# 10 Ways to Kick-start the Economy

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The UK economy faces a very real risk of a double-dip recession. Recent events in the eurozone are set to cause acute problems for the global economic recovery, yet sluggish growth experienced in the UK to date is primarily the result of economic decisions taken closer to home: domestic demand over the past year has been hampered (as the Governor of the Bank of England has said) by falling real household incomes, tight credit conditions, and the effects of the ongoing fiscal consolidation.

With unemployment rising (youth unemployment has now topped one million people), fear of job losses continuing, real wages having fallen for nearly two years (a problem exacerbated by the government's VAT rise) working people are tightening their belts. Those who have already lost their jobs have no option to cut back on spending, their plight made worse by ongoing government cuts to social security benefits.

Our stagnant economy is in desperate need of stimulus, yet instead of boosting our economic prospects the government has continued with its unprecedented programme of spending cuts further reducing demand, slowing growth and exacerbating the squeeze on households living standards.

This paper therefore sets out 10 ways that the government could kick-start the economy. All 10 are immediate measures which could be implemented in the next six months. All are designed to increase demand directly (such as cutting VAT) or indirectly (for example boosting employment opportunities for young people) as well as strengthening the economy for the longer term.

The TUC's 10 ways to kick-start the economy are:

## 1. Make quantitative easing work for the real economy

The Bank of England has recently restarted its programme of quantitative easing (QE), or electronically printing money in order to boost demand in the economy. Whilst this is to be welcomed there are concerns that the last round of QE did not provide much support to the real economy. Much of the money printed either sat on bank balance sheets or appeared to help prop up asset prices – from shares to houses. In order to make QE work for the real economy the money could be channelled directly to firms which could use that investment to expand – either through purchases of corporate bonds or through a new government owned investment vehicle. This would ensure that the £75 billion that the Bank has decided to print finds its way into increased investment and employment rather than just higher share prices.

## 2. Reverse the VAT rise

January's rise in VAT has added to inflation and sucked demand out of the economy. If tax rates had stayed constant October's CPI inflation figure would have been 3.5 per cent instead of 5 per cent. This adds to the squeeze on real wages that is depressing household spending and causing so much pain on the high street. VAT is a regressive tax which takes more from low earners who are likely to spend all of their cash than high earners who are likely to save some of their income. A reversal of the VAT rise would instantly lower inflation and raise real wages. It would put money in the pockets of those most likely to spend it providing a much needed boost to consumer spending.

### 3. Raise capital allowances

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.

### 4. Invest in apprentices and young people

There are now more than one million young people who are unemployed. There are two immediate responses to this which could be introduced in the Autumn Statement:

- First, the government could intervene early to stop young people becoming long-term unemployed. The Future Jobs Fund was scrapped, but an initiative that creates real job opportunities, paid at least the minimum wage (NMW), for young people unemployed and claiming JSA for over six months is essential.
- Secondly, we should intervene to give disadvantaged young people a second chance. Our skills proposal is to increase the number of apprenticeship opportunities for young people aged 16–24, by offering employers an additional subsidy if they commit to providing a quality apprenticeship for this age group. The apprenticeship would have to be an Advanced Apprenticeship (i.e. Level 3) and the minimum duration of the training would have to be at least two years. We should also boost the education and training elements of the Work Programme for young people.

### 5. Invest in our energy-intensive industries

The cumulative impact of energy costs on the UK's energy-intensive industries (EIIs) is jeopardising their future operations in the UK. The TUC and industry are calling on the government to provide an effective policy package for industries as diverse as steel and ceramics which have a key role to play in the low carbon economy. Otherwise, there is a growing risk of "carbon leakage": the loss of investment, jobs and carbon emissions to competitors with weaker or no climate change policies.

Industries like steel, cement, aluminium, certain chemical processes, ceramics, brick, glass, paper and ceramics together directly employ some 250,000 people.

