



10 DOWNING STREET

Prime Minister

Chancellor meeting 0945

① Handling of Cabinet discussion
on economy

② Married man's allowance
- Family Policy Group

? ③ Taxation of international
business (note attached)

FLAG A

? ④ Nurses Review body

FLAG B

(minute attached)

MS 2/2

I think this must be
R TUC Budget
representations to
Chancellor

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*include summary form
on final page.*

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Figure 1.4 Getting it wrong: the Government's forecasting record

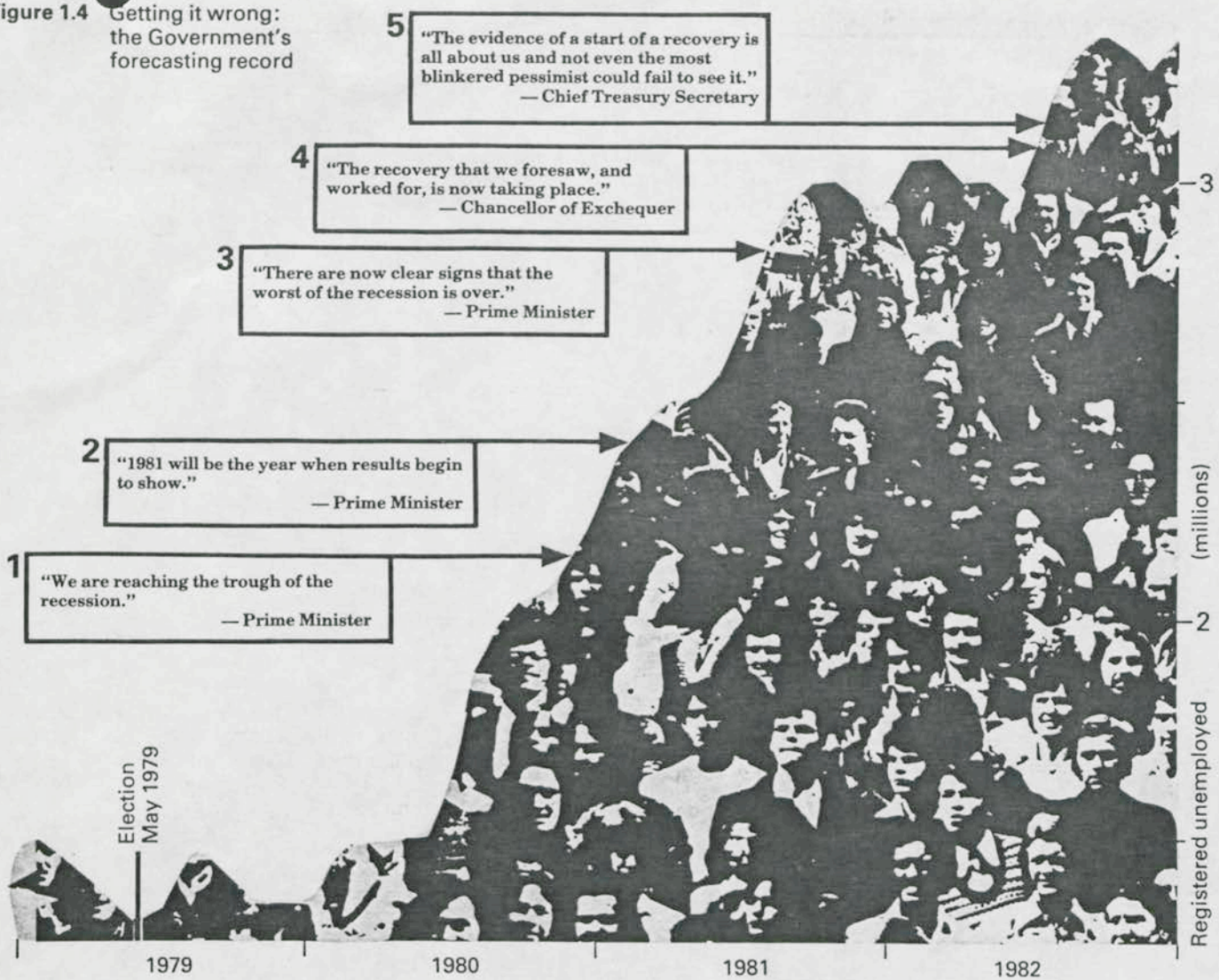


Figure 1.5 Promises come unstuck

The Government promised	The TUC predicted	What happened
To create 'more, more secure and better paid' jobs.	Government policies would lead to mass unemployment.	Unemployment rose to all-time high.
Tax cuts would provide incentives and therefore economic growth.	Tax cuts would only benefit well off; the demand for products is a more important incentive.	Increased tax burden for all but the wealthy. Record drop in output.
Cuts in public spending would benefit private industry.	Spending cuts would destroy jobs and output throughout the economy.	Jobs lost and output down in all sectors.
Modernisation of industry.	'Hands off' approach to industry would leave it falling still further behind.	Investment down by 33 per cent in manufacturing.
Growth would resume once inflation reduced.	No growth possible under present policies.	Ministers announced recovery postponed — again.

with the realities of the sort of society and economy we live in.

The real costs

1.12 The results, or costs, of this philosophy have been summarised in Figures 1.1 and 1.2. But the damage is even more extensive.

- Through record plant closures and bankruptcy there has been a huge loss of capital.
- Public spending cuts have left a legacy of neglect and deterioration throughout the public services.
- Soaring youth unemployment has meant that young people have not been provided with either the skills or the experience of genuine employment which they need.
- Through long periods of unemployment, workers of all ages have been robbed of the opportunity to adapt and improve their skills and so strengthen both the performance of the economy and their own job satisfaction.
- Since the abolition of exchange controls there has been a flood of investment overseas, much of it building up industries which compete with our own.
- The rise in import penetration and

destruction of industrial capacity has weakened the economy's trading prospects and international competitiveness.

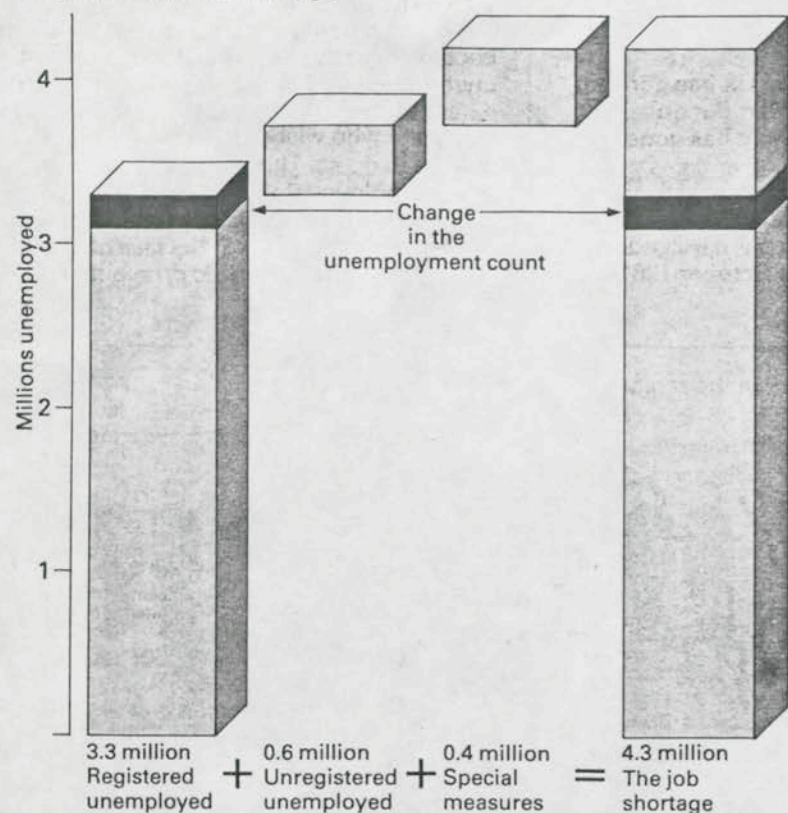
1.13 The social costs of unemployment do not always show up in official statistics, but they are none the less real for that. Unemployment, particularly when it is prolonged, reduces social contact and produces a loss of self-esteem. In place of a sense of collective purpose, it substitutes a pervasive feeling of meaninglessness. Increased unemployment is clearly linked to increasing health problems, stress, anxiety and alcoholism. Many unemployed suffer these consequences directly. Society as a whole carries the cost. The social tensions that arise from the divisive impact of unemployment can easily come to the surface, as events in 1981 demonstrated. Unemployment creates physical as well as social damage on a scale that no civilised society should tolerate.

1.14 It is not too late to repair the damage described in this chapter. But on present policies there will be no recovery. Even Government Ministers have stopped making the sort of optimistic predictions set out in Figure 1.4. This *Economic Review* shows a real alternative to their official hopelessness. It shows how a radical and far-reaching programme can turn the economy around and attack the twin targets of mass unemployment and social inequality.

Key points

- Under this Government there has been an unprecedented economic collapse, and social inequalities have widened.
- This is quite contrary to what was promised. As unemployment has grown, recovery – according to Ministers – has always been imminent, but never quite arrives.
- The Government justifies its performance by saying that present hardship is the necessary price to pay for previous mistakes. But 1979 was the year in which decades of poor relative performance were turned into absolute decline.
- The Government's policies have been presented in a number of different guises. But the underlying philosophy has been consistent: hostility to trade unionism and to social provision, and a willingness to exploit divisions throughout society.
- Even the Government now admits that its policies are not going to produce a recovery. But the longer these are continued the more long-term damage will be done, so making the task of recovery more difficult.
- It is not too late to repair the damage, but only a radical and far-reaching programme will do the job.

Figure 2.6 The job shortage



Notes. Total for special measures includes effect of short-term working; total excludes discouraged workers.

Source: Department of Employment, 1981 General Household Survey and MSC.

2.26 The TUC estimates that the number of unregistered unemployed – not counting workers who have dropped out of the workforce – is about 625,000, while special employment measures etc keep about 450,000 out of the unemployment figures. In total, therefore, the real job shortage is over 4 million as shown in Figure 2.6.

The economic millstone

2.27 Unemployment is an economic millstone dragging down the whole economy. The Government has had to pay out over £5 billion in 1982-83 in benefits to the unemployed, but in addition it also loses the taxes the unemployed would have paid had they been in work. The House of Lords Select Committee on Unemployment, reporting in May 1982, estimated that on this basis, each unemployed person costs £5,000. This means that a registered unemployment total of 3 million costs the Government £15 billion.

Key points

- The Government's new financial strategy has meant that output has stagnated, investment fallen, and bankruptcies increased.
- Manufacturing trade is in deficit for the first time for a century.
- The manufacturing and construction industries have been the worst hit.
- Unemployment is expected to go on rising, to 3.5 million (old count basis) this year.
- Long-term unemployment is a major feature of the unemployment crisis; over 1 million workers have been out of work for more than a year.
- Unemployment has hit hardest at older workers, young people, women and ethnic minorities.
- In the worst hit regions, there are over 40 workers for every vacancy.
- The real job shortage is over 4 million.
- A registered unemployment total of 3 million costs the Government £15 billion a year.

Chapter 3

THE TRUTH ABOUT UNEMPLOYMENT

This chapter looks at some of the myths surrounding the increase in unemployment since 1979. Some of these myths have been created by the Government, others have achieved a degree of popular acceptance. The purpose of this chapter is to show that they have no basis in fact, and instead to set out the truth about unemployment. Other myths, about the world recession and the size of the public sector, are dealt with in Chapters 6 and 8.

