Growing our way out of trouble: UNISONs alternative budget for jobs and public services

Introduction: A decade of despair

The Coalition's austerity agenda isn't working.

The plan to restore the country to economic growth by cutting the deficit is failing. Continued reductions in public spending via the Coalition's programme of cuts has led the UK's economy through a double-dip recession and into stagnation as the UK economy failed to grow in 2012.[i]

- Economic output in the UK is below its level from five years ago with the Governor of the Bank of England predicting in February 2013 that "Growth is likely to be weak in the near term"[ii]
- According to the Autumn Statement 2012, borrowing will be £64 billion higher in 2014/15 than the Chancellor of the Exchequer originally predicted two years ago
- The Institute for Fiscal Studies suggest a further 300,000 public sector jobs beyond the OBR prediction will need to be cut by 2017/18 (with total public sector job losses possibly reaching 1.2 million)[iii]
- The UK economy has lost its AAA rating – despite retaining it being a core Conservative Party Manifesto pledge

As the UK experiences its longest economic crisis since the Second World War it is clear that the Coalition's austerity agenda is only making the situation worse. UNISON and other trade unions have long called for the Chancellor to change track. However, what is striking now is the growing consensus from across the political and economic spectrum that austerity should be ditched.

The Chairman of Goldman Sachs Asset Management, Jim O'Neil, has called on the Government to change its position on austerity[iv], IMF chief economist Olivier Blanchard said the Budget in March would be a good time to slow the pace of austerity[v] and even Boris Johnson, Conservative Mayor of London, has called on the Chancellor to "junk talk of austerity" and urged him to inject money into big public spending projects to get the economy moving.[vi]

Whilst the 2008 financial crisis created the economic world in which we now find ourselves, it has been the Coalition's decision to cut spending too quickly and by too much that has failed to get the economy working again and committed the UK to two more years of extra cuts in public spending beyond the 2015 General Election. Even the Office for Budget Responsibility, set up by this Coalition Government, confirmed that the Government's cuts agenda was holding back economic growth when it wrote to the Prime Minister to clarify that "we believe that fiscal consolidation measures have reduced economic growth over the past couple of years" after he claimed that the OBR believed the "deficit reduction plan is not responsible."[vii]

Unemployment and the squeeze on living standards

The starkest evidence that the Government's austerity measures are not working can be seen in the number of people who are either out of work or underemployed.

UNISON welcomes the recent increases in the number of people in work. However one-fifth of these increases are made up of the over-65's and nearly one-third are part-time.[viii] Overall the Coaltion Government has failed to make significant headroads in tackling unemployment which, whilst it has fallen from its peak of 2.68 million in November 2011, remains stubbornly high, with 2.5 million people unemployed in the UK in February 2013[ix] – still nearly 1 million more than pre-financial crisis levels.

We know that private sector job creation has not matched the spin projected by the Prime Minister and the Chancellor. Of the just over 1 million private sector jobs they claim to have created since the last General Election 196,000 are a result of the reclassification of Further Education and Sixth Form College jobs.[x] A further problem is recognised in the 40% of the private sector jobs created since early 2010 being self-employed roles – which are often insecure and poorly paid – even though only 14% of all workers are self-employed.[xi] The Prime Minister seems a long way off his pledge to create 2 million new jobs by 2015.[xii]

Women are unfairly targeted by redundancies. With most current job losses coming from the public services and because women make up the majority of the public services workforce, they account for a bigger share of the growng number of newly unemployed. The fall in unemployment by 37,000 in the three months from September to November 2012 was entirely accounted for by men finding jobs.[xiii]

But the squeeze on public spending doesn't just mean job cuts, it means that the use of services like schools, hospitals and social care suffer too. The TUC have calculated that by 2018 the funding for public services will have reduced by around £7,000 per family.[xiv] The Coalition's cuts agenda has also meant that public service workers have suffered a two year pay freeze (three in local government) and now face a government imposed one per cent pay cap, well below the rate of inflation. At the same time changes to tax credits will result in hundreds of thousands of parents who work part-time losing thousands of pounds a year as well as other passported benefits such as free school meals. As a union that represents people who are predominantly on low to middle incomes, and where many of those that we represent are women who work part-time, we are acutely aware of the human scale of these measures.

