Written evidence submitted by the Trades Union Congress (TUC)

Summary

The TUC exists to make the working world a better place for everyone. We bring together more than 5.5 million working people who make up our 48 member unions.

Economic policies affect jobs, pay and working conditions. The TUC wants to see economic policy that provides work for all who want it, with inflation contained and a fair distribution of incomes.

In this submission we caution against reliance on supply-side strategies in 'building back better' from the pandemic, and emphasise longstanding shortfalls in aggregate demand rooted in power and distributional imbalances. We urge the government to follow the Biden administration and set a strongly expansionary fiscal policy to sustain spending in any transition and then meet wider objectives on public services and climate change. But more generally an 'over-production/under-consumption' approach to the economic cycle suggests the scale of expansionary policy in the UK and around the world is likely to be underdone. In addition, issues of power relations and the balance between domestic and overseas demand need to be reconsidered.

On the specifics of recovery, while the furlough scheme has been a success the government must ensure the scheme is adapted to any changes of the roadmap. The lessons from premature withdrawal of the scheme in the past need to be learned. Likewise the government need to ensure purchasing power is sustained, with money in the pockets of those who will spend it. Investing now in good, well-paid jobs will help to replace any jobs lost when the scheme ends. Fast tracking broadband, green technology, transport and housing could deliver a 1.24 million jobs boost by 2022, and the TUC has set out plans to fill and create 600,000 jobs in the public sector. Repair of the broken safety net will also keep money in pockets and should include raising Universal Credit and legacy benefits to at least 80% of the national living wage (£260 per week).

More broadly, a national skills taskforce should be established with a remit for apprenticeships, technical education and adult skills. The need for a strategy to improve the quality of jobs is urgent, and should include legislation to raise the floor of rights for all workers, a plan to give workers more power to negotiate collectively, commitment to use the power of government procurement to drive up the quality of work and a payrise for Keyworkers. Macroeconomic policy needs to ensure fiscal policy plays a more active role, as is now widely agreed across international organisations and professional economists. And the TUC has called for a wider inquiry into how macroeconomic policy can help to secure fuller, greener and better employment. This should include more clarity on the interplay between government

borrowing and quantitative easing. Inadequate support not inflation is likely to be the main threat to the recovery.

- **How much difference can government policy make to economic growth?**

Government policy can be critical to economic growth and outcomes more broadly, in particular employment and the quality of work.

The pandemic has meant a greatly changed attitude to the role of policy. Large-scale government borrowing has supported the economy for over a year. International organisations like the IMF and OECD have warned against a return to austerity. And above all, following the election of President Biden, the United States are setting a strongly expansionary agenda. Writing in the *Financial Times*, Harvard Kennedy School scholar Megan Greene reports the findings of the OECD's New Approaches to Economic Challenges initiative that this spending could shift the economy to a new 'plane' of growth.[1]

The TUC have long argued that policymakers have wrongly judged the relation between government spending and the economy, calling in 2019 for a review of critical assumptions like multipliers and the output gap.[2] While recent developments are therefore very welcome, we fear the scale of the change necessary is underestimated in the UK.

As we argued in our 2019 report, this goes back to the consensus interpretation of the global financial crisis (GFC). The broad thrust of the present inquiry is symptomatic of an approach that focuses on the supply side of the economy in explaining economic growth; in this response we offer an alternative view focused primarily on the role of demand. Looking more closely at demand as a causal factor behind economic growth helps to explain not only the decade of slow growth following the financial crisis, but the crisis itself.

Rather than deficient supply, the GFC resulted from deficient demand – with (global) production increasingly out of reach of (global) purchasing power. This argument is rooted in so-called theories of under-consumption that extend back 200 years, but that have been revived most recently by Matthew Klein and Michael Pettis in their 2020 book *Trade Wars are Class Wars*. A critical insight of these theories is that financial crises stem from a lack of purchasing power in the economy due to inequalities of income which lead to excess saving among the rich, and constrained spending for everybody else.[3]

[1] 'Joe Biden's experiment could revolutionise economic thinking', 6 May 2021: https://www.ft.com/content/4c7048ee-4336-43f9-9ecb-5718eccec5f1

[2] 'Lessons from a decade of failed austerity', TUC report, 24 Oct 2019: https://www.tuc.org.uk/sites/default/files/2019-10/Lessons_from_a_decade_of_failed_austerity_1.pdf

[3] This thinking has long been persuasive to the global trade union movement, and also socialist and social democrat political parties. Klein and Pettis cite the British Liberal economist John Hobson (1858-1940). Though in his *History of Economic Analysis* Joseph Schumpeter (1954, p. 740) goes back further to Jean Charles Léonard de Sismondi (1773-1842). He categorises Sismondi's account as "a third, the mass-poverty type [of under-consumption theory] that attributes gluts to the inability of labour, owing to low wages, to 'buy its own product'".

