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Centre for Labour and Social Studies

ELECTION 2015:

What's at stake for the economy?

Election 2015: What’s at stake?

The General Election in May 2015 looks set to be one of the most unpredictable elections in decades. Against a backdrop of uncertainty, Class have produced a series of election guides to equip you with all you need to know about what’s at stake for working people at the General Election. Other guides cover work, pay and unions; the NHS; tax; housing; and the welfare state. You can download them free and order hard copies from our website www.classonline.org.uk.

Contributors

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FOREWORD

It’s the government’s responsibility to manage the economy in the interests of society at large not just the 1%

Ann Pettifor

As we approach the 2015 General Election it is imperative that the debate on economic policy is conducted on the basis of facts and evidence. The Coalition has invested a great deal of energy in obscuring the facts and skewing the evidence. It will not be possible for the public to arrive at a sound decision as to how to vote, without a full grasp of what’s at stake for the economy. This publication does voters a great service by presenting evidence in a straightforward and accessible way so that the public as a whole can use this understanding to challenge politicians and hold them to account.

The economic facts are incontrovertible. The banking and financial system – and not the public sector – was both a cause of the recession, and the epicentre of the global crisis. The Coalition Government’s decision to deflect attention from the mountain of private debt generated by the ‘liberalised’, de-regulated and often corrupt City of London – and to instead focus obsessively on the public sector’s deficit – was just one ploy for averting the public’s gaze from the real crisis Britain faces: the crisis of private debt.

Yet when the global economy imploded during 2007-9, it was British taxpayers, via the public sector, that took the strain. As the private sector contracted, as output collapsed and unemployment rose, the UK government replaced the gaping hole left by the private sector with expansion of public sector spending. If they had not done so, the crisis would have inflicted a double whammy: the simultaneous failure and contraction of both private and public sectors.

The Labour government had between 2008 and 2010, acted to increase public spending, including investment, and by mid-2010 this was leading to improved GDP results. The basis for recovery had been launched. The newly-formed Coalition government in 2010 began the reversal of this process, making the people of Britain endure falling wages, cuts in benefits and the most elusive economic ‘recovery’ ever recorded.

The Chancellor piled public sector contraction on to private sector failure. The ultimate intention to shrink the scope of the state was achieved by blaming the ballooning of the deficit on public services; by demonising the previous government – rather than the City of London; and by victimising the innocents: those in receipt of social security.

By mid-2012, austerity had led us to the precipice of a new deep recession. Growth stagnated and – if no change had occurred – would have worsened rapidly. At this point, the Chancellor saw the danger just in time, and to some extent, drew back from the abyss. In a hidden way, the government moved to Plan B which involved slowing the austerity train down and adding in new wheezes like Help to Buy, to provide unacknowledged public subsidies to the private sector.

Over 35 years, Britain's governments have gradually abandoned their responsibility to manage the economy in the interests of society at large – the 99% – and not just the 1%. Large swathes of the economy were privatised giving the 1% monopoly control along with extraordinary income streams generated by safe and heavily subsidised public sector assets.

But the most important lesson to emerge from this crisis is an old one: namely that if government had taken on the investment reins from the failed private sector, and had ploughed money into, for example, modernising our infrastructure and making it resilient to climate change, the result would have been a rise in skilled, well-paid, secure and full employment that, based on sound investment, would have improved productivity.

The consequence of a rise in decent, productive employment (as we all know from our own experience) is that incomes rise. Rising incomes boost government tax revenues. And higher tax revenues help pay down the public debt.

In other words, the next government must look after employment, and the budget deficit will take care of itself. It's really not complicated – as this publication makes clear.

Ann Pettifor is Director of PRIME (Policy Research in Macroeconomics)

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THE STATE OF THE BRITISH ECONOMY

Soon after the last General Election, the Coalition made a commitment to eliminate the public sector budget deficit by 2016. This was to be achieved almost exclusively through spending cuts rather than tax increases. It was promised that spending cuts would provoke an economic recovery generated by a rejuvenated private sector that would foster UK competitiveness in international markets, laying the basis for an export-led recovery. This policy has failed on its own terms.

Economic Recovery?

Following the financial crash of 2008, policies that invested money back into the struggling economy brought about a return to growth. The rate of change of GDP - how economic growth is measured - improved continuously from the beginning of 2009 through to the middle of 2010 when it reached an annual equivalent rate of 2.4%. This promising recovery was terminated by austerity policies. A full 3 years passed until that rate was achieved again, at the end of 2013 when it rose to 2.7%. Rather than austerity prompting a return to sustainable growth, in reality the economy stagnated for 3 years.

The current recovery is the slowest ever recovery from a recession since records began[1].

On a per population basis, the economy is still smaller than it was in 2007[2].

Falling Incomes

Together the recession and the slowest recovery on record have had a damaging impact on real wages. A fall in real wages occurs when inflation grows faster than incomes rise. Inflation exceeded wage growth every year between 2008 and 2014[4].

