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Budget Submission 2012

A Budget to Tackle the Jobs and Growth Crisis

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Summary of Recommendations

Overall approach

- The Government should reconsider its programme of spending reductions, instead prioritising the provision of an immediate stimulus package and measures to boost longer-term growth, supported by a wider range of tax raising provisions.
- Measures to reduce employment protection should be rejected on the basis that the UK labour market is suffering a crisis of demand, not of regulation.
- Growth measures should recognise the economic and social benefits of tackling entrenched inequalities affecting groups including women, BME communities and disabled people.
- The economic benefits of the transition to a low carbon economy should be embraced, rather than denied.
- The economic benefits of a strong public sector need to be recognised, rather than being talked down

Boosting consumer demand

- VAT should be cut to at least 17.5%.
- Tax Credit cuts should be reversed.
- The public sector wage freeze should be reversed.

Boosting investment

- A new bank lending target should be developed, with net rather than gross targets imposed on the UK's banks.
- Credit easing should be commenced as soon as possible, and double the level of funding provided taking the value of the programme to £40 billion.
- A strategic investment bank should be established, similar to the KfW in Germany or the Nordic or European Investment banks.
- Planned corporation tax cuts should be scrapped, while capital allowances should be reinstated and extended to apply to private sector infrastructure

spending.

- The Government should consider limiting tax-deductibility on debt used to fund organic growth through investment in research and development, innovation and training apply rather than debt accrued to buy up other companies.
- The UK should introduce a financial transactions tax, which will both raise revenues and rebalance investment towards the wider economy.
- Proposed 46 per cent cuts to Government investment expenditure should be reconsidered, and significant investment channelled into social housing as a means to provide a boost to the construction sector.

A modern industrial strategy

- Procurement policy should support the development of a modern, high-skill, high-value economy in the UK. Government should meet with industry and unions to define the guidelines within which support for the British economy can be measured.
- Government money should be spent on active strategies to help strategic small firms to grow rather than to generally support business start-ups in areas of low or no growth.
- The Government should further increase the size of the Regional Growth Fund and make sure that the cash is quickly dispersed to business.
- A strategic approach should be taken to boosting skills in areas of potential growth, such as advanced manufacturing.

Growing the green economy

- Support for the green industries should form a key part of a wider Government industrial strategy.
- Greater policy certainty should be provided to green businesses. Specifically, the Chancellor should take steps to reassess the solar photovoltaic funding cap.
- The date from which the Green Investment Bank will be able to borrow should be brought forward.
- Measures to support the Energy Intensive Industries should be introduced immediately, including further support derived from the revenues from green taxes.
- UK industrial strategy should take account of the need to secure the energy intensive industries for the long-term.
- The CHP levy, abolished in Budget 2011, should be reinstated.
- An Office for Green Skills should be established with responsibility for developing skills for a green economy across government.

- The Green Economy Council should also establish a green skills subgroup that would be led by the Office for Green Skills and be inclusive of all departments, business and civil society organisations that will advance the employment and skills potential of the green economy.

Education and skills

- The government could deliver an immediate boost to education and training opportunities for young people by reversing the abolition of the EMA and instigating a short-term reform of the JSA system in order to allow many more benefit claimants to attend college full-time.
- The 25% cut to FE funding over the CSR period should be reviewed ensure adequate college provision is in place to meet the demand that these reforms would generate.
- Under-investment in skills should be tackled by extending the use of regulatory levers to influence employer investment in skills.

Tackling unemployment

- The Government should commit to returning UK employment levels to their pre-recession peak as a key ambition for its macroeconomic policy.
- The Government should recognise that workfare is ineffective and terminate its remaining workfare schemes.
- The quality of the Government's work experience scheme for young people should be significantly improved.
- The Government should demonstrate its commitment to helping unemployed young people by introducing a Job Guarantee for young people who are unemployed and have been claiming JSA for six months or more.
- The Government should undertake wider reform of benefits and support services for young unemployed people, including the introduction of a new Youth Credit and a universal Employment and Skills service for all young people aged 16-24.

Tax Fairness

- The 50% tax rate should be retained.
- Reliefs and allowances to those in the 50% tax rate should be restricted.
- Tax relief on salaries paid in excess of ten times median UK pay should be withdrawn for corporation tax purposes.
- A bankers' bonus tax should continue to be charged on the bonuses paid by this sector.
- Income tax and capital gains tax rates should be realigned, without exception and wider reforms should be made to reduce abuse of the tax system through CGT.

Promoting longer-term growth

- A range of corporate governance reforms should be taken to reduce the extent to which companies and investors drive economic short-termism, including more transparency in relation to costs, charges and remuneration structures of fund managers and reform of directors' primary duty to promote the long-term success of the company, rather than prioritising shareholders' interests as at present.
- Measures should be taken to restore the link between wages and productivity, including restoring ACAS's duty to promote collective bargaining.

Executive Summary

As we approach Budget 2012, it is clear that the UK is facing a jobs and growth crisis. It need not have been this way. But since the General Election of 2010 the Government has pursued one overriding objective: to pay down the deficit as quickly as possible through the sharpest programme of spending cuts in recent history. Guided by laissez-faire economic theory, they told us that 'expansionary fiscal contraction' would lead to a new economic confidence in which private sector "animal spirits" would flourish.

But 20 months later, we're in a very different situation. The UK has come dangerously close to a double-dip recession, unemployment – especially youth unemployment – has reached crisis levels, and yet the target of repaying the deficit over five years is already out of reach. The Government's strategy isn't working – and risks causing long-term economic damage.

This Budget Submission calls for a new approach. By tackling deficit reduction at a measured pace underpinned by tax fairness and a new emphasis on growth, the TUC believes the UK can find a more effective, and a more inclusive way towards economic prosperity.

As our economic analysis below shows, last year the UK experienced domestic weakness, with higher than expected inflation and lower than expected wage growth. Those factors squeezed household incomes and forced consumers to cut back on spending. Corporations continued to run a large surplus of profits over investment. All in all, domestic demand fell in a way that has crippled the economic recovery. What is more, until demand picks up, unemployment, and its associated economic and social costs, will continue to rise. Evidence from early 2010 demonstrates that when growth picks up, jobs can be expected to follow. If the hopes and ambitions of the UK's unemployed are to be fulfilled, and if the country's full productive potential is to be utilised, we need a strong recovery to take hold.

But instead of taking real action to boost the economy, the Government's response to date has been to fall back on unproven supply side reforms and laissez-faire orthodoxy. While many business groups and right-wing lobbyists maintain that cutting back on employment rights, in the name of deregulation, will deliver growth, those arguments have been shown to be false. The Department of Business' own research has shown that most employers do not perceive the current level of regulation as a major constraint on growth.

Meanwhile, the equality agenda is under threat. Women are already disproportionately hit by the spending cuts, as they are more likely to work in the public sector. Spending cuts also affect services that women, in particular, tend to use, such as public transport and childcare. Disabled people and BME communities are also harder hit by the cuts, even though they are more likely to live in poverty in the first place. Despite this, important support such as the independent Living Fund is being frozen, while the Women's National Commission has been abolished and the EHRC has had its funding cut. As well as being counter to the claim that "we are all in this together", reducing equality mechanisms makes it harder for these groups to play a full part in the economy.

There is also concern that environmental initiatives are falling victim to the drive for austerity, undermining the UK's potential to become a leading player in the green economy. And instead of seeing the public sector as a driver of growth, the Government is set on talking down the vital contribution that millions of hard-working public servants make to our country.

In response to this situation, this Budget Submission recommends a suite of policies to deliver more economic growth, greater social justice and tax fairness. In the longer term, such policies are designed to deliver a more balanced and a greener economy.

Central among our recommendations are a cut in VAT, early action on credit easing and greater fiscal support for business investment. We seek a modern industrial strategy, with action taken to ensure that procurement policy supports British industry. In the longer term, it is vital that the UK establishes an investment bank that works for our nascent firms in the same way that Germany's hugely successful KfW supports its economy. Meanwhile, it is nonsensical, given the crisis we are facing, that the Green Investment Bank cannot borrow until 2015.

The UK needs to grow more small firms to become medium sized businesses, but there must be a focus on those strategic companies that can grow and provide jobs and growth. Similarly, a modern industrial strategy should be based on the identification of strategic sectors where the UK is or could become competitive in the global economy of the coming decades.

The UK should aim to become a world leader in green technology. The most important factor affecting the green economy at present is the lack of policy certainty, as exemplified by the capping of the Feed In Tariff, and then its halving, for small scale, domestic solar installations. The Chancellor should reassess the solar photovoltaic funding cap in Budget 2012. More support is also necessary for energy intensive industries, although we recognise the progress made in this area.

Action on education and skills is clearly essential. The government could deliver an immediate boost to education and training opportunities for young people by reversing the abolition of the Educational Maintenance Allowance (EMA) and instigating a short-term reform of Jobseekers Allowance (JSA) system in order to allow many more benefit claimants to attend college full-time. In addition, the green economy will have specific skills needs that must be addressed.

The UK economy must become more balanced among regions as well as sectors. We seek more funding for the Regional Growth Fund and action to get this money into businesses more quickly.

Meanwhile, there must be measures to support those facing unemployment. Workfare is not the answer; neither is blaming the unemployed themselves for their plight. It is immoral, when there are so many people chasing so few vacancies, to argue that being out of work is the fault of those who are seeking work. The Government should demonstrate its commitment to helping unemployed young people by introducing a Job Guarantee for young people who are unemployed and have been claiming JSA for six months or more.

Finally, we must recognise the need to address the long-run problems in the UK's economy, including our culture of short-term decision making and the broken link between wages and productivity.

Section two

Introduction

Nearly two years after the election, it is clear that Government's economic strategy is not working. Attempting to pay down the deficit as quickly as possible, primarily through dramatic cuts to public spending, has proved counterproductive. The Government have failed to identify either the focus or the funds to secure the recovery, and the British economy has spent close to 24 months in the slow lane. Output remains significantly below pre-recession levels, and we remain in the lengthiest recovery since the Great Depression.

We were told that the Government's austerity agenda would restore confidence in the British economy. It would be tough, it would involve pain, but we were "all in this together" with the public sector jobs that would be lost to be replaced by private sector employment, much of which was 'crowded out' by public sector activity.

But this strategy is now self-evidently failing on its own terms. As the independent Office for Budget Responsibility set out at the time of the Autumn Statement 2011, the deficit cannot be paid off in five years, due to lower than expected economic growth. Indeed, the Government will now have to borrow £158 billion more than it planned just over a year ago and more than the borrowing target inherited from its predecessor. And it is not events abroad that are to blame for the UK's economic weakness. While trade performed better over 2011 than the Government initially forecast, domestic demand made a negative contribution to growth and investment failed to recover in line with expectations.

Rather than a private sector-led economic recovery, the UK is set to experience even slower growth over the year ahead than was the case over the previous 12 months, and as public sector workers lose their jobs the private sector is failing to create anywhere near enough new opportunities. Pressure on the Government to introduce a coherent growth strategy has become progressively stronger as each new set of forecasts proves to be lower than the last. Yet the Government cannot pursue a serious growth agenda because it has decided that slash-and-burn is a better economic policy than invest-and-grow.

The austerity approach is not only damaging our economy, it is proving disastrous for our society. Unemployment, especially among young people, and poverty are being visited on the British people and the most vulnerable and those already facing the greatest disadvantage (including women, disabled people and BME groups) are being hit the hardest.

Introduction

This Budget Submission takes as its premise that the real crisis facing Britain is not a debt crisis, but a crisis of jobs and growth. It sets out our short and medium term proposals for addressing these challenges, and for rebuilding a better balanced, more secure and fairer economy for the long-term. The submission begins with an analysis of the state of the economy and of the labour market, setting out in stark terms our parlous economic position and debunking some of the myths that surround the current government approach. We then put forward our policy recommendations for securing jobs and growth, including action to boost consumer demand and business investment (including investment in the green economy); development of a modern industrial strategy; improved learning and skills provision; and a significant focus on tackling unemployment, all underpinned by enhanced tax fairness. We also discuss the challenges of promoting a long-term corporate culture and restoring the link between wages and productivity.

The Government has had two years to test their approach – and it is now manifestly clear that they have failed. It is time for the Chancellor to rethink, and to recognise that jobs and growth are the UK's key economic priorities.

