues remain to be resolved as to the role to be played by local authorities and other regional stakeholders in these bodies.

Energy and the Environment

Globalisation and the UK states: "As globalisation continues, pressures on scarce resources, particularly energy sources, and on the environment will intensify. Increased trade and the fragmentation of production will mean further growth in international transport; and as emerging economies and developing countries' energy needs grow, competition for scarce resources will intensify. To ensure that globalisation and increases in prosperity are sustainable, the challenges this poses for the UK and the global economy need to be addressed."

Two recent events - energy prices shocks for both domestic and industrial consumers, and recent increases in our CO_2 emissions (16) 32 - have marked a fundamental shift in UK energy policy, from its former focus on competition, privatisation and liberalisation towards the new fundamentals of security of supply and climate change.

Among developed countries there has been an increasing recognition of the risks of fossil fuel import dependency, once again bringing political interventions to the centre of energy policy. The TUC argued that heightened concerns over security of supply and climate change require the redesign of energy policy in the national interest. A new approach is needed that retains the advantages of the current market based system, but which:

- addresses weaknesses around energy security;
- promotes investment in indigenous, low carbon energy sources; and
- supports energy efficiency measures across industrial, commercial and domestic consumers.

A policy supporting the development of energy self-reliance, based on indigenous, often renewable, energy, makes sense against forecasts of a phenomenal 60% growth in world primary energy demand by 2030.[33] The International Energy Agency (IEA) forecasts a 1.7% annual increase in

[31] In our response to the Northern Way Growth Strategy (2005).

[33] "The Investment Implications of Global Energy Trends", Faith Birol, *Oxford Review of Economic Policy*, Vol. 21, Spring 2005.

consumption (from10bn tonnes of oil equivalent energy in 2002 to 16.5bn tonnes in 2030).

Two-thirds of this rise in demand stems from developing countries, mainly China and India. Yet, by 2030, an estimated 1.4 billion people (mainly in sub-Saharan Africa and India) will still be without access to electricity.

IEA forecasts imply that global energy-related carbon dioxide emissions will increase by 52% between 2003 and 2030. Developing countries will account for 73% of this increase. Clearly, such trends require a policy shift towards investment on a massive scale in a range of low- and carbon-free energy sources, principally in transport and electricity generation.

The role of governments in securing energy investment will have to change, with greater emphasis in directing the right enabling conditions to secure the desired energy outcomes. Market rules, regulations and transparency to secure sound decisions will be key elements of energy market framework required.

The UK Government appears not to be on track to cut our CO2 emissions by 20% by 2010, although we are closer to targets in our overall greenhouse gas reductions. But the Energy White Paper goal of a 60% cut in carbon emissions by 2050 remains a central objective of policy, believed to be consistent with preventing global temperatures exceeding an average increase of 2 degrees above pre-industrial levels.

The TUC strongly supports the UK Governments efforts for the next stage of the Kyoto Treaty, with the inclusion of a new energy strategy, as well as international aviation and shipping within its scope. The EU Emissions Trading Scheme, emerging as the hub of a global scheme to cap and trade carbon emissions, has the potential to drive up energy efficiency and stimulate low- and carbon free energy. The inclusion of aviation emissions of flights to, from and within the EU initially is a crucial next step.

Section four

globalisation and jobs

Globalisation creating and destroying jobs

The processes underlying globalisation, international trade and investment, are tremendously powerful, and can both create and destroy jobs in the UK. British companies, especially in manufacturing and tradable services, the fact that trade has become cheaper means that there are many more opportunities to export. The emergence of new markets is a great opportunity, as, for the first time, tens of millions of third world workers have the money to buy British. Very few sectors have not seen jobs created by globalisation: more and more goods are exported worldwide, creating opportunities in the aerospace industry; cheaper air travel has brought thousands of Asian students to British universities; a great deal of the value of goods imported into Britain is accounted for by services like design, marketing and consultancy that were often provided by British companies and British workers.