Real wages are continuing to fall due to the average increase coming in at half the rate of RPI inflation. There has now been a real terms fall in wages every month for the last three years.[xv] The failure of wages to increase at the same rate as the cost of living means the average worker is already £4,000 out of pocket – a figure that could rise to £6,000 by 2014.[xvi] Meanwhile the Royal Bank of Scotland, which is 81% owned by the UK taxpayer, is paying 95 members of its staff more than £1 million. It appears that the Government has two different ideas of rewarding its employees.

According to the Resolution Foundation, the UK has the second largest share of low paid work in the developed world with just over 1-in-5 earning less than £7.50 per hour, most of whom are women.[xvii] The country has more expensive childcare than any OECD country apart from Switzerland and average household energy bills are now £1,352 a year after the big six suppliers implemented price hikes averaging £94 a year.[xviii]

The Government should be investing to help our economy to grow, not cutting front line services and wasting money on ministerial vanity projects like the NHS reforms and "free schools".

Putting the country first

The UK government needs to afford a greater priority to policies which aid UK economic growth and boost living standards. Dealing with the deficit alone is not enough to produce balanced UK economic growth.

The Government needs to put the country first rather than play party politics. It is over 18 months since Martin Wolf warned:

> **"The UK is in the midst of what is set to be the longest – and among the most costly – of its depressions in over a century. The characteristic of this depression, compared with its predecessors, is the frightening weakness of the recovery phase."[xix]**

UNISON is not alone in calling for the Government to change its plan. Economist Paul Krugman has recently highlighted in the New York Times data from the

International Monetary Fund which shows that countries who implemented larger austerity programmes experienced worse economic growth.[xx] Whereas Martin Wolf has written in the Financial Times that "the panic that justified the UK coalition government's turn to a long-term programme of austerity was a mistake".[xxi]

There is an alternative: jobs, public services and growth

In order to provide a positive economic outlook for the country the Government must change its policy towards public spending and investment. Austerity should be ditched in favour of a pro-growth strategy involving job creation and a package of early investment in the infrastructure and services our economy needs.

At the same time the government should call a halt to policies which damage prospects for growth and employment by putting those that deliver public services out of work. An instant boost to the spending power of millions of UK taxpayers could be achieved with a reversal in the Government's public service pay policy. The tax and benefit changes that reduce the incomes of those on low to middle incomes should also scrapped.

Immediate steps the Government should take

A moratorium on job cuts in the public sector

Cutting public service jobs are a false economy – the redundancy costs and knock-on effects on employment, growth and tax revenue and consumer confidence only make the situation worse.

- on average every redundancy creates £29,400 in additional costs to the public sector as well as undermining morale and productivity[xxii]
- most of the cost of employing a public service worker is recouped by the state through increased tax revenues and reduced benefit payments[xxiii]
- economic research shows that for every pound spent on local public services, 64 pence is re-spent in local economies, supporting jobs and businesses[xxiv]

UNISON is calling for **a moratorium on job cuts in public services**. We estimate that it will cost approximately £2billion in 2013/14 and £4billion in 2014/15 to pay for the average wages and contributions of the predicted 200,000 public service workers that are at risk of redundancy before the 2015 General Election.[xxv] However this will also result in £485million in revenues for the government in the form of income tax and national insurance payments in the first year alone[xxvi], avoids the redundancy costs outlined above and the potential additional cost for the social security bill and will aid the economic recovery by generating £1billion of extra spending in local economies that through indirect taxation will potentially add a further £150million to the exchequer.