This approach suggests that governments can make a significant difference to economic growth through policy, and is highly positive about the potential for economies to recover from the pandemic and for governments to take action to address the climate emergency and invest in our care infrastructure. And it requires economic policy to look not only at the role of expenditure, but at broader issues of power relations and the balance between domestic and overseas demand. This rethinking should be a part of building back better from the pandemic.

IMF Managing Director Kristalina Georgieva cites William Beveridge, John Maynard Keynes and Harry Dexter White and their initiatives towards the welfare state and Bretton Woods system as an inspiration from an older generation:[4] "They forged a better world in the worst possible moment, in the midst of war. We need the same spirit now for the post-pandemic world—build one that is more inclusive and more resilient". We stress that this building back better from the Second World War involved a similar reset of thinking.

- **What are the causes of the gap in the UK's level of productivity compared to other advanced economies, and why has productivity growth been persistently weak in the aftermath of the 2007-09 financial crisis?**

The past decade has been immensely challenging for workers. The TUC has we repeatedly drawn attention to the unprecedented severity of real pay declines, as well as parallel deteriorations in the quality of work and consequences in terms of financial hardship.[5]

However, on the under-consumption view, while productivity statistics might indicate supply deficiencies they are misleading about the cause.

The 'persistently weak' productivity growth since the financial crisis is indicative. In the TUC's 2015 report, 'Productivity: no puzzle about it', we set out how weak productivity can result from weak aggregate demand.[6] Government spending cuts meant reduced GDP growth, and the labour market matched lower growth through price (with pay and the quality of work deteriorating) rather than quantity (employment increasing). So disproportionately low growth is matched by disproportionately high

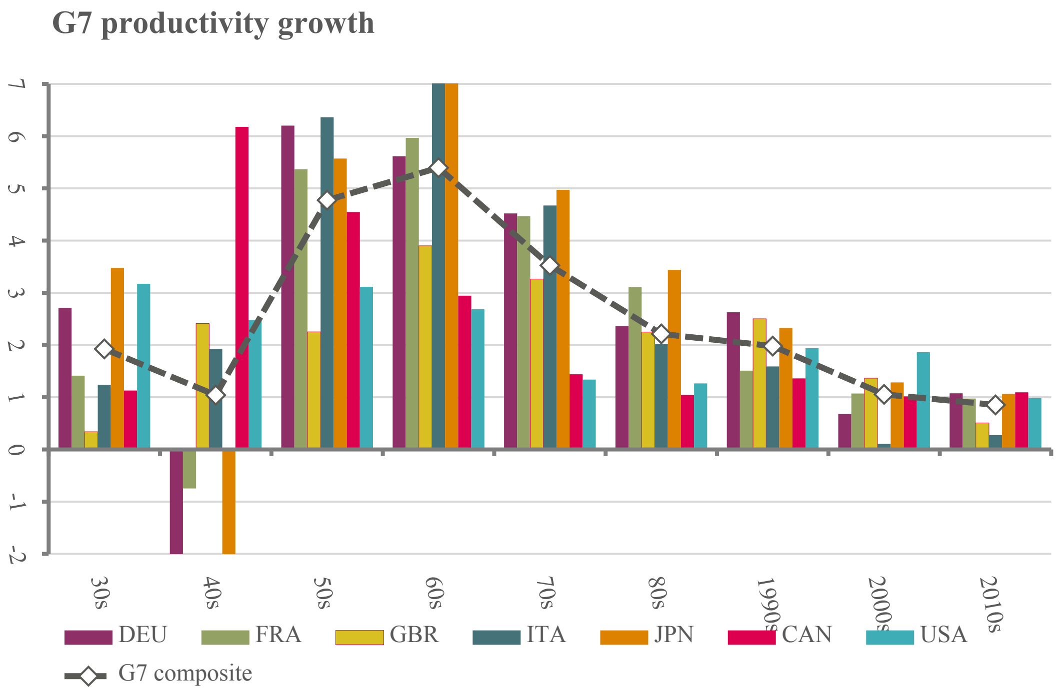
[4] 'The Long Ascent: Overcoming the Crisis and Building a More Resilient Economy', October 6, 2020 : https://www.imf.org/en/News/Articles/2020/10/06/sp100620-the-long-ascent-overcoming-the-crisis-and-building-a-more-resilient-economy