THE COST OF AUSTERITY[3]:

£100bn

5% of GDP

£1,500
per person in the UK

11.1%

Last year, average real weekly pay was 11.1% lower than it was in 2008 (against CPI inflation)[5].

In the public sector, pay has been subject to punitive limits which amount to only a 3% increase over the whole of the last parliament. When compared to inflation of around 20% (measured by RPI), this means that public sector real wages have fallen by 17% in the last 5 years[6]. When worsening terms and conditions are taken into account, such as increased pension contributions at a time when the cost of living has been rocketing, the fall in real take-home pay could be even higher.

The weak recovery of the UK economy has been skewed to the benefit of business at the expense of working people. Towards the end of 2014, household income after tax remained almost 6% below the 2008 peak, but GDP per head - which includes profits made by business, was only 2% down[7]. As real wages have fallen, income has been syphoned off from working people to profits.

Deflation

Because much focus has been on the fact that inflation has risen faster than wages every year between 2008 and 2014, the prospect of deflation in the UK has been overlooked by many. Deflation is the opposite of inflation, it's a general decrease in the price of goods and services. In January 2015, tumbling oil prices led to a monthly deflation of 0.6% in consumer prices in the Eurozone - the fastest fall for more than 5 years[8]. While in the short-term a fall in oil prices can mean some improvements to the cost of living, if price falls continue and spread widely to other areas, it can have an incredibly destabilising effect on the economy – the impact of which will inevitably fall most heavily on the most vulnerable.

The problem is that if prices are falling, and are expected to fall further, most people will hold out for price drops before they buy. This causes demand in the economy to fall, and as fewer

0.6%

Tumbling oil prices led to deflation of 0.6% in consumer prices in the Eurozone in January 2015.

goods are sold, growth stalls and profits fall. The danger in this is that employers try to cut costs – starting with wages – and if wages fall alongside profits people have less money in their pockets. Alongside continuing to pay off any debts, many will hold on to their shrinking disposable income and demand in the economy drops further. It becomes a vicious cycle[9].

Employment

Measured employment has gone up by about 1.4 million since May 2010. But headline employment figures can be misleading and it's important to look at who is getting work, what type of work, and where employment is on the rise. Only 850,000 of the 1.4 million in employment were actual employees, the others were all self-employed. The increase of those registering as self-employed is likely down to major companies attempting to avoid costs like National Insurance and responsibilities to uphold basic employment rights such as holiday and sick pay[10]. Not only do workers' rights suffer, but according to the ONS, average wages of self-employed people fell by 22% between 2008 and 2014[11].

Alongside phoney self-employment, the employment figures also disguise the unbalanced nature of where jobs are being created. London had 28% of the increase in the 1.4 million in work - more than double its share of the UK labour force. Employment growth for England without London was less than 1% per year during 2010-2014, and while employment grew by 11.5% in London, no other region saw an increase of as much as 5%[12].

Trade

On top of other economic failures, the most important measure of external competitiveness in an economy – the balance of trade in goods – has also deteriorated under austerity. The balance of trade in goods is the difference between a country's imports and its exports. Austerity was supposed to stimulate exports in order to deliver an export-led recovery. But the UK balance of trade has got worse under this government falling from -6% of GDP in 2008 to -7% in 2014[13].

EMPLOYMENT RATES ARE REGIONALLY UNBALANCED:

London had 28% of new jobs –

2x its share of the UK labour force.

UK BALANCE OF TRADE 2008 - 2014:

-6% OF GDP → **-7% OF GDP**

The Deficit

When politicians refer to the 'deficit' they generally mean the 'overall fiscal balance', which is the total government income minus total government spending. Most economists agree that a deficit in itself is not a problem. Except in rare circumstances, deficits and debt are responsible economic tools for governments, for example borrowing to invest in major infrastructure assets for the future such as housing, hospitals and schools.

In 2013/14 the deficit was 5.5% of GDP, but this is not an accurate measure of the balance between government income and government spending. Public spending falls into three categories: current spending; investment spending; and interest payments on public debt. These categories are themselves deceptive and shouldn't be thought of simply as 'spending'. Investment creates assets such as roads and schools which will pay for themselves again and again over time and not all interest payments should be classed as 'spending'. In 2013/14 the Bank of England held 27% of the public debt and other publicly owned banks held a further 9%[14] meaning these interest payments were actually just transfers from one government institution to another. If this internal transfer is not taken into account the 'deficit' becomes 4.5% of GDP.

Much actual public spending is to fund specific departments, such as the NHS, schools or policing. But another form of public spending, called 'countercyclical' spending, goes up and down as the economy contracts and expands. The most obvious of these are payments to those who are out of work. Just before the recession hit, the UK unemployment rate was about 2.5 percentage points lower than it was in 2013/14. Not surprisingly, spending on unemployment support in 2013/14 was almost £21 billion higher than before the recession. This spending will disappear as unemployment declines and it is already substantially lower than in 2010. This form of public spending requires no policy action for it to decline. If we also subtract this 'countercyclical' element from the 'deficit', the balance between income and spending falls to 3.4% of GDP[15]. If investment spending on future assets is taken into account the figure is even lower.