UNISON believes the required £2billion (2013/14) and £4billion (2014/15) can be funded by introducing a permanent **tax of 50% on bankers' bonuses** above £25,000 which raised **£3.5billion** in 2010[xxvii]

End the public sector pay cap

Public sector workers have endured a two-year pay freeze (three years for local government workers) whilst millions of other workers have received below inflation increases that have left them out of pocket as the cost of living has rocketed. Elsewhere, the programme of austerity introduced by the Coalition has restricted forms of support such as child benefit, council tax support and housing benefit. The Trussell Trust now predicts that twice as many people will rely on foodbanks in 2012/13 than did in 2011/12[xxviii] – almost certainly not the Big Society imagined by the Prime Minister.

More money in the pockets of the nations employees means more money being spent on the high street. Whilst the Government cannot increase wages across the entire country it can end the pay freezes and pay caps in the public sector.

With a public sector pay bill of approximately £165billion, making provision for a wage increase that keeps pace with inflation would require around **£5.5billion**. This could be raised from :

- **reversing the government's cut in corporation tax** for big businesses to levels lower than the US or any other G7 economy generating **£3.75billion** [xxix]
- and the **£1.76billion** raised by withdrawing corporation tax relief from pay and bonuses for those who earn above £262,000 a year (10 times average earnings) in the banking and financial sectors[xxx]

Boost incomes for the least well off

At a time when the cost of living is increasing the Government has targeted cuts in spending at the poorest by reducing social security payments whilst offering cuts in tax rates for the most wealthy. This is clearly immoral and goes againt the concept of a redistributive tax system that is fair to everyone. UNISON believes the Government can:

- Use the **£2billion** from a "mansion tax" on the top 4.1% of properties[xxxi] and the **£1.87billion** raised by an **Empty Property Tax** on long-term empty dwellings[xxxii] to:

- **Abolish the 10% (£485million) cut to council tax benefit** funding[xxxiii]
  - **Abolish the £490million cut to housing benefit** resulting from the Government's "bedroom tax"[xxxiv]
  - **Reverse the decision not to increase the child element of Child Tax Credit** (£975million in 2012-13)[xxxv]
  - **Reverse the decision not to increase the couple and lone parent elements of Working Tax Credit** (£265million in 2012-13)[xxxvi]
  - **These measures are estimated to increase the spending power of low income households and to generate around £400million for the Exchequer through indirect taxation**
- **For the first two children in every family, reverse the 3 year freeze on Child Benefit** imposed by the Chancellor's 2010 Budget and help 12 million children by scrapping the millionaires' tax cut and restoring the 50p higher rate of income tax to raise the necessary £1.27billion from April 2013[xxxvii] generating around £200million for the Exchequer through indirect taxation
- Raise **£1billion** through a sugary drinks duty to cover the cost of **free school meals for primary school children** as proposed by Sustain and 60 other organisations [xxxviii]

Introduce a living wage

A living wage is in everyone's interests. It is good for business, for the individuals and for society as a whole. As with addressing the public sector pay freeze/cap, raising the earnings floor from the level of the minimum wage to that of the living wage will create money in the pocket of employees that they will spend on the high street, increasing consumer confidence and helping the economy. This will also increase revenues for the Government through taxation and national insurance and reduce the reliance on other forms of social security support including tax credits.

Councils, charities and some prominant businesses, including financial firms Deloitte, KPMG and PwC, are already accredited living wage employers and recognise the benefits to their organisations that increasing the incomes of their lower paid employees can bring, such as higher productivity, reduced absenteeism, and lower staff turnover.[xxxix] Most importantly, for the employee, a living wage can provide workers and their families with a basic, but acceptable, standard of living.

The Resolution Foundation and IPPR estimate that the introduction of a living wage across all employees in the UK would result in higher income tax receipts and national insurance contributions, and savings from spending less on means-tested social security payments and tax credits, generating **savings of £3.6billion** for HM Treasury.[xl] In the same report it is estimated that this would be **reduced to a saving of £2.2billion once the £1.3billion cost resulting in higher wages for public sector employees was deducted**. UNISON acknowledges that this £1.3billion cost excludes some public sector employees, however even if the IFS's 2010 figure of a

£3.4billion cost for implementing the living wage across the public sector was applied, this would still be offset by the savings generated elsewhere.