[5]'17-year wage squeeze the worst in two hundred years', TUC blog, 11 May 2018: https://www.tuc.org.uk/blogs/17-year-wage-squeeze-worst-two-hundred-years; 'Insecure Work', TUC report, 29 Jul. 2019: https://www.tuc.org.uk/research-analysis/reports/insecure-work

[6] TUC (2015) 'Productivity: No puzzle about it': https://www.tuc.org.uk/sites/default/files/productivitypuzzle.pdf. See also Geoff Tily, 'The Productivity Fallacy', Royal Economics Society Newsletter, Jul. 2016: https://www.res.org.uk/uploads/assets/uploaded/799c8c0e-1bca-4f73-a4a27d893b8871f4.pdf

employment growth, and low productivity is the result. A (later) fuller cross country analysis showed productivity outcomes effectively as a residual according to different labour market adjustments (with the UK matching closely Poland, Sweden, Switzerland and the United States), but the dominant feature across all countries was the reduced GDP growth as a result of government spending cuts (excepting Germany and Japan).[7]

In more general terms, the most important feature of productivity statistics comes from a longer and international view.



Here the progressive slowdown in productivity is seen to be common to all G7 countries. The broad movement over time is a far more the significant factor than the differences between countries at any point of time. Given the reliability of 30s and 40s figures, outcomes have reverted to those before the war. Andy Haldane showed the same result at a global level:

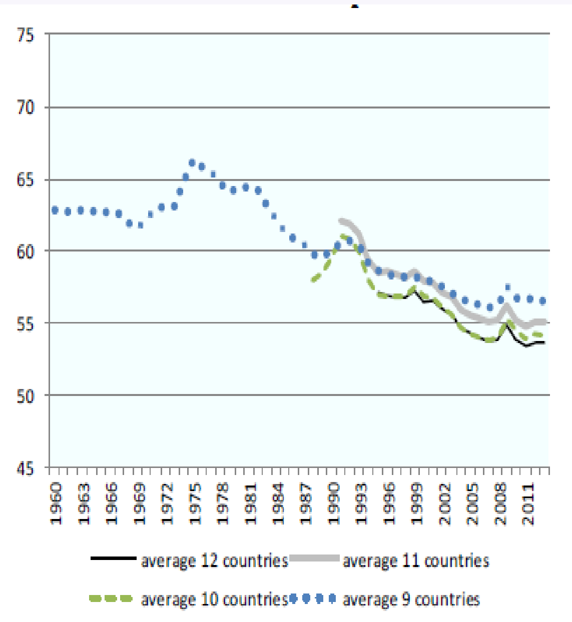
> *First, the slowdown of productivity growth has clearly been a* global *phenomenon, not a UK-specific one. From 1950 to 1970, median global productivity growth averaged 1.9% per year. Since 1980, it has averaged 0.3% per year. Whatever is driving the productivity puzzle, it has global rather than local roots. Second, this global productivity slowdown is clearly not a recent phenomenon. It appears to have started in many advanced countries in the 1970s.*[8]

[7] TUC(2019) op. cit.

[8] 'productivity puzzles', 20 March 2017: https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/productivity-puzzles.pdf?la=en&hash=708C7CFD5E8417000655BA4AA0E0E873D98A18DE

There is a broader context beyond any specific country, and we argue the role of global demand is critical also on the longer view.

Fundamental to the idea of under-consumption is a global and long standing dislocation between production and purchasing power, and the interplay with divergent rewards to capital and labour. For some decades the owners of wealth have been increasingly well rewarded, while the reward to work has been undermined in terms of both pay and conditions. The latter is vividly illustrated by the fall in G20 labour share from the mid-1970s on the below chart devised by the OECD and ILO.[9]



This rising inequality leads to workers being unable to purchase a larger and larger proportion of what is produced at a global level. Conversely as Klein and Pettis demonstrate, the consumption of goods and services by the wealthy is limited in relative terms and instead their activity focuses on asset markets. This leads to speculative excess (not least in property) but also the further extension of production especially in cutting edge industries (today, 'FAANG' companies) and also in certain overseas economies (for example 'BRICs' or 'MINT' countries). [10]

The consequence this dislocation is private debt and asset inflation.[11] Inherent to under-consumption is firms failing sales targets, and having difficulties