This chapter will set out the truth about the myths that:

- lower wages mean more jobs.
- unemployment is the price of change.
- new technology has caused unemployment to go up.
- immigration is to blame.
- women going out to work keeps unemployment high.
- the unemployed are better off than those in work.

Myth 1: lower wages mean more jobs

3.1 The Government has repeatedly said that unemployment will not come down unless workers accept lower wage increases, or even have their wages cut. It is said that this would make labour cheaper, and so give firms the incentive to take on more workers. But a wage cut would also reduce the ability of workers to buy goods and services. This means that firms would have no incentive to employ more people to produce more goods which will end up stored, unsold, in warehouses.

3.2 It is also sometimes argued, however, that if workers accept wage cuts then the goods and services they produce will be cheaper. This will mean that customers will buy more, and the extra demand created will mean that firms can employ more people. But this argument also falls down on the fact that the wage cut will also cut purchasing power. So although goods and services might be cheaper, consumers will have less money in their pockets to buy them. No extra demand will have been created, so firms will have no incentive to produce more by taking on extra workers.

3.3 It is also said that if workers took lower wages, this would mean cheaper exports,

and consequently jobs would be created through an increase in overseas sales. This has been a favourite theme of most CBI and Government policy statements in recent months – that excessive wage rises have been the major cause of the lack of competitiveness and unemployment. This is an odd argument to come from a Government which has pursued a high exchange rate policy, as Chapter 2 demonstrated. In terms of the long-run problems of poor competitiveness, Figure 3.1 reveals that these cannot be explained by the level of UK total labour costs. This shows that for 1981, out of the largest industrial producers in the western world, the UK ranks amongst the lowest in terms of labour costs. Only Spain, Ireland and Greece have lower labour costs.

3.4 Whilst Britain remains a low wage country, it also has a poor productivity record. Measured by the amount produced by each worker, Britain compares unfavourably with most of its major competitors. This is partly because of the depressed state of the economy, but also longer-term factors which affect productivity such as investment, training and research and development. Changes in productivity over the last few years are looked at in more detail below. But in looking at productivity it is important to remember that the demand for British goods abroad does not depend exclusively on price, but also design, quality, reliability and technical performance. This means that even if British goods were cheaper, it does not necessarily mean that many more would be bought.

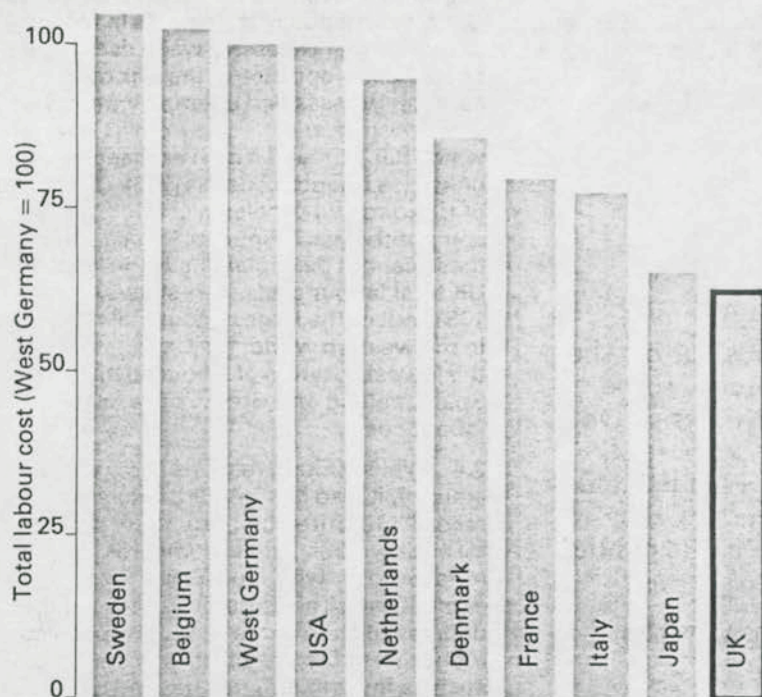
3.5 If it were true that, as the Government claims, we were 'paying ourselves too much', then the share of the national income taken by wages and salaries should have been growing. Figure 3.2 shows income from employment – wages, salaries, employers national insurance contributions etc – as a share of total domestic income – which includes pre-tax profits and income from rent and from self-employment. The share 'we pay ourselves' has not changed significantly over the past 15 years. In fact this share has barely changed since 1955, and has actually fallen slightly since the 1960s – from 68 per cent between 1962 and 1971 to 66 per cent between 1972 to 1981.

3.6 Finally, many workers who have accepted wage cuts have in the long run lost their jobs anyway. Moreover, as the 1982 *Economic Review* reported, research by the Department of Employment reveals that there is no relationship between the level of youth wages and unemployment amongst young people.

Myth 2: unemployment is the price of change

3.7 The Government and others have seen unemployment as a necessary price to pay for transforming the British economy, and laying the foundations for future growth. Chapters 1 and 2 have shown the true nature of the 'transformation', which after five years has destroyed a considerable portion of

Figure 3.1 Labour costs in other countries



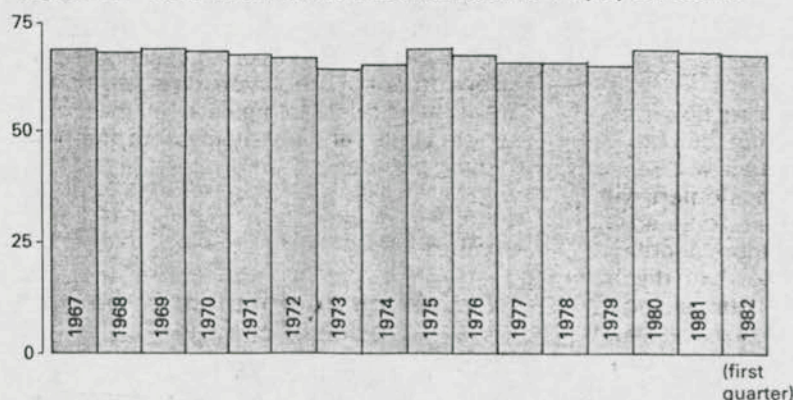
Source: West German Employers' Institute (WI).

manufacturing industry. Above all, however, the Government has pointed to the so-called 'productivity miracle'. This was the increase in the amount produced by each worker during 1980 and 1981, particularly in the manufacturing sector.

3.8 The Government has claimed that firms have become more productive as a result of demanning and changes in working practice. The claim, however, represents a fundamental confusion in the Government's mind between a one-off increase in productivity and an improvement in the long-run trend.

3.9 In fact, the so-called productivity miracle has only been accompanied by a massive fall in output and employment. This is shown in Figure 3.3. From 1975 to 1979 productivity in manufacturing was steadily increasing, accompanied by rising output

Figure 3.2 How much of the national income we pay ourselves



Note: Percentages based on income from employment divided by total domestic income. Income from employment includes wages and salaries, pay to HM Forces and employers' national insurance contributions.

Source: CSO.

and relatively stable employment. Had this trend continued, then productivity would be just as high now but without the enormous loss of output and jobs. All the Government has achieved is to continue the existing long-run trend in productivity.

3.10 The real picture is that short-run or one-off increases in productivity may possibly be occurring, but only at a tremendous cost in terms of higher unemployment and lost output. The long-run productivity prospects have certainly not been improved, and if the present cutbacks in investment and training continue, productivity growth may be even lower than in the 1970s. Moreover, the productivity of the unemployed is zero, and if this were taken account of, then the increase in productivity since 1979 would be even less impressive. The prospects for employment will be very poor, as a large number of jobs would have been destroyed without providing any new sources of employment. The only effective means of increasing the long-run productivity trend is to combine a controlled growth of demand with measures to encourage investment and training. These are set out in more detail in Chapter 7.

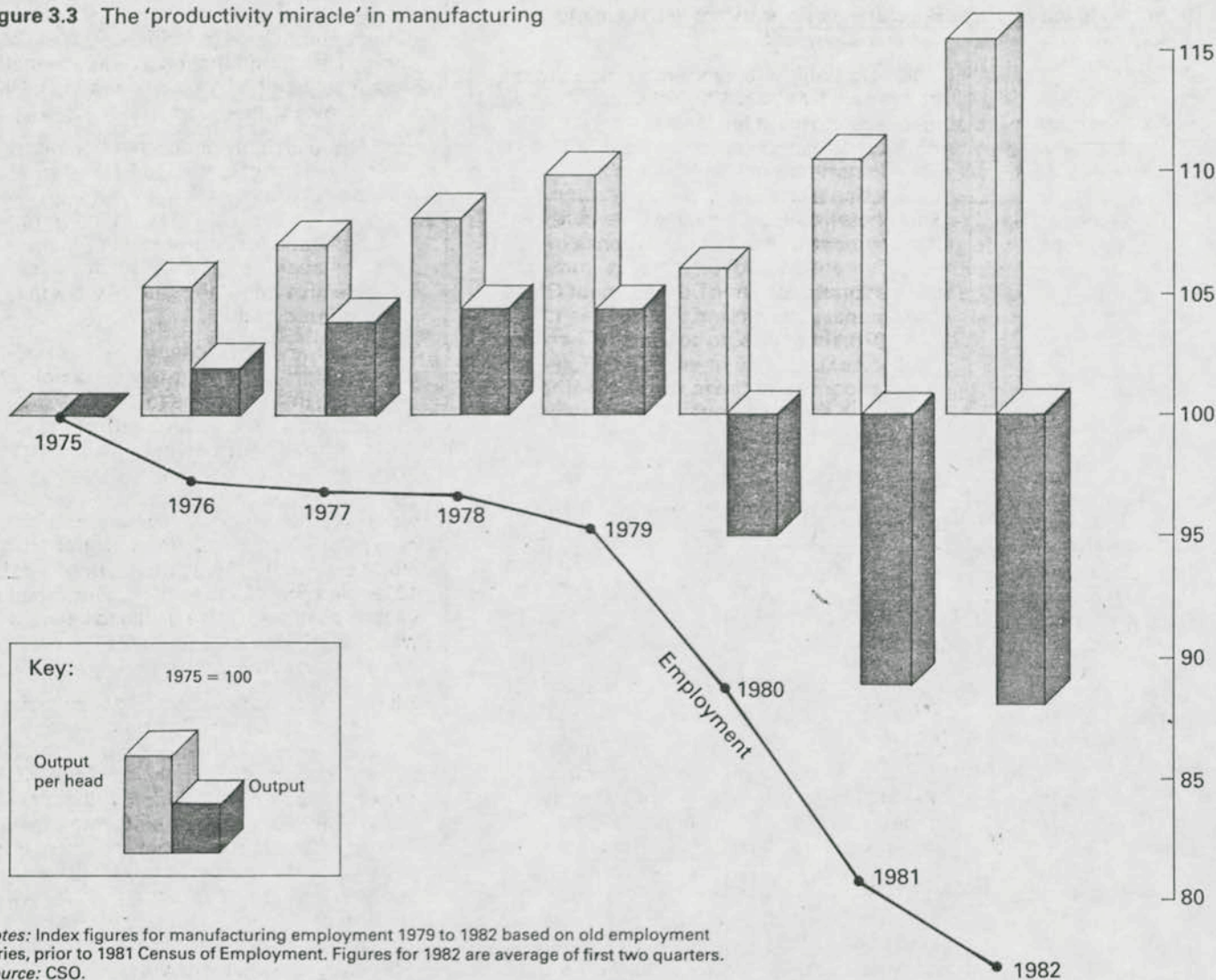
Myth 3: new technology is to blame

3.11 New technology has a great potential to add to the efficiency of UK industries, to allow it to produce more, and to improve its competitiveness. Many people have expressed fears that this has created 'technological unemployment', because of a gap between the higher rate of productivity the new technology will allow and the overall growth of the economy. This concern has been heightened because new technology will affect the service industries, which have been a major source of new employment in the past. If this happened, new technology will put more people out of work than expansion elsewhere in the economy could cope with.