MEASURING THE UK PUBLIC SECTOR DEFICIT AS A PROPORTION OF GDP 2013/14 [16]:

5.5%
OVERALL DEFICIT

4.5%
WITHOUT INTEREST PAYMENTS PAID TO PUBLICLY OWNED BANKS AND THE BANK OF ENGLAND

3.4%
WITHOUT PAYMENTS TO THE UNEMPLOYED SINCE 2007 CAUSED BY RECESSION

1.5%
WITHOUT SPENDING ON PUBLIC INVESTMENT

Collapse of investment

A key reason for the poor performance of the UK economy has been the collapse in both public and private investment. This has led to further unemployment and lower household consumption, while contributing to slower productivity growth. Britain was once a model of excellence when it came to investment - canals, railways, electricity networks and manufacturing innovation that came in the wake of the industrial revolution. But for years Britain has bumped along at the bottom of the leading countries when it comes to public and private investment, with private investment levels falling even as profits have been rising[17]. Under the Coalition, investment levels plummeted. Public investment halved in the first 2 years of this parliament alone, while private investment took until the third quarter of 2014[18] to recover to its pre-crash levels. This means 4 years of low investment and crumbling infrastructure.

Private investment is only just back to its pre-crash level.

PUBLIC INVESTMENT - UNDER THE COALITION[19]:

£51.1bn
2009/10

£26.7bn
2011/12

Numbers starting apprenticeships fell by

70,000

in 2014[21] and there were 6,000 fewer 19 to 24 year-olds starting new schemes[22].

Low investment deepened the recession but also rebalanced the economy in the wrong direction - away from the high-skill, high-wage sectors towards more low-income and insecure service sector jobs. Poor infrastructure continues to impede further growth, and without ensuring investment in infrastructure, skills and research development, the economy will continue to struggle to recover.

Productivity

Austerity policies are largely responsible for the productivity failure that the UK economy is experiencing. Productivity is how employees' 'output' at work is measured over a given period of time and is influenced by investment in machinery, infrastructure or training that allow workers to be more productive. It's a key economic indicator because stagnant and falling productivity is a big problem for the economy. Over the long-term, without productivity growth, wages can't grow.

The UK has a poor productivity record which is linked to poor investment by public and private sectors. The most recent figures show that productivity is 1.8% lower than it was before the 2008 economic crash[20]. Employment growth, often only part-time, has been concentrated in the lowest–skilled, lowest-paid jobs. Productivity remains significantly lower than it would be had 1997-2008 average rates of economic growth been maintained.

Education and training

Current schemes are failing to provide the training and apprenticeships that are needed to fill the growing skills gap.

Many business leaders believe that a chronic skills shortage is holding back the recovery. From engineering to manufacturing, IT programmers, as

Public investment

1.8% lower

Now than it was before the recession.

SKILLS SHORTAGES:

In 2013 there were skills shortages in 9 areas of the economy but in 2014 it leapt to 43[24].

well as doctors and nurses – the skills shortage is hampering many areas including A&E services and major infrastructure projects. It is estimated that the UK needs around 780,000 more engineers over the next 5 years to meet industry demands – and the UK is currently training less than half of that[23].

The current apprenticeship system desperately needs to be improved, with even the Government's own research showing that some employers are not even paying their apprentices the minimum rate. 15% are paid less than the appropriate national minimum wage and younger apprentices are more likely to be earning even less[26].

Inequality

Evidence from previous recessions highlights a strong link between rising inequality and the risk of slump and economic instability. The share of national income going to the top 1% of the income distribution has doubled since the mid-1970s[27] and the gap between the rich and the rest has been continued to grow since 2008. Income differences between those on top incomes and those on the lowest wages are now higher than at any time since records began[28]. This widening inequality gap reflects a lack of any effective democratic constraint on ballooning top incomes or the ability to enforce collective pressure to raise low wages due to the weakening of trade unions.

Rising inequality is not just unfair, it also holds back economic growth. In fact the UK economy would be 20% larger had the wealth gap not widened over the last 30 years[30]. Even the IMF now agrees that inequality harms

400,000 shortfall

There will be a shortfall of more than 400,000 engineers by 2020[25].

Average FTSE 100 boss is paid 300 x the minimum wage[29].

growth and that lower inequality is strongly connected to faster and more durable growth[31].

Financialisation and privatisation

Over the last 40 years deregulation of the financial sector has led to its vast expansion, with the finance sector now playing a much more significant role in all policy areas from pensions to large-scale infrastructure projects[33]. This process is referred to as financialisation. The scale of financialisation and privatisation means economic decision-making is now concentrated in fewer hands. The opening up of vast swathes of the public sector and formerly nationalised industries to private companies, under initiatives such as PFI, has skewed the economy towards financial interests and shareholders[34]. This has not only created more instability, but has also meant that the economy works for private vested interests rather than in the interests of the public[35].

Efforts to maximise 'value' for shareholders in major corporations have focused economic activity on extracting the largest possible profit in the shortest amount of time through various methods such as off-shoring production, minimising tax bills and 'creative accounting'[36]. Because the focus is on squeezing higher and higher profits from the economy, the UK is failing to undertake the necessary investment to improve productivity and shift towards a greener economy.