Section three

Economic Outlook

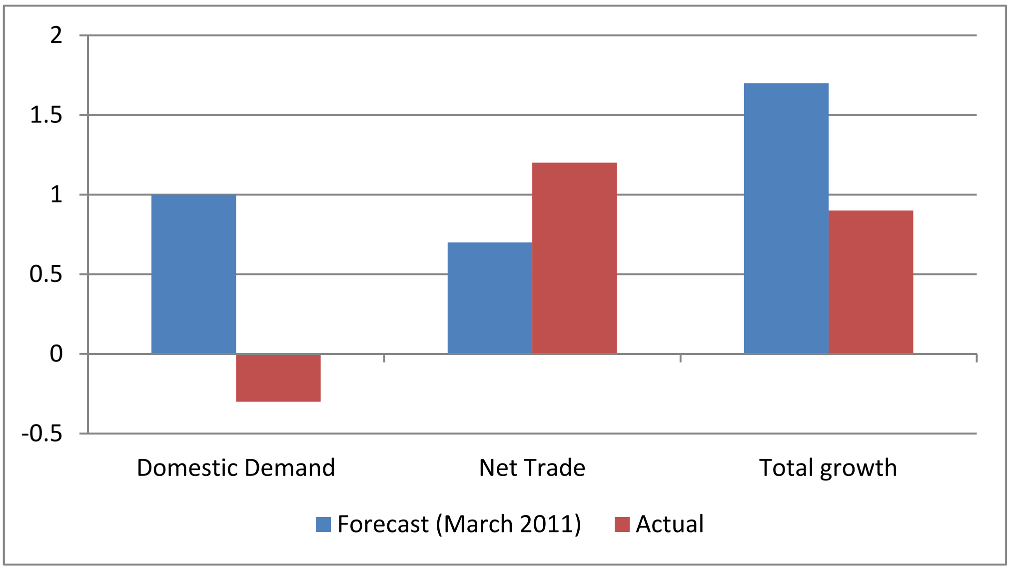
The state of the economy

In the forecasts accompanying the Budget in March 2011[1] the Office for Budget Responsibility estimated that the economy would grow by 1.7% in 2011. In reality we now know that it grew by just 0.9%, about half as much as the OBR expected.

The OBR expected household consumption to grow by 0.6% whereas it is now expected to have fallen by 1.1%[2]. The pattern is the same for investment, which was expected to grow by 6.7% at the time of the Budget, but seems to have contracted by 0.8%.

Not only has GDP growth overall undershot the OBR's expectations, but the composition of that growth is radically different to what it foresaw one year one ago.

Figure 1: Contributions to growth over 2011



[1] Economic and Fiscal Outlook, March 2011, OBR http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2011/
[2] Economic and Fiscal Outlook, November 2011, OBR http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-november-2011/

As Fig. 1 above demonstrates, domestic demand (the total amount of consumer, business and government spending) was expected to add strongly to growth in 2011. Instead it actually fell, subtracting from growth. In other words the domestic economy contracted in 2011 and if it wasn't for a strong contribution from overseas trade, output across the UK economy as a whole would have fallen in 2011.

The Government has been very keen to blame the economy's woes on the crisis in the Eurozone, but that simply does not fit with the data. External trade has been *stronger* than expected and the domestic economy *weaker* than forecast. There is no doubting that the serious problems in the Eurozone have the potential to have a major impact on the UK economy (and such an effect could be seen in the monthly trade figures towards the end of the year, which were once again heading south) but to blame the Eurozone for a collapse in domestic demand seems disingenuous at best.

The real story of 2011 for the UK economy was one of broad based domestic weakness with higher than expected inflation and lower than expected wage growth squeezing household incomes and forcing them to cut back on spending, whilst corporations continued to run a large surplus of profits over investment.

Low domestic demand means that exports and investment must play a big part in any economic recovery, bigger than in any recovery in recent memory. However, the UK is not well placed to do this at present. We have historically spent a comparatively low amount on investment and, in the TUC's view, Government plans to cut public investment by 46 per cent by 2014-15 will act as a drag on the overall economic contribution of investment to the recovery. Moreover, many UK businesses are sitting on large amounts of cash, but are unlikely to invest this money if confidence and domestic demand remain depressed.

Inflation rose strongly throughout the year, driven by both January's hike in VAT and higher than expected commodity prices (following the turmoil of the Arab Spring and its impact on oil prices), peaking at well over 5% in September. Inflation has subsequently fallen as the impact of the VAT rise drops out of the year on year comparison, commodity prices have stabilised and retailers have engaged in a price war to hang on to market share.

The large drop in consumption, still around 70% of the economy, seemed to take policy makers and retailers by surprise. Tesco reported its UK like for like sales (i.e. excluding store openings) fell by 1.3% in 2011, the first fall in a generation. Whilst the Government has hoped to rebalance the economy away from a reliance on consumption, its forecasts were premised on consumption continuing to rise – but other factors (such as investment) rising at a quicker pace. The fact that neither of these goals have been achieved explains our current stagnation.

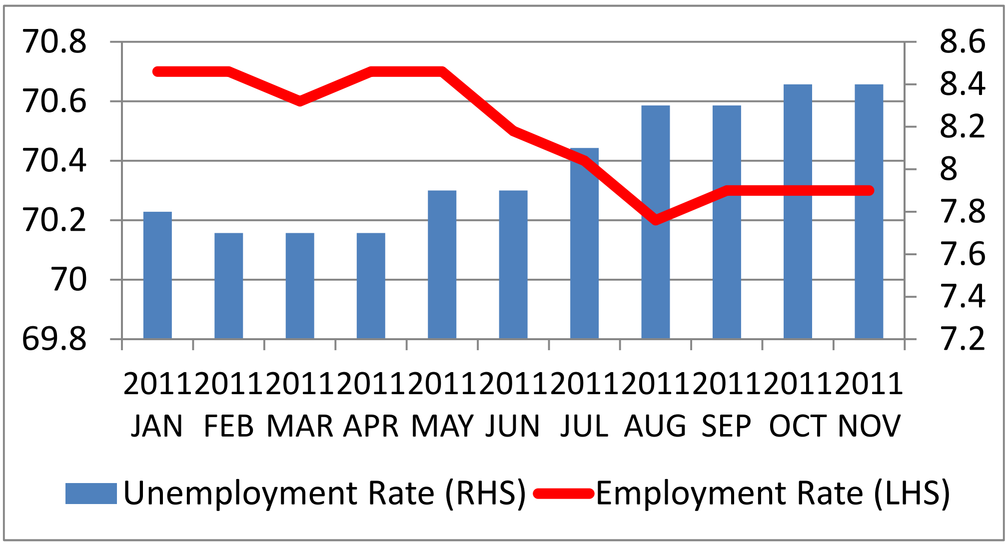
At the Autumn Statement in November the OBR was forced to revise down growth estimates for not just 2011 but for subsequent years as well. As a result its estimates of the deficit have been revised up by a cumulative £158bn compared to the position in June 2010, when the Government embarked on its austerity drive. The structural deficit (as assessed by the OBR), rather than being eliminated by 2015 as planned, is now expected to last until 2017. Consequently, the Autumn Statement saw the Government announce an additional £30bn of cuts to take place in the first two years of the next Parliament.

The labour market

The UK has a comparatively low unemployment rate – at 8.4 per cent in October 2011, UK unemployment was lower than equivalent figures for France, Italy and the USA. But the recession hit the UK harder than most other advanced industrialised economies. According to the US Bureau of Statistics[3], Japan, Australia, Canada, Sweden, the Netherlands, France and Italy all experienced lower rises in unemployment between the first quarter of 2008 and the last quarter of 2011 than did the UK. Only the US saw a bigger rise, while Germany saw a fall.

Last year's labour market performance was disappointing. From late spring, the employment rate fell and the unemployment rate rose, as fig. 2 demonstrates.

Figure 2: Employment and unemployment Jan – Nov 2011



[3] www.bls.gov/ilc/intl_unemployment_rates_monthly.htm

In the last three months of the year, the employment *level* improved, but this disguised the fact that the number of people in full-time work actually continued to fall.

In addition, during this period the number of people in temporary jobs rose by 37,000 and the proportion of employees whose jobs are temporary increased from 6.1 to 6.2 per cent (in January 2008, this figure was 5.7 per cent). The number of workers in temporary jobs because they could not permanent employment increased or working part-time because they could not find full-time jobs increased during 2011.

Public sector employment has been falling since the last quarter of 2009; in that period, it has dropped from 6.352 million to 5.987 million in Q3 2011, a loss of 365,000 jobs. The Prime Minister has frequently pointed out that, in that period, private sector employment increased by 630,000. This is, however, the result of a large increase in private sector employment in the second quarter (Apr – Jun) of 2010. Since then, public sector losses have outpaced gains in the private sector: in the four quarters from Q4 2010 to Q3 2011, the public sector lost 227,000 jobs, while the private sector gained 175,000.

Redundancies were on a rising trend throughout 2011, with the redundancy level rising from 127,000 in January to 164,000 in November while the redundancy rate rose from 5.1 to 6.6.

Future prospects

While the economy did grow over 2011, the strength of the recovery was far weaker than had previously been anticipated. With forecasts for 2012 predicting even weaker growth over this year, the immediate outlook is not promising with little current evidence of a significant increase in business investment or a strong recovery in household spending. With consumption contracting over 2011, and the most recent investment data also showing a quarterly fall, the OBR's expectations remain unlikely to be met – as we go on to set out, further Government action to support both is vital.

It is also clear that the UK is facing a significant jobs deficit – over one million people more are unemployed than was the case before the recession. But evidence from early 2010, when 314,000 private sector jobs were created over three months, demonstrates that when demand picks up, jobs growth can be expected to follow. If the hopes and ambitions of the UK's unemployed are to be fulfilled, and if the country's full productive potential is to be utilised, we need the economy to grow.

The risks of failing to secure growth cannot therefore be understated. The longer that the economy remains depressed, the more our future capacity is at risk. Long-term unemployment is not simply a human tragedy, but an enormous economic waste as the productive potential of our workforce becomes permanently eroded, and the cost of supporting those who are out of work rises. Similarly, lost productive capacity as firms close or reduce their activities risks permanent falls in potential economic output, driving down future trend growth and putting the public finances in an even more perilous state. Already, slower growth has cost £30.9 billion in corporation tax receipts[4] and £34.7 billion in higher social security and tax credit costs[5]. We simply afford another year of economic stagnation. We therefore urge the Government to take significant action to boost aggregate demand and secure the recovery that is vital both to secure the jobs and livelihoods of households across the UK, and to put our public finances on a secure footing.

[4] Tables 4.6 (receipts) & 4.14 (total expenditure) in the October 2010 forecast http://budgetresponsibility.independent.gov.uk/wordpress/docs/econ_fiscal_outlook_291110.pdf

[5] Versus tables 4.7 & 4.18 in the November 2011 http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO_web_version138469072346.pdf.

Section four

Busting the Myths

As we have set out above, the UK faces major challenges to restoring steady growth and to tackling unemployment. But the Government's singular focus on spending cuts is limiting its capacity to act to boost demand. Instead, much of the 'growth agenda' to date has been based on unsubstantiated myths about how recovery can be achieved. Before setting out our positive growth proposals, those myths must be debunked.

Myth One: Spending cuts will secure the recovery

Delivering his Comprehensive Spending Review (CSR) on 20th October 2010, the Chancellor of the Exchequer, George Osborne, told the House of Commons:

"The Coalition Government faced the worst economic inheritance in modern history. The debts we were left with threatened every job and public service in the country, but we have put the national interest first… We have made sure that we are all in this together and we have taken our country back from the brink of bankruptcy. A stronger Britain starts here…"

In the 17 months since the CSR, the TUC has closely monitored developments, which we can test against the statement above.

First, the claim that "we are all in this together". In fact, just two days after the CSR[6], the TUC published an analysis showing that the poorest ten per cent of households would be hit 15 times harder than the richest ten per cent as a result of service cuts announced in the Chancellor's statement.

Using official figures to calculate how different groups benefit from different public services, we showed that those with incomes below £10,200 would suffer reductions in spending on services equivalent to 29.5 per cent of their annual income on average, or £1,913 per year. Lone parents would be hardest hit, with single pensioners next.

In January 2012, the Joseph Rowntree Foundation published a report, 'Serving Deprived Communities in a Recession'. This report looked at how English local government is dealing with the severe contraction in grant income implemented after the 2010 Comprehensive Spending Review and the subsequent local authority financial settlement. It found that:

[6] http://www.tuc.org.uk/pending/tuc-18705-f0.cfm

"the most deprived authorities will be hardest hit. These authorities systematically lost the most spending power, especially in the first year, while some affluent areas have faced only mild cuts initially. Indeed the front loading of the cuts, the fact that the settlement targeted the various grants previously focused towards the needs of deprived authorities and the design of the damping system have all ensured that deprived authorities will face a swifter and more severe cut. The evidence … also suggests that the consequences for vulnerable people and places living in the most disadvantaged council areas may be substantial."[7]

Spending cuts will disproportionately hit those in greatest need, including disabled people, BME groups and women. And with most of the spending reductions still to be made, the impacts are only set to get worse over the years ahead.

But what about the wider claim that spending cuts will secure the recovery? The Chancellor was very fond of quoting support for his argument. For example, at the Conservative Party Conference in 2010, he said that the IMF and the OECD supported this position.