3.12 The rate at which new technology is introduced will depend, like most investment decisions, on whether or not firms believe they can sell the extra output produced. In a depressed economy, with bleak prospects and unchanged policies, the overall rate of investment and investment in new technology will be correspondingly lower. As the economy picks up, however, and market prospects get better, then more firms will invest, particularly in new technology. The impact of new technology on unemployment will then critically depend on how much productivity gains outstrip overall growth in the economy, and how much new technology is imported rather than being made in the UK.

3.13 There is very little new investment taking place in the economy, as Chapter 2 showed, whether in new technology or in other forms of capital. Nonetheless, there are many individual examples where the limited and piecemeal introduction of new technology which has taken place so far has led to workers losing their jobs. This is because the investment has taken place against a background of mass

Figure 3.3 The 'productivity miracle' in manufacturing



Notes: Index figures for manufacturing employment 1979 to 1982 based on old employment series, prior to 1981 Census of Employment. Figures for 1982 are average of first two quarters. Source: CSO.

unemployment. The TUC believes that new technology can be introduced harmoniously, without job loss and with increased benefits in the form of shorter working time and better working conditions. But this can only take place within a growing economy. Without that growth, new technology will be seen as a source of job loss at a time of high unemployment, and as such its introduction will be difficult and slow.

Myth 4: immigration is to blame

3.14 A particularly vicious myth put around by racials is that in some ways immigration, particularly by ethnic minorities, is to blame for high unemployment. Despite the publicity given to immigration, the population of the UK has not increased. This is because for almost every one of the last 20 years, more people have emigrated than have come to the UK. Only ten years ago, the UK had an economy which could support 24 million workers. The recession has reduced employment opportunities for all races.

3.15 Within the UK, workers from the ethnic minorities made up just over 4 per cent of the unemployed in August 1982. But in three of the regions – North, Scotland and Wales – with some of the highest unemployment

(much of it going back for many years), workers from ethnic minorities account for less than 0.5 per cent of the unemployed, whilst in the South East, with the lowest unemployment rate, they account for 7.6 per cent of the unemployed. This shows that in regions with the highest unemployment there tend to be relatively few immigrants.

3.16 The TUC has already published a *Charter for Equality of Opportunity for Black Workers*, which called for a wide range of initiatives in the workplace to help promote equal opportunities for black workers, including the need for trade unions to ensure that the myths and propaganda of racials are countered, and the positive contribution ethnic minorities have given to industry and services is publicised.

Myth 5: women going out to work are to blame

3.17 Another myth about unemployment which is still encountered is that women going out to work help keep unemployment high. It must be said right from the start that not only should every person, male or female, black or white, have the right to a job, but that steps should be taken to ensure

equal opportunities in the labour market. Policies on this issue are set out in more detail in Chapter 9.

3.18 Up until 1979, women's employment had grown by about 120,000 a year whilst male employment fell by much less, by 20,000. Many of these new jobs for women were in non-manual, service sector occupations, and many were part-time. This shows that the increase in female employment was not at the expense of male employment. Moreover, a recent study by the National Economic Development Office on regional policy found that between 1966 and 1978, there was no connection between the level of unemployment in a region and the number of women in work or women registered as unemployed. This shows that any attempt to discourage women from working will not decrease unemployment or increase job opportunities for men. Moreover, the number of people in work and those who want to work but are unable to do so would be exactly the same – the 'job shortage' described in Chapter 2 would be just as large.

Myth 6: the unemployed are better off out of work

3.19 It is often said that many of the unemployed are better off out of work instead of working. The Supplementary Benefits Commission concluded in its 1979 *Annual Report* that the numbers who got more in benefits than they would have got in work are tiny. Those few who did were mainly men who had only been recently made unemployed, or had had very low wages and a large family. A survey by the

Policy Studies Institute (PSI) in March 1979 confirmed this, and found that only 3 per cent of the unemployed got more in benefits. The survey also found that on average, benefits were less than half previous earnings. One of the survey's conclusions was that:

'There is no evidence that benefits reduce the incentive to find work; on the contrary, those receiving higher than average benefits make greater efforts to find work than those receiving lower than average benefits, and they are less selective about the kind of work they are prepared to do ...'

3.20 A study by the Manpower Services Commission of the long-term unemployed, published in 1980, came to similar conclusions, and also found that people in areas of high unemployment were twice as likely to consider anything at all than were people in areas of low unemployment, and were also correspondingly less likely to insist on a particular type of job. A further MSC study on hard to fill vacancies, published in 1979, also concluded that problems in filling vacancies did not arise because benefits were too high, but because the wages offered were far too low.

3.21 This evidence can be backed up by more recent research findings. A report by the Institute of Fiscal Studies, published in early 1982, found that only 4 per cent of those currently becoming unemployed got as much as 90 per cent of their former earnings. Nor do the unemployed benefit much from large redundancy payments. A survey by the Institute for Manpower Studies in May 1981 found that 35 per cent of those who were made redundant got nothing, and another 15 per cent got less than £500.

Key points

This chapter has shown that:

- lower wages will not mean more jobs because workers' purchasing power will also be cut.
- many of the unemployed had low pay in their last job.
- Britain's total labour costs are lower than most other countries.
- the share of the national income taken by income from employment has not grown.
- new technology has not caused the present recession.
- immigration and women going out to work have nothing to do with the level of unemployment.
- the unemployed are not better off being out of work.

Chapter 4

TUC POLICIES FOR 1983: ACTION NOW

Previous chapters have shown that Government policies offer higher unemployment and stagnant output for 1983. This chapter shows that the TUC's Budget proposals offer a clear alternative. Urgent action could be taken by the Government which would achieve a major reduction in unemployment and a significant boost to output. This chapter shows that:

- increased public spending is essential for economic recovery.
- the TUC's £10 billion expansionary package would create investment-led growth.
- registered unemployment would fall by over 570,000 in one year.
- the package can be financed without leading to runaway inflation or higher interest rates.

The TUC's Budget strategy

4.1 The TUC's Budget strategy is based on the need for the Government to accept responsibility for the level of real output and employment in the economy. Its two key objectives are:

- a return to full employment; and
- a reduction in the gross inequalities which still exist in society.

4.2 The economic crisis is now so severe and the loss of output has been so great over the last three and a half years that these objectives cannot be achieved in a single year or by the sole reliance on the traditional policies adopted by governments in the past. This is why the next chapter sets out a medium-term growth and employment strategy which would reduce unemployment below 1 million over five years. However, this chapter shows that action could be taken immediately which would reverse the upward trend in unemployment, get the economy moving and help to reverse the growth in inequality.

4.3 The TUC's 1983 Budget proposals are designed to improve both the demand and supply sides of the economy. In other words the policies are designed to ensure that extra purchasing power is spent on British-made goods and services – for example by ensuring that British firms do not run into bottlenecks caused by skill shortages or lack of up to date

machinery. The Government has ignored these aspects: for example the abolition of hire purchase controls has led to an increase in purchases of imports rather than British goods.

4.4 *Expansion of demand* through increased Government expenditure is vital if the economy is to be pulled out of the recession. All industrial surveys show that the key factor holding back production is a lack of orders now and uncertainty about demand in the future. The Government should therefore increase its level of spending in order to compensate for the depressed level of demand and investment in other sectors of the economy.

4.5 An expansion of demand by itself could, however, lead to a serious rise in imports unless it is accompanied by urgent measures to increase competitiveness and control imports. The UK's trading competitiveness has been seriously damaged over the last four years because the Government's tight money policies led to an overvaluation of sterling. This was partially reversed by the rapid depreciation of the pound in the last months of 1982 and early 1983. Even this, however, failed to restore the lost competitiveness which Government policies had produced. Moreover, the Government's reaction to the depreciation demonstrated the self-defeating nature of its approach. By forcing up interest rates in response, it imposed additional costs on the economy and offset some of the gains which depreciation could have achieved. At the same time the outward flow of investment, which originated in the Government's abolition of exchange controls, has accelerated.

4.6 The TUC advocates a re-imposition of exchange controls and an exchange rate which is maintained at a lower level from its overvaluation in 1982. Such a *devaluation* would give an immediate boost to competitiveness if accompanied by an accommodating monetary policy that did not force up interest rates. This would not be a substitute for the supply-side policies set out in the following chapters but it does recognise that these will take some time to act. The TUC recognises that the system of floating exchange rates makes it difficult for any Government to pursue an exchange rate policy in isolation. Nevertheless, the active use of interest rate policy, intervention by the Bank of England in the foreign exchange markets and the use of exchange controls could give the Government some influence. This does, of course, run counter to the Government's free market approach, in particular its view that control of the domestic money supply should take precedence over all other policies. But this merely confirms how damaging that approach has been.

4.7 However, the devaluation of sterling would in itself not be enough and there is a limit to how far this should go in view of its effect on inflation. The use of *selective import controls* to prevent a sharp rise in import penetration levels will therefore be vital. The key sectors would include motors, machine tools, steel, textiles, tyres and furniture. The aim of these is to contain existing proportions of imports, but in a

growing market. Such selective action is preferable to the competitive deflationary policies pursued by many Western governments.

The 1983 TUC Budget package

4.8 The 1983 TUC Budget package therefore includes measures which, as the first stage of the five-year plan set out in Chapter 5, will produce a coordinated expansion of the economy and at the same time help to reduce inequality. Last year the TUC called for an expansion of £8.3 billion, approximately 4 per cent of GDP. The TUC judges that a similar budgetary boost in proportionate terms is needed this year. This is because the amount of spare capacity in the economy is about the same.

4.9 The TUC has drawn up a package of measures which, on the basis of the low growth which the TUC expects from present policies in 1983, would achieve a 4 per cent growth rate. The key elements of the package are set out in the following paragraphs. The package is designed to achieve sustained growth, without running into inflationary or other constraints. It is a mix of policies designed to achieve a mix of objectives. These proposals are in addition to present Government policies. They also take as their starting point TUC policy that income tax allowances, excise duties and pensions and benefits are fully increased at least in line with inflation. A failure to carry out the indexation of personal tax allowances would cut real demand still further and so worsen the prospects for the year ahead. In the same way, an increase in personal allowances in line with inflation will not constitute a 'give-away' Budget.

4.10 This is how the TUC's £10 billion Budget package is made up:

TUC BUDGET PACKAGE	
Programme	Cost for 1983-84
'Reconstruction of Britain' public investment	£3,200 million
TUC manpower, education and training strategy	£1,800 million
Regional/industrial strategy	£850 million
Local authority services	£250 million
State pensions	£700 million
Social benefits	£750 million
NHS current expenditure	£175 million
Reduction in VAT from 15 to 12.5 per cent	£2,300 million
Total Budget expansion	£10 billion

Public investment

4.11 A key element in the TUC's package is public investment. Chapter 5 sets out a five year 'Reconstruction of Britain' programme of major public sector investment projects. There should be an immediate start on that

programme in 1983/84 in order to lay the foundation for further action in order to implement the £30 billion programme in full. A priority area in 1983 would be house building and repair. The housing programme has been slashed by over 40 per cent by the Government which has created a housing crisis and severely depressed the construction industry. This expenditure could be undertaken quickly and have an immediate impact on the economy. The construction industry would also be given a major boost by large expansions in road building and repair, and hospital building (where there is a back-log of neglect to be urgently remedied), two areas which have also been severely hit by public expenditure cuts. The package also doubles the amount spent on the Urban Programme which is designed to help regenerate our inner cities. This money can be spent quickly if it is channelled through Partnership and Programme area local authorities.