Record profit levels

The profits of UK service companies recently soared to the highest level since records began 18 years ago[37].
But while the service sector is booming, wages are still lagging behind. This could be because there is little real

UK ECONOMY[32]:

had the wealth gap not widened over the last 30 years, the economy would be

20% larger

PROFITS OF UK SERVICE COMPANIES:

Profits of UK service companies are now at their highest level since records began 18 years ago.

pressure on employers to boost wages. Trade union membership in the private sector remains incredibly low with just 14.4% of workers organised in unions compared to 21% in 1995[38]. But the decline in trade union membership is only one factor - alongside it, and perhaps because of it - has come the deregulated labour market and the rise of temporary agency workers, zero hour contracts, bogus self-employment, low-skill apprenticeships, and workfare.

Personal Debt

Rather than rebuilding the economy on stable foundations, the Coalition has sought to encourage growth on the shaky grounds of personal debt. Policies such as Help-to-Buy, encourage people to buy homes with very low mortgage deposits and higher levels of debt.

Since the last recession, the overall pattern of household debt has remained unchanged, with the proportion of people with liabilities exceeding their assets slightly higher[40]. In November 2014, Britons ran up their highest level of debt since the crash in 2008, with loans and borrowing on credit cards and overdrafts hitting £1.25 billion[41]. The personal debt crisis has become entrenched as low wage growth means more and more people are forced to borrow just to cover their rising cost of living.

Tax

The Government has collected £17 billion less than forecast in income tax because of the lack of earnings growth in the UK[42]. Most new jobs created have been in low-pay sectors where there

£55,384

The average total debt per household (including mortgages) was £55,384 in November 2014[39]

£17 billion less

The Coalition has collected £17 billion less than forecast in income tax because of the lack of earnings growth in the UK.

£119bn lost

The amount of revenue lost through tax avoidance and evasion was £119bn in 2013-14[47].

is an income tax threshold of £10,000. Tax receipts have therefore been even lower. The number of self-employed people who earn less than £10,000 increased from 20% in 2008 to 35% in 2014.

The tax base is getting smaller and less progressive as the top rates of tax apply to less high earners. The Coalition lowered the top rate of income tax from 50p, which raised £1 billion, to 45p, and plan to lower it to 40p after the election – lowering the tax income from the very highest earners even further[43]. Tax evasion and tax avoidance have become widespread and Coalition cuts to HMRC staff have made the situation worse. Between 2014 and 2015, the unit for personal tax became 250-300 people smaller[44] and plans to close 14 HMRC offices by December 2015[45] will make collecting tax even harder. HMRC estimates it lost £35 billion in potential tax revenues in 2011-12, £1 billon more than 2010-11 (£34 billion)[46].

Greening the economy

In 2010 the Prime Minister said he wanted to lead the "greenest government ever"[48]. But rather than putting strong steps in place to tackle climate change and invest in green technology, the Government has focused on tax breaks for high-carbon producers, such as the £2.7 billion for North Sea Oil and Gas firms[49].

While the Coalition did establish a Green Investment Bank, it is largely ineffective, lacking the power to borrow and is hugely under resourced with no extra provisions for it beyond 2016[50]. The Coalition has done next to nothing to meet its 2015 targets to clean up air pollution[51] and has dumped 2030 decarbonisation targets[52]. Steps to promote the development of renewable energy and technologies have been curtailed with a ban on onshore wind farms and caps on green subsidies[53]. The Coalition's stance on climate change and investment in green technologies is a disaster for both efforts to tackle climate change and the UK's chance to become a world leader in innovative green growth. The implications for high-skilled jobs and economic and environmental sustainability are huge.

The Coalition has spent a fraction of the £1bn set aside in 2010 for carbon capture and storage technology[54].

REBALANCING OUR ECONOMY FAIRLY

Government has the power to enact a range of economic policies that will have a real impact on the lives of ordinary people. A responsible attitude towards the economy is desperately needed. Further austerity at a time of near-zero interest rates could set us back on the path of recession, further squeezing living standards and bringing a definitive end to our welfare state as we know it.

We need a government to rebalance the economy – putting fairness and the pursuit of public good at its heart. Responsible policies will prioritise fair growth to stimulate investment and boost wages, while tackling the vested interests who don't pay their fair share. The economy must be made to serve the many not the few and countervailing pressures, such as trade unions, that can stand up to vested interests must be supported and strengthened.

1. Unleashing investment for a green economy

Poor infrastructure reduces economic competitiveness and productivity. A far-reaching plan for higher public and private investment in infrastructure and innovative technologies could change that[55]. Tackling climate change is the biggest task of our generation, but also presents many opportunities to achieve a fairer economy. A Green New Deal driven by targeted investment could transform Britain to a low-carbon economy and could achieve better quality, more stable economic growth with the creation of thousands of high-skilled green-collar jobs[56]. Green energy creates more jobs than fossil fuels[57]. Wavering on investment in infrastructure and green technologies could scupper the UK's chances in the global race and could cost our economy billions of pounds and thousands of potential jobs[58].