[9] 'The Labour share in G20 economies': https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf
[10] At the start of the 1930s, Marriner Eccles (Roosevelt's appointee to head the Federal Reserve) offered a colourful metaphor: "*… a giant suction pump had by 1929-30 drawn into a few hands an increasing portion of currently produced wealth … By taking purchasing power out of the hands of mass consumers, the savers denied to themselves the kind of effective demand for their products that would justify reinvestment of their capital accumulations in new plants … When their credit, ran out the game stopped.*"
[11] In a Bank of England Financial Stability Paper (No. 10, Apr. 2011), 'Growing fragilities? Balance sheets in the

meeting – and so extending – financial obligations. Likewise households borrow as they are unable to afford a basic standard of living. The process is a vicious cycle, as financially vulnerable firms are obliged to seek cost savings and target pay and conditions.[12] In parallel there is speculative excess in property and financial markets, as wealth seeks other outlets for gain. With finance extended effectively to roll over unrepayable debts, the process must come to an end, and did so in the global financial crisis.

According to this interpretation supply is excessive relative to demand, and so is the reverse of the conventional interpretation of demand outstripping supply. Prolonged (global) disinflation (both ahead and after the GFC) is also consistent with the under-consumption rather than conventional view.

Rather than the public living beyond its means, the economy has expanded beyond the means of the public. Vitally, the analysis (and the notions of under-consumption) is relative: outcomes ahead of the global financial crisis tell us nothing about what supply could be with work properly rewarded.

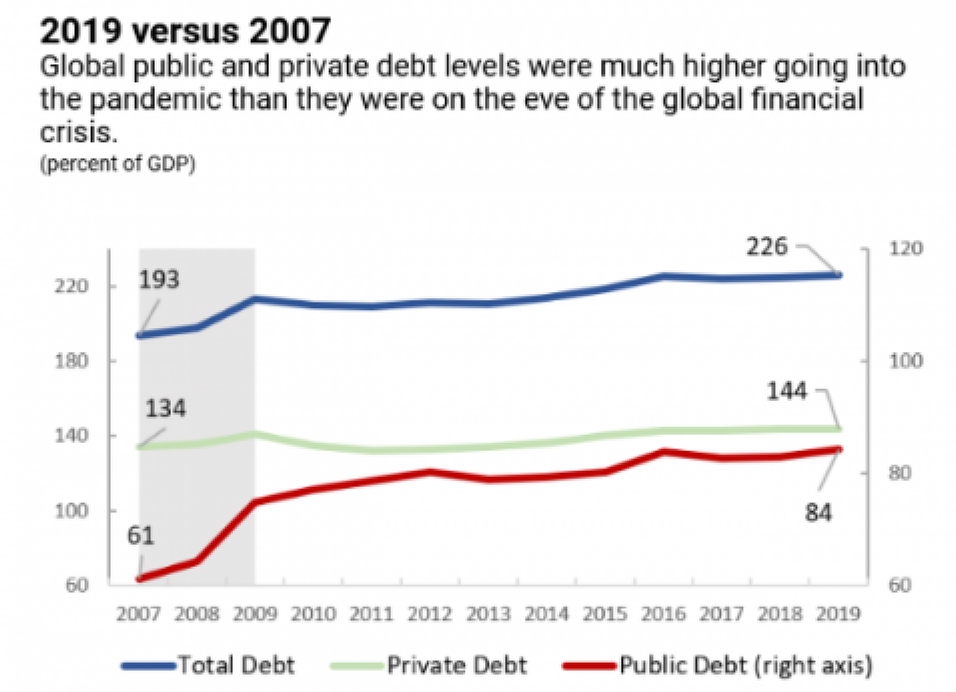
In the aftermath of the financial crisis, wrong policy followed wrong diagnosis. In most general terms it is not possible to resolve a crisis of under-consumption by further cutting back purchasing power (through austerity) and further increasing wealth (not least through QE). For example in the UK, GDP growth slowed to an unprecedented extent,[13] and there was an unprecedented decline in real wages set against very rapid growth in wealth.[14] Rather than repaired, likely the situation is exacerbated. As a consequence global debt is unresolved, as this recent IMF analysis illustrates.

Great Moderation, Richard Barwell and Oliver Burrows observed of the "years leading up to the financial crisis": "… from a perspective that focuses on the value of financial assets and on the volume of market activity, this period was anything but stable. The past decade has borne witness to sharp swings in asset prices and a large expansion in credit and balance sheets": https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-paper/2011/growing-fragilities-balance-sheets-in-the-great-moderation.pdf

[12] So for example UK real pay growth slowed over 2005 and 2006 ahead of the global financial crisis.