House construction and renovation	£1,390 million
Education repair and renovation	£145 million
Hospital repair and renovation	£425 million
Energy conservation	£115 million
Roads	£360 million
Urban programme	£445 million
Water and sewers	£75 million
Telecommunications	£230 million
Total extra cost of investment programme:	£3.2 billion

Regional industrial strategy

4.12 The TUC has called for a major expansion in the level of regional support for jobs and investment as will be outlined in Chapter 7.

- Regional Employment Subsidy of £25 for every additional worker taken on in the worst hit regions. This would create over 125,000 jobs and cost £650 million.
- Regional Investment Grants to be increased by £200 million to make up for the large cuts over the last three and a half years.
- Total Extra Cost of Regional Industrial Strategy: £850 million.

Manpower and training

4.13 The TUC proposes an emergency programme of additional expenditure in this area. The aim is:

- to give immediate help to unemployed people, and promote employment;
- to begin to reverse the short-sighted and damaging Government cuts already imposed on mainstream training and employment services and provisions; and
- to ensure that essential training and education provision is available to underpin national economic recovery.

Figure 4.1 Manpower and training

Young people

The TUC wishes to see a full range of training opportunities for all young people entering the world of work. The Manpower Services Commission's *Youth Training Scheme*, which replaces the present Youth Opportunities Programme, is an important step forward. It will be vital for the MSC to ensure that the desired quality of the scheme is sustained and monitored. The TUC will be making its full contribution to that work.

But the provision that the MSC has for helping young people needs to be improved by:

increasing the allowance paid to unemployed trainees to at least £30 a week

Cost: £120 million

a further 20,000 apprentices places to stop the devastating fall in apprentice intakes, assist redundant apprentices and sustain vital skills training, especially in the key engineering sector.

Cost: £20 million

sustaining the *Community Industry Scheme* for disadvantaged young people, especially 17-18 year olds, and bringing payment back into line with decent wage rates.

Cost: £5 million

Educational maintenance allowances

Parallel to the provision of real training for young people must be the development of alternative opportunities for full-time education. Young people must have a choice to remain in full-time study after the age of 16. This choice can only be realised if a scheme of grant aid is introduced so that young people can be encouraged to continue their studies without incurring financial penalties. The TUC accepts that such a scheme would need to be means-tested on parental income and proposes that the scheme should provide young people with £15.80 per week, the current level of supplementary benefit available for 16 and 17 year olds.

Cost: £200 million

Training for adults

The increasing pace of industrial change and the growing impact of new technologies means that adult workers, both unemployed and employed, require greater training at all levels to meet the skill demands of jobs in the late 1980s and 1990s.

The way forward is through increased state investment complementing the efforts of industry. Instead the Government have cut back the capacity of the training system – the very reverse of the positive role which the state must play in this crucial area. It was in this context last year that the TUC argued for the development of an employment and training subsidy scheme with the twin aims of creating new jobs and of placing unemployed workers into systematic job training. Employers would be able to get a £60 a week subsidy for 12 months for every extra unemployed worker whom they recruited and trained over and above their normal establishment. We now wish to see this scheme extended with the additional option of employers obtaining the subsidy for retraining adults in employment both to upgrade skills and to train in new technologies. This could create an additional 80,000 jobs and training opportunities at a cost of £250 million.

Cost: £250 million

Training Opportunities Scheme

The MSC's *Training Opportunities Scheme* (TOPS) offers training in Skill Centres or in colleges to adults who are unemployed or who are re-entering the labour market. But the scheme has been cut back from a planned level of 100,000 places to less than 60,000 places in the last three years. More places and a wider range of skills training and work preparation courses are now needed to ensure capacity, particularly in Skill Centres, is geared up for economic recovery. It will also be essential to provide direct training opportunities for adults including courses for married women returning to work. Provision should be made to increase TOPS places by 40,000 (including 10,000 on work preparation for those out of work for long periods) in 1983-84 at an additional cost of £75 million.

Cost: £75 million

Paying for Industrial Training Boards

In 1982 the Government abolished 16 ITBs and stopped covering the operating costs of the remaining 7 ITBs covering vital sectors of the economy. Direct state funding of operating costs should not be cut off at a time when industry is in deep recession and hard pressed. The Government should change its decision and make available £30 million to cover ITB operating costs in 1983-84.

Cost: £30 million

Long-term unemployed: New Employment Programme

Over a million people have been out of work for more than a year. They

have immense needs for jobs and training. A *New Employment Programme* should be created for those long-term unemployed people by overcoming the weaknesses of the current Community Programme. This will involve:

abolishing the £60 average wage cost restriction to bring it into line with the average wage cost of the old Community Enterprise Programme;

maximising the number of full-time places, building on the present 45,000 places to give at least an additional 85,000 full-time places paying the rate for the job.

developing a proper training element and budget to promote adequate training opportunities for long-term unemployed people who are in the programme.

Cost: £150 million

Job Release Scheme

The *Job Release Scheme* offers opportunities for older workers to retire early and release jobs for younger unemployed people. The scheme should be widened to include men aged over 60 and women aged over 55. This would provide 20,000 full-time jobs for younger unemployed people at an additional cost of £110m in 1983-84.

Cost: £110 million

Employment services

Since 1979 rising unemployment and cuts in public expenditure have increased the pressure on public employment services and undermined certain key functions. On top of that the 'Rayner Scrutiny' has imposed further cuts in cash and staffing, thereby threatening to undermine the job centres network.

The modernised employment service through its job centres has shown it is an essential aid to the economy in quickly helping job seekers to find jobs and employers to find suitable recruits. The cuts made and in prospect put the service at risk at a time when its functions in helping the unemployed and aiding national economic recovery will be vital.

There should be a reversal of the cash and staffing cuts imposed on the public employment service and a start should be made in 1983-84 by increasing staffing complements in job centres. In addition, a new special needs scheme for long-term unemployed people to cover their advisory counselling and placing needs should be developed.

Cost: £50 million

Higher education

4.14 The development of higher education is now at a critical stage, both in the public sector and in the universities. The TUC believes that additional funding must be made available to both sectors in 1983-84 to safeguard opportunities for young people and to enable the institutions to respond rapidly to new needs. It is essential that opportunities are expanded in key scientific and technological subjects, not only for initial training but for updating skills and knowledge required to help regenerate Britain's industries and services. The TUC is again calling for an end to financial discrimination against overseas students, and a rise in student grants in line with inflation.

Cost: £110 million

Local Education Authorities

4.15 In *Programme for Recovery: TUC Economic Review 1982* the TUC argued that faced with the difficult task of rebuilding much of the nation's essential educational framework, the local education authorities needed substantial additional resources to offset the damage inflicted by successive rounds of cuts. These needs have become even more urgent. The TUC believes that the Government should add £730 million to the Rate Support Grant for 1983-84 for spending on these educational priorities:

- developing under-fives provision, with coordination of education and day care services particularly in the inner cities;
- reintroducing financial support for school meals and milk;
- a special inner city programme to help young black people;
- restocking school and college libraries and employing essential ancillary staff in schools;
- encouraging curriculum reforms in secondary schools — particularly preparation for working life and for living in a multi-racial society, and equal access of boys and girls to all subjects with special encouragement for girls to study maths and sciences;
- development of vocational preparation for 16 and 17 year olds within the certificate of prevocational education; and
- rebuilding services for adults, with special provision for unemployed adults and the black communities.

The £730m to be spent on these services would be additional to the £200m for education grants and employment-related training and to the MSC programmes.

Cost: £730 million

Social expenditure

4.16 Higher expenditure on health services, pensions and other social benefits will be essential if the growing inequalities created

by the Government's economic policies are to be reversed.

- *£175 million extra* is needed for NHS current expenditure (in addition to the resources contained in the *Reconstruction of Britain* package) to meet the TUC's target of 3 per cent annual real growth.
- *£700 million extra* is called for to help increase retirement pensions. This extra expenditure between November 1983 and April 1984, in addition to the Government's estimated 5 per cent inflation proofing for 1983, would enable pensions to rise to £39.50 for a single person and to £63.50 for a couple from November. This assumes that the Government does not clawback any of the increase in pensions over and above the inflation rate in 1982.
- *£750 million extra* is called for to help addition to full inflation proofing, for other benefits to give special help to the long-term unemployed and families. It would enable child benefit to be increased to £8.75 per week and the special child benefit for one-parent families to be increased by £2 a week. Long-term supplementary benefit rates would be extended to the unemployed and steps be taken towards an adequate unemployment benefit system as set out in the *TUC Benefit Charter for the Unemployed*.

Local authorities

4.17 Local authorities services have suffered considerable damage as a result of the continued cuts in Rate Support Grant.

- *£250 million extra* expenditure is needed to provide immediate relief for the inner-city local authorities which have been worst hit by the penalties imposed by the block grant system.

VAT reduction

4.18 The TUC is again calling for a reduction in the rate of VAT from 15 to 12.5 per cent for two reasons:

- it would have an immediate impact on demand, output and thus employment; and
- it would be anti-inflationary as it directly reduced prices.

4.19 A cut in VAT is preferable to spending the same on reducing the Employers' National Insurance Surcharge (NIS) for two reasons: cuts in the NIS would have less impact on the rate of inflation than a cut in VAT and there is also little evidence to show that a cut in the NIS would have any measurable impact on employment. Employers have simply used the cut in the NIS in the 1982 Budget as an opportunity to increase their profits without creating any

new jobs and a similar response to a further cut in the NIS can be expected.

- A cut in VAT from 15 to 12.5 per cent, costing approximately £2.3 billion, will reduce prices and help to hold down inflation.

Results of TUC's Budget proposals

4.20 The TUC has again used the Treasury economic model to illustrate the effect of expansion on jobs, growth, prices and the balance of payments. In doing so, the TUC has used the publicly available version of the model widely used by leading independent forecasting groups and by the House of Commons Library. This version differs in several important respects from versions used by the Treasury in the past year. In addition, the Treasury indicate in their published simulations using the latest model, that they apply judgements which can significantly alter the results. These judgements explain why differences can arise when testing the effects of policy measures on the model. For the purposes of carrying out the forecast it is necessary to assume that either the money supply or interest rates are held constant. To some extent this technical decision depends on whether a monetarist or non-monetarist approach is taken – while the Government would hold the money supply constant, the TUC believes that the money supply should be increased to accommodate the increase in output. The model is not capable of simulating the type of selective and temporary import controls advocated by the TUC. The effects of these would therefore be in addition to the results shown below. The simulations include a devaluation of sterling of 10 per cent from its effective rate in the Autumn of 1982, and show the resulting differences from the forecast made for the economy at that time. Although the pound has moved since then, the results are still valuable in showing the benefits of devaluation if combined with economic expansion.

4.21 Figure 4.2 shows the effect on output, employment, unemployment, prices, the balance of payments and real personal disposable income of the TUC's Budget package. Each table shows the change to these key economic variables after one, two, three and four years. It should be emphasised that the results for the first two years are more reliable than those for the third and fourth. Nevertheless, the shape of economic developments over the medium-term period cannot be ignored. The TUC would expect that the National Economic Assessment, described in Chapter 5, would analyse the sort of relationships revealed by simulating the effects of policies in this way together with the issues discussed in the following paragraphs.

4.22 These results confirm the value of the TUC's proposals in boosting output and employment. In particular, they show that an expansionary Budget can make a major first step towards the TUC's job target. In addition, there are a number of other favourable effects – manufacturing investment is 4.5 per cent higher at the end of the first year and 5 per cent higher at the end of the fourth year.

