CENTRAL EXECUTIVE COUNCIL

SPECIAL REPORT

A Fresh Way Forward for the UK Economy

ANNUAL CONGRESS 2011

THE BRIGHTON CENTRE

SUNDAY 5 JUNE 2011 to THURSDAY 9 JUNE 2011

Introduction

- "There was nothing fair about the financial crisis. It was caused not by problems in the real economy; it came out of the financial sector. But it was the real economy that suffered and the banks that were bailed out. Your members, and indeed the businesses which employ them, are entitled to be angry" [1].
- "The Bank governor noted that UK wages were stagnant, and - coupled with high inflation - this had led to the longest decline in the real value of take-home pay in the UK since the 1920s" [2].

This report examines the origins and consequences of a banking crisis that has triggered the worst recession since 1945. One that has forced governments around the world to choose between either the complete collapse of their financial system and economic catastrophe, or hugely expensive bank bailouts paid for by their taxpayers. A crisis that has done so much damage to the public finances that even governments could not afford to ride to the rescue should anything like this happen again in the foreseeable future, as well it might.

By knocking the UK public finances into such poor shape a crisis that began in the UK financial sector has provided a perfect excuse for the Tory/Lib Dem coalition to make savage cuts in public services and welfare benefits, in an ideological assault on the role of the state beyond anything even Margaret Thatcher attempted.

Government spending did not cause that crisis. Nor did public borrowing. There was no problem with the public finances before the banks got into terrible trouble, causing confidence to collapse and the economy to sink into recession. As the recession hit home, firms and families cut back on their spending, tax revenues sank and public borrowing soared.

The crisis really stemmed from an explosive mix of recklessly irresponsible borrowing and lending by banks that a flawed system of financial regulation did nothing to stop. The Labour government's relaxed approach to City regulation played a part in an extravaganza of excess and greed which engulfed the financial sector. Rubbing shoulders with Manhattan mega bucks and smooth City slickers seduced senior ministers. They acquiesced in a system of financial regulation which proved to be more soft touch than light touch.

Labour did respond positively once the true scale of the crisis had become clear, as this report acknowledges, and their positive achievements during 13 years in office warrant proper recognition. But the recession caused by the financial crisis has dealt a massive blow to the UK economy, costing it five years growth so far. Instead of expanding as expected, national income has fallen back to where it was in 2006. Output and income today are ten per cent below where they were expected to be five years ago. They are not forecast to regain even 2008 levels till 2013. In a very real sense Britain is living in the past.

As a nation we are poorer than we expected to be, and will remain so for years to come. Economies fall into recessions quicker than they recover from them. The priority should be to get the economy growing again and to make up for lost time.

[1] Mervyn King, Governor of the Bank of England, speaking to the TUC Congress, September 2010.
[2] BBC News web site, 25 January 2011.

Trying to bring the public finances back into balance too quickly risks stalling the engine of growth and getting the economy stuck in years of stagnation. That is exactly the gamble that Britain's coalition government is taking today.

The recession casts a long shadow that will constrain the public finances far into the future. In the cramped economic circumstances that lie ahead only a radical response to banking reform, to public spending and taxation, and to industrial and employment policy can put Britain on a path to growth, jobs and a fair society. This report suggests what that radical alternative could consist of.

"On the surface, it looked like prosperity ..... But underneath, something was going wrong" [3]

GMB Congress last met in Brighton in June 2007, a time when few people seemed worried about the UK economy. In an opinion poll only 10 per cent of the public ranked the economy as an important issue facing Britain [4]. But by the end of 2008 some 66 per cent did so, and by the general election in May 2010 it was 71 per cent. Today the Preliminary Agenda for GMB Congress 2011 puts the economy centre stage with dozens of motions about the economy, banking, taxation and public spending.

Congress 2007 carried composite motion 15 which began with the words "Congress recognises the Government's success in maintaining a stable economy with record levels of employment and commitment to sustainable economic growth". Small wonder.

- Ten years of steady economic growth had seen UK employment reach record heights, with three million extra jobs under Labour.
- "The economy has done well under Labour. Gordon Brown, the chancellor of the exchequer, can boast a triple triumph of steady growth, low inflation and low unemployment" (The Economist, 7 April 2005).
- Consumer spending had been growing strongly for years, albeit against a backdrop of increasing household debt.
- House prices had boomed and were still rising at a double digit rate, making many lucky home owners feel better off.
- The FTSE 100 index of share prices for the biggest hundred firms on the UK stock exchange had hit a six year high, reflecting optimism about Britain's economic prospects.
- And the pound sterling had risen above the $2 mark for the first time since 1992, making travel budgets stretch a lot further on foreign holidays, adding to the sense of wellbeing.

Not everything in the garden looked lovely. For instance, three quarters of adults in the UK felt that the gap between those with high and low incomes was too large. Also, by 2006 some 18 per cent of the UK population, over 10 million people, lived in

[3] 'The Financial Crisis Inquiry Report - Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States', Authorised Edition, January 2011, page 6.
[4] Ipsos-MORI

low income households compared to 13 per cent in 1979 [5]. And the number of manufacturing jobs had fallen from 4.5 million in 1997 to only 3 million in 2007 [6].