But there are also a number of ways in which global competition can lead to large-scale job losses or layoffs: companies go out of business or leave markets where they are no longer able to compete. Others restructure, sometimes relocating production in countries where wages are lower, sometimes outsourcing work to contractors. All of this may be more likely when there are fewer barriers to trade and overseas investment, and the scale of such changes can be quite significant – about half of US imports, for instance, are goods manufactured abroad by US companies.[34]

Globalisation and manufacturing jobs

From a UK perspective, manufacturing is the sector where the impact of globalisation is under the spotlight. Manufacturing is more exposed to international competition than any other industry or sector,[35] and there is certainly evidence that manufacturing employment is falling. In December 1980, there were 6,401,000 jobs in manufacturing; 25 years later, in December 2005, the figure was nearly halved, to 3,367,000, and manufacturing jobs continue to be lost at a rate of about 100,000 a year.[36]

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[34] *World Competitiveness Yearbook,* 2004, International Institute for Management Development.
[35] *Liberalisation and Globalisation: Maximising the Benefits of International Trade and Investment,* 2004, DTI Economics Paper 10, para 3.4
[36] The December 1980 figure, it should be remembered, comes *after* two disastrous years, when 2/3 of a million manufacturing jobs were lost. 98,000 manufacturing jobs

To what extent is this due to globalisation? Some jobs have been lost because of specific weaknesses in our economy rather than globalisation. As we have previously noted, in the context of our arguments for a UK industrial strategy, all West European manufacturers face heightened competition, but the decline of manufacturing employment in the UK stands out:[37]

Manufacturing jobs in selected countries, Q1 2001 and Q1 2005 (thousands)

Country	Denmark	Germany	Spain	France	Italy	Austria	Sweden	UK
Q1 2001	484	8,621	3,003	4,388	4,942	737	753	4,463
Q1 2005	443	8,201	3,087	3,975	4,768	697	670	3,723
% change	-8.5	-4.9	+2.8	-9.4	-3.5	-5.4	-11	-16.6

A DTI study of UK manufacturing industries in the period 1990 – 1998 found that "there appears to be very little correlation between a UK manufacturing industry's rate of growth and the change in its trade balance. In contrast, there is a striking correlation between an industry's rate of growth and the rate of growth of its domestic market."[38]

On page 10 we saw that the UK's merchandise trade/GDP ratio has actually been *declining* in recent years, from 41.2% to 38.1%. This makes it harder to blame globalisation for more than a small proportion of manufacturing job losses over the last ten to fifteen years. And it is almost certainly the same story for earlier periods; Bob Rowthorn suggests that manufacturing job losses in developed countries due to North-South trade in the period 1970 – 94 averaged 0.1 percent of total employment per annum.[39]

A very important article in the 2005 edition of the OECD's *Employment Outlook* looked at manufacturing in 15 industrialised countries during the years 1970 – 2000, and found that employment declined 27% in high-international-competition-industries, compared with 16% in manufacturing overall. This is significant, but the authors add that high-international-competition-industries only accounted for 4% of employment in these countries, and "aggregate employment performance does not appear to have

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were lost between December 2004 and December 2005. *Labour Market Statistics First Release Historical Supplement*, table 5, downloaded from http://www.statistics.gov.uk/downloads/theme_labour/LMS_FR_HS/WebTable05_2.xls on 15/05/2006 16:29.

[37] *An Industrial Strategy for the United Kingdom*, TUC, 2005, p 17. Eurostat data; German figures are for Q2 2001 and Q2 2004.

[38] *Liberalisation and Globalisation: maximising the benefits of international trade and investment*, DTI, 2004, pp 14 – 15.

[39] *Globalisation and Employment*, Robert Rowthorn, (mimeo) p 9.

suffered in the OECD countries that are most open to trade or where trade openness has increased most rapidly."[40]

The OECD also looked at research into the impact of globalisation on inequality, and noted that "most researchers have concluded that trade made a relatively modest contribution to the declining labour market position of low-skilled workers and have pointed to skill-biased technological change as being a more important factor. Nonetheless, it is very difficult to disentangle the causal impacts of these (and other) factors."[41]

Jobs gained

Most economists agree that, overall, increased trade leads to increased wealth for all participants. As Paul Krugman has said, "If there were an Economist's Creed, it would surely contain the affirmations 'I believe in the Principle of Comparative Advantage' and 'I believe in Free Trade'."[42]

This is more than a matter of faith. In 2003 a US study found that $1 invested abroad through offshoring creates $1.45 in value, of which 78% goes the USA and 22% to the receiving country.[43]