Competitiveness (*ie* relative unit wage costs) improves by 9 per cent after one year. Company profitability is consistently higher than on present policies, though the increase tails off towards the end of the forecast period.

Figure 4.2

RESULTS OF TUC BUDGET PROPOSALS

<i>Unemployment</i>		<i>Employment</i>	
Year 1	-574,000		+755,000
2	-673,000		+891,000
3	-739,200		+978,000
4	-712,000		+943,800
<i>GDP</i>		<i>Inflation</i>	
Year 1	+3.3%		+0.9%
2	+4.3%		+1.8%
3	+4.7%		+2.7%
4	+4.2%		+3.3%
<i>Balance of payments</i>		<i>Real personal disposable income</i>	
Year 1	-£2411m		+3.2%
2	-£798m		+1.0%
3	-£22m		+2.0%
4	-£730m		+0.8%

Note: All figures represent changes from what is forecast to happen over this period if present policies are continued.

4.23 However, some major economic problems remain – the TUC has never argued that a one-year Budget package can solve all of Britain's problems. Although exports are higher than on present policies – 1 per cent after one year – imports are even higher at 1.7 per cent. There is a slight deterioration in competitiveness by the end of four years and a deterioration in the balance of payments of £2.4 billion after one year. This is largely inevitable because of the time lag between firms importing raw materials and components and exporting the finished products. The full benefits to the balance of payments from devaluation therefore take 12 to 18 months to be felt. However, it is clear that expansion must be accompanied by direct measures on imports. They would avoid the need to cut short economic expansion in the face of temporary balance of payments difficulties, as has happened too often in the past. Moreover, it should be stressed that the continuation of present policies will not avoid balance of payments difficulties – indeed deterioration is already forecast.

4.24 The results from the Treasury show an increase in the Public Sector Borrowing Requirement – though after one year this increase of £6.4 billion is two-thirds that of the original budget stimulus, reflecting the extra tax revenue generated by employment growth and the reduction in the cost of unemployment. The PSBR as a percentage of gross domestic product rises from 2.8 per cent to 4.7 per cent, reflecting the expansionary fiscal policies which the TUC advocates. This increase is no cause for alarm – such an increase is indeed necessary if expansion is to be promoted.

4.25 There remains the worry about the effect of this PSBR increase on interest rates and the money supply. The TUC believes that a more accommodating monetary policy would allow this extra PSBR to be financed without any damaging increase in interest rates. Even if interest rates did rise, the impact on industry would be more than outweighed by the benefits firms would receive from higher levels of demand. The CBI's industrial surveys confirm that the cost of finance is a far less important determinant of the level of investment than is the level of demand. Far from crowding out the private sector the TUC package would improve profitability, investment, employment and output in the private sector.

4.26 The final worry expressed by critics of expansionary policies is the possible effect of the increase in the money supply on inflation. As earlier chapters have demonstrated, there is no close relationship between changes in the money supply and changes in the rate of inflation. If the crude monetarist theories first pronounced by the Government were to hold, inflation in Britain today would be well into double figures on the basis of past increases in the money supply. The results from the Treasury model show that the increases in the money supply do not feed through quickly or automatically into increases in inflation. In addition, the results suggest that a well-balanced package can effect a large decrease in the level of unemployment at a relatively small cost in extra inflation. This must be contrasted with the Government's policies which have secured a small reduction in the rate of inflation at the expense of a huge increase in the numbers of jobless. The trade-off between inflation and unemployment is not immutable, indeed it has been substantially

worsened by this Government's policies. The aim of the TUC's policies is to secure the maximum increase in living standards and employment at the minimum cost to inflation.

4.27 One effect of the TUC's policies detailed above is to lead to an increase in real personal disposable income, and in the initial years this reflects the priority given by the TUC to quick-acting measures to improve the living standards of those in receipt of state benefits – *ie*, the unemployed, the old and those with large families.

4.28 Looking further ahead, to the development of policies for the medium-term, the TUC will be giving close attention to the development of the standards of living both of those in work and out of work, and also the balance in the use of the nation's resources between investment and consumption. Many of the medium-term policies to boost investment, explained in later chapters, will not take full effect until the mid-1980s and the simulations above (although presented in a medium-term timescale) do not represent the TUC's medium-term programme. This is set out in the next chapter.

Conclusion

4.29 The TUC's immediate expansionary policies would therefore succeed in producing higher employment. However, in order to achieve the target of reducing unemployment below a million within five years, the first-year package must be followed up with the policies set out in the following chapters of this *Economic Review*.

Key points

- The Government's deflationary Budget strategy has been responsible for the severe drop in output and employment over the last three years, and the continuation of that strategy will mean another year of worsening prospects.
- The TUC's alternative Budget strategy includes increased government expenditure, a lower exchange rate, reduced VAT and managed trade.
- The Budget package will lead to economic expansion of 4 per cent and give a major boost to employment.
- Coordinated expansion would not lead to runaway inflation.
- But to tackle the underlying weaknesses of the economy, the first-year Budget needs to be followed up by a medium-term growth strategy in order to reduce unemployment below one million.

Chapter 5

A FIVE-YEAR PLAN FOR BRITAIN

This chapter shows how a five-year plan for Britain, on a similar scale to post-war reconstruction, can defeat mass unemployment and lay the foundations for lasting growth. It shows:

- how a five-year plan can bring unemployment down below 1 million.
- that planning will only succeed if it is based on real advances in industrial democracy.
- the rates of economic growth that will be needed.
- the implications for public expenditure and investment.

5.1 Chapter 3 has exposed some of the myths about unemployment. But the biggest myth of all is that the only option open to Government is to sit back and do nothing. Unemployment can be reduced by Government policy. Not only can it be, it must be.

5.2 This was the lesson which was finally learned after the tragic experience of the 1930s slump, and the world war which followed it. In 1944 a consensus which had built up across the political spectrum was expressed by a Government White Paper:

'The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war . . .

The Government are prepared to accept in future the responsibility for taking action at the earliest possible stage to arrest a threatened slump'.

5.3 In the same year, the TUC approved a statement on Post-War Reconstruction. The concluding note of that statement was that:

'The implementation of many of the proposals for reconstruction greatly depends upon the state of full employment being maintained in the post-war world . . .

The task of the trade union Movement is at one and the same time to inspire the Government to pursue a proper employment policy, and to protect workpeople against unnecessary encroachment upon their freedom of action'.

The task before us now is on the scale of post-war reconstruction. It is important to recall that the determination and political will that underlay the post-war reconstruction helped produce a long period of high employment, growth and more equality.

The principles behind the plan

5.4 This chapter spells out the principles on which the TUC's five-year plan for reconstructing the British economy is based. It also shows how this plan is directly relevant to many of the detailed problems which will be faced. Chapter 4 sets out the action needed in the first year of a five-year plan. Subsequent chapters deal in greater depth with particular components of the plan. Chapter 7, for example, details the policies for industry and trade that will be required including the negotiation of agreed development plans with leading companies; while Chapter 8 looks at the international context. However, these chapters do not represent a complete blueprint. Successful planning does not work that way. Our approach distinguishes three crucial steps:

- taking action to get the economy moving again;
- making changes which allow priorities to be debated and agreed and the broad framework of policy to be implemented; and
- stimulating the maximum involvement of working people in economic decisions so that the details of the plan are built up from the experience and expertise of those working within industries and services.

5.5 There are no short-cuts to this third step, in many ways the most crucial one. Last year's Congress and the Labour Party Conference adopted a report from the TUC-Labour Party Liaison Committee on *Economic Planning and Industrial Democracy*, the proposals of which form the framework for achieving full employment. The vital principle of that report is that industrial democracy will be the source from which planning will derive its authority, its knowledge and its power.

5.6 Any other approach would be futile. The last few years have demonstrated the damaging consequences of relying on unrestrained market forces. Yet there is no way in which the state could pretend to assume responsibility for the millions of decisions which make up the economy. The key task is therefore to extend the control of workers over these decisions.

5.7 This is not to deny that the state has a crucial role to play in reforming our economy. The Liaison Committee set out a series of practical steps which would make planning possible:

- a new, powerful Department of Economic and Industrial Planning to shift the focus of government thinking away from ad-hoc crisis management towards the

medium-term allocation of resources to meet agreed goals;

- an opening up of the planning system for public expenditure so that decisions are informed by those who produce and use the goods and services which public expenditure provides;
- a strengthened tripartite system building on the National Economic Development Council, through a National Planning Council, which will connect directly with the activities of trade unionists in their workplaces. This will be able to build on the work currently being undertaken by the TUC to establish or strengthen joint union/management bodies at company and plant level and so strengthen tripartite bodies at sector level; and
- agreed development plans with leading companies, with trade unionists playing a central part.

In addition, the TUC is proposing that the Government should present an annual 'Employment Budget' as well as a Financial Budget. This would help shift the focus of budgetary policy towards meeting targets for employment and output. It would signify a commitment to judging between policy options on the basis of their impact on unemployment.

Planning: democracy in action

5.8 But to rely too much on action by the state would be wrong. It would miss the crucial point that Britain's economic decline has gone hand in hand with a growing loss of accountability in economic decision-making, as control has been concentrated in fewer and fewer hands. 100 companies now account for 40 per cent of industrial output and trade in the UK and 40 per cent of the nation's resources are allocated through the highly secretive system of public expenditure planning. As decision making has become more unaccountable, so it has become increasingly unimaginative. Maintaining Treasury dominance over public spending is seen as more important than encouraging new ideas from new sources. 'Balancing the books' has been seen as more worthy than investing in the future.

5.9 The only way to redress this imbalance is by making decision making more democratic. The trade union Movement, with its network of representatives and its ability to tap the expertise of workers, is the appropriate counterweight to centralised and unaccountable power. To return to full employment we must plan the path to recovery. That means bringing all our resources together in the drive for reconstruction. But one of the major resources which, at the moment, is systematically frozen out of the economy is the knowledge and commitment of working people, conveyed through their unions.

5.10 So planning must be seen as a process which directly stimulates the maximum degree of involvement of workers in decisions affecting them. That is why new rights on

information, consultation and representation are central to this approach.

Getting the economy moving

5.11 But for democratic planning to be developed successfully, however, a climate of economic growth and reconstruction will be vital. Only within such an environment can the difficult choices that planning poses be faced up to with confidence that the pay-off will be a positive gain, rather than a redistribution of misery. Also it is only in such a climate that local initiatives can be integrated with, inform, and on many occasions amend, national strategic priorities.

5.12 The starting point for the five-year plan must therefore be agreement on the overall targets for growth in output and employment. In this first instance, the priority goal must be to:

- reduce unemployment to below 1 million.

5.13 The target of reducing unemployment below 1 million from the present registered level of 3.3 million would mean creating 500,000 jobs a year. However, as Chapter 2 explained there are nearly 1 million workers who have not registered as unemployed but are seeking work or who are on special employment schemes. In addition, an extra 300,000 people may join the workforce over the next five years as a result of the 1960s 'baby boom'. Therefore, to reduce the real level of unemployment below one million over the next five years it is necessary to create around 3.6 million jobs – just over 700,000 jobs a year. This is equivalent to increasing the employed workforce by 3 per cent annually.