If our infrastructure had matched that of other leading global economies[59] during the first decade of the 21st century economic growth could have been

5% higher

For every 1000 jobs[60] that are directly created in infrastructure construction, employment as a whole increases by

3,053 jobs

A green industrial strategy must target and assist higher-skilled sectors and incentivise Research and Development.

Britain is good at pure science but bad at turning it into product innovation to deliver technologies on a broad scale. This is because it is so reliant upon the private sector, which is often unwilling to make investments in high-risk and sometimes initially unprofitable projects[61]. A major national investment bank would provide the institutional framework to support investment in major infrastructure projects and could develop new sectors, such as green technology, through direct investment and supporting small and medium businesses in line with the green industrial strategy. A publicly owned investment bank would be able to unleash the funds of the currently nationalised big banks as well as the £500 billion[62] of hoarded private sector reserves.

A green industrial strategy must rebalance the economy regionally and towards more productive sectors - away from low-pay, low-skilled service sectors and concentration in London and the South-East. A national investment bank could assist regional development through a network of regional banks that would invest in local small businesses, cooperatives and mutuals. The criteria for investment decisions would be based on social goals rather than the interest of shareholders and strict goals for any private company wanting to borrow could be set, such as requiring staff to be paid a Living Wage.

If we are to achieve a low-carbon economy, the next government must set an ambitious 2030 decarbonisation target and set about

A publicly funded home energy efficiency programme of £4.5bn a year would create 130,000 jobs by 2027[64], cut fuel bills and deliver a significant boost to the economy .

130,000 jobs

introducing a skills strategy to meet the demand of this growing sector. The state needs to get behind a wide-ranging programme of support and long-term incentives to the private sector, for strategically important low-carbon sectors, including renewables, carbon capture and storage and a national energy efficiency programme for homes[63].

2. Democratising the economy

Reintroducing democracy to our economy through a number of mechanisms can begin to challenge financialisation. It is no coincidence that more equal societies with strong economies such as Germany, Sweden, Norway and Denmark are underpinned by strong rights for trade unions and extensive sectoral collective bargaining coverage.

Improving democracy in the workplace is the first step towards improving democracy in the economy and rebalancing power from private profiteers to working people.

Without collective bargaining, workers have no voice in the conditions of their working lives and are compelled to simply accept the pay and conditions an employer sets. The government should actively encourage unions and employers to engage in sectoral bargaining, which establishes standard terms and conditions across an entire industry[65]. But collective bargaining structures don't just happen - the infrastructure needs to be built and there will be a need for the state to invest in regulation and enforcement of agreed terms and conditions.

In the private sector, expanding the share of the economy made up of employee-led mutuals, cooperatives and employee-owned companies – which currently stand at very low levels compared with countries such as Germany, Italy and Switzerland – would begin to tackle growing inequality. More democratic companies tend to have much smaller pay ratios among their staff. There is already precedent for this in Sweden, where collective bargaining works hand in hand with worker representation on boards[66]. But employee representation should not just stop at the workplace. The interests of employees should be protected through the establishment of a Ministry of Labour and the participation of trade unions on economic development boards. A Ministry of Labour would give working people a voice in government to counteract the voice of powerful corporate interests and would have a core responsibility to promote collective bargaining[67].

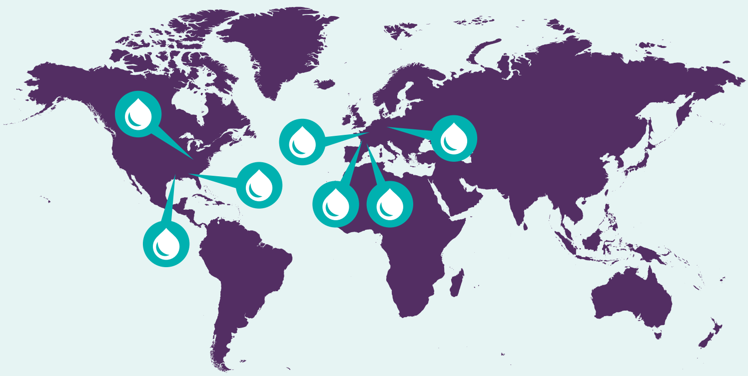
3.Public ownership

A fundamental part of democratising our economy is dealing with ownership and control. The UK needs to develop more democratic institutions and structures that can redistribute economic decision-making power. Through combining higher-level strategic coordination with more localised forms of public ownership, democratic accountability and public engagement in the economy can be enhanced.

Public ownership should be regarded as a long-term strategic policy solution rather than a short-term palliative for dealing with market failure. New forms of public and collective ownership represent an exciting opportunity to begin to tackle some of the biggest public policy challenges facing our generation such as protecting key public services and tackling climate change. The economy must serve social needs and environmental concerns over private gain and renewed forms of public ownership can do this.
Britain is increasingly out of step with much of the rest of the world, where similar experiences of failed or botched privatisation have generated a backlash among the public and politicians.
More and more countries and major cities across the world are beginning to move towards new forms of public ownership that attempt both to improve public services and stimulate wider public participation in decision-making. Major cities in the US that have brought major services back into public ownership include Atlanta, Houston and Indianapolis, while in Europe Berlin, Paris, Bordeaux and Toulouse have joined the trend.