In fact, the IMF has modified this support considerably in recent months. Whilst, of course, being too diplomatic to name the UK, the IMF World Economic Outlook Update in January 2012 said those countries "*with very low interest rates or other factors that create adequate fiscal space, including some in the euro area, should reconsider the pace of near-term fiscal consolidation*".

Writing on IMF Direct, the International Monetary Fund's Global Economy Forum, in January, Carlo Cottarelli, the Director of the IMF's Fiscal Affairs Department, said:

"For sure, markets don't like large debt and fiscal deficits, but they also don't like low growth. Take the recent downgrades of several European countries. Were they purely the result of fiscal problems? No… Some of our analytical work at the IMF makes this point clearly. It shows that lower debt ratios and deficits lead to lower interest rates on government bonds, but so too does faster short term growth. So when countries tighten fiscal policy and the economy slows, some of the gains from better fiscal fundamentals will be lost through lower growth."[8]

Also in January, in advance of the World Economic Forum in Davos, the Head of the IMF, Christine Lagarde, joined the President of the World Bank, Robert Zoellick, and the OECD Secretary General, Angel Gurria, in calling for deficit

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7 http://www.jrf.org.uk/sites/files/jrf/communities-recession-services-full.pdf
8 http://blog-imfdirect.imf.org/2012/01/29/fiscal-adjustment-too-much-of-a-good-thing/

reduction programmes that "*promote rather than reduce prospects for growth*".[9]

The leaders added: "Rising inequality calls for enlightened consideration of more inclusive models of growth. We must deliver tangible improvements in material living standards and greater social cohesion."

The Government's economic approach has dampened domestic demand. The inflationary impact of last year's VAT rise compounded the impacts of rising global commodity prices, exacerbating the living standards squeeze felt by households across the country. Higher than forecast public sector job losses and tax credit cuts have further pressed household budgets. These factors all played a part in the reduction in domestic consumption over 2011.

Investment has also been affected. With cuts to Government investment of 46 per cent by 2014/15, and cuts ensuring that confidence remains depressed, our desperately needed revival in business investment remains an aspiration rather than an economic reality.

And the Government's limited scope to stimulate growth, a result of the rigid spending constraints it has set itself, is also holding back the recovery. The stimulus measures which could boost confidence and demand, creating the conditions where business investment could start to soar, are beyond the limitations of the Government's tightly drawn targets on spending reductions.

The TUC believes that as well as increasing inequality, the Government's programme of spending reductions is damaging its capacity to secure the recovery - instead denying it the opportunity to start. Reconsidering this policy will be vital to providing Government with the scope to provide both the immediate stimulus and longer-term investment necessary to enable a return to strong and stable growth.

Myth Two: deregulation and reducing employment rights will create jobs

With unemployment levels standing at a seventeen year high, there is a pressing need for the Government to take steps to encourage job creation. However, the Government's proposals for deregulating the labour market, in particular plans to weaken unfair dismissal and redundancy rights, will not solve the jobs crisis. Rather they will increase job insecurity, damage workforce morale, and lead to increased lay-offs. The TUC therefore calls on the Government to revisit their proposals on employment law and to adopt proposals which will maintain employment levels and support the creation of sustainable and quality employment.

[9] http://www.bbc.co.uk/news/business-16645405

The Government has argued that watering down unfair dismissal rights will help to boost recruitment. However, this claim is not substantiated by the evidence.

Recruitment decisions for businesses are complex but they are more likely to be influenced by operational needs, market conditions, levels of demand and access to finance than rather employment rights and risks of future Employment Tribunal claims. Recent research undertaken by BIS confirmed that most employers do not perceive the current level of regulation as a major constraint on growth. The Small Business Barometer published in October 2011 asked 500 SMEs about their main obstacle to success.[10] The state of the economy was the biggest obstacle, listed by 45 per cent, and obtaining finance was next, mentioned by 12 per cent. After this came taxation, cash flow and competition. Just 6 per cent of respondents listed regulation as their main obstacle to growth. Similarly the ONS Access to Finance Statistics[11] analysed the limiting factors for business growth. This research found that the general economic outlook, price competition, limited demand in domestic markets and the high cost of labour were substantially more likely to be listed by businesses than the regulatory framework. This is not surprising given that according to OECD research, the UK is one of the most lightly regulated industrialised countries.[12]

In the UK the qualifying period for unfair dismissal rights has fluctuated over time. However there is no evidence that it is has had a direct effect on employment levels or that a shorter qualifying period has led to a loss of jobs or constrained employers' recruitment decisions. Indeed since the qualifying period was last reduced from two years to 12 months more than 1,750,000 extra jobs have been created in the UK.

Labour market analysis of the effects of employment protection legislation (EPL) also concludes that while reduced job protection may encourage hiring during periods of economic growth it also leads to increased lay-offs during downturns. And the effect of EPL on employment and unemployment levels across the economic cycle therefore tends to be neutral. The main effect of weaker EPL is to make employment less stable and secure.

The proposals are also likely to have a detrimental impact on young workers who tend to have a shorter tenure at work. 59.2 per cent of all employees aged 24 and under have less than two years service with their current employer (LFS Autumn 2010). Alongside experiencing record levels of unemployment, as a result of the Government's proposals, young workers who succeed in

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[10] BIS *Small Business Barometer* August 2011, published in October 2011: http://www.bis.gov.uk/assets/biscore/enterprise/docs/s/11-p75c-sme-business-barometer-august-2011

[11] ONS Access to Finance 2007 and 2010 http://www.ons.gov.uk/ons/dcp171778_235461.pdf

[12] OECD *Employment data* 2008

finding employment may find themselves in insecure jobs, which are here today and gone tomorrow. The extension of the unfair dismissal qualifying period is also likely to have a disproportionate impact on part time women workers and black and ethnic minority employees, all of whom tend to have shorter employment tenure.

The TUC therefore calls the Government as a matter of urgency to rethink its proposals for weakening unfair dismissal rights, and to recognise that, as a significant volume of economic evidence suggests, deregulation won't solve the jobs crisis.

Myth Three: we cannot afford equality

Over the past twenty two months, we have seen the announcement and implementation of a wide range of policy and fiscal measures which have served to put the brakes on – if not reverse – advances made in gender equality over previous decades. From the loss of women's jobs in the public sector, to the public sector pay freeze, to cuts to working tax credits, the Child Benefit freeze, the benefits cap, and a whole raft of draconian cuts and reforms to housing, social care, and disability benefits which disproportionately affect women[13].

To compound the problem of reduced income – both from work and from welfare – services which are predominantly used by women are also being cut, thus limiting opportunities to use local transport to travel to work, to use libraries or further education facilities to gain new skills and improve employability, or to access affordable childcare to enable women with children to return to work. The abolition of the Women's National Commission and cuts to the EHRC and other organisations tasked with promoting and advising on equality have exacerbated the problem yet further. And the freeze in Child Benefit, cuts to Sure Start services, and the squeeze on wages are all contributing to a situation where childcare simply is not affordable for many families.

While women's employment is relatively stable, women's unemployment has risen dramatically to a 23 year high of 1.12m. The rate of underemployment for women is also alarmingly high, signalling that many women are having to take part-time work due to the scarcity of full-time jobs. But the 2011 Budget and the Autumn Statement of last November have done little to address issues of women's unemployment, underemployment, pay, incentives to work for second earners or to address the ever rising costs of childcare which mean that for many women work simply does not pay. In a damning assessment of the 2011 Budget the Women's Budget Group wrote "*The economic strategy contained in this Budget means that progress towards gender equality in the*

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[13] TUC Report – Gender Impact of the Cuts
http://www.tuc.org.uk/extras/genderimpactofthecuts.pdf

labour market will be halted, and that gender inequality may well increase. It is far from clear that the private sector will replace the jobs lost in the public sector in terms of quantity; and any new jobs are likely to be worse in terms of quality."[14]

Disabled people have also been badly affected by spending reductions. Spending to enable disability equality is not only a cost – it also brings wider social and economic benefits: expenditure to support independent living, for example, quickly becomes a benefit, so the freezing of the Independent Living Fund is both a setback for the life chances of many disabled people, and ultimately a greater cost in health and social care. Similarly, Disability Living Allowance enables many disabled people to continue working, generating tax revenues and encouraging social inclusion. The proposed cuts mean half a million people will lose this support. Many other aspects of the current welfare reform programme serve to drive hundreds of thousands of disabled people (already disproportionately poor) deeper into poverty, which will bring longer term costs to the whole of society. Similarly, it is already recognised that spending money on schemes such as Access to Work generates more revenue than it costs, by keeping disabled people in work. The current indication that Government plans to expand this budget only by ending the subsidy that keeps Remploy factories operating will, if this happens, have consequences for several thousand severely disabled workers that are both inhuman and ineffective, as these workers may never find work again. A reform of supported employment along the lines proposed by the recognised Remploy unions would be a far better approach to this issue.

Cuts in public spending and the resultant job losses in public services are similarly having a disproportionate impact on black communities, because of the high levels of employment of black and minority ethnic workers, especially women, in the public sector. Again, it benefits no one to live in a society where entrenched inequalities are reinforced.

The TUC believes we urgently need a growth strategy which acts to tackle entrenched inequalities and consequently to increase the economic contribution that groups including women, disabled people and those from BME communities are able to make: one that recognises the disadvantaged position of these groups in the economy, addresses labour market inequalities and takes positive steps to improve access to affordable quality childcare and to wider services that support labour market participation.

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[14] WBG – *The Impact on Women of the Budget 2011*
http://www.wbg.org.uk/index_7_282363355.pdf

Myth Four: green policies are unaffordable

A worrying new discourse is emerging from the Government, as emphasised in the Chancellor's Autumn Statement 2011, that green policies are somehow holding back economic recovery. Referring to UK businesses, the Chancellor remarked in November 2011[15] that: "If we burden them with endless social and environmental goals – however worthy in their own right – then not only will we not achieve those goals, but the businesses will fail, jobs will be lost, and our country will be poorer.... All we will be doing is exporting valuable jobs out of Britain."

As well as risking limiting our ability to achieve vital carbon reduction targets, this rhetoric is heightening business uncertainty at a time when strong commitments to a sustainable economic recovery are required. But the Coalition's vision of a green economy, *Enabling the Transition*[16] (July 2011) argued that, "To invest in new systems, processes and tools, businesses require certainty on Government action." What is more, there is evidence that the previous regulatory framework supporting renewables led to rapid employment growth in the UK wind power industry in the past two years, matched by a remarkable upsurge in domestic and community solar photovoltaic (PV) schemes in 2011. Together, these sectors could boast some 40,000 direct jobs in autumn 2011, both supported by a regulatory structure that set out to encourage investment and industrial growth to meet environmental goals. Rather than an economic cost, green industries are a significant source of growth.

Green economy initiatives vital to the Government's climate change objectives have been cancelled or stalled in the past year, for example, the last minute curtailment of the UK's £1bn first carbon capture and storage project at Longannet and unexpected cuts to the Feed-In Tariff supporting the solar photovoltaic (PV) industry. The Government has a choice: it can go on investing in the green economy and reap the rewards, in terms of job creation and the building of new, world class economic sectors; or it can see the green sector only as a burden, thereby losing its economic potential.

The TUC believe that the rapid shift to a low carbon economy provides huge opportunities for reindustrialisation and rewards in terms of jobs and economic growth, and calls on Government to recognise the imperative of supporting (rather than talking down) the transition to a green economy.

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15 http://www.hm-treasury.gov.uk/press_136_11.htm

16 Enabling the Transition to a Green Economy: Government and business working together, BIS, July 2011.

Myth Five: The public sector is a block to recovery

The public sector played a vital economic role during the recent recession and beyond. Our premise is that sustaining public services is vital to economic recovery and the future prosperity of the country.

Public services are major employers and purchasers of goods and services. They create jobs, provide decent pay and pensions and set a benchmark in terms of equal opportunities. And the public sector is an important lynchpin not just in itself but also in terms of the wider economy.

Contrary to the popular myth that the public sector is bloated and inefficient, there is strong evidence that the investment in public services made since 1997 has led to real improvements in services. Increased spending on health and education has resulted in huge reductions in hospital waiting times and increased educational attainment, while programmes such as Sure Start have resulted in important benefits to around two million families.

A key study undertaken by the Association for Public Service Excellence (APSE) shows that for every £1 of public money invested in public services through direct employment and through procurement of supplies and services a further 64p is generated in the local economy. The public sector is in fact a driver of economic growth through local multipliers of public spending. This helps to sustain more resilient local economies.

The public sector represents an essential bulwark against continuing financial crises and the impact of the economic downturn. Whether it is sustaining employment, supporting businesses, mitigating the social costs of recession or underpinning training and education to provide the platform for future competitiveness, the public sector is a cohesive force that can operate in the wider public interest.