5.14 If the economy returned to an average productivity growth rate of around 2 per cent this would mean that output would have to grow by about 5 per cent a year – offsetting this extra productivity – in order to meet the jobs target. On the other hand, the TUC has argued in the *Campaign for Reduced Working Time* that reduction in working time should be used to maximise the employment effect of expanding the economy. If some of the benefits of increased productivity were taken in increased leisure as opposed to extra incomes for those in work, then each increase in output would create proportionately more employment. More workers can clearly be employed if they are working 35 hours per week, with no overtime, as opposed to 40 hours plus substantial overtime as happens too often at present. The TUC's objective is therefore to reduce working time by 10 per cent over the five years, or by an average of 2 per cent per year. This would achieve the TUC's target of a 35-hour basic week. The TUC estimates that given changes in working practices and increased production, one-half of this reduction in working time would go towards increasing employment. This means that the final output growth required to reach the jobs target is 4 per cent per year – 1 per cent less than if no cut in working time occurred.

Figure 5.1 Unemployment target: 1 million

3.3 m Registered unemployment
 + 1.0 m Unregistered unemployment and special employment schemes
 + 0.3 m Increased workforce
 —————
 4.6 m
 - 1.0 m TUC target

= 3.6 million jobs need to be created

3% + 2% = 5%
 employment growth productivity growth output growth

But, with reduction in working time

= 4% per year
 final output target

Investment and jobs

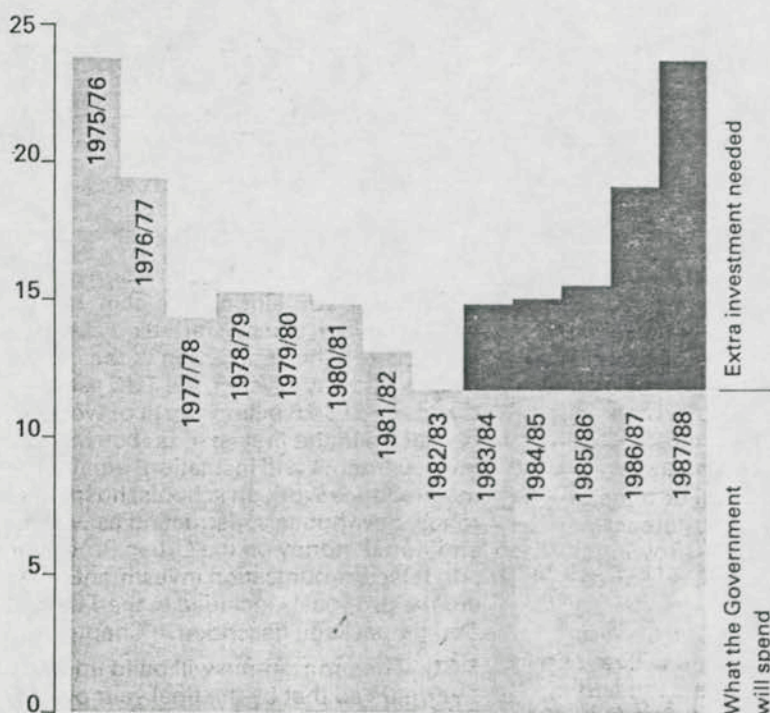
5.15 Reduced working time will thus play a key role in distributing the benefits of new technology. Nevertheless there remain fears about the effects on jobs of the introduction of new technology, both in the manufacturing and service sectors. It has been argued that the jobs lost in manufacturing have been lost for good and that the introduction of new technology in the service sector removes its employment creation potential.

5.16 The TUC does not accept that view. The TUC's 1983 Budget proposals, shown in Chapter 4, will directly increase employment in manufacturing by 200,000. As growth continues, of course, there will be increasing investment in new technology, especially in view of the sharp reduction in manufacturing capacity during the recession.

5.17 This new technology will be less labour intensive and so the extra employment created initially will be correspondingly low. This is by no means the whole story, however, since technological change and economic growth are dynamic processes. Investment – if it is of the right sort – can create jobs. At the moment we are seeing the worst possible development in industry. Such investment as is taking place is being introduced to rationalise or cut back production, not to lay the basis for expansion. No technological revolution is taking place. Instead we are witnessing something altogether more familiar – a muddled and uncoordinated piecemeal application of new techniques in an atmosphere of fear. The evidence from the past is that a major wave of investment and innovation does improve employment. By helping to make goods cheaper it increases living standards and so creates extra demand, more output and more jobs. Employment may not necessarily grow in the sectors in which the investment takes place but it is the indirect stimulus to activity in linked sectors that improves job prospects.

5.18 It may well be true that the introduction of technology in the private service sector will slow down and possibly reverse the employment growth seen in that sector in recent years. However, the analysis is incomplete without a consideration of the role of employment in the public services. Many of the short-term proposals set out in Chapter 4 and the medium-term proposals set out in later chapters will involve a growth in public service employment. The pattern of employment growth must be a regular item for discussion in the National Economic Assessment. However, it is already evident that a major source of employment growth in the coming years must be the construction industry and those industries which supply it.

Figure 5.2 Restoring the cuts in public investment



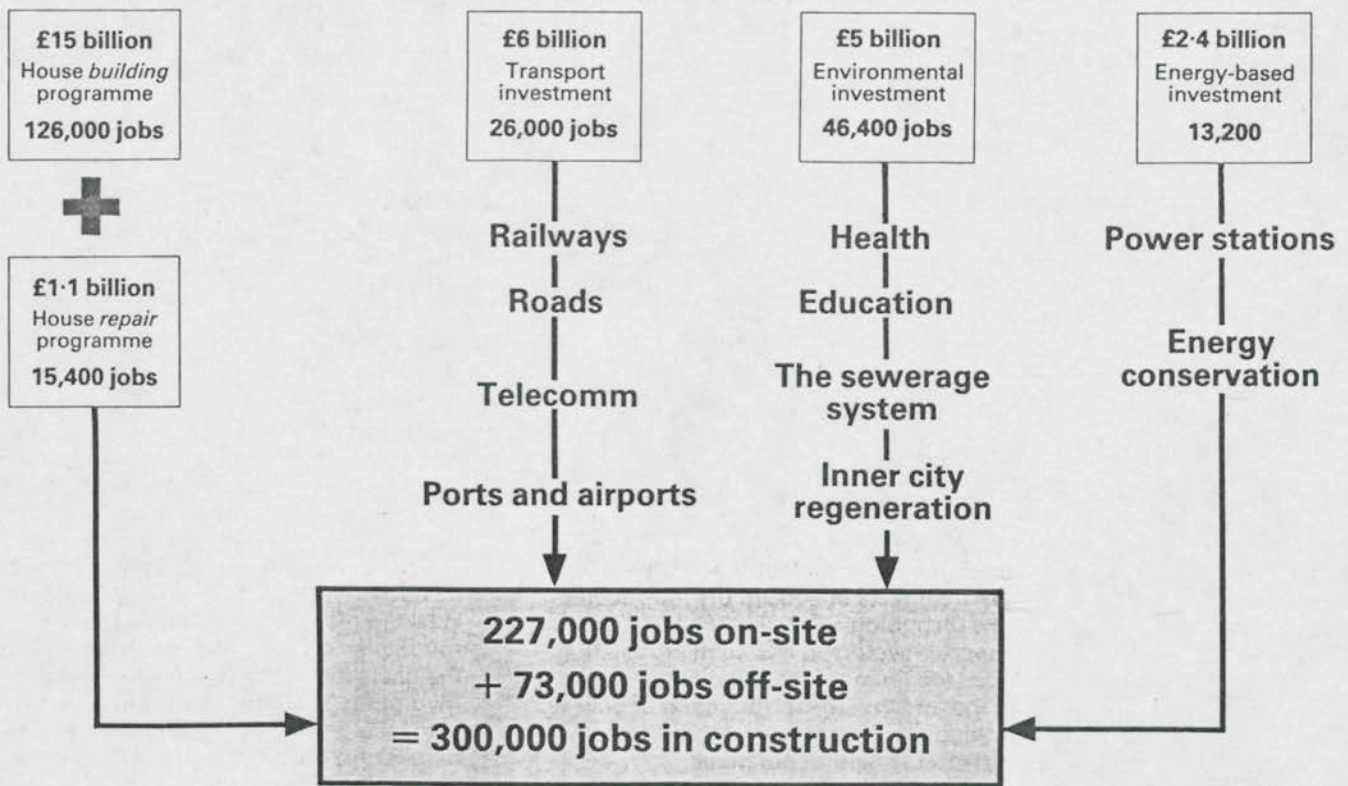
Note: All figures in 1982 cash.
 Sources: The Government's Expenditure Plans 1981-82 to 1983-84, and The Government's Expenditure Plans 1982-83 to 1984-85.

The reconstruction of Britain

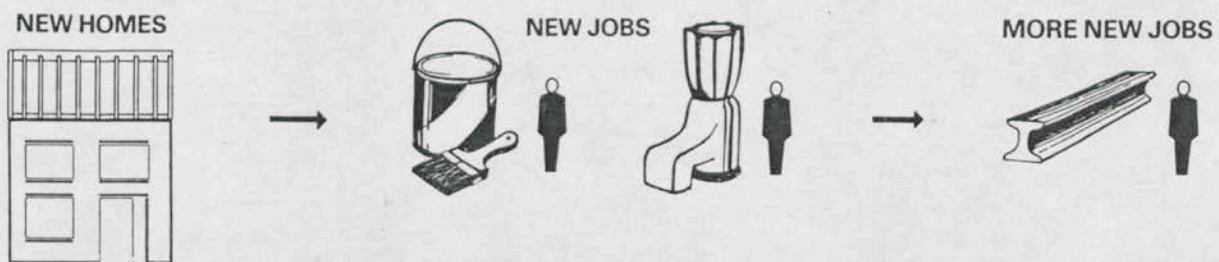
5.19 The TUC's five-year programme for public investment will gear expenditure on construction and other public projects towards renovating the structure of the economy and creating jobs. The programme would reverse the collapse of capital investment which has occurred over the last three years, as shown in Figure 5.2.

Figure 5.3 The five year public investment programme

The direct job effect



Jobs created elsewhere



300,000 CONSTRUCTION JOBS + 300,000 JOBS ELSEWHERE = 600,000 JOBS IN ALL

Sources: *Reconstruction of Britain* (TUC, August 1981) and TUC.

The full *Reconstruction of Britain* package would cost £29.5 billion over five years and create nearly 600,000 jobs. Half of these jobs would be created directly in the construction industry while the rest are created as a result of the subsequent orders placed in other sectors. Figure 5.3 shows the projects to which resources would be allocated. It shows that house building will be a major priority, which reflects the sharp cutbacks over the last three years and the growing housing crisis. Other priority areas include the rebuilding of the economy's infrastructure. Roads, railways and sewers have all been badly neglected and will reduce the efficiency of public and private industry unless urgent work is carried out. Similarly, all sectors of industry will be helped by the energy programme which will produce more energy more efficiently.

5.20 The first year of the investment programme contains construction based projects which can be started quickly. Taking into account the contraction of the industry over the past two years, the TUC estimates that nearly £3.25 billion worth of work could be started in the first year, on house improvements and insulation, repair and maintenance work on schools, hospitals and roads, new house construction as well as additional money on the Urban Programme and telecommunication investment. These are the proposals included in the TUC's 1983 Budget package described in Chapter 4.

5.21 The programme will build up over the five years so that by the final year over £9 billion of extra public investment will take place. This reflects the long lead times before some of the major energy and infrastructural investment can take place.

Developing the plan

5.22 The previous sections have set out the broad outlines of the TUC's view of how the economy should develop over the next five years. But neither this chapter nor the short-run Budget package outlined in Chapter 4, with its medium-term implications, represent what a five-year plan will look like in practice. The detailed plan will need to be built up on the basis of extensive discussions at all levels of the economy. For example, as the PESC system is opened up it will be possible to take a fresh look at the sort of jobs our public services ought to be doing and start directing new resources to meet those goals.