[13] https://www.tuc.org.uk/news/tuc-issues-call-avoid-despair-mass-unemployment-plan-work-our-way-out-recession

[14] The ONS wealth and assets survey shows the financial wealth of the top 10% more than doubling to £1.4tn from £600bn over the latest decade for which figures are available; the bottom decile has negative financial wealth of -£12bn, little changed over the decade: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/totalwealthwealthingreatbritain



The argument reinforces why productivity analysis taken on its own does not help explain the cause of the slowdown. Higher productivity cannot be a solution to a shortfall in purchasing power. The dislocation can be resolved only by (i) production crashing down to meet purchasing power or (ii) reviving purchasing power to meet production. *The relevant policy question is how to revive purchasing power, not how to revive productivity.*

In most general terms this relies on a rebalancing of power relations between wealth and labour, boosting the purchasing power of workers. This needs to take place on both a national level – through stronger employment rights, minimum wages, and strengthened trade unions, and at an international level.

More broadly, the punchline of Klein and Pettis book (p. 221) is that:

> *"Trade war is often presented as a conflict between countries. It is not: it is a conflict mainly between bankers and owners of financial assets on one side and ordinary households on the other – between the very rich and everyone else. Rising inequality has produced gluts of manufactured goods, job loss, and rising indebtedness. It is an economic and financial perversion of what global integration was supposed to achieve*".

On this view looking more closely at distributional and power questions rather than aiming to improve export performance is the relevant approach to addressing imbalances trade imbalances. Rebalancing between labour and wealth shifts emphasis towards internal demand and rather than supply gains for external trade.

The Trades Union Advisory Committee to the OECD has set out proposals for government action at the national and international (multilateral institutions) levels, with four broad aims: [15]

- A new international financial architecture
- Combining monetary and fiscal policy for employment and sustainability
- Reversing the trend to labour individualisation
- Shifting globalisation towards social justice and climate sustainability

The approach is rooted in the lessons of the past, and the analysis was critical to globally 'building back better' from the great depression and especially after the Second World War.[16]

- **How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?**

The furlough scheme has undoubtedly protected millions of jobs throughout the pandemic, making it one of the few big successes in the government's response to the pandemic.[17] Over the year from the scheme's introduction, 11.2 million jobs have been furloughed at some point, with 1.3 million employers making use of it. Use of the furlough scheme peaked in early May 2020, when 8.9 million jobs were furloughed.

While the furlough scheme has undoubtedly saved millions of jobs, it hasn't been perfect. A key flaw of the scheme is that there's no protection to ensure no one is paid below the minimum wage while furloughed. While employers can choose to top up the wages of furloughed workers, not all do.

Low-paid workers are more likely to not to have their pay topped up. Because of this, in April 2020, around the peak of the scheme, just over two million employees were not being paid the legal minimum. This means that the household finances of many low-paid workers, already being paid an insufficient minimum wage, have been hit hard.

Young workers, part-time workers and workers in the hospitality sector have also been more likely to be affected. Shockingly, a third of all accommodation and food workers were not earning the legal minimum wage in April 2020.

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[15] 'Towards a New Economic Policy Framework, Building on Labour Internationalism', discussion paper, 9 Dec. 2020: https://tuac.org/news/towards-a-new-economic-policy-framework-building-on-labour-internationalism/

[16] The thinking at the time was captured most concisely by future UK Labour Party leader Hugh Gaitskell, writing in response to the Bretton Woods Agreement: *"It is recognised at last that the expansion of international trade depends on the maintenance of Full Employment – and not the other way round". In a TUC blog 'Labour internationalism begins at home', Geoff Tily shows how post-war economic growth (and productivity) has been dominated by domestic demand, strong ahead of the 1980s and weak afterwards: https://www.tuc.org.uk/blogs/labour-internationalism-begins-home*

[17] 'A year on from furlough', TUC blog, 20 Mar. 2021: https://www.tuc.org.uk/blogs/year-furlough

And the government has struggled to reach those in non-conventional work, whether self-employed forced to operate through companies, zero-hours workers, and those mixing employment and self-employment. The government introduced the Self Employment Income Support Scheme (SEISS) alongside the furlough scheme, but the two didn't seamlessly interact to cover all workers, and the requirements of the scheme have meant that millions of workers have fallen between the cracks, unable to get support.

Critically in terms of employment going forward, attempts to wind down the scheme have often proved premature. The number of jobs furloughed hit its lowest point on October 31st, when it dropped to 2.4 million. The scheme was due to end on this day, but was extended at the last minute. The number of employments furloughed went up to 3.7 million on November 1st, and then increased further a few days later due to stricter lockdown measures being introduced. This uncertainty around the future of the furlough scheme seems to have led to unnecessary job losses.[18]

The government has committed to keeping the furlough scheme running until the end of September. The amount the government contributes to the wages of furloughed workers will begin to reduce before then, dropping to 70% in July and 60% in August and September.