4. Regions

To be successful economic policy must be fair, particularly regionally. Between 2010 and 2012 80% of new jobs created were in London[69]. This reflects the dangerous sectoral



86 cities
have taken water services back into public ownership since 2000[68].

1 IN 5 SHOPS

in the North stands empty, compared to 1 in 10 in the South[70].

rebalancing of the UK economy towards the finance sector and the low-pay, low-skill, service sector that supports it.

Economic policies must enable local communities to challenge the imbalances of power that lead to the focus of investment in some regions over others.

Economic policies must enable local communities to challenge the imbalances of power that lead to the focus of investment in some regions over others.

Power must be devolved to councils so that planning decisions suit local needs and encourage sustainable and appropriate growth for local areas. Strong city regions and nations within Britain need economic power but if this is to be achieved it needs to be within a strong national framework that emphasises a fair national balance. A sufficiently funded national investment bank could work with a network of local publicly-owned banks that could ensure economic growth is shared more fairly by identifying and investing in infrastructure priorities in local areas. This means investment in small businesses, co-operatives and mutuals which will create jobs and stimulate local economies.

5. Skills

If the economy is to be rebalanced away from low-pay, low-skill sectors towards higher-paid, higher-skilled jobs, a long-term plan for more sustainable growth is needed. While low-paid jobs have ballooned over the last parliament, a serious skills shortage has developed in areas where the UK could become leaders in innovative growth – particularly in science, technology, engineering and maths (STEM) subjects. To fill the skills gap and ensure working people a route into higher-skilled jobs, the next government needs to commit to a major expansion of high-quality apprenticeships and vocational training.

Apprenticeships and vocational education offer the most effective way of matching up areas of skills shortage with workers. The public sector should take the lead in offering apprenticeship and high-quality training in core areas and could extend this through its substantial procurement budgets. But securing

The UK needs an extra

50,000

STEM technicians and 90,000 STEM professionals every year just to replace those retiring[71].

employer investment in training will also be vital and a robust apprentice scheme that responds to the needs of the new economy and regional labour markets is the best way to achieve this.

6. Financialisation

There is no quick fix that can tackle the long-term and extensive expansion of the financial sector. But if it is to be challenged, steps to limit the scope and influence of financial institutions should be taken. A first and important step would be to reintroduce effective regulation that restrains the activities of financial institutions[73]. This would include capping excessive interest rates; the amount of credit financial institutions are able to create and where it should be directed – in favour of communities and green investment; the flow of financial capital across borders, and their speculative activities which endanger the entire global economy[74].
A financial transactions tax would be a significant step forward, which could make a big tax contribution as well as helping to reduce the size of the financial sector.

Democratic and public ownership and control of some banks and other major financial institutions, and support for mutual organisations such as building societies would also be a big move in reversing financialisation. The financialisation of households – more and more people pushed into debt just to cover the spiralling cost of living - is something no government can ignore. Alongside investment in

Fewer than 1 in 10

employers currently offer apprenticeships[72].

Half a million people
joined a credit union in 2012 alone[76].

large-scale infrastructure projects, public banks should provide banking services to households. While the Government has recently been forced to implement some limited steps to regulate the booming payday lending industry, a great deal more needs to be done to protect those most affected by the slashing back of the welfare state such as a levy on the profits of payday lenders to increase public funding of low cost alternatives such as credit unions[75]. The attraction of credit unions is that they are relatively secure as members' deposits are not invested, but are loaned to other account holders; loans are guaranteed by an FSA scheme, meaning money won't be lost if loan repayments are not met; and because members must share a common interest (such as a workplace or community) money often stays in the local area.

7. Boosting wages

An important step in creating a fairer economy is to tackle the slide in real incomes. Democracy must be extended to workplaces and trade unions must be strengthened so that workers can collectively bargain their wages. For those on the lowest wages an immediate increase in the minimum wage would have a huge impact on their standard of living[77]. Increasing the NMW incrementally towards the goal of the Living Wage would have a bigger impact proportionally for those on low-incomes but in some sectors the Living Wage could be introduced immediately[78]. Increasing the National Minimum Wage and introducing the Living Wage is also good for employers as it can incentivise investment and training, enabling workers to deliver higher outputs above their wage increases and thereby also generating profits.

If everyone was paid a Living Wage or above the Treasury would gain an additional[79]
£3.6 billion a year

18,000

Just a 1% increase in public sector pay would inject between £470 and £880 million of extra value into the economy and could create up to 18,000 full-time jobs[81].

Millions of public sector workers are losing annual pay increases as part of the Coalition's austerity drive to keep public sector pay rises frozen at 1%. Ending this regressive wage policy would generate between £710 million and £820 million for the government in tax receipts and reduced social security expenditure[80].