The TUC is clear that instead of blaming the public sector for our current economic weakness, the Government should recognise the vital role it can play in supporting the recovery and our longer-term economic health.

Section five

Policies for Jobs and Growth

This submission has set out the challenges facing the economy, in terms of growth and jobs, and has debunked some of the myths about how to pursue economic recovery. So what should the Government be doing to bring about a long-term, sustainable recovery, based on a rebalanced economy where investment plays a larger part underpinned by stable consumer demand? The TUC believes our major priorities should be: action to boost both consumer demand and investment (including investment in the green economy); development of a modern industrial strategy; improved learning and skills provision; and a significant focus on tackling unemployment, all underpinned by enhanced tax fairness.

Boosting consumer demand

As we set out above, boosting household confidence and spending will be key to securing the recovery. And as the OBR has highlighted, those on low incomes have the highest propensity to consume within the economy. Providing these households with the incomes they require to meet their needs is not only a matter of social justice, it also makes sound economic sense.

Cut VAT

Demand has undoubtedly been suppressed by the Government's decision to impose a substantial VAT increase on all consumer spending soon after coming into office. This policy, which also had the unfortunate effect of boosting inflation and decreasing the real wages of a majority of working people in the UK, has directly contributed to the decline in UK GDP, has increased the risk of recession, has brought considerable hardship and has reduced economic activity, so reducing other taxation yields. In turn this has removed any incentive for business to invest. VAT is also a tax which hits those who are the poorest the hardest – meaning it has a particularly detrimental impact on spending. ***As a result there is now an obvious need to reduce the rate of VAT from 20% to at least 17.5%,*** since this is the most obvious way in which the Government can stimulate demand and so restore confidence and growth to the macro-economy. As such we recommend this reduction to stimulate growth, paid for in part by the saving from cancelling corporation tax cuts (which we discuss below).

Reverse tax credit cuts

We note the Government's commitment to taking those earning less than £10,000 a year out of tax and that this is a policy that also benefits all those on incomes of less than £40,000 a year (or thereabouts) in this country. While this policy will bring clear benefits for those on low incomes and middle earners, we believe there are more effective means of targeting policy to boost household incomes among those who are the worst off, particularly given many working households will shortly experience cuts to Tax Credits which will cost them far more than they stand to gain through any increase in the personal allowance. ***We therefore call on the Government to reconsider its damaging proposals on Tax Credit reductions, which are set to cost some households around £3,870 a year during 2012, and to recognise the vital contribution these allowances make to household budgets.***

Reverse the public sector wage freeze

In June 2010, the Chancellor announced a two-year pay freeze for public sector workers in 2011–12 and 2012–13. He also said that the lowest earners, those on less than £21,000, would receive a fixed increase of £250. In a number of parts of the public sector the pay freeze came on top of freezes or below inflation increases in previous years, compounding the effect. Even the limited protection promised by the Chancellor has not been applied across the public sector, with the lowest paid workers in most local authorities not getting any increase at all. In the 2011 Autumn Statement, the Chancellor announced that this pay freeze would be followed by a further two years of severe pay restraint, with increases capped at one per cent per year. The TUC has calculated that this ongoing squeeze on public sector pay, combined with increased pension contributions and the effects of inflation, will mean a real-terms pay cut of more than 16 per cent on average for public sector workers by 2015.

Recent research by Incomes Data Services (IDS) found that the median settlement for private sector pay deals in the three months to the end of January was 3 per cent – still far short of what is needed to keep pace with living costs – but the median in the public sector remains at zero. The combined effect of the pay freeze, VAT increase and high inflation has meant a huge squeeze on the spending power of public sector workers. As people face rising prices for energy, food and other essentials, they will cut back on spending on goods and services in the local economy, hitting the fragile private sector. ***The time is right to re-open the usual pay determination discussions in the public sector and bring an end to the pay freeze, in order to support struggling households who have seen their real wages cut, and to increase spending power.***

Boosting investment

The UK has a comparatively poor record of investment in industry, while being reliant upon a significant boost in investment to secure future growth. A recent TUC report, 'Banking after Vickers'[17], identified four key ways in which banks are failing support to the UK's recovery.

- The UK's low level of corporate investment as compared to our international peers. Bank funding for investment in the real economy is harder to obtain in the UK.
- The problem of credit availability for small and medium sized enterprises in the UK.
- The role of banks in supporting rebalancing – both sectorally and regionally.
- The problems of funding 'Green Growth' in the UK.

All of these problems predate the recession, but the situation has worsened since 2008. Although the Government has attempted various policy packages over 2011, none have yet made a significant difference to the prospects for business investment. But with corporate surpluses at record highs (UK companies have cash piles currently worth £724 billion – equivalent to about half of GDP) the economy stands to reap significant benefits if investment can be unlocked, and steps can be taken in Budget 2012 to address our investment shortfall.

Banks that work for the real economy

The so-called Project Merlin agreement between the Treasury and the five major banks aimed to kick start lending to non-financial companies in general and SMEs in particular. The banks signed up to lending targets for 2011 as a whole in February 2011 but crucially these were *gross* rather than *net* targets.

A gross target does not take account of repayments that companies make, so it would be theoretically possible for banks to lend out a gross £100bn but receive repayments of £110bn meaning that whilst gross lending grew strongly, the actually net amount of credit extended to firms contracted. In seems that something like this has happened; the banks narrowly missed their SME gross target but easily beat the overall gross target. However, net lending to non-financial firms fell by £14bn.[18]

The Government should announce in Budget 2012 that it will introduce a new lending agreement with the banks based upon net rather than gross targets. A net target would ensure that credit availability for non-financial firms (and

[17] Banking After Vickers, http://www.tuc.org.uk/economy/tuc-20572-f0.cfm
[18] Bank of England, Lending data for 2011, http://www.bankofengland.co.uk/statistics/abl/current/index.htm

especially SMEs) would increase 2012 helping to generate new investment, new jobs and ultimately new tax revenues.

Credit easing

A further immediate step would be an early announcement on 'credit easing'. While we welcome the Government's plan 'to offer up to £20bn in guarantees to banks to lower the interest rates they offer to SMEs' details remain sketchy (despite it first being announced back in October) and we also question whether £20bn is anywhere near enough.

If Budget 2012 is to play a significant part in securing growth, it will need to introduce real action to take this proposal forward, along with wider measures to support demand and encourage employers who can to start to invest. With net lending to non financial firms having fallen by £14bn over 2011, £20bn is barely enough to reverse last year's decline, let alone to significantly challenge recent trends in UK business investment. ***We believe that to secure a significant economic impact at least double the level of funding currently being proposed for this initiative will be required.***

A state investment bank

We also need medium-term measures to significantly boost UK investment and complement a modern industrial policy (which we discuss below). Perhaps most importantly, ***the TUC calls for a strategic investment bank, similar to the KfW in Germany or the Nordic or European Investment Banks.*** Such a bank could borrow cheaply in the credit markets and extend loans to strategic, high growth SMEs and infrastructure investments at lower rates than those currently on offer. The international evidence is that there is a role for a public body in helping to ensure that credit flows to where it is needed and aid in both boosting growth and ensuring that any growth is better 'balanced'.

Such an investment bank could make use of existing government holdings in the banking industry and would be able to raise large amounts of money on the commercial markets, backed by a smaller capital base provided by government. It could be set up on a commercial basis, to be run by an independent board, with all stakeholders represented, including trade unions, subject to a remit to generate a long-term return, based in investment in British business in strategic industrial sectors. It is UK government policy to establish a Green Investment Bank and it is possible that such a bank could form part of a wider strategic investment bank, so long as the development of green industries was safeguarded as part of its remit. However, since the green industries would surely be identified as strategic industrial sectors of the future, this would hardly be a problem.

Tax

Existing Government growth strategies have focused very heavily upon reducing corporation tax rates for large businesses. They have therefore seen their tax rate falling at a time when almost no other part of the economy has seen such a benefit.

This policy has been mistaken. Big business is, as is noted in our analysis above, reluctant to invest at present due to a shortage of consumer demand and as a result is sitting, in very many cases, on substantial cash balances that are growing due to a government tax strategy that is not resulting in any additional growth within the economy. As a result a subsidy is being given to big companies that is producing no net benefit and as a consequence ***planned corporation tax cuts over the remaining life of this parliament need to be scrapped.***

But we do believe that the tax system could be better used to support investment in infrastructure development. Under the current system of capital allowances, certain structures and buildings do not qualify; as the CBI argue 28 per cent, or £11bn annually, of private sector annual spending on infrastructure is not eligible for tax relief under the current capital allowance regime, including some transport, energy, water and waste structures. ***The TUC agrees with the CBI that this issue should be addressed in Budget 2012.***

The Government is paying for its corporation tax cuts by lowering capital allowances. Capital allowances allow businesses that invest to claim for the value of some of that investment and reduce their tax bills. The net effect of these changes is to redistribute money from businesses which invest heavily to those which invest less, from manufacturers to the finance sector. This goes against the Government's stated aim of rebalancing the economy and is contributing to a desperate shortfall in investment in the UK. ***Increasing capital allowances would help encourage businesses to focus on the long-term and immediately increase investment, contributing to domestic demand.***

There is also a case for making better use of the tax system to address the ongoing sectoral balances in the UK economy. While there is no doubt that the finance sector has contributed significantly to the UK economy, and that it should continue to do so, there is also now a widespread concern that it has squeezed out other valuable economic activity by its ability to offer pay levels in excess of other activity. The sector did, in addition, help create the current recessionary environment in the UK economy.

We therefore recommend that to help restore essential balance in the UK economy ***it is vital that the UK introduce a financial transaction tax on speculative flows through the UK financial sector.*** That sector is, as the Institute for Fiscal Studies has argued in the Mirrless report, presently under taxed because it is exempt from VAT. It is also under taxed because the implicit guarantees from the UK Government, that underpin much of its activity at present (and which provide it with an effective capital base on which it has to pay no return), represent a subsidy for which it is not charged that has resulted in its over-expansion. A financial transaction tax would raise essential revenues to address these issues whilst potentially reducing the scale of some if this sector's more marginally profitable and potentially more risky trades, so reducing the risk of cost being transferred in due course to the UK economy at large.

Interest payments on corporate debt are tax deductible in the UK, which means that companies can offset interest payments against their tax bill, thus reducing the costs of debt-financing. The TUC first raised concerns about the impact of the tax deductibility of interest payments on corporate debt in the debate around private equity and evidence that this encouraged highly-leveraged private equity buyouts by making it a very cheap means to borrow large sums of money.

The financial crisis illustrated the fact that high levels of leverage create substantial risk throughout the economy, and especially within the financial sector. The number of voices drawing attention to the undesirable consequences of the tax deductibility of interest payments on corporate debt has increased considerably in the aftermath of the crisis. Both Nigel Lawson and Andy Haldane have called for reforms to address the anomalous tax treatment of debt and equity, with Haldane arguing either for a normal return on equity to be made tax deductible or the tax deductibility of debt to be withdrawn[19].

The TUC believes that there is a fundamental difference between debt used to fund organic growth through investment in research and development, innovation and training and debt used to buy up other companies. The TUC believes that reflecting this distinction in the tax rules so that tax-deductibility on debt would not apply to debt used to buy up other companies is an approach that merits further investigation. The size of debt relative to company turnover could be used as a possible proxy to distinguish between debt to fund organic growth and debt to fund takeovers.

Government investment in housing

Government plans to cut public investment by 46 per cent by 2014-15, which the TUC believes is a mistake that will act as a drag on the overall economic contribution of investment to the recovery. With construction output falling by 0.5 per cent in the fourth quarter of 2011, this sector of the economy is an important example of an area where government investment now could provide an important wider stimulus.

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19 http://www.wincott.co.uk/Andy_Haldane_2011.pdf

A few years ago private sector housing was booming and the Government of the day was promoting the aspiration that everybody could own their own home, with social housing left as a weak safety net for anybody unfortunate enough to fail to buy. But the onset of difficult economic times has completely broken that model. House prices are still drifting down in many parts of the country[20] and mortgages are hard to get, with lenders demanding very substantial deposits. With the availability of council houses declining, private landlords, who are weakly regulated, have been left to take up the slack and, unsurprisingly, the extra demand means that private rents have risen sharply.

The number of private rented homes rose by 2 million (80 per cent) between 2001 and 2011, whilst the number of local authority and housing association homes fell by 400,000 (7.6 per cent) during the same period[21]. Housing associations have been unable to fill the gap left by the decline of local authority build since they were largely dependent on planning gain in order to build. And as few private sector houses are being built, this route has also largely collapsed. Although there was a modest increase in council house building in 2011, the last year for which statistics are available, the 3,000 new council homes built could have been increased tenfold without making a significant dent in the demand for social housing. It seems unlikely that the Government's commitment to local decision making on house-building will help to solve the problem in most areas.