5.23 In the same way trade unionists within companies will be able to use new rights, and the opportunities opened up by an active industrial strategy, to change the direction of corporate planning and tackle urgent, practical, problems. On trade, for example, information about a particular company's prospects for exporting or import substitution can be fed through the strengthened tripartite mechanism of the National Planning Council. In this way decisions on trade measures will be informed not only by the problems faced by particular sectors but also by the opportunities that lie within them for developing new products and markets and achieving sustained growth. Similarly, investment plans – including the introduction of new technology – could be openly discussed on the basis of a better flow of information through joint union machinery and tripartite bodies. In this way decisions would be taken on the basis of asking the question 'what more could we be doing with these resources?' rather than 'how do we best cut back?'

5.24 These same principles of democratic involvement, forward planning and seeking

to make the most effective use of the nation's resources must be applied to the economy as a whole, as well as its separate components. That is why the TUC attaches so much importance to the idea of a National Economic Assessment. This would be the annual stage at which examination would be made of the way the economy was developing and alternative courses of action openly discussed. The implications of a particular growth rate for expenditure on the public services, and the implications of this in turn for both the development of the social wage and the order books of private sector companies would need to be thrashed out. For example, within the National Economic Assessment there would have to be considerable scope for short-term budgetary action to bring unused resources into use by increasing real personal disposable income, as well as an appreciation of the possible limits to expansion posed by skill and capacity bottlenecks. But the assessment would not be solely concerned with the planning of demand and supply within the economy. Alongside this, there would have to be careful analysis of the collective bargaining implications both of economic policies and of social policies on the distribution of income and wealth, such as action on low incomes.

5.25 The National Economic Assessment will work because feeding into it will be a whole range of new initiatives sparked off by advances in democratic planning. These will be channelled through the National Planning Council so that at the heart of decision-making about the national economy will be the priorities and expertise of workers expressed through their unions. In this way the National Economic Assessment will mark a genuine extension of collective bargaining – and the responsibilities that go with it – at all levels.

Key points

- The starting point for a five-year plan must be the commitment to full employment and social progress shown in the period of post-war reconstruction.
- Planning must involve new institutions, designed to tackle structural weaknesses in the British economy. But it will only work if there is maximum involvement of trade unionists at all levels of decision-making.
- The priority goal is to reduce unemployment to below 1 million over five years. This means economic growth of 4 per cent sustained over that period.
- A major public investment programme is at the heart of the TUC's five-year plan. But investment is needed throughout the economy.
- Investing for reconstruction on this scale will create jobs in all sectors.

The size of the public sector

6.27 Despite the importance of its contribution, the public sector is condemned by the Government as too large, inefficient and unproductive. It therefore cuts it back and hands over what it can to private firms. In reality the public sector is not too large but too small. Both in relation to the tasks which it needs to perform and in comparison to the public sector in other countries, there are not enough resources at the command of public authorities. Figure 6.3 shows that the UK public sector is about average in size compared to that of the other Western trading nations. Furthermore, out of the

41.7 per cent of GNP claimed by general government expenditure in the UK in 1979, 11.7 per cent was taken up by payments such as pensions, which are transfers (or redistribution) of income rather than a direct claim on productive resources.

6.28 The TUC does not believe in public spending for its own sake but because it is essential to meet welfare needs and to provide a national network of services and industries. We are concerned that the best use is made of the resources in the economy, and that the way these are allocated reflects the priority attaching to the needs of society.

Key points

- Only public spending can meet the basic needs of the worst off.
- Only public spending can provide a national network such as transport or telecommunications.
- The planning system must be reformed and opened to public debate. It must concentrate on allocating real resources to meet real needs.
- Public spending helps the rest of the economy by supplying a better infrastructure and a better labour force, and buying goods and services from it. The public sector can be used to restore economic growth.
- The public sector is not too big, but too small.

Figure 7.7 Imports take larger share

	Percentage				
	1978	1979	1980	1981	1982 (first half)
Vehicles	31.6	38.0	46.9	55.7	62.1
Metal manufactures	19.2	20.1	23.5	21.3	24.1
Paper and board	29.2	31.4	31.4	35.0	38.1
Mechanical engineering	23.8	27.3	27.3	27.8	34.6
Electrical engineering	33.5	40.9	39.4	48.1	56.1
Instrument engineering	52.2	54.6	59.7	52.9	62.7
Chemicals	30.9	34.2	33.1	35.7	40.3
Drink and tobacco	13.4	17.0	17.5	18.9	20.9
Other manufactures	18.4	20.7	23.5	25.0	26.6
Textiles	26.2	28.1	29.7	32.7	34.1
Clothing and footwear	21.8	24.6	25.6	25.8	23.7
Total manufacturing industry	24.3	27.4	28.2	29.7	32.5

Note: The figures indicate the share of the UK market taken by imports expressed in volume terms.

Note: Figures are available only for three of the 1981 quarters.

Source: CSO, Production Accounts.

the negotiation of agreed development plans with companies. Some indications can be gathered from EDC and SWP work, such as the call from the Electronic Consumer Goods SWP for import controls on colour TVs. But in the short and medium term, the TUC is calling for

import controls on sectors and products which will play a key role in economic reconstruction or which will be subject to serious problems of adjustment to new market conditions. Coverage is likely to include sectors such as machine tools, information technology, biotechnology, petrochemicals, motor vehicles, coal, textiles and clothing, shipbuilding and steel. The key to this strategy will be to build up a strong industrial base for supplying the domestic market, as a precondition for export success in the long run. The Government's industrial policy needs to be constructed along those lines, including a lower sterling exchange rate to allow exports to prosper. It also has to reach agreement with multinational companies, whose internal transfers increasingly dominate international trade, to ensure that Britain gets its share of productive activity and is not used simply as a market for their products.

7.40 As already noted, membership of the EEC might pose problems for this trade strategy – though other countries pursue a vigorous trade policy within the EEC, such as the French Government's decision to impose non-tariff barriers to inhibit imports of video-recorders. In many industries, Britain's position is so serious that restraint on imports must be an overriding priority.

Key points

- Deindustrialisation – a long-run development – has accelerated rapidly in the past three years.
- An efficient and competitive industrial sector is crucial if the return to full employment is to be sustained.
- A planned approach to industry, involving those affected by the decisions, is the key to industrial success.
- A new investment strategy, based on the National Investment Bank and NEB, and harnessing the pension funds, is a top priority.
- Industrial policy must be flexible enough to have a strong input from regional and local interests.
- Public corporations can be used to create real jobs in the public and private sectors, and clear mechanisms are needed to manage the movement away from excessive defence expenditure.
- Powerful research, training and education strategies are needed to underpin industrial recovery.
- Given the high levels of imports, there is a clear case for the planning of trade, based on a managed exchange rate and import controls.

8.28 The Brandt Report called for both an expansion of the world economy and a transfer of resources to the poor countries of the South as the first steps in improving the lot of the population in both parts of the world. Sadly, the Governments of the world have paid only lip service to Brandt and have failed to institute the policies advocated. Even the much vaunted summit meeting of world leaders at Cancun (Mexico) in 1981 produced little positive action, despite assertions to the contrary from those such as the British Prime Minister. What is now required is a political initiative, aimed at making a reality of the Brandt proposals, on the same scale as the political movement that established the Marshall Plan in the post-war years. Until the political will is found there can be little hope of international economic reconstruction.

8.29 In conclusion, it must be acknowledged that the approach set out here is not free of problems. The reconciliation of industrial development in the Third World with employment security in the North is one such problem. The adjustment to new trade patterns and the establishment of a new international division of labour will pose great challenges, not least to trade unions, in all parts of the world. Nevertheless, the only alternative to facing up to these problems is to continue the present downward cycle. The approach set out in this chapter offers a route away from the despair such a course would create. It is also founded on the strong trade union principles of solving problems by negotiation, and without shifting the burden onto someone else's shoulders.

Key points

- The world economy is in crisis and the problems are getting worse.
- The policies of the UK and USA Governments are a major cause of the problems.
- Expansion in one country can run into difficulties if the rest of the world stays in recession; but coordinated expansion would help the world economy as a whole, and each country would gain proportionately more than through isolated action.
- Positive policies are needed to secure development in the Third World.

An important element is the provision of paid time off for union training for women trade unionists. The TUC Education Service has been expanding its provision of special bridging courses for women trade unionists, and is producing a new book in its education series, *Women Workers Education Book*.

9.24 Involving women more in trade unions is of central importance to the TUC's economic strategy because, as Chapter 5 makes clear, the TUC's proposals for a return to full employment are based on trade unionists taking part in decision making at all levels of the economy. The planning and industrial democracy framework proposed by the TUC will be responsible for decisions of great significance to women, and it is therefore essential that women play their full part. For example, decisions on public expenditure are to become much more open and subject to discussion, and it is crucial that unions press for significant real increases in resources going to childcare, health provision, child benefits, pensions, and training and educational programmes geared to women's needs. The agreed development plans – described in Chapter 5 – which are to be negotiated between companies, trade unions and Government could also become a

vehicle for the introduction of positive action programmes.

9.25 Many of these special programmes and initiatives depend on trade unions for their negotiated introduction, development and monitoring. Others, such as positive action programmes, could also be encouraged by means of public sector contracts. But it is equally true that many of them need to be underpinned by legislation. Just as collective bargaining has done little to alter the relative distribution of income and wealth in this country, so too it has done little to end the inequalities suffered by women. Strengthening the Equal Pay and Sex Discrimination Acts and the Wages Council machinery, restoring schedule 11 of the Employment Protection Act, clarifying the status of homeworkers, improving maternity and paternity rights, ending discrimination in the tax and social security systems – these are dependent on or will be immeasurably helped by legislation. The TUC is also consulting unions on their views about a legislative approach to low pay and shorter working time. In the last analysis, ending the discrimination suffered by women will require political will as well as collective bargaining initiatives by trade unions.

Key points

- Women remain largely segregated in low paid jobs and sectors, and constitute the overwhelming majority of the low paid.
- The Government's economic policies have damaged women's interests by reducing job opportunities, cutting public services and driving down living standards.
- The TUC's economic programme will help women by providing more jobs, increasing expenditure on public services, providing comprehensive childcare facilities, attacking low pay and cutting working time.
- Positive action programmes in employment, education and training are major priorities.
- The TUC has launched collective bargaining initiatives and campaigns to help improve women's position – for example, in relation to part-time workers, homeworkers and maternity/paternity provisions.
- The TUC is monitoring unions' progress in improving representation of their women members.
- Men must take more responsibility for childcare and work in the home.
- Many of the policies described in this chapter would be helped by legislative backing.

Key points

- Inequality is a long-standing problem, but the massive rise in unemployment under the present Government has played a direct role in making inequality worse.
- Government cutbacks have resulted in a significant and sustained reduction in living standards for a major part of the working population.
- In contrast to the unemployed and low paid, the rich have been getting richer. Disparities in income are reinforced by the extreme inequalities in the ownership of personal wealth.
- The TUC's five-year programme for the economy is matched by a comprehensive package of measures to promote equality in terms of job creation, pay, the quality of working life and reductions in working time.
- Priority must also be given to people who are unable to support themselves out of employment income, and this requires a renewed emphasis on improving the social wage.

UNEMPLOYMENT: THE MYTHS THE ALTERNATIVE

This 4 page report summarises the key points from the TUC's *Economic Review 1983*. It is about unemployment – the causes and the cures. It is also about how we pull the British economy out of slump and towards growth.

Britain's slump and mass unemployment are a disgrace and an indictment of the Government. But mass unemployment is not inevitable and never has been. Alternative policies started now could cut the dole queues by 570,000 in a year, and get unemployment below 1 million within five years – *without* the side effects the Government predicts.