The current roadmap out of lockdown provisionally plans for all areas of the economy to be up and running months before the end of furlough. However, the September end date creates a cliff edge, especially as it comes alongside the end of the Universal Credit uplift.

With employment figures suggesting the loss of around a million jobs, and around 3 million employees still on furlough, there are real dangers here of an abrupt increase in unemployment.

The government must ensure it adapts the scheme to any changes of the roadmap. If business closures last longer than expected, so too should the scheme, and the government must take a cautious approach, learning the lessons from the premature withdrawal of the scheme in the past.

Work can only be protected if purchasing power is sustained, and this means keeping money in the pockets of those who will spend it. Relying solely on the spending of those who have done well from the pandemic belongs to the failed thinking of past decade.

The government must therefore start to look beyond the scheme. Investing now in good, well-paid jobs will help to replace any jobs lost when the scheme ends. Fast tracking spending on projects such as broadband, green technology, transport and housing, for example, could deliver a 1.24 million

[18] Time for certainty on worker protection as unemployment rises fast, TUC blog, 21 Jan. 2021: https://www.tuc.org.uk/blogs/time-certainty-worker-protection-unemployment-rises-fast

jobs boost by 2022, and the TUC has set out plans to fill and create 600,000 jobs in the public sector.[19]

Likewise the government needs to overhaul our broken social safety net so that it properly supports for those who need it, but also supports spending in the economy. This includes raising both Universal Credit and legacy benefits to at least 80% of the national living wage (£260 per week), ending the five-week wait by converting advance payment loans to grants, and scrapping the two-child limit, benefits cap and no-recourse-to-public-funds rules.

Acting to support spending and prevent unemployment is the best way to prevent 'scarring'.

- **Do economic statistics adequately capture growth in the modern economy, and what lessons can be learned from the pandemic about the measurement of economic activity?**

- **What policies are effective in helping people to reskill, move between occupations and sectors and take advantage of new opportunities? How could these be best implemented in the aftermath of the pandemic, and as technological developments such as artificial intelligence change the nature of work?**

According to the OECD, the UK lacks the national social partnership arrangements that underpin high-quality skills systems in many other countries. To aid the transition from the pandemic, the government should establish a national skills taskforce with a remit for apprenticeships, technical education and adult skills. The taskforce should help boost retraining and upskilling opportunities for adults by advising on the rollout of lifelong learning accounts and new entitlements to paid time off for training and workplace skills reviews. Another priority should be to use policy levers to increase the number of young people able to take up high quality apprenticeships and technical education routes. All these measures should be supported by a significant increase in the skills budget.

This should be part of a wider tripartite recovery initiative, with unions and business in most vulnerable sectors brought together to discuss how best to shape a just transition and a sustainable recovery. The TUC has urged the government to take up our suggestion, repeated last November by the CBI, of a National Recovery Council, made up of businesses and unions alongside the government, to steer the recovery effort.

[19] TUC (2021) *A workers' budget* https://www.tuc.org.uk/research-analysis/reports/workers-budget-tuc-submission-hm-treasury-march-2021-budget

- **Does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?**

No. The need for a strategy to improve the quality of jobs is urgent. Before the pandemic struck there were 3.6 million people in some form of insecure work, one in nine workers, with Black women particularly likely to experience insecurity in the workplace.[20] The costs of this insecurity have been laid bare in the pandemic, with more insecure workers most likely to miss out on sick pay, and to lose their jobs, and occupations with high rates of insecure work most likely to see covid related deaths.[21]

These should be reasons to act alone. But there is also increasingly widespread evidence that insecure work holds back productivity – and that measures to tackle it can boost it. For example, The OECD argues that: "*Policies and institutions that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing changes are also needed to promote good and sustainable outcomes*"[22] Martin Sandbu, writing for the IMF points out that: *In the European Nordic economies, wage egalitarianism has spurred productivity growth by making low-productivity labor uneconomical and incentivizing investment in productivity-enhancing capital…. Concretely, this means ambitious minimum wage increases and strong and strictly enforced workplace standards.*[23]

In the US the government is investing in large scale job creation, with the American Infrastructure plan set to create millions of jobs in new climate and care infrastructure. But it is also investing in improving the quality of those jobs, including explicitly through giving more workers the right to join a union. The White House factsheet on the American jobs plan states that: *President Biden …is calling on Congress to ensure all workers have a free and fair choice to join a union by passing the Protecting the Right to Organize (PRO) Act, and guarantee union and bargaining rights for public service workers. His plan also ensures domestic workers receive the legal benefits and protections they deserve and tackles pay inequities based on gender*[24].