The Government should therefore find enough money in the Budget to revive the provision of social housing in order play a significant part in meeting the growing gap between housing need and what is available, otherwise we will be trapped in the cycle of housing boom and bust, and the less well off will be left entirely to the mercy of private landlords. Investment in decent housing is money well spent, as it will have a beneficial effect on the health, education and employability of our citizens and would also be a motor for economic recovery.

A modern industrial strategy

The TUC has been calling for a modern industrial strategy since before the economic downturn. We firmly believe that, if the UK is to survive and thrive in the age of globalisation, the UK's laissez-faire economic policy, which gives primacy to the power of the market, is not fit for purpose. There is a rich vein of thinking in the economics profession that supports this view. Furthermore, there are also influential economic voices who believe this moment, at this very

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[20] Prices fell by 1.3 per cent in England and Wales in the year to January 2012 (Land Registry)
[21] DCLG Housing Statistics (live tables 101 and 109)

stage of the economic downturn and recovery, is pivotal to our economic fortunes in the years, even the decades to come.[22]

The TUC has previously argued that a modern industrial strategy must focus on those strategic sectors where the UK is or could become a world leader and remain so during the age of globalisation.[23] We have identified aerospace, automotive and pharmaceuticals as three sectors where the UK is and can remain world class. Some might argue that those are older, less environmentally-friendly sectors, but the aeroplane and the motor car are not going away. Producing less polluting aircraft and greener cars is a major challenge of the current era and should be central to any future UK industrial strategy. Moreover, we have also argued that, as an island rich in natural resources, able to reap the benefits of wind and wave power, the UK could become a world-beater in environmental technology if Government support is forthcoming to develop those sectors.

Our recent report, 'German Lessons', sought to learn from the most successful European economy, and the strongest industrial nation in Europe, Germany. Interviews with senior managers, works council members and trade unionists in major German or German-owned companies, including Volkswagen, Siemens, BMW, ThyssenKrupp, Bentley and Airbus, provided valuable insights into how an active industrial strategy can work and the value that it can bring.

Chief among our conclusions were that the UK needs an industrial eco-system. Individual initiatives will not reach their full potential unless they are interlinked and the different aspects of industrial policy pull in the same direction. The main elements of this eco-system are: skills policy; government support, including investment support, that seeks to develop strategic sectors; growing strategic, high growth small firms into medium sized firms, which are able to develop relationships with larger exporting companies; and procurement policy.

So what can be done? Clearly a well-designed, effective industrial policy will take time to implement, meaning positive outcomes will be gradual. ***But the work to design and introduce an industrial strategy needs to start now, enabling the achievement of both shorter and medium term goals to rebuild and strengthen the UK economy.***

Public procurement

Public procurement policy is one area where immediate change could be achieved. Some progress has been made in the development of policy in this area in recent months. Specifically, a week before last November's Autumn Statement, the Cabinet Office Minister, Francis Maude, made an important

[22] For example see http://www.carlotaperez.org/index.htm for an explanation of the recent work of Carlota Perez.
[23] See, for example, 'An Industrial Strategy for the United Kingdom', TUC, 2005.

speech on the way government can address what he called "a bias against British based firms" in procurement policy. Steps that could be taken include promoting informal dialogue between purchasers and suppliers, making the case for greater market certainty about forthcoming procurement opportunities, and publishing forward looking pipelines for public sector construction projects and the UK's wider infrastructure investment programme.

The TUC supports this development, although we will be happier to see this change in practice than to simply celebrate its announcement. But we were concerned that a recent government consultation designed to influence the UK's negotiating position with Brussels, regarding the new EU Directives, stressed concerns about so-called "burdens on business", rather than addressing genuine opportunities to use procurement to promote skills or employment inclusion. This suggests that procurement policy may be facing two directions at the same time – hardly a recipe for delivering the policy certainty that business needs.

In our paper, 'German Lessons', we argued that ***every pound of taxpayers' money spent on procuring goods and services must demonstrably support the development of a modern, high-skill, high-value economy in the UK.*** Government should meet with industry and unions to define the guidelines within which such support for the British economy can be measured and this initiative should be announced as part of Budget 2012.

Supporting small firms to grow

The UK must rethink its ambitions for small, medium and large firms to fit a new industrial eco-system. There is a place for firms of all sizes in the British economy. However, different firms have different growth potential. NESTA, the National Endowment for Science, Technology and the Arts, has identified 'The Vital Six Per Cent', which argues that the six per cent of UK businesses with the highest growth rates generated half of the new jobs created by existing businesses between 2002 and 2008. In terms of tax treatment or other government support to industry, we should not treat all companies equally, because all companies are not equal. Those companies which have the highest growth rate and are able to create the highest number of jobs are those that we need the most and government support should reflect this.

The UK must lose its obsession with small firms per se. Whilst anyone that wants to start their own company should, of course, be free to do so, government should focus on those small firms with the highest growth potential. Germany has a network of thousands of medium-sized firms that act as suppliers to larger companies. The 'mittelstand' is often described as the backbone of the German economy. What is important, from the point of view of this submission, is that the 'mittelstand' are not simply seen as stand-alone companies, but as suppliers to large, German exporters, they are integrated into Germany's economic model. ***The UK must consider how it identifies strategic small firms, how it grows them into medium sized companies and how it develops their relationships with larger companies within the British economy. It would make more sense to put government money into active strategies to help strategic small firms to grow than to generally support business start-ups in areas of low or no growth, and the TUC calls for such an approach to be implemented in Budget 2012.***

Targeted regional support

A successful UK industrial policy will also need to include a regional dimension. Our deep recession and the weak recovery have hit the different nations and regions of the UK to varying degrees. Unemployment in the North East of England is currently almost twice the level of that in the South East, whilst the loss of public sector jobs is likely to disproportionately affect regions where unemployment is already high. The Government needs to take regional policy more seriously; the abolition of the Regional Development Agencies was a step in the wrong direction.

Enterprise Zones are highly unlikely to effective in creating new jobs in the regions – instead they will simply shift jobs within each region. ***Instead of further Employment Zone initiatives the Government should further increase the size of the Regional Growth Fund and make sure that the cash is quickly dispersed to businesses.*** Whilst the RGF is a welcome step, its budget is only just over a third size of that of the old RDAs and the vast majority of approved bids have not yet received any money.

A skills strategy to support industry

The UK's clear need for a strategic industrial policy must be accompanied by a strategic approach on skills policy, enabling investment in a high skilled workforce in potential growth areas in the economy. The role of unions in supporting all of these skills priorities at both the workplace and institutional levels will be a crucial factor, involving a widening of the breadth of union work on learning and skills.

The Government's current skills strategy pays little attention to how skills policy can support the UK's industrial development. To a large extent this omission is simply a conclusion of the lack of a coherent and expansive UK industrial policy. But should one be introduced, ***the TUC believes that the government's decision to retain the network of Sector Skills Councils and the UK Commission for Employment and Skills offers an institutional framework with the potential capacity to formulate a more strategic approach on skills in potential growth areas, such as advanced manufacturing and the low carbon sector, and calls on the Government to take such an approach forward.***

Growing the green economy

It is clear to most observers that the green economy offers enormous potential for the UK. It is vital that the Chancellor stops focusing on the costs of green policies and starts to consider the opportunities. ***This approach will need support for green industries to be integrated into a broad government industrial strategy, with specific consideration given to energy supply, transport (both road and rail) and in domestic energy efficiency to align manufacturing and energy policy.*** To ensure its success such an approach would require all stakeholders – government, industry and trade unions – to work together to develop and realise a common vision for the green economy.

A number of policy actions are needed to enable the development of such an approach, which we discuss below.

Greater policy certainty

The first, most immediate priority is to develop clarity around policy. As noted above, uncertainty about the Government's commitment to the green agenda is holding back the potential for the UK to become a world leader in environmental technology.

This is best exemplified by policy developments regarding the Feed-In Tariff (FIT). In 2011, the installation of 120,000 new small scale solar photovoltaic (PV) schemes led to the creation of 21,000 new jobs. But uncertainty over UK Government support has stalled the UK's micro-solar industry. The Coalition's decision to cap funding for the Feed-In Tariff at £860 million in Budget 2011 was followed by a precipitate decision to halve the tariff for small scale, domestic installations. This cut occurred before the end of a statutory consultation and is subject to legal challenge.

More positively, in February 2012, the Department of Energy and Climate Change announced a further tariff consultation aiming to set the FIT on a longer-term footing. Whilst this is welcome, ***the TUC believes the Chancellor should take steps to reassess the solar PV funding cap in Budget 2012***, to allow greater room for the industry to grow, and provide the necessary policy consistency and transparency to kick start investment and green employment growth.

Green Investment Bank

The TUC is a long-standing supporter of the policy to establish a Green Investment Bank (GIB), but we have never understood the caveat that it will not be allowed to borrow until 2015, and then only subject to public sector net debt falling as a percentage of GDP. Whilst that caveat solves certain problems regarding Treasury accounting, it means the UK loses three precious years during which we cannot meet the potential development of our crucial environmental industries.

If this policy made little sense in 2011, it makes even less sense now – a year of growth so low that there has been a real fear of a double-dip recession. ***The Chancellor should put growth before Treasury rules and announce in Budget 2012 that the date from which the GIB can borrow will be brought forward.***

Energy Intensive Industries

Energy intensive industries (EIIs) enjoy a combined turnover in excess of £86bn and account for one-fifth of manufacturing turnover. But they are not just the bedrock of UK manufacturing, for they make products vital to a low carbon economy: glass for double glazing, steel for turbine towers, and energy efficient solutions such as insulation or recyclable plastics. Their continued innovation will deliver important new products such as lightweight glass and scientifically applied fertilisers.

Energy intensive industries directly employ around 160,000 people in 3,500 businesses, in iron and steelmaking, cement and lime, ceramics, chemicals, glass, non-ferrous metals, pulp and paper, and refined petroleum product industries. More than four times this number - over 600,000 employees - work in their supply chains. EIIs and their immediate derivative operations account for a third of UK manufacturing turnover and gross value added (GVA). They are often the dominant employer and source of industrial production in a particular region.[24]

The TUC welcomed the initial £250m package of support measures for the energy intensive industries announced in Autumn Statement 2011, and calls for Budget 2012 to give effect, as appropriate, to those measures over the Spending Review period.

In the medium-term, we also welcome a decision by the Green Economy Council to prioritise further work in support of these sectors, and would encourage Government to ensure a full and frank discussion on the scale and scope of support for energy intensive industries as compared with our leading industrial competitors, both in Europe and beyond. To put current levels of support in some perspective, the current package is worth £250m over three years, whereas reports[25] from a DECC Ministerial visit to Germany's industrial counterparts in autumn 2011 revealed far higher and more widespread support for manufacturers. ***The TUC therefore believes that further work is required to develop a truly comprehensive industrial strategy that will secure the energy intensive industries in the UK for the long term.***

As well as providing immediate support, broader industrial policy is also seen as being a key influencing factor as to whether companies invest in new and

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24 Economic, employment and fiscal benefits of securing the energy intensive industries in the UK, TUC-EIUG, forthcoming report.
25 Bloomberg September 2011: http://mobile.bloomberg.com/news/2011-09-27/u-k-minister-seeks-to-learn-from-germans-on-protecting-industry

more efficient plants. Combining heat and power (CHP) processes on industrial sites is one of the most cost-effective forms of energy decarbonisation now being widely adopted by UK manufacturers, aided by modest levels of public support through Climate Change Levy Exemption Certificates (LECs). Unfortunately, Budget 2011 included an unhelpful decision to remove support for CHP units across the manufacturing sector. ***We therefore believe that Government should reinstate the CHP levy abolished in Budget 2011.***

New carbon taxes are also set to take their toll on the energy intensive sector. The Coalition's carbon price floor, or carbon tax, is due to raise some £740m in revenues in 2013-2014. HM Treasury will receive £7.7bn in receipts from the EU Emissions Trading Scheme by 2015-2016, and a further £3.2bn from the carbon tax, or Carbon Price Floor. Much of this revenue will be raised from the energy intensive industries. More discussion is therefore needed on how to alleviate industry's share of the levy supporting renewable energy investment, due to rise significantly in 2012, and more broadly, the impact of electricity costs arising as a result of the Coalition's electricity market reforms. ***The TUC therefore believes that the Government should be prepared in this Budget to signal a commitment to further support to the energy intensive industries from revenues derived from its own green taxes.***

Skills and the green economy

It is now widely recognised that moving to a low carbon and resource efficient economy will require fundamental transitions in behaviour and in the application of skills and knowledge across industries and services. But demand is not currently being well articulated by employers and as a result the current skills delivery framework is still inadequately equipped to anticipate and respond. Sectors Skills Councils (SSCs) have recently established a Skills for Green Economy Group to help clarify the main employer "asks" with regard to green skills policy. Yet factors such as contradictory signals about the growth potential of the green economy, a lack of strategy with regard STEM skills and diminished resources available to SSCs have adversely affected the delivery of skills for a green economy.