<u>Get the country building again</u>

<u>Funding for Building, to solve the housing crisis and put people back to work</u>

The number of new homes being built is not keeping pace with household formation. This is placing huge pressure on family life and holding back our economy. Meanwhile the mortgage market is not delivering for those on modest incomes, nearly two million families are on waiting lists for social housing in the UK and rents in the private rented sector are running way ahead of pay. The number of in-work housing benefit claimants has doubled in three years to 903,000.

The Confederation of British Industry agree that a large and determined programme aimed at building affordable housing would help boost our bottomed-out economy by creating tens of thousands of jobs, stimulating economic activity and providing the homes the country so desperately needs.[xli]

The National Housing Federation believe that investment to deliver 10,000 homes would also deliver 75,000 jobs and a contribution of £4billion to the wider economy.[xlii] In addition to jobs created in construction, the economy would be helped by multipliers in the supply chain. For every £1 invested in construction £2.60 is generated elsewhere.[xliii] This could also save £290million from the social security bill by reducing housing benefit and Jobseeker's Allowance claims.[xliv]

UNISON believes the Government should **introduce a £5billion 'Funding for Building' scheme** that will pay for the construction of **100,000 new homes** and could create up to **750,000 jobs**, **contributing £40billion to the wider economy**.

<u>Funding for Infrastructure, to get the country moving and support growth</u>

The Government should also immediately introduce a **'Funding for Infrastructure'** plan, administered at arms-length from political control by Ministers, perhaps via a state investment bank or, like the Asset Purchase Facility, a fund administered under the auspices of the Bank of England. Such an institution would be run by an independent board, with all stakeholders represented (including the business community and trade unions) and with an explicit remit to generate long-term return based upon investment in businesses in strategic industrial sectors or, for example, investing in national transport projects and green power generation that will generate profit for the state through user charging.

UNISON believes we must end the Chancellor's laissez-faire economics and return to a Keynsian economic model of spending to grow the economy. However, the funding of such projects are well beyond what can be financed from the public purse – the first stage of High Speed 2 will cost between £16billion and £17billion, whilst constructing 188 turbine Atlantic Array offshore windfarm will cost over £3billion.

To fund the **'Funding for Building'** and **'Funding for Infrastructure'** programmes of national investment (that will ultimately help create jobs, provide a boost to companies through the supply chain and provide a legacy for the nation) all options for financing should be considered, including:

- Quantitative Easing: re-directing the 'windfall' annual surplus (£9billion/annum) from QE which has already been used by the Bank of England to provide the Government with £11.5billion[xlv]
- Overt Money Finance: which involves the electronic creation of new 'debt free' money by the Bank of England and is advocated by Lord Turner, the Chairman of the Financial Services Authority[xlvi]
- long-term borrowing: whilst the current rates of interest for Britain's borrowing have fallen to their lowest levels, as supported by The Economist.[xlvii] Indeed, last year Jonathan Portes, director of the National Institute of Economic and Social Research, estimated that a £30billion investment programme would cost just £150 million a year in additional interest payments[xlviii]

Make tax fair

UNISON recognises that boosting spending on public services, assisting businesses with the introduction of a living wage and ensuring a decent pay award in the public sector will require additional public spending at a time when it is sensible to seek to minimise the deficit and address high levels of national debt. UNISON believes that much of the additional financial burden can be found by making tax fair and tackling the large scale avoidance that has been identified over the last 12 months.

It is clear that there is a problem with international taxation systems, the use of tax havens and loopholes within our own domestic system that result in many corporations and extremely wealthy individuals cheating the system whilst the rest of us burden the cost of their mistakes. For example:

- HMRC have estimated that the UK tax gap (the amount of tax that goes uncollected) has widened to **£32billion**[xlix]
- Tax Justice Network estimate that around **£90billion** further could be raised each year by tackling tax evasion by individuals, companies and other organisations[l]
- Whilst last year, the Ernst & Young Item Club estimated **£23billion** could be raised every year by introducing a Major Financial Transactions Tax (or 'Robin Hood Tax') on UK financial institutions[li]

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