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[20] TUC (2020) *Insecure work: Why decent work needs to be at the heart of the UK's recovery from coronavirus* https://www.tuc.org.uk/research-analysis/reports/insecure-work-0

[21]TUV (2021) *Covid-19 and insecure work* https://www.tuc.org.uk/research-analysis/reports/covid-19-and-insecure-work

[22] OECD (2018) *Good jobs for all in a changing world of work: the OECD jobs strategy* *https://www.oecd.org/employment/jobs-strategy/about/*

[23] Martin Sandbu (2020) 'Policymakers' choices during this disruption could shape their economies for decades to come' in *Finance and Development* at https://www.imf.org/external/pubs/ft/fandd/2020/12/post-pandemic-brave-new-world-sandbu.htm

[24] See The White House (2021) *Factsheet: the American Jobs Plan* at https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/

The Queen's Speech in 2021 saw no sign of the promised employment bill to improve workers' rights. And the scale of the investment in the UK is far from sufficient to meet the challenge either of climate change or of providing high quality new jobs.

The TUC has set out a comprehensive strategy to improve the quantity of jobs and the quality of good work across the board. It should include:

- A clear plan to increase demand throughout the economy as we recover from the pandemic, as set out above. Austerity following the financial crisis can be seen as a major driver of insecurity at work, and the longest wage squeeze since Napoleonic times. A lack of demand in the economy increased the incentive for employers to employ cheap labour at the expense of investing in capital or innovation.
- Legislation to raise the floor of rights for all workers, starting with a ban on zero hours contracts, and to tackle inequalities which are reflected in and reinforce insecurity at work.[25]
- A plan to give workers more power to negotiate collectively, recognising that collective bargaining is the best and most flexible tool to improve workers' rights.[26]
- A plan for large scale investment to create quality jobs in climate infrastructure and care. The TUC has shown how investment could deliver 1.2 million jobs in occupations necessary to tackle the climate crisis, and 600,000 vital jobs across the public sector.[27]
- A commitment to use the power of government procurement to drive up the quality of work, for example by ensuring that every new infrastructure project comes with an Olympics style framework agreement working with unions to create good jobs and apprenticeships.
- A payrise for Keyworkers.

- **Is the Government doing enough to encourage corporate investment?**

In Budget 2021 the Chancellor made much of a "super deduction" capital allowance of 130% for investment in "qualifying new plant and machinery". This means that the government is effectively paying businesses to invest in new machines – but not in new jobs. Capital investment is of course an important part of long-term economic development and used well this measure could help businesses to invest in new green production methods

[25] TUC (2020) *Insecure work*
Why decent work needs to be at the heart of the UK's recovery from coronavirus
https://www.tuc.org.uk/research-analysis/reports/insecure-work-0
[26] TUC (2019) *A stronger voice for workers: how collective bargaining can deliver a better deal at work*
https://www.tuc.org.uk/research-analysis/reports/stronger-voice-workers
[27] TUC (2021) *A workers' budget* https://www.tuc.org.uk/research-analysis/reports/workers-budget-tuc-submission-hm-treasury-march-2021-budget

and products. But there is a risk that the allowances will fund investments that would have taken place anyway, rather than creating additional investment. The qualification specifications must address these issues and ensure that the "super deduction" is limited to additional investment and does not inadvertently lead to job cuts, which would damage the recovery and fragile household incomes.

An additional concern is the state of confidence in the business community, with so many uncertainties about the extent and pace of the recovery. Under these conditions a better strategy is large-scale public sector investment, which will directly strengthen recovery and so help confidence in the business community. Unfortunately, according to OBR figures, government investment over the coming five years has been shaved back marginally at each of Budget 2020 and Spending Review 2019.

- **Is the "Plan for Growth" an adequate replacement for the "Industrial Strategy"?**

The disbanding of the Industrial Strategy Council is a backwards step, when mechanisms to bring together businesses, unions and government must be critical to the way out of the pandemic.

And as set out above, the government lacks a workforce strategy, which should be a key part of any plan for growth.

- **Are we in a period characterised by long-term low economic growth (secular stagnation), and if so, what are the implications for Government economic policy?**

The past decade has been the worst recovery for at least 100 years. But this is the consequence of basing policy on wrong assumptions about the nature of the crisis, not a supply-side inevitability.