There is a pressing case for Government to lead the way in formulating some clear priorities for the skillsets that will be required by all parts of the workforce to accommodate the changes brought about the low carbon revolution. In this specific area the TUC recommends that the Government should announce the following measures in Budget 2012:

- the establishment of an Office for Green Skills that would have responsibility for developing and implementing strategy for skills for a green economy across Government, addressing the loss of expertise and co-ordination through the reorganisation of BIS, DEFRA and DECC and drawing the Department for Communities and Local Government and the Department for Education into governmental discussions.

- The establishment of a green skills subgroup of the Green Economy Council, led by the Office for Green Skills and inclusive of all departments, business and civil society organisations, to advance the employment and skills potential of the green economy.

Education and skills

The TUC continues to emphasise the importance of learning and skills and workforce development as a prerequisite for generating a sustained economic recovery. It is therefore of great concern that the latest trends show a continuing decline in employer investment in skills and tackling this under-investment is a challenge that the Government must prioritise.

Skills for young people

The TUC believes that too many young people are being barred from opportunities to acquire the skills that they require to find sustainable employment either in the short-term or over the longer-term when the eventual economic recovery begins to support renewed jobs growth.

A recent report by Barnardos (*Staying the Course*) has looked at the early impact of abolishing the Educational Maintenance Allowance (EMA) and replacing it with a bursary fund comprising less than a third of the original funding. According to this research the new financial support arrangements "leaves too many without the financial backup they need to support their everyday expenses, leaving them out of pocket and seriously considering whether they can afford to stay the course". Another recent research report by the Association of Colleges has highlighted the detrimental impact of the JSA "16 Hour Rule" which prevents benefit claimants from undertaking full-time college courses leading to a qualification and instead limits them to attending very short-term "employability" courses that are of little long-term benefit. An increasing number of young people are also being forced to attend short-term unpaid work experience placements when they would be much better off engaging in education and training that gave them the necessary skills for the jobs market when it recovers. While the Government has given priority to entitlements for young people aged under 24 in its new skills funding framework, associated reforms are making it increasingly difficult for young people to attend FE colleges to take up these entitlements. Two of the key barriers cited by college staff and students are the cut to financial support resulting from the abolition of the EMA and the inflexible requirements of JSA benefit system

The TUC recommends that the Government could deliver an immediate boost to education and training opportunities for young people by reversing the abolition of the EMA and instigating a short-term reform of the JSA benefit system in order to allow many more benefit claimants to attend college full-time. We also believe that the 25% cut to FE funding over the CSR period

should be reviewed, to ensure adequate college provision is in place to meet the demand that these reforms would generate.

While the TUC has welcomed the Government's continuing investment in the apprenticeship programme, a range of recent analyses have highlighted that we lag well behind much of the rest of continental Europe as regards the quantity and quality of our apprenticeships. At the same time too many young people are being barred from taking up FE and HE courses because of the impact of budget cuts, the significant increases in tuition fees, and inflexible benefit rules.

The TUC has welcomed the Government's commitment to make apprenticeships a central priority for building high quality vocational pathways for young people. Recent incentives designed to help more employers recruit apprentices from among unemployed young people are also welcome, though there are some concerns that the apprenticeship brand and the commitment of trainees will be damaged if benefit penalties are ever used to enforce participation. But much more needs to be done to boost the apprenticeship route as the TUC has highlighted in a recent contribution to an IPPR report[26].

Regulation needs to play a role in building a quality apprenticeship brand by setting some minimum national standards that would apply to all provision, including: a minimum duration; a right for participants to progress to a full level 3 apprenticeship if they wish; and greater enforcement of equality of access.

Compared to most other European countries, employer involvement in apprenticeships in the UK remains poor and it is increasingly evident that encouragement and exhortation (and even financial inducements) are not enough to persuade more employers to get engaged in this form of training. A range of measures needs to be adopted to achieve a breakthrough on this front, including: binding sectoral and sub-sectoral agreements by social partners (as in other European countries); more extensive use of procurement requirements; more effective targeting of the tax relief available to employers for workforce training; and human capital reporting requirements in annual reports.

Increasing employer investment in skills

One of the main sources of statistics on skills investment trends is the biennial UK Employer Skills Survey that is the responsibility of the UK Commission for Employment and Skills.[27] The results from the last three volumes (2007, 2009 and 2011) provide a picture of trends during the recessionary years and this by and large makes for depressing reading. During this period the proportion of employers saying that they did not provide any training to their staff increased

[26] TUC (2011) *Making Quality Count: the union view*, In: "Rethinking Apprenticeships, IPPR

[27] IFF Research (2011) *UK Employer Skills Survey 2011: first findings*, UKCES, December 2011. (Previous volumes were entitled the National Employer Skills Survey and only covered England).

from a third to two fifths and the proportion of employees saying they had not receiving any training increased from 37% to 46%.

These trends reinforce ***the TUC's recommendation in last year's Budget Submission that the Government needs to tackle under-investment in skills by extending the use of regulatory levers to influence employer investment in skills. We repeat that call now.*** In order to give this some traction, the TUC has recommended that employer and union representatives on Sector Skills Councils should be required by Government to come together to draw up a clear ambition for an improvement in skills investment by employers in their sector and that regulatory levers should be invoked in those sectors where this fails to materialise under the voluntary system. The 2010 skills strategy - *Skills for Sustainable Growth* - highlighted the Coalition Government's support, in principle, for a number of regulatory levers to tackle under-investment, such as Licence to Practice arrangements, sector training levies, and procurement policy.

Enhancing the union role in boosting skills

It is very welcome that the Government has pledged to continue to give support to the union role in championing learning and skills in the workplace, including maintaining the level of funding for unionlearn and the Union Learning Fund. The Government is also right in supporting a widening of the breadth of union work on learning and skills by encouraging unions to do more in promoting apprenticeships, supporting learning in non-unionised workplaces and building the green skills agenda. The TUC is however concerned that there needs to be more focus on the union role in supporting workplace skills in the context of employee engagement and what is often referred to as "high performance workplaces". This will involve giving greater acknowledgement to the need for high level negotiations between employers and unions on the inter-relationship between skills and working practices which is often the norm in many other countries. Unionlearn is currently running a skills utilisation project with the aim of highlighting best practice in this area and providing guidance to unions on how best to instil such an approach in individual workplaces.

Tackling Unemployment

The TUC has been concerned about the prospects for unemployed people since the start of the recession, especially long-term unemployed people and young unemployed people. Unemployment is a major risk factor for poverty. Working age people in workless households are more than twice as likely to be poor[28] as those in households where some of the adults are in work. They in

[28] Using the Government's definition of poverty - living in a household with an income below 60% of the equivalised median, before housing costs (rent, mortgage payments, water rates and charges, structural insurance premiums and ground rent) are taken into account. The

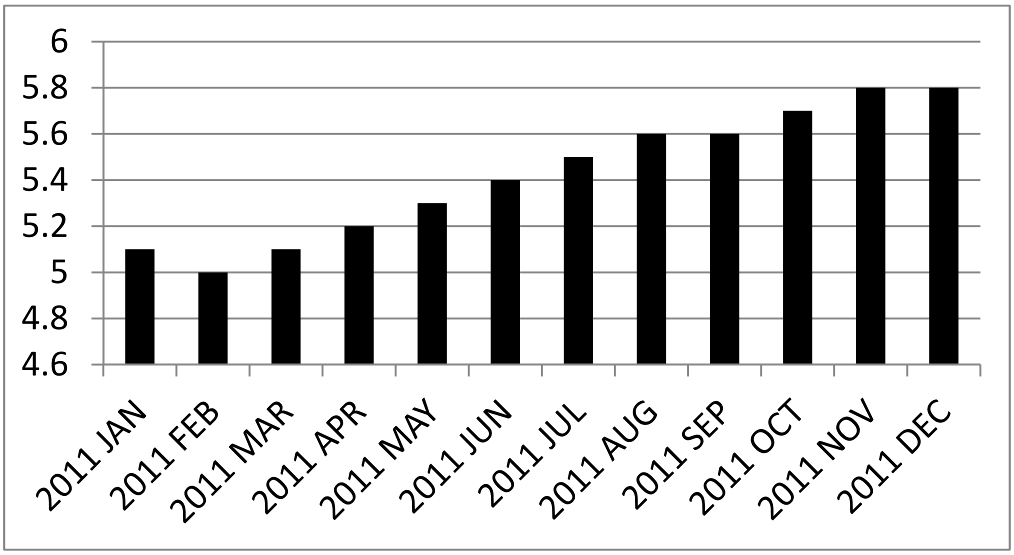
turn are more than three times as likely to be poor as those in households where all the adults are in work.[29]

Becoming unemployed when young is more likely to have a permanently scarring effect than at other times of life. Being unemployed when young increases the likelihood of being unemployed again, being unemployed when young lowers wages years (even decades) later in life and people who have experienced youth unemployment are less likely to be satisfied with their job if they are in employment.

There are now more than one million unemployed young people, a situation that has persisted for four months, producing the highest levels of youth unemployment since the 1980s. There are nearly a quarter of a million young people who have been unemployed for over a year and since the start of 2010, this figure has not fallen below 200,000; previously this level was last exceeded in 1995.

The economic case, as well as a humane concern about poverty, should make full employment a priority for any government. What form should policy take? The first point to be made is that the wrong policy is to blame unemployed people for their unemployment. There are currently 5.8 unemployed people chasing every job vacancy and this ratio deteriorated during 2011, as shown in fig. 3:

Figure 3: Number of unemployed people per vacancy, Jan – Dec 2011



median is the point in the income distribution where half the population has a higher income and half has a lower.

[29] *Households Below Average Income (HBAI) 1994/95-2009/10,* DWP, 2011, table 5.7db, downloaded from http://statistics.dwp.gov.uk/asd/hbai/hbai2010/index.php?page=chapters

There are more than fifty local authorities where the ratio is more than 10 to 1.[30] In April 2008, at the start of the recession, there were 1.6 million unemployed people in the United Kingdom; the unemployment level is now more than a million higher. The number unemployed has not been below 1.8 million since August 2008, previously it had not been above that rate since February 1998. The unemployment rate has not been below 6 per cent since August 2008 – but previously, it had not been above that since May 1999. Between August 1999 and December 2008 the employment rate was never below 72 per cent; since then it has never been above. Blaming unemployed people for their unemployment in these circumstances is wrong: it is not their fault that there are not enough jobs for everyone who needs one.

In the decade before the recession the UK benefited from a sustained period of low unemployment and high employment. There were places where unemployment was high and people who struggled to get jobs, but for most places and people the UK was as close to full employment as it has come for a generation. This country's labour market has taken a huge knock since the start of the recession, but the million extra people who cannot get jobs are not a different breed from the successful and productive workforce of four years ago. ***The Government must commit to a goal of full employment.***

Ending ineffective workfare programmes

The TUC is very concerned that the Government's Mandatory Work Activity and Work Experience schemes are becoming a full-blown workfare programme. When Work Experience was launched as part of the Government's Get Britain Working programme a year ago, the Department for Work and Pensions said that it was designed to "help maximise the number of young people moving into employment and provide young people with quality work experience."

The TUC accepts that good quality voluntary work experience can help the most disadvantaged unemployed people to get jobs if it is combined with the expectation that the young person will get a job (or at least a job interview) on completion of their placement and if it is of strictly limited duration. Two week work tasters, occasionally lasting another two weeks if circumstances demand, can be helpful. But it is becoming obvious that the Work Experience scheme is far from being a "quality work experience." There is rarely any training element. Employers do not have to provide a guaranteed job interview at the end of the placement and are not actively monitored to ensure that existing workers are not being denied overtime (or in the worst case scenario being made redundant) as a result of the unpaid work being undertaken. In addition, reports suggest that the vast majority of placements are in the retail

[30] "So There is no Shortage of Jobs?", Anjum Klair, *Touchstone Blog*, 6-2-12, http://touchstoneblog.org.uk/2012/02/so-there-is-no-shortage-of-jobs/

sector – hardly providing a range of experience for young people who are likely to have far more varied employment aspirations. This is exploitative.