The OECD found that a ten percentage point increase in trade openness produced an increase in output per working age person of four percent and that countries more open to trade grow faster than those less open and have higher income levels at any point in time: in the 1990s countries that were open to trade and investment had average growth rates that were twice as high as those of countries that were not so open.[44]

This is important. Although some neo-liberal economists have argued that only structural factors (such as labour market flexibility or union strength) influence employment growth, the evidence suggests that there is a continuing link between GDP growth and employment growth:

- Ewald Walterskirchen looked at data for EU countries during 1988 – 98, and found that "there is still a strong and positive correlation between GDP-growth and the change in employment. But employment, of course, will rise only if economic growth rates are outstripping productivity gains."45
- Perugini and Signorelli, after surveying recent work, found that "all the

[40] "Trade-Adjustment Costs in OECD Labour Markets: a Mountain or a Molehill?", *Employment Outlook*, OECD, 2005, p 30.
[41] "Trade-Adjustment Costs in OECD Labour Markets: a Mountain or a Molehill?", *Employment Outlook*, OECD, 2005, p 28.
[42] Quoted in *Liberalisation and Globalisation: maximising the benefits of international trade and investment*, DTI, 2004, p 17.
[43] *Offshoring: Is it a Win-Win Game?*, McKinsey Global Institute, 2003.
[44] "Trade-Adjustment Costs in OECD Labour Markets: a Mountain or a Molehill?", *Employment Outlook*, OECD, 2005, p 27.
[45] *The Relationship Between Growth, Employment and Unemployment in the EU*, European Economists for an Alternative Economic Policy, 1999, p 2.

various studies suggest that the link between (un)employment and growth is still a useful macroeconomic rule of thumb."[46]

Between December 1980 and December 2005 services employment grew by more than seven and a half million.[47] In 2005 UK services exports were worth over £105 bn and trade in services as a proportion of GDP rose from 10.6% of GDP to 15.4% between 1990 and 2004.[48] There are a lot of service jobs that depend on international trade and investment.

Jobs lost

These beneficial impacts take time, but the negative effects are felt much more quickly, and it is important for us to avoid the error of believing that globalisation has had *no* negative impacts on jobs. The research we have quoted suggests that it is easy to overstate the threat to employment posed by globalisation, but these studies mainly find that there is *some* impact. This is a finding repeated in other studies:

- Figures from the US Bureau of Labor Statistics suggest that, in 2004, jobs that moved out of the USA accounted for about a third of all relocated workers.[49]
- A report for the DTI quoted a World Bank estimate that 12% – 16% of service sector jobs have 'disaggregation potential' and an ILO suggestion that 5% of service sector jobs in the industrialised world could be contestable by low-wage countries.[50]
- A report by the British Computer Society's working group on offshoring quoted research predicting that 102,000 British IT and software jobs would be offshored by 2010, equivalent to about 12% of the IT workforce.[51]

None of these studies suggest an employment apocalypse, but these numbers are not trivial. The negative implications of globalisation for British workers aren't just a matter of the jobs that are actually lost. The threat of competition from countries with lower wages, or of outsourcing or transferred production can be used to keep down wages, cut pension schemes and increase the pace of work. For many trades unionists the claim that globalisation has no negative

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[46] *Growth and Employment in EU Countries and Regions*, paper for 2005 conference of the Italian National Convention of Labour Economists , p 5.
[47] *Labour Market Statistics First Release Historical Supplement*, table 5.
[48] *World Development indicators 2006*, World Bank, table 6.1.
[49] Taken from *Extended Mass Layoffs in 2004*, Department of Labor, Bureau of Labor Statistics, report 989, September 2005. Downloaded from http://www.bls.gov/mls/mlsreport989.pdf on 5/15/2006 5:33 pm.
[50] *Liberalisation and Globalisation: Maximising the Benefits of International Trade and Investment*, 2004, DTI Economics Paper 10, para 3.14.
[51] *Offshoring: A Challenge or Opportunity for British IT Professionals?*, report by the British Computer Society Working Party on Offshoring, November 2004. They also quote an estimate from Forrester Research of 150,000 pure IT jobs moving offshore from Europe by 2015. (p 1)

side will always ring false because it is contradicted by their experience of its impact on bargaining.