8. Closing the tax gap and creating a fairer system

There is probably no better example of the current injustices of our economy than the tax system. If the next government is to challenge vested interests and create a fairer system we need to ensure everyone pays their fair share. A progressive tax system is one where, overall, the amount of tax a person pays as a proportion of their income goes up as their income increases - taking all current taxes into account shows that the current system is not progressive[82]. If we are to achieve a fairer system, new taxes on wealth, financial transactions, property and land should be considered.

Discouraging tax avoidance and tackling tax evasion must become priorities for the next government. An anti-avoidance rule should be introduced into tax law, alongside country-by-country reporting for multinational corporations, and proper regulation is needed to ensure companies file their accounts and tax returns and pay all of the taxes that they owe. The government also needs to invest properly into HMRC, the civil service department which collects tax. HMRC employees need to be well-resourced to be able to tackle tax avoidance by corporations which employ dozens of tax accountants.

Class have produced an election guide specifically on tax - find out more at www.classonline.org.uk.

The HMRC estimate that a 1% increase in wages, leads to a 1.5% increase in tax receipts.

WHAT THE PARTIES ARE SAYING?

The UK's economic position is precarious. The squeeze on living standards and the widening gap between the rich and the rest has not been tackled over the last parliament. So what are the political parties saying about the current challenges and their vision of an economy for the future?

LABOUR'S POLICY PLEDGES[83]:

- Build a sustainable economy by creating 1 million green jobs over 10 years with more new jobs created to meet the target of building 200,000 new homes a year by 2020.
- Commitment to meet 2030 decarbonisation target.
- Create a British Investment Bank that will lend money to new and growing businesses.
- Raise the National Minimum Wage to £8 per hour by 2020 and use government contracts to promote a living wage, giving tax breaks to companies that sign up.
- Enforce existing minimum wage legislation and increase fines for employers who fail to pay the minimum wage.
- End exploitative zero-hours contracts.
- Support small businesses through cuts to business rates for 1.5 million small firms and tackle those who abuse the system by clamping down on tax avoidance.
- Introduce a tax on bankers' bonuses while cutting taxes for millions on middle and lower incomes by introducing a lower 10p starting rate of tax.
- Redistribute tax more fairly and restore the 50p rate of tax for those earning over £150,000.
- Put UK tax havens on an international blacklist unless they end their system of secrecy and produce a public register of offshore company owners.
- Introduce a levy on the profits of payday lenders to increase public funding of low cost alternatives such as credit unions.

- Introduce a Mansion Tax on high-value properties over £2 million, to help to pay for an NHS Time to Care Fund. This will provide an additional 20,000 nurses and 8,000 GPs by 2020.

- Prioritise vocational education with a new Technical Baccalaureate for 16 to 19-year-olds to support jobs and long-term economic stability.

- Pledge 80,000 extra apprenticeships a year in England and will require every firm that gets a major government contract to offer high-quality apprenticeships which will last a minimum of 2 years.

- Will borrow to invest in growing the economy.

CONSERVATIVE POLICY PLEDGES[84]:

- Reduce the tax businesses and employers pay, including corporation tax, without announcing measures to ensure any benefits are passed on to workers through increased pay or benefits.

- Introduce policies that will attack the rights of trade unionists and working people and further damage economic stability including limiting and restricting collective bargaining and the ability to legally strike.

- Raise the point at which people start paying income tax slightly but have no plans to raise the Minimum Wage or introduce a Living Wage.

- A freeze on fuel duty but no action to tackle similar costs such as childcare, energy bills, food and other spiralling living costs.

- While they have committed to keeping the Triple Lock on pensions (state pension will rise in line with wages or prices), they will freeze working-age benefits and reduce support for working families such as Working Tax Credits.

- Further swingeing cuts to local government and key public services.

- An arbitrary limit on immigration that will damage our economy, limiting the skills and expertise needed in every sector including the NHS instead of tackling the exploitation of the current system by employers and big businesses.

- Won't borrow to invest in the economy and will instead focus on cutting public spending.

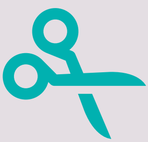
Behind the lines – what is the real economic difference between Labour and the Conservatives?

As the General Election approaches its important to look behind the headline policy pledges and assess what the differences between party positions on fiscal policy will mean in reality. Beyond the election, spending plans of the two major parties are very different. While the difference appears to be on how quickly, and what, to cut, the numerical gap between their proposals is vast and will have a huge impact on the lives of most ordinary people.

Conservative economic policy aims to achieve an overall surplus in the public budget within the next parliament. This means that they will not borrow anything to invest in growing the economy. To achieve a budget surplus in the next parliament without a major growth investment strategy, the Conservatives intend to cut spending by more than £50 billion[85]. These cuts will be the toughest of any major economy and will not only destroy public services but will run a huge risk of choking off the recovery. The Office for Budget Responsibility has warned that under this plan, spending on public services could fall to its lowest level since the 1930s – before the NHS or any real welfare state existed[91]. The Conservatives have agreed to protect spending on certain budgets such as health, schools and pensions, however they won't be protected against inflation so could mean cuts in real terms of 10%[87]. Unprotected budgets would face cuts of around 26% over the next 5 years.