We welcome the Government's decision to remove sanctions from those who choose to withdraw from the scheme after one week, but still have wider concerns about its operation, including the quality of the support that the scheme is providing, the outstanding risk of job displacement faced by other workers and the lack of evidence of effectiveness: our analysis shows that early outcome data suggest when compared to the general population of young JSA claimants participants of the scheme have a slightly lower chance of leaving benefit than their counterparts who have not undertaken work experience.[31] ***The Government needs to do more than simply change the sanctions regime – tighter requirements need to be placed on participating employers to provide quality training and guard against job displacement, placements should be tailored to young people's specific needs and more tightly time limited.***

As Paul Gregg pointed out in his report *Realising Potential*, which influenced the current Government as well as the last one, workfare schemes, because they can reduce job search activity and prevent the attainment of skills, can "actually damage employability".[32] A comparative review of workfare programmes in other countries, published in 2008 by DWP, concluded that there is little evidence that workfare increases the likelihood of finding work and it is least effective for those with multiple barriers to work. ***Most importantly, the evidence is that workfare is particularly ineffective where unemployment is high.[33] The Government should cease its workfare programmes and invest in support which is proven to provide those at risk of long-term unemployment with the best possible chance of moving into work.***

Support for young people

The TUC believes that the most successful employment programme of recent years was the Future Jobs Fund. The Future Jobs Fund was a budget of £1 billion set aside to create 150,000 jobs, mainly for long-term unemployed young people but with some places for other people who "faced significant disadvantage in the labour market." FJF jobs were real jobs with normal employee rights. They were paid a wage (at least the minimum wage), not benefits and laws against discrimination, on health and safety at work, unfair dismissal, rights to holidays and maximum working time all applied. There were rigorous checks to reduce the chances that Future Jobs Fund jobs did not displace existing workers and participants received training during their time on the programme.

[31] Bivand B *Generation Lost* http://www.tuc.org.uk/economy/tuc-20703-f0.cfm.
[32] *Realising Potential,* Paul Gregg for DWP, 2008, p. 41, http://www.dwp.gov.uk/docs/realisingpotential.pdf
[33]

The independent evaluation[34] of the FJF found that the programme moved people off benefits, benefitted communities and achieved "impressive levels of job sustainment". Most important of all, the cost per job outcome was similar to previous employment programmes – but achieved at a time when the recession was accelerating and businesses were not creating any new jobs. ***The TUC believes that the Government should demonstrate its commitment to helping unemployed young people by introducing a Job Guarantee for all young people claiming JSA who have spent more than six months unemployed.***

The TUC is also concerned that the levels of support currently available to support young people are not adequate to meet the scale of the challenge ahead. Our research shows that the total number of young people covered by the Youth Contract specific measures comes to 450,000 over the 36 month period that it will be in place for. As there have, since the recession started, been around 1.5 million new JSA claims by 18- to 24-year-olds a year, a likely three-year total would come to approximately 4.5 million, meaning that the Youth Contract specific measures provide support to approximately one in every ten young people likely to claim JSA over the period.[35] This is nowhere near enough to provide adequate support to the entire population of young unemployed people, particularly as the quality of both the training and work experience interventions appear poorer than many that have been introduced in the recent past. ***We therefore believe that in addition to an improvement in the quality of support available the number of places available on the Youth Contract needs to be significantly increased.***

In the longer-term, we also believe that wider changes will be necessary to ensure that Government programmes can effectively support young people into work in the fast changing labour market we face in the years ahead. Historically such programmes have been separated into learning and employment support. In addition, support for 16- to 17-year-olds has generally been provided separately to programmes aimed at those aged 18–24. But given that increasingly young people are engaged in both education and employment, and are also likely to move between the two over their early years in the jobs market, there is a strong argument for providing one cohesive service that supports all young people to boost both their learning and employment prospects. We therefore believe the Government should ***introduce a new youth credit, which would integrate all financial support available for young people into one payment, building on the strongest elements of both JSA and the Educational Maintenance Allowance, again abolished by this Government. In addition, a new youth employment and skills service should be developed that***

[34] *Future Jobs Fund: An independent national evaluation,* Tracy Fishwick, Pippa Lane and Laura Gardiner, Inclusion, 2011, http://www.cesi.org.uk/sites/default/files/publications/CESI_future_jobs_fund_evaluation.pdf

[35] Further background on this research is provided in the TUC's recent pamphlet *Generation Lost*, available to download here: http://www.tuc.org.uk/tucfiles/239/Generation_Lost_Touchstone_Extras_2012.pdf.

would bring together the job-related support provided through Jobcentre Plus with the careers service for those aged under 25. The role of the new service would not be to get people to take any job at all, but to encourage and support all young people to undertake and progress in either/or both learning and work.

Fair tax

The TUC believes that the tax system should promote both growth and wealth redistribution. At a time of tight public finances, the tax system also provides scope for raising vital revenues for deficit reduction, a goal the TUC believes can be achieved at the same time as achieving the previous key aims. The changes we outline below are designed to meet these ambitious.

Retaining the 50p tax rate and reducing tax relief for those who pay it

Our research indicates that the 50% tax rate will be an effective tax collection tool: we strongly recommend its retention. We note some restriction in the availability of allowances and reliefs for those paying tax at this rate has already taken place. Our research does, however, indicate that the remaining available tax allowances and reliefs for those in this income bracket continue to have an average worth of £15,000 in cash terms for each person who claims them. This is more than around 30 per cent of those who work have to live on each year. ***We urge further restriction on the tax reliefs available to this group as a consequence. We believe this will also have a significant benefit in potentially simplifying the tax system.***

Taxing bonuses

Other changes are also important. The TUC has proposed that tax relief on salaries paid in excess of ten times median UK pay be withdrawn for corporation tax purposes. We believe that this will raise maybe £5 billion a year in tax. We also believe it will contribute significantly towards the creation of a better balance in income rewards in the UK with consequent benefits for well being that are always found in more equal societies.

We also believe it appropriate that a bankers' bonus tax continue to be charged on the bonuses paid by this sector that continue to provides rewards disproportionate to those of any other sector of the UK economy. It is important that this wage differential be reduced if other sectors of the UK economy are to have the opportunity to recruit the personnel they need to expand, which is, we think, essential for our future national prosperity. It is for this reason that we support the reintroduction of a bankers' bonus tax of the type seen in 2009-10 in addition to the bank levy now in operation and the disallowance of corporation tax relief on higher salaries.

Closing the tax gap

Disputes as to the scale of the UK tax gap, i.e. the amount of uncollected or unpaid tax, cannot be ignored when the lowest estimates suggest that the gap is at least £35 billion a year, especially when it is known that the increase in the VAT rate to 20% subsequent to that estimate being made will have significantly increased the current tax gap.

One way the Government might reduce the tax gap would be to introduce a general anti-avoidance principle into UK tax law. We believe little could do more to add certainty to the UK tax system. The proverbial 'man on the Clapham omnibus' rarely has difficulty in identifying tax abuse: we believe that in that case the law should do the same. A broadly based general anti-avoidance principle would achieve this.

We recognise that a major clampdown on tax avoidance and evasion would require an increase in the number of trained personnel at HMRC, but we believe that this is essential if we are to have a tax authority that can command respect, tackle tax abuse and deliver the level playing field honest people demand in the UK economy, and as such we recommend a policy of recruiting new personnel at HMRC now.

Reforming capital gains tax

When it was first introduced, capital gains tax was paid at a person's marginal income tax rate whilst gains were reduced for an allowance for inflation. The logic was that capital gains tax was, and was always been meant to be, a clear back stop to prevent artificial abuse of income tax rules by trying to recategorise income as something it is not, whilst making at least a token gesture attempt at taxing wealth was inherent in the system.

That logic has been lost since 1997. Many companies have been exempted from paying capital gains on by far the largest gains they make, which is on the purchase and sale of interests in other companies. The effect has been to encourage speculation and discourage real investment. The impact for the UK has been harmful. Small business owned by individuals has also seen capital gains tax reduced to the point where around £10 million of gains can now be taxed at no more than a 10% tax rate, again encouraging an approach to short term ownership and speculation rather than long term ownership, commitment and growth. In addition, for other gains a new, and seemingly entirely arbitrary range of tax rates, all somewhat lower than their income tax equivalents even though pegged to them, are now in operation despite the availability of generous additional personal allowances for capital gains tax purposes.

The TUC believes that a strategic approach to capital gains tax should:

- encourage investment and not speculation;

- have strong anti-avoidance elements both inherent in its design, since it exists in part to prevent leakage from the tax base for taxes on income, and also within its own design to prevent abuse;
- be seen as a mechanism for both raising tax and redistributing wealth and not just as a back-stop measure;
- be seen as a key component in effective wealth taxation designed to ensure that the UK becomes a more equal society.

For these reasons we suggest that income tax and capital gains tax rates should be realigned, without exception. The consequence would be that taxpayers would settle their capital gains tax liabilities as if they were the top part of their income as they did in the initial capital gains tax regime.

We further recommend that any capital gain made on an asset gifted to a person by their spouse or civil partner in the two years preceding the gain arising should be taxed as if the disposal was made by the original owner within the relationship. This would prevent one of the most common forms of abuse within the tax when income tax and capital gains taxes are aligned, and when generous annual allowances for capital gains tax are available whatever the rates paid.

The Significant Shareholding Exemption for large corporations, that appeared to be largely designed to encourage corporate finance activity at a time when this was seen to be the basis for the UK's industrial policy and which has only exacerbated the short-termism of British business, should also be radically reformed. Relief should only be given in the event of the disposal of long-term interests in groups of companies. Likewise, ***the tax relief for entrepreneurs should be reformed so that significant periods of time qualification for holding the asset before disposal are built into the criteria for relief.*** The amount subject to relief now also appears too generous and might seriously increase wealth divisions within the UK as a result and needs to be revised downward. Taxing more than £1 million at a reduced rate appears generous at this time. And consideration should be given to reducing annual exempt sums made available for capital gains tax purposes when the current need for additional tax revenue is paramount.

Finally, ***all capital gains arising on assets sold that have been owned for less than a year should be treated as being subject to income tax without offset of capital gains tax allowances as a result since such duration of ownership makes such trades akin to a trade and not suitable for treatment as a capital gain.***

Section six

Wider Objectives

This submission has set out our analysis of the state of the UK economy and labour market, has addressed some of the myths around growth and has described the priority policies the TUC believes should be introduced in Budget 2012.

However, whilst obviously addressing immediate concerns, any Chancellor should also consider the long-term health of the economy. For this reason, we describe below long-term challenges which may not be overcome in one Budget, but that should be considered when developing long-term economic policy. We focus on two issues specifically: improving corporate governance and institutional investment; and linking wages to productivity performance.

Reforming corporate governance and institutional investment to promote long-termism

The TUC has long been concerned that key aspects of the UK's corporate governance system, and in particular the relationship between companies and investors, can drive economic short-termism, hampering both long-term corporate development and long-term investor returns. Below we outline five key proposals which we believe demonstrate the role that corporate governance reform could play in enabling a longer-term corporate culture. Further details on these positions are available in our wider publications.[36]

Investment timescales of pension funds

The TUC believes that it can be difficult for pension fund trustees to focus sufficiently on long-term issues, including long-term investment strategies and returns. This is partly because of the nature of the information that fund managers provide to pension fund trustees, which generally focuses on quarterly and annual fund performance.

Regulatory requirements may contribute to this situation. The Pensions Regulator (TPR) has made it clear that pension fund trustees should monitor the funding situation of their pension funds carefully and requires pension fund to undergo a full funding analysis every three years. Pension fund payments into the Pensions Protection Fund are dependent on scheme funding levels. The fact that valuations are based on mark-to-market accounting means that short-

[36] For example see the TUC's submission to the Government's long-termism review and to the recent Kay Review call for evidence.

term movements of share prices have a real and significant impact on pension schemes and their PPF payments, even when those share prices are not necessarily a good reflection of underlying company value and long-term performance. This combination of funding pressures, mark-to-market accounting and relatively short-term information from fund managers can make it difficult for pension fund trustees to focus sufficiently on longer-term investment returns and strategies.

The TUC recognises that tackling this situation is challenging and complex. It is clearly right that pension fund trustees should pay sufficient attention to funding levels and trustees, especially those tackling deficits, cannot focus only on long-term returns and strategies to the exclusion of the short and medium-term. ***However, the TUC does believe that reports from fund managers to clients such as pension funds need to put a greater emphasis on long and medium term returns than is currently the case. We propose that fund managers should be required to report to clients on returns over the past twenty, ten and five years on an annual basis, and that the Government should consult on the form that such reporting should take.***

Disclosure on fund managers' contractors, remuneration and charges

Many individual fund managers are employed on short-term contracts, with both their remuneration and the extension of their contracts dependent on performance, often measured over the short-term. This incentive structure does not encourage them to take a long-term view of company performance.

The TUC believes that there should be much more transparency in relation to costs, charges and remuneration structures of fund managers. Disclosure of information on remuneration structures, including incentive targets and timescales, would help to expose the conflicts of interest that can be created by some fund manager contracts.

We would strongly support measures to make information on charges much clearer and more prominent so that it is easier for pension funds and asset owners to make meaningful comparisons between the charges of different fund managers. This is a very important issue because charges that sound small can have a major impact on ultimate returns to savers. An RSA report calculated that a 1.5% annual management charge will lead to a cost of around 40% over the life of the pension[37]. This is also a critical issue for personal pensions, which generally have much higher charges than collective schemes.