Earlier we saw that this country is a common source and recipient of cross-border investment, so British workers are particularly exposed to relocation decisions. This problem is made worse by the fact that UK laws allow employers to make British workers redundant far more easily than would be the case in most other EU countries. Levels of redundancy pay are low, so making British workers redundant is a cheap option, consultation arrangements are inadequate (employers don't have to consult unions till too late in the process and the consultations are often not meaningful), some employers are guilty of pre-emptively removing plant and there are gaps in insolvency law (in particular, the TUC is concerned that administrators should be required to consult unions about the future of the business.)

Why the threat to jobs should be taken seriously

Unemployment can be a scarring experience. Benefit rates for unemployed people are desperately low – Jobseeker's Allowance for a single person with no children is currently £57.45 a week (less for people under 25). The London School of Hygiene calculated some years ago that JSA provided just 60% of the income needed for healthy living, less in London; as the policy has not been changed the position is almost certainly worse today.[52]

The immediate danger of very low living standards is not the only problem, unemployment can also affect future earnings power. The OECD has noted that many displaced workers remain jobless for a year or more and that those who get jobs on average earn a little less than in their previous jobs – a lot less for older workers and those who had been in their old jobs a long time or who have to move to another industry.[53]

A careful review of the literature on globalisation found that " … untangling the relationship between trade-displacement and disadvantaged characteristics is difficult. There does, however, appear to be considerable evidence that workers who must shift sectors to find employment experience significant losses…."[54]

American research, looking at people who lost non-manufacturing jobs due to competition from cheap imports during the years 1979 – 99, found that 30 percent still had no job a year later. Of those who had got jobs, about a quarter were better off, so the average result was that workers who got jobs

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[52] Information provided by the Peanuts4Benefits campaign: www.peanuts4benefits.co.uk

[53] "Trade-adjustment Costs in OECD Labour Markets: A Mountain or a Molehill?", *Employment Outlook*, OECD, 2005, pp 36 – 7.

[54] *Globalisation and Labour Markets: Literature Review and Synthesis*, D. Greenaway and D. Nelson, Leverhulme Centre For Research On Globalisation And Economic Policy Research Paper 2001/29, p 22.

had about the same wage as they had had before. This is a typical result of studies like this, and when average wages are quoted it can seem as if there is no unemployment penalty, but these averages hide the fact that a large minority is worse off, or, as in this case, a majority – 55 percent had had to take worse paying jobs.[55]

Another study, using data from the large-scale European Community Household Panel, looked at the impact of being unemployed on subsequent wages. While the short-term reduction is lower in the UK than in most other countries, the long-term impact is worse:[56]

Average percentage fall in gross hourly earnings following a spell of unemployment, 1994 - 8

	Average percentage fall in gross hourly earnings following a spell of unemployment	
	Within the last 12 months	**More than 12 months ago**
Netherlands	5.3%	..
Portugal	2.4%	1.8%
Spain	6.3%	2.2%
Italy	4.3%	3.4%
Greece	..	4.4%
Belgium	6.0%	7.0%
Finland	..	9.0%
Ireland	4.4%	10.6%
France	3.5%	10.9%
UK	3.9%	10.9%

One of the most worrying studies in this field was published recently by the Work Foundation, looking at what had happened to the workers laid off at MG Rover. Eight months later a third were still unemployed; over half were now employed full-time, but on average their new jobs paid them £3,523 a year less than MG Rover, and almost half thought their new jobs were worse.[57]

Fortunately, the workers' anxiety levels were lower than they had been immediately after the redundancy – except for those who were still unemployed. The conclusion reached by the author was stark:

"many of the ex-MG Rover workers have not and will not be able to find 'good jobs' and will be forced to accept 'bad' jobs. A small minority of workers may join the ranks of the long-term unemployed or withdraw from the labour force permanently. This continuing underemployment and worklessness is likely to have long-lasting negative effects on the health and

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[55] *Exploding the Myths About Offshoring*, Martin N. Baily and Diana Farrell, McKinsey Global Institute, 2004, p 8.
[56] "More and Better Jobs? Aggregate Performance During the Past Decade", *Employment Outlook*, OECD, 2003, table 1.6.
[57] *Life after MG Rover*, Kathy Armstrong, Work Foundation, 2006, passim.

well-being of these workers. The positive effects of becoming reemployed are likely to be limited to those who regain satisfactory new jobs."[58]

Playing fair

The TUC's strong concern is that the costs and benefits of globalisation are not spread evenly or fairly. Most of us benefit from international trade and investment. We benefit from cheaper goods and higher growth and output.