The TUC and employers are calling on government to replicate the kind of industrial policy support that competitor countries such as Germany secure for their energy intensive industries. Immediate proposals include relief from the carbon tax from April 2013 for those industries most at risk, finance for new technology, and other forms of support in a package that needs to reach £200m if not more.

### 6. Use procurement to support the economy

The government is looking again at how procurement can be used to support the British economy. The TUC believes that while value for money for the taxpayer is a major concern, procurement contracts should include clauses that guarantee apprenticeships, that require providers to meet the contract in an environmentally sustainable fashion and, where appropriate, that provide job opportunities for those who find it particularly hard to enter the labour market. Whilst such measures may, in some cases, increase short-term procurement costs to government, the prize is that UK taxpayers money would be used to ensure higher skills and greater participation in the labour market, whilst our industries would be better equipped to meet the ‘green’ challenge. We do not support a crude ‘Buy British’ policy, but we do believe that every pound of taxpayers money spent on procurement should be expected to boost jobs, skills or industry in the UK economy.

We also believe that some important procurement contracts should be brought forward. For example, bringing forward rolling stock procurement on London Underground would provide a boost to train manufacturing, while also making London’s rail routes for getting people to and from work fit for purpose. Procurement processes for rolling stock on the Bakerloo, Central, Piccadilly and Waterloo and City lines are expected to begin at some point before 2020. Procurement for over 500 vehicles on the Piccadilly Line was planned, but has been postponed. Those procurement contracts should be let early.

### 7. Protect the Science budget

Much has been said about the decision by the government to protect the science budget in cash terms. However, according to the Campaign for Science and Engineering, it is the “newly defined” science budget that has been frozen, at £4.6bn. If we use the pre-2010 definition of the science budget, there is an immediate decline of £200m (4.8 per cent) and a fall of 12 per cent in cash terms, over the course of the spending review. This is even before inflation is taken into account.

Investment in science and engineering gives historically proven benefits to society, in both the short and long terms. Some of these returns can be quantified, such as in spin-out companies, private investment in R&D and training the workforce, while others, such as benefits to health, security and quality of life, are more difficult to measure. What is clear is that, in an age of globalization, when the UK will be required to compete with China and India, as well as the US and Germany, investment in science and engineering is vital.

## 8. Reverse the cut in support for the solar power feed in tariff

The jobs of many of the 25,000 people now working in the UK solar power industry are at risk if the government goes ahead with its plan to halve the feed in tariff (FIT) from this December. The FIT for domestic solar has created 22,000 jobs and 100,000 installations in a year. It looks like the feed in tariff (FIT) will be cut from 43 pence per kilowatt hour (KWh) of solar energy produced at home to perhaps 20p per KWh) effectively from 12 December 2011. A new industry study of 139 solar companies reveals that 11,000 jobs (40 per cent) are at risk as firms lose orders and cancel future schemes for domestic, social housing and community-based schemes.

The decision to cut the tariff should be cancelled until the government has negotiated a new rate with the industry and trade unions that will secure current jobs and promise real growth in jobs and investment for this new green industry.

## 9. 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.

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 September was 2.6 per cent – still far short of what is needed to keep pace with living costs – but the median in the public sector remained 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. TUC analysis found that the combination of the pay freeze and proposed increases in pensions contributions for public sector workers mean low paid workers facing cuts in net pay of up to ten per cent. 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.

## 10. Introduce a one-off increase in child benefit for families across the country

Families with children have faced an additional cut to their living standards as a result of reductions in tax credits, out of work benefits and the government's child benefit freeze. In addition the government has heavily hinted that it will be further reducing the value of social security benefits by not even sticking to its promise on CPI (a lower inflation measure than the previously used RPI) uprating for those families most in need.

A one off child benefit boost would give families across the UK some welcome relief in the run up to Christmas, almost guaranteeing that money would go directly back into the economy. Child benefit is paid weekly to households across the UK, which means that the system to give Britain's families a Christmas bonus is already in place.