In addition to costs, charges and remuneration information, the TUC would support full disclosure of fund managers' voting records.

[37] David Pitt Watson, 2009, Pensions for the people: addressing the investment crisis in Britain (RSA)

Quarterly reporting requirements

Quarterly reporting is often said to promote short-term decision making of both company boards and investors. For example, Rathbone Unit Trust Management Income fund manager Carl Stick, commenting on the average holding period for stocks in the UK and US falling from 10 years in the 1940s to nine months in 2010, said "much of my industry is only interested in taking a bet on the next two quarters of news reporting [from companies], which is absolutely crazy. We are all turning to quarterly reporting, that is why the industry is so short term."[38]

The TUC is sympathetic to the argument that if information is being produced for asset managers on a quarterly basis it is hard to see how this can fail to encourage both boards and investors to focus on the short-term. However, the TUC believes that quarterly reporting is also a symptom of short-termism, as well as contributing to the problem. We believe that this is exacerbated by a lack of long-term information on company performance which could act to counter-balance the short-term information made available to investors. ***We would recommend that the Government investigates the introduction of requirements for company reporting on long-term performance.***

Share turnover

The TUC is very concerned about the increase in share turnover in recent years, simultaneously putting pressure on company boards and increasing costs for pension funds. It is also of concern that this increase has come about largely without being explicitly recognised by fund managers and their clients or the latter's advisors. Dr Paul Woolley has argued that pension funds are having their assets exchanged and traded on average 25 times over their lifetime, even though in the long-term this drains pension funds of 30% of their value[39]. He attributes this behaviour to agency problems between fund managers and their clients. ***We would support mandatory reporting by fund managers to clients on the costs of share turnover so that clients can see directly how much it is costing them. We would support a requirement for fund managers to report publicly on the issue of share turnover, so that potential clients can take this into account in their manager selection process, and exploration of ways to cap share turnover.***

Directors' duties

The Companies Act 2006 codified directors' duties for the first time in the UK. In Section 172, directors are required to act in good faith 'to promote the success of the company for the benefit of its members as a whole', and in doing so are required to have regard to the long-term implications of decisions,

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[38] Investment Week, February 2010
[39] The Future of Finance: the LSE Report, Paul Woolley, Sept 2010

employee interests, customer, supplier and community relationships and environmental impacts.

The changing nature of share ownership in the UK poses a significant challenge to the assumptions behind directors' duties as set out in Section 172. Increasing proportions of shares are owned by alternative investment managers with short time horizons and investment practices based on share trading rather than long-term share ownership. While the proportion of shares owned by alternative investment managers across the stock market as a whole remains fairly low, the ability of alternative investment managers to buy and sell large numbers of shares in a particular company over a short period of time magnifies their influence in the market. In addition, seeking to increase the value of a portfolio by buying and selling shares at an advantageous time has also become an important part of portfolio management of traditional so-called 'long-term' institutional investors. The growth of alternative asset managers and the increasing use of share trading as an investment strategy across all investor groups cuts right across the basis of Section 172 of the Companies Act, with major implications for corporate governance and company performance.

The convergence between shareholder interests, stakeholder interests and also, crucially, between the interests of shareholders and the long-term success of the company itself, breaks down if shareholders are taking a short-term perspective. The interests of short-term shareholders cannot be taken as a proxy for the long-term success of the company and its other stakeholders, as if the long-term impact is discounted it is possible to slash investment, lower wages and squeeze suppliers in a way that may generate short-term returns, although it will undermine the company's potential for future success. Directors are required to 'act fairly between the different members of the company', but it is not possible to do this if some shareholders have bet on the company's share price falling and will therefore benefit from the company doing badly, while this will clearly hurt other shareholders, along with other company stakeholders and the company itself.

The TUC does not believe that the new directors' duties have had any significant impact on company prioritisation and long-term decision making. This experience is backed up by research; a recent ACCA study found that interviewees from the corporate sector believed that directors' duties amounted to maximising share price in the short-term[40]. What directors' duties require of directors in reality is almost irrelevant if this is how directors interpret their duties.

The TUC believes that section 172 should be amended to make directors' primary duty to promote the long-term success of the company, rather than prioritising shareholders' interests as at present. Serving the interests of

[40] David Collison et al, Shareholder Primacy in UK Corporate Law: An Exploration of the Rationale and Evidence, ACCA Research Report 125, 2011

shareholders and the different stakeholder groups included in Section 172 should be secondary to this central aim. This would be closer to the original intention of how the new directors' duties set out in the Companies Act 2006 would operate. A possible formulation would be:

'The directors of the company are required to act in good faith to promote the long-term success of the company, and in so doing, should have regard to the need to:

I. deliver fair and sustainable returns to investors

II. promote the interests of the company's employees

III. foster the company's relationships with suppliers, customers, local communities and others, and

IV. take a responsible approach to the impact of the company's operations on the environment.'

Corporate governance rights subject to a minimum ownership period

Under the UK's corporate governance system, shareholders have considerable rights. Shareholders are entitled to elect directors - now annually - at company AGMs; vote on remuneration reports, although the vote is only 'advisory'; vote on shareholder and other resolutions at AGMs; and convene Emergency General Meetings.

As noted above, this system is based on an assumption that there is a convergence of interests between shareholders and the company (and its other stakeholders). However, as already argued, this convergence of interests only holds in practice if shareholders are committed to investing in the company on a long-term basis and their prime financial interest in the company is the ability to receive dividend payments over time. If an investor is a short-term share trader whose prime financial interest in the company is to sell their shares at a higher price than they bought them, their interest will be in short-term strategies to raise the share price, rather than long-term strategies to invest in organic growth. In this case, their interests will not coincide with those of company stakeholders such as employees and suppliers, nor, very significantly, with those of the company itself. If the investor is shorting the stock, their interests will be diametrically opposed to those of the company and its other stakeholders, including long-term shareholders, as they will stand to gain if the company's share price falls.

In addition to our proposals to reform directors' duties set out above, the TUC believes that voting and engagement rights should be subject to a minimum period of share ownership, which we suggest should be two years.

Linking wages to productivity

During the 1980s and 1990s the growth of productivity became disconnected from the growth in median wages (the wages earned by those in the middle), that is to say the proceeds of economic growth began to flow disproportionately into corporate profits and the pockets of high earners.

This trend has long been apparent in the United States where median wages have stagnated since the 1970s but it now also clear in the UK. From 2003 until 2008, before the impact of the financial crisis was truly felt, median wages stagnated despite the economy growing by 11%.[41] According to the forecasts of the Institute for Fiscal Studies[42] living standards are not set to regain 2007 levels until 2016. In other words, for many ordinary people the UK is already half way through a lost decade.

The overall share of national income going to workers, the so-called wage share, has been falling since the 1970s. Through the 1950s and 1960s it held steady around the 58 to 60 per cent mark before rising rapidly to reach a peak just below 65% in 1975. Since then it has fallen significantly hitting a low of 53% in 2008.[43]

In the years before the crash the easy availability of credit helped to paper over the cracks of weak wage growth. Credit cards, auto loans, housing equity withdrawal and other forms of borrowing allowed households to maintain and expand their consumption despite faltering incomes from work. Indeed one significant research paper from the IMF has identified the falling share of national income going to workers as one reason behind the build up of household debt which led to the financial crash.[44]

The higher profit share has not been accompanied by an increase in investment which has also fallen since the 1970s.

One important aspect of 'rebalancing' will be re-linking wages and productivity and ensuring a higher share of national income flows through to wages in the future. The peak wage share of the mid 1970s was unsustainable but something more resembling that of the 1950s/60s could lead to much stronger and more sustained growth in the UK. Each 1% of national output moved into the wage share means £13bn of real income going to Britain's hard-pressed households. Even a 3% rise in the wage share, which would still leave it lower than in was in the three post-war decades, would mean around

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[41] Growth without Gain, Resolution Foundation. http://www.resolutionfoundation.org/publications/growth-without-gain-faltering-living-standards-peo/

[42] IFS, Autumn Statement Analysis, http://www.ifs.org.uk/projects/363

[43] S Lansley, Unfair to Middling, Touchstone Extra, http://www.tuc.org.uk/extras/unfairtomiddling.pdf

[44] Inequality, Leverage and the Crisis, IMF, http://www.imf.org/external/pubs/ft/wp/2010/wp10268.pdf

£50bn of additional spending power for Britain's' consumers, allowing a stronger domestic economy without the recourse to borrowing.

Can this happen? The TUC believes that it can and, whilst regulation has a role to play, the best way to achieve this would be to increase collective bargaining coverage in the UK.

The ILO Global Wage Report 2010-11[45] examined global and regional wage trends during the years of financial crisis 2008 and 2009. This report stated: "Collective bargaining has a crucial impact on the link between overall wages and productivity growth and will therefore play a vital role in the recovery process". The report goes on: "In particular, we calculated that a one per cent increase in the annual GDP per capita translated into average wage growth of 0.87 per cent in countries with superior collective bargaining coverage, compared to wage growth of only 0.65 per cent in countries with weak coverage."

Regarding low pay, the ILO Global Wage Report notes: "Collective bargaining not only strengthens the link between wages and productivity, it also helps to reduce inequality … high coverage countries have significantly less wage inequality than low coverage countries, both overall and in the lower half of the wage distribution."

With this in mind, this Budget Submission recommends that the Government should:

- Restore ACAS's duty to promote collective bargaining. At present, without a positive duty, ACAS is unable to recommend collective bargaining as the most appropriate means of determining working conditions even where a union is recognised;
- Incentivise employers to support collective bargaining, including exploring how to use the tax system to encourage employers to develop fairer pay systems;
- Support and extend existing collective agreements in the public sector. The Agenda for Change agreement in the NHS demonstrated the value of national collective agreements within the context of a partnership approach to employment relations in the public sector. The Government should drop its proposals to move to regional/local pay in the public sector, and for the fragmentation of collective bargaining more generally. Consideration should also be given as to how best to use public procurement to promote fair pay and reward systems and collective bargaining.

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[45] http://www.ilo.org/global/publications/books/WCMS_145265/lang--en/index.htm

Section seven

Conclusions

The political and economic trajectory of the last 22 months can be summarised quite easily. A Coalition Government was formed whose raison d'etre was to repay the UK's fiscal deficit within the lifetime of a Parliament. Other priorities would be secondary to this. Little attention was given to growth to begin with, as the Government believed jobs would automatically be created in the private sector to replace those public sector jobs lost to spending cuts. However, as economic growth slowed and unemployment began to rise, pressure for a growth strategy became stronger.

International organisations, such as the IMF and the World Bank, originally stressed deficit reduction but they too, stung especially by the Eurozone crisis, have begun, subtly at first, to balance calls for austerity with arguments for growth.

Faced with demands for growth but with no money in the coffers, the Government is falling back on classic, but failed neo-liberal arguments for cuts in corporation tax and reduced employment rights, especially in small and medium sized enterprises. It hopes that such actions will unleash 'animal spirits' in the business community. But there is no evidence from elsewhere in the world that such actions will promote growth. Moreover, many companies are sitting on large amounts of cash, which they refuse to invest, and the biggest problem facing the economy, as this submission shows clearly, is not the UK's weak employment protection, it is a lack of aggregate demand. Those who have lost their jobs have no money to spend. Those in work but who fear losing their job do not wish to take the risk of spending. For many others, the continuing economic gloom makes discretionary spending simply feel like a bad idea. With neither consumption nor investment failing to spark the recovery the country needs, the Government desperately needs to act.

As stated on the first page of this Budget Submission, the TUC believes jobs and growth are the biggest challenges facing the British economy. We wish to see the deficit repaid at a pace commensurate with steady growth and job opportunities, especially for the young. We are not deficit deniers; we recognise the need for deficit reduction, but this must be done fairly, with those most able shouldering the heaviest burden, and not by stifling the growth which is vital to putting the public finances on a stable footing in the longer term. This is a far cry from the situation we are in at present.

This Budget Submission addresses not just the immediate economic situation, but the long term economic, social and industrial needs of the UK. We seek good jobs, properly paid and highly skilled. We continue to support equality because it is socially vital as well as economically efficient. We seek a boost for the green economy because the rewards for our economy over decades will be repaid, along with the cleaner environment that would be delivered. None of these ambitions are unaffordable.

This submission puts forward our policy recommendations for securing jobs and growth, including action to boost consumer demand and business investment (including investment in the green economy); development of a modern industrial strategy; improved learning and skills provision; and a significant focus on tackling unemployment, all underpinned by enhanced tax fairness. We also argue that in the long term, wages must be re-connected to productivity growth if consumer spending is not to continue to be fuelled by debt and that wider changes in corporate governance are necessary to boost a long-term investment culture.

We need a Budget for jobs and growth. The UK needs to change direction and the Budget is an ideal opportunity. By pursuing the policies set out in this submission, the Government could begin to deliver steady growth, good jobs and a fairer Britain.

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