But a minority of workers not only do not share these gains, they pay the costs. They pay these costs in the coin of the stress and humiliation of unemployment, and the risk of never again having jobs as good as those they have lost. Jobseeker's Allowance is not fair compensation for people who pay such a price for a system that leaves the rest of us better off.

The Globalisation Adjustment Fund

What would be fair? The Spending Review will not introduce benefit increases, but there is space for adding value to the EU Globalisation Adjustment. Worth up to half a billion Euros a year, the Fund provides training and jobsearch support for workers who lose their jobs because of 'major structural changes in world trade patterns.'

This Fund is precisely the sort of extra help for the victims of globalisation that unions have been calling for, though it is far too small – at 500 million Euros, it is worth almost exactly one Euro a year per head of EU population. Unfortunately, the model of governance chosen by the Commission only provides a limited role for the social partners – governments will have to inform unions and employers about measures implementing the Fund, but there is no guarantee of involvement in implementation.

The Globalisation Adjustment Fund is one of the achievements of the 2005 UK Presidency of the EU,[59] and it would be relatively easy to build on this success by establishing a UK partner fund to double the support for British workers hit by trade adjustments.

Benefit reforms

Although the spending review will not deliver benefit increases, globalisation is a good context for thinking about the future of benefits for unemployed people. One reform would be simply to increase benefit levels. Another, more focused, response has emerged from the American debate - a scheme of earnings insurance: "…for as little as 4 to 5 percent of the savings companies realized from offshoring, they could insure all full-time workers who lost jobs

[58] Ibid, p 6.
[59] *Why We Need a Globalisation Adjustment Fund*, Loukas Tsoukalis, October 2005, taken from the 10 Downing Street website - http://www.pm.gov.uk/output/Page8381.asp

as a result. The program would compensate those workers for 70 percent of the difference between the wage rate they received on the job they lost and the wage rate they received on the new job, as well as offer health care subsidies for up to two years."[60]

Investing in vulnerable workers

Another response would be to promote the employability of workers in industries threatened by global competition. In addition to the industrial policies outlined earlier, vulnerable groups of workers need extra help. They can be assisted by a strategic approach, based on investment over the whole course of their working lives, rather than emergency measures when redundancies are on the cards.

We know that skilled and qualified workers find jobs more easily than colleagues who lack skills and/or qualifications. The Government's plans to offer special training opportunities for workers with out of date skills are therefore particularly welcome.

This is particularly an issue for older workers, who may find it particularly difficult to get a new job when they are made redundant. A study that aimed to find out which workers are most threatened by cyclical increases in unemployment discovered that unskilled older workers become vulnerable about five years earlier than those who have skills and qualifications.[61]

Older workers often face discrimination, being more likely to be denied access to employer-provided training. There is an important role for the Government in making sure that the new anti-discrimination legislation on age is thoroughly applied to training provision, and in encouraging employers to offer good training opportunities to all their staff. Otherwise older workers' comparatively short time to go till retirement may make investment in training look unattractive;[62] training subsidies for older workers and their employers might therefore be a particularly useful tool.

After a redundancy many people who are disabled or have a health condition, who were able to continue in employment up to that point, will decide that their prospects of getting a new job are very low indeed, and fall into economic inactivity. This problem can be addressed by a dual strategy.

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[60] *Exploding the Myths About Offshoring*, Martin N. Baily and Diana Farrell, McKinsey Global Institute, 2004, pp 8 – 9.

[61] "Why has employment recently risen among older workers in Britain?" Richard Disney and Denise Hawkes in *The Labour Market under New Labour: the State of Working Britain II*, Richard Dickens, Paul Gregg and Jonathan Wadsworth (eds), 2003.

[62] "Why has employment recently risen among older workers in Britain?" Richard Disney and Denise Hawkes in *The Labour Market under New Labour: the State of Working Britain II*, Richard Dickens, Paul Gregg and Jonathan Wadsworth (eds), 2003.

One element would be to continue with the Government's very good record of legislating to promote equal rights for disabled people. The second element would be to supplement this with employment programmes specifically designed to help disabled people into jobs.