Labour has committed to 'iron discipline' on spending control but with a fairer approach to the deficit[88]. The Labour goal is a surplus on current spending[89], which means they would continue to borrow around £25 billion a year to pay for investment spending but would look for either cuts or tax increases of between £4 billion[90] (according to the Resolution Foundation) and £7 billion[91] (according to the IFS) after 2015-16 which would be cuts of around 3%[92]. The key difference here is that Labour policies plan for an economic recovery that is led by wage growth and strategies to increase private sector investment to boost sustainable economic growth. This would increase revenues for the exchequer and reduce the need for further cuts or tax rises.

CONSERVATIVES:



£50bn

Cuts or tax rises of over £50bn and no borrowing for investment

LABOUR:

Tax rises or cuts of between £4-£7bn and borrowing £25bn for investment[93].

What are the other parties saying on the economy?

THE LIBERAL DEMOCRATS[94]:

The Liberal Democrats plan to "finish the job on the deficit" and balance the current budget by 2017/18, but they also plan to borrow for investment. They have stated their priority is a rise in the tax-free Personal Allowance rate as part of recent attempts to distance themselves from their coalition partners. Despite their record on climate change in government, they have reasserted their commitment to cut carbon by rebuilding national infrastructure and promoting new technology.

THE GREEN PARTY:

The Greens state that extensive investment and public expenditure is needed to develop sustainable and environmentally friendly infrastructure and reform and modernise key industries but have not set out how this will be paid for. Under the Greens, banks will be tightly regulated and current powers will be limited; large and medium sized companies will be required to pay a living wage. The Greens propose measures to support co-operatives and mutuals while prioritising third sector organisations in order to minimise the role of the state. The Greens have pledged to raise the minimum wage to £10 an hour by 2020 and have proposed a "wealth tax" of 1-3% on those with assets of more than £3m. Current taxation including VAT will be phased out and a Citizens' Income of around £75 per week for every citizen is being considered[95].

UKIP:

UKIP have not yet set out a vision for how a future economy would work and their proposal to withdraw from the European Union does not take into account the extensive economic impact including the loss of over 10m jobs such a move would have. Some of the policies UKIP do list include a proposal to increase personal allowance to the level of full-time minimum wage earnings and getting rid of inheritance tax but these policies are also uncosted. Many of UKIP's policy proposals will have a very damaging impact on our economy and the lives of millions of working people, including getting rid of the entitlement to paid holiday and sick pay and ending the right to maternity pay.

WHAT'S AT STAKE FOR THE ECONOMY AT THE 2015 GENERAL ELECTION?

Politicians have lauded a return to growth over the last year, but the truth is it has been shaky and unsustainable and has not produced the improvement to living standards so desperately needed. For most people, wages have stagnated and work has become more insecure. While the low-paid job sector is booming, company profits are at record levels and inequality continues to rise at alarming rates. Our economy clearly doesn't work for working people.

The Coalition's response to the economic crisis and ensuing recession over the last parliament has been austerity. Austerity has increased the deficit, destroyed public services and wrought misery in millions of people's lives. But in all likelihood the Coalition knew this would happen before austerity had even been implemented. Across the world from Mexico, to Brazil and Russia, austerity has failed whenever it has been tried.

Perhaps David Cameron hinted at the motive of the Conservatives when he said: "We need to do more with less. Not just now, but permanently". Austerity isn't a policy made necessary by a lack of government revenue; it's the cover given for a comprehensive shrinking of the state to make way for private business. If the Conservatives remain in power after May 2015, austerity will not be reversed if and when the economy recovers because it is not meant to be reversed.

Austerity has demonstrably benefited the rich at the expense of the poor. Families, especially single-parent families, have been hit hard thanks to cuts in benefits, cuts in tax credits and higher council tax. By contrast, Britain's richest 1% now do better thanks to changes brought in by Cameron's government, which included a small cut in the top rate of income tax. So perhaps austerity does work. The question is who it's working for.

This election will be crucial for working people. If the last 5 years of swingeing cuts to public services has been tough, the next 5 could be devastating.
If elected, the Conservatives are expected to implement a further £50 billion of cuts or tax rises. These will be the most severe cuts of any major economy and will put public spending back to 1930s levels – before the welfare state and the NHS were even founded. No budget or service will be entirely protected.

At this election politicians will tell you there is no alternative to swingeing cuts. But there is always a choice. Further austerity at a time of near-zero interest rates could set us back onto the path of recession, further squeezing the living standards of working people and bringing a definitive end to our welfare state as we know it.

Working people need a government that will rebalance the economy fairly – tackling inequality and putting the interests of the many over the vested interests of the few. Policies that prioritise fair growth over cut backs; boosting the incomes of the lowest paid over tax cuts for the richest; and decent jobs over a race-to-the-bottom, are urgently needed.

There is a great deal at stake at the next election. Your vote will make a big difference.

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