- **Is the UK well placed to take advantage of future technological breakthroughs and translate them into economic opportunities?**

Macroeconomic policy

- **What are the roles of monetary policy and fiscal policy in stabilising the business cycle and promoting growth in the post-pandemic economy?**

Both policies have a very important part to play in promoting growth and employment in the post-pandemic recovery. There is an increasing consensus across international organisations and more widely fiscal policy needs to play a more active role.[28]

[28] *"The fact that vaccines are in sight suggests that this is not the time to reduce support, as was done too early in the aftermath of the Global Financial Crisis … It is also crucial that policymakers ensure continuous fiscal support to keep sectors, firms and the associated jobs alive", Editorial: turning hope into reality,* OECD Economic Outlook,

We go further to argue it is not only essential but there is immense scope to build back better with fiscal policy in the lead. Separately a recent House of Lords inquiry has also addressed ongoing concerns about the scale of quantitative easing, including potential financial stability implications.[29] As set out above, the TUC has called for a wider inquiry into the role of monetary and fiscal policy in promoting growth and employment.[30]

- **Does the inflation target remain fit-for-purpose, especially in a world where interest rates may be 'low for long'? Should the MPC target anything else?**

While the idea that interest rates must remain low for long is related to secular stagnation, continued monetary policy support will be vital coming out of the pandemic and in building back better. But a narrow focus on inflation is likely to be counter-productive. In his Budget speech the Chancellor reported "an updated monetary policy remit for the Bank of England. It reaffirms their 2% target. But now, it will also reflect the importance of environmental sustainability and the transition to net zero". Above all the imperative of climate change re-enforce the need for a wider review, including how to secure fuller, greener and better employment.

- **Does the MPC have effective monetary policy tools to stimulate the economy when interest rates are low?**

No. Over the past decade political choices around austerity have meant an increasing and unsustainable reliance on monetary policy, as addressed in the Lords Committee inquiry. As well as wider concerns about financial stability and the pay/wealth distribution, gravely deficient demand has meant the slowest recovery for more than 100 years.[31] A new approach should have fiscal policy leading the way with the direct creation of work, with monetary policy in support. As discussed on our response to the Economic Affairs Committee, "There is a need for more clarity on the interplay between government borrowing and QE".[32]

- **What evidence is there on the relationship between the scale of the public debt and economic growth?**

Here the important point is causality. As we set out above austerity policies over the past decade led to the slowest recovery for a century; they also meant the worst outcomes on public debt over the same period (see also note 31). Cutting government spending was a false economy, because the negative

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[29] https://committees.parliament.uk/writtenevidence/23786/html/

[30] In TUC (2019), 'Lessons from a decade of failed austerity', we called for a review of how policymakers judge the impact of government expenditure on the economy. https://www.tuc.org.uk/research-analysis/reports/lessons-decade-failed-austerity

[31] Figures for GDP growth and public debt can be found in https://www.tuc.org.uk/news/tuc-issues-call-avoid-despair-mass-unemployment-plan-work-our-way-out-recession

[32] https://committees.parliament.uk/writtenevidence/23786/pdf/

impact on growth and government revenues was greater than any positive gain from the spending cuts.

The Attlee government is the exemplar in this instance: an extensive social programme supported strong economic growth and meant ongoing reductions in public deficit and debt. Moreover outcomes vindicated the under-consumption interpretation of the great depression: the 1945 manifesto argued: "Over-production is not the cause of depression and unemployment; it is under-consumption that is responsible. It is doubtful whether we have ever, except in war, used the whole of our productive capacity".

Likewise today high debt will be repaid by repairing aggregate demand.

- **Is a return of inflation a risk to the economic recovery?**

  No. Misjudgements here are a consequence of mistaking a demand for a supply failure. Events since the global financial crisis are instructive: repeatedly there have been appeals to inflationary dangers that have not materialised. For example in August 2014 MPC members Weale and McCafferty called for policy tightening, but retreated in January 2015 as global deflationary threats loomed. Late in the 2010s there was a tentative tightening of policy in the UK following the US lead (in February 2018 UK Bank rate was increased to 0.75%, above 0.5% for the first time since the financial crisis). But already an expansionary stance was being renewed: MPC member Saunders voted alone for a cut from November 2019, and US policy had been eased to 1.75% from 2.5% over the second half of the year. These reversals pre-dated the pandemic.

- **Can monetary and fiscal policy improve employment, growth and/or productivity outcomes by 'running the economy hot'?**

  Yes. But rather than 'running the economy hot', the approach described in this note would mean ceasing to 'run the economy cold'.

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