Two programmes have been particularly successful: one is Pathways to Work, which offer a 'condition management programme', accustoming people to coping with their impairment or illness in a work setting. The other is Access to Work, which offers help to employers who make adjustments to premises or work stations or buy special equipment to recruit (or continue to employ) disabled workers. The Government has already announced its plans to spend £360m on expanding the Pathways to Work programme to cover the whole country, and this is very welcome. The TUC would be delighted to see a similar financial commitment to Access to Work.

A vulnerable group is unhealthy workers. Poor health is not the same as disability, and health promotion is important for both disabled and non-disabled workers. We know that healthy workers find it easier to get new jobs, even if they have been made redundant. All too often, after being made redundant workers in poor health will decide that their chances of getting another job are poor and quickly become discouraged. Policies to promote healthy living would reduce the number of workers in this final vulnerable group, and thus cut the numbers for whom redundancy means never having a job again.

Healthy living is long-term policy, demanding action across the life cycle, inside the workplace as well as outside. In Finland this is known as 'maintaining work ability', because of its positive impact on employment performance. Some of the measures that could make a difference include:

- Fitness programmes at work, including subsidised workplace gyms;
- Enhanced occupational health provision;
- Improved health and safety provision;
- Training for supervisors in age management;
- Good ergonomic practice;
- Work organisation reforms to give individual workers more control over their jobs.

Responsible restructuring

Finally, the ILO has suggested[63] a model for socially responsible restructuring, and unions and government could both promote it to employers:

[63] *Restructuring with workforce reduction – how to manage the process in a socially sensitive manner,* Daniel Esser and Patrick Ozoux, ILO, 2003, p 28.

- *Internal job search* - workers' first option should be any suitable jobs that are available within the company - in another plant or in a subsidiary if necessary.
- *Psychological help* - is "absolutely necessary" and should be "considered at the very beginning to help the employee regain a positive attitude and to develop and strengthen self-confidence."
- *External jobsearch*, through assessment, skills training, job search advice and training. An approach from a representative of the company may reach recruiters in other companies; similarly, a pro-active approach to recruitment agencies may encourage them to take candidates more seriously. A 'speed bonus' for employees who find new jobs quickly may help.
- *SME creation* – help for those who have always wanted to set up their own business.
- *Mobility help* – for employees who want to move somewhere else to find work.
- *Pre-retirement* help and partial retirement for those who are interested.
- *Training and education*
- *Part time employment* may be a viable alternative to layoffs, may be more attractive if backed up with some transitional funding.
- *Flexible leave* - a temporary solution, needs to be backed up with partial salary and arrangements for keeping in touch during the leave.

Priorities for the Comprehensive Spending Review

To summarise, the TUC suggests the following priorities for the Comprehensive Spending Review, in the context of the debate on globalisation. They are not exhaustive and it should not be assumed that other policy priorities are unimportant or of lesser value. However, in terms of meeting the challenge of globalisation, the TUC would highlight the following priority areas:

- Skills: as the Treasury admits, we must do much more to ensure that we have the skills to meet the productivity levels of France and the US. Trade unions are working to promote workforce learning, especially through *unionlearn*; we call on the Government to prioritise the skills agenda and the union role.
- Modern industrial strategy: the UK will continue to lag behind our competitors until we recognise that competition policy must be accompanied by a strategy to boost the capacity of industry. The Manufacturing Forum is discussing TUC ideas on industrial strategy. We welcome that discussion, but industrial policy goes wider than manufacturing. Any modern industrial strategy developed in response to globalisation must be adequately funded.
- Energy/environment: the threat of missed CO_2 reduction targets, rising fuel poverty and energy prices shocks all demonstrate the limits of an excessively liberalised energy market. If we are to get back on track, market instruments, including tax incentives, are necessary to promote investment in low carbon/carbon free energy, as well as security of supply.
- Transport: modern industry needs effective, efficient transport links. Investment in growth areas, such as the Thames Gateway, a high-speed rail link from London to Scotland and improved freight services are priority areas for transport investment.
- A comprehensive approach to health: lifelong health is as important as lifelong learning in promoting employability. Healthier workplaces, fitness programmes, work organisation reforms can all form part of a concerted effort to maintain the employment chances of those working in jobs exposed to international competition.

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