Below we provide answers to some of the most important questions and myths about the slump.

1 'Things are not that bad'

Since the Government took office in 1979 Britain has suffered an economic collapse.

Unemployment has reached the highest level in Britain's history: by the beginning of 1983 it was 2 million higher than May 1979. In other words unemployment has risen by

over 1,500 for every day the Government has been in office.

National output – the total amount produced in the economy – has actually dropped, by 6.2 per cent. Prices have risen by 52 per cent and there are 1.5 million *more* people living below the 'poverty line'.

Bankruptcies have reached record levels (5,151 in 1981 alone) and, for the first time in peacetime in over 100 years, we started importing more manufactured goods than we export.

Figure 1 shows what has happened to:

- unemployment; and
- production.

The picture could hardly be clearer. In both cases, 1979 was the turning point – with unemployment rising out of control and production starting to nosedive.

2 'Other countries have the same problems'

Nobody is denying there is a recession in the world economy. What the Government has to explain is why Britain is doing so much *worse* than its main competitors.

Since 1979, no other major economy has suffered such a drop in industrial production and jobs. Of the seven biggest economies in the second half of 1982, Britain had the worst unemployment rate along with Canada.

Of the ten EEC states, only Belgium had a higher unemployment rate than Britain. Our industrial production has slumped seven times faster than the OECD average since mid-1979. Over the same period Britain had by far the worst record on overall output of *all* the 24 OECD member states. While output actually fell here and in the USA, it rose in every other country.

3 'At least we're beating inflation'

The Government is obsessed with the need to slow the price-rise (inflation) rate, apparently at whatever cost to the economy.

On the *plus* side, the inflation rate by December 1982 was 5 points lower than when the Government took office.

Now look at the *minus* side:

- Prices went up 52 per cent in the Government's first 45 months in office.
- For 34 out of those 45 months, the inflation rate was higher than the one they inherited in 1979.
- Each 1 per cent drop in the Retail Prices Index has cost us 400,000 more people unemployed (on that basis, zero inflation could mean 5 million plus unemployed).

No one has ever denied that inflation will come down if the economy is savagely deflated as Britain's has been. But the squeeze the Government have used to choke off price rises has all but crippled the economy.

Figure 1 The record of decline



Note: Unemployment is total registered unemployment (including school leavers) UK.
Note: Production is index of industrial production (all industries), 1975 = 100.
Source: CSO.

4 'At least we're paying less tax'

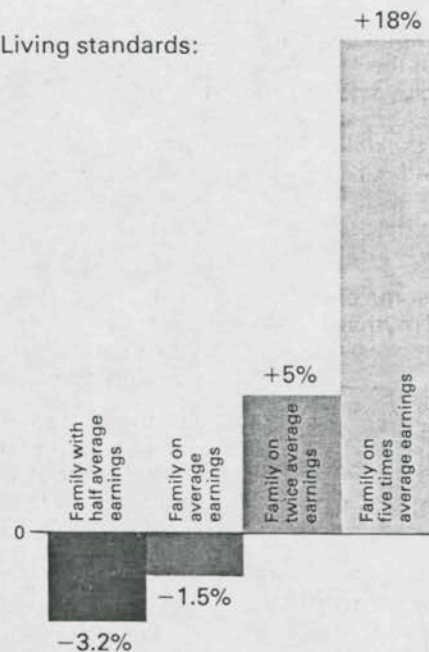
The Government's election promise was to cut the amount we pay in tax. Exactly the opposite has happened. The Government has actually *increased* taxation – the amount it takes from earnings through income tax, VAT, national insurance and so on.

Not that the effect has been spread evenly. When it comes to living standards, the facts show that the less you earn, the worse you've done since 1979. This is because the Government have seen to it that tax changes favour the better off. Figure 2 gives some examples:

Figure 2 Inequality: the record

Poverty: 1.5 million more people below the poverty line than in 1979

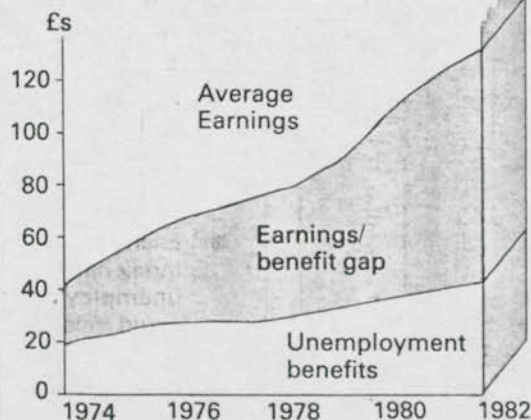
Living standards:



Note: Change in real weekly net income for a married couple with two children.
Source: Hansard.

The unemployed are getting poorer. Figure 3 shows how the gap between unemployment benefit and average pay has widened since 1979.

Figure 3 The earnings/benefit gap



Note: Unemployment benefit calculated for married couple with two children and includes child benefit.
Source: Social Security Statistics/DE Gazette.

5 'A recovery is on the way'

The Government's forecasting record is the best possible proof of their incompetence. Figure 4 shows why. It contrasts Government's predictions of recovery with the steadily rising unemployment graph.

There is no reason to think the latest batch of 'recovery' predictions are right either. For example:

- company failures were up by 39 per cent in 1982.
- another 625,000 jobs were lost in the last 12 months.
- employment in the key construction sector last year dropped to a million for the first time since 1929.
- even the Treasury expects that in 1983 our balance of payments surplus will disappear – and that's including all the income from North Sea oil.

6 'Unemployment is not the Government's fault'

The Government are directly to blame for the level of unemployment in Britain. Mass unemployment is *not* the fault of:

World Recession Our earlier figures show that Britain's jobs record is far worse than our competitors.

High wages Of the 17 largest producers in the western world, Britain ranks fourteenth in terms of labour costs. Only Spain, Ireland and Greece are lower.

New technology The slump has meant Britain is innovating more slowly than its competitors.

Immigration Virtually every year, more people emigrate than come to live here. Only ten years ago our economy could support 24 million workers – recession hits job opportunities for everyone.

Women going out to work Research shows that virtually none of the rise in female employment has been at the expense of men's jobs. Over half a million women's jobs have disappeared since 1979 and over 1.25 million women cannot now get a job.

What *has* pushed up unemployment is the Government's monetarist policies. *Key measures the Government have taken to curb the 'money supply' and (supposedly) inflation are directly to blame for Britain's slump and mass unemployment:*

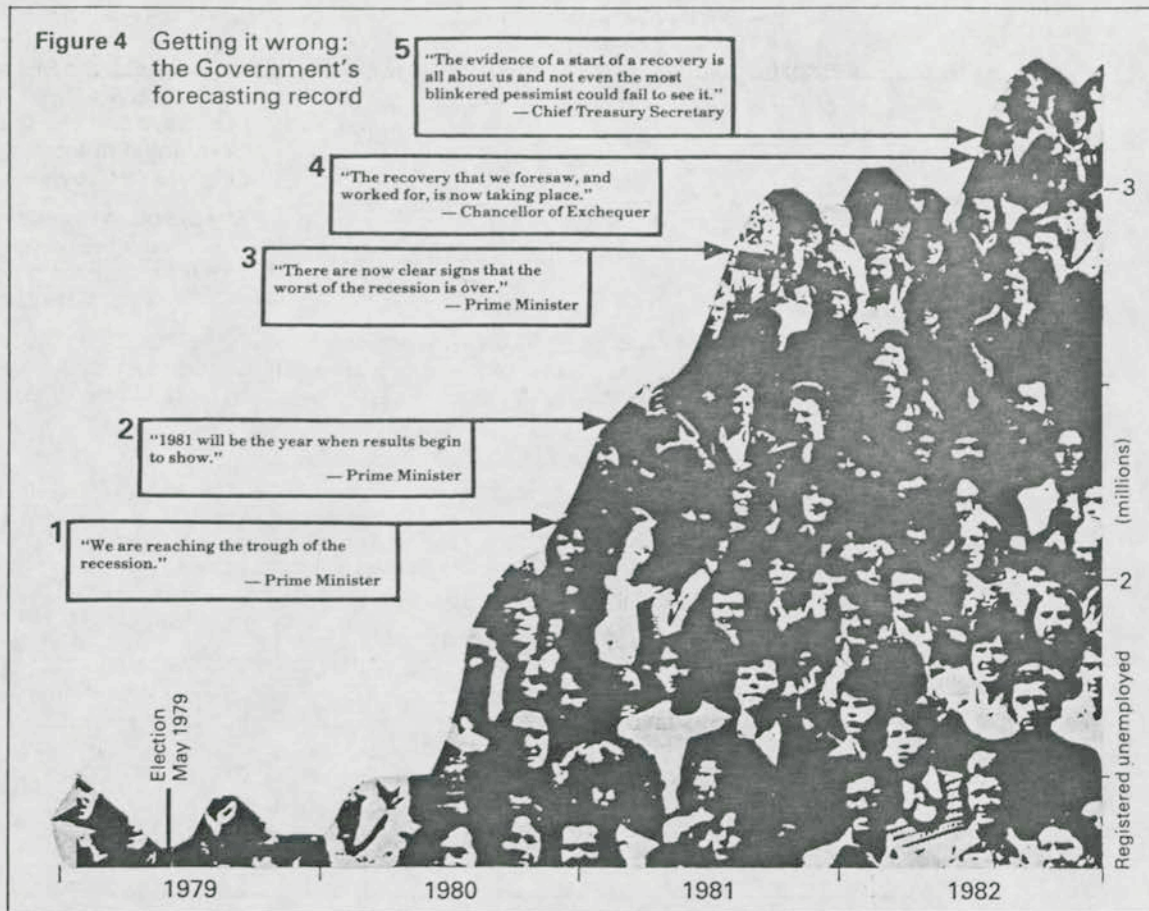
Cutting public spending has starved countless firms of public contracts and purchases, and cut back public services.

Result: more unemployment.

Higher interest rates have forced firms to cut back on investment and production; pushed the value of the £ too high; restricted pay settlements and cut purchasing power.

Result: more unemployment.

Figure 4 Getting it wrong: the Government's forecasting record



High Exchange Rate has made exports more expensive so fewer sales and less production for exporters. Meanwhile, cheaper imports take bigger share of home markets.

Result: more unemployment.

Abolition of exchange controls allows flood of funds out of UK into foreign shares and businesses, less funds for UK industries.

Result: more unemployment.

THE TUC ALTERNATIVE

The Government have now had four years to make their economic theories work. All that has happened is that Britain's economic decline has turned into a collapse.

The TUC alternative would:

- cut unemployment by over half a million after a year.
- get unemployment down below 1 million after a five-year expansion programme.
- bring in a new democratic framework for planning the way industry develops.
- improve the public and social services the community relies on.
- tackle gross inequalities in our society.
- lay the basis for long-term economic growth.

The first step is to expand, or 'reflate', the economy.

How to expand the economy

If the Government have proved one thing over the last four years, it is that attacking inflation

at the expense of everything else does not produce economic growth. It produces mass unemployment.

The alternative is for Government to use the community's wealth as a motor – to get the economy moving again.

In *Action Now* the chart below shows how and where the boost should come and how it must be followed up by a *Five-Year Expansion Plan*.

The immediate boost would come from:

- jobs directly covered by the package (in eg building, engineering, public services).
- spin-off jobs in related and supplying industries.
- more people with jobs and a decent income – so more demand for the goods and services industry provides.
- lower prices after the cut in VAT – so more trade in goods and services.

Even the Government agree that a public spending push like this would create jobs. The Government's argument is that we can't afford it. As with nearly all their other economic judgments, the Government are wrong.