So there was plenty for the labour movement still to fight for, and that was what Composite motion 15 went on to say. But the consensus view was that the UK economy was in good shape and the future looked bright.

Investors had confidence in the UK economy partly because Britain's national debt relative to national income was lower than that of France, Germany, the USA or Japan. It had fallen by six percent since Labour had taken office in 1997, worth some £90 billion today, saving the taxpayer about £3 billion per year in interest payments.

No-one seemed unduly bothered about the level of government spending and borrowing. In his 2007 Budget Gordon Brown planned to meet his "golden rule", to borrow only to invest over the economic cycle, by slowing the rise in public spending in the coming three years to just two percent a year. This was half that achieved since April 1999 but still more than the Tories had delivered between 1979 and 1997. Tory Leader David Cameron agreed to match Labour's spending plans up to 2010.

Although about one in three families in the UK had no savings at all to fall back on in the event of a sudden unwelcome shock, some 63 per cent of adults in England were satisfied with their future financial security [7]. On the banking front the cost of insuring bank debt against the risk that borrowers might fail to repay - known technically as credit default swap spreads - had fallen to an historic low, a sure sign of confidence in the financial markets [8].

Just days before becoming Prime Minister Gordon Brown congratulated Britain's financial services sector for being at "the beginning of a new golden age for the City of London" [9].

In short there was no crisis, either in the financial sector or in the public finances, before June 2007. Superficially Britain appeared to have become a "Goldilocks economy", one which grew at a nice steady pace. Even ministers were beginning to believe that the UK had finally broken free from the cycle of boom and bust.

In fact it was the calm before the storm.

From Mortgage Boom to Credit Crunch

Within weeks those costs of insuring bank debt were rocketing skywards. Financial investors got the wind up as problems emerged in the market for mortgage backed securities, and bank share prices went on the slide. Signs of banks facing acute financial difficulties began to break out all around the world, initially linked to problems with mortgages which soon gave way to a general crisis of confidence across the entire financial system.

---

[5] Social Trends 2008, pages 71 and 74.
[6] HM Treasury 'The Plan for Growth', March 2011, page 11.
[7] Social Trends 2008, Tables 5.5 and 5.21.
[8] Adair Turner, Chairman of the UK Financial Services Authority, in 'The Future of Finance - the LSE Report' 2010, pages 48-49.
[9] Gordon Brown MP, Mansion House speech, 20 June 2007.

The supposedly self-stabilising properties of the financial system had proved to be a neo-liberal myth that had sowed the seeds of its own destruction.

The outbreak of financial fever began with an admission in mid-June 2007 by the American bank Bear Stearns that two of its hedge funds were facing financial difficulties. A credit rating agency had downgraded certain of their "subprime" (or riskier) mortgage-based bonds, due to evidence of increasing numbers of people falling behind on their mortgage repayments.

- Mortgage-backed securities are sold by banks to financial investors. They entitle the buyer to a share in the cash flows from monthly mortgage repayments by a pool of home buyers. Financial investors include pension funds and insurance companies as well as private individuals looking for somewhere safe to place their funds that will yield a good return.
- Hedge funds collect cash from wealthy individuals and use it to buy higher risk financial securities - like collateralised debt obligations or CDOs - which promise higher rates of return from cash flows generated by a range of assets like repayments from mortgage loans, credit card loans or car loans.

The summer of 2007 in the USA saw rising rates of default by people who had taken out mortgage loans to buy homes or to refinance existing mortgages and use the proceeds to finance home improvements or perhaps buy a new car or a holiday. This called into question the value of all such bonds on the market because the underlying cash flows were now in doubt. So the value of all subprime mortgage debt dropped, inflicting big losses on banks and creating uncertainty about the real value of the assets on their balance sheets.

Two things kept on growing in the second half of 2007 and in 2008: estimates of the size of financial losses by the world's major banks and confusion about the true value of their assets. Both were due to mounting evidence that banks had been recklessly irresponsible in their lending for years.

- They had actively taken more and more risk in a blind pursuit of profit and bonuses, while sidestepping relaxed government regulation.
- They had also obscured the truth about their financial affairs. Through intricate off-balance sheet finance and other accounting alchemy they had transformed risky financial investments into what looked like pretty safe bets, until the chickens began coming home to roost.

First the banks had financed a mortgage lending boom, including to subprime borrowers whose chances of meeting their repayment obligations were suspect, causing a bubble in property prices along the way.

Then they had played pass the parcel with the risk of being left holding the baby when home owners defaulted.

- They had sold off their mortgage loans as mortgage backed securities to pension funds and insurance companies, greasing the palms of the credit rating agencies in the process to give high risk securities their triple A seal of approval. This also raised money to do future deals and kept the mortgage boom going.

- Or they had insured against the risk by buying credit default swaps from naive insurance companies, thus transferring the risk to someone else on the financial merry-go-round.

In theory all this spread the risk around, making it more manageable in the event of default. In practise it made the entire financial system more vulnerable because the cloak of complexity that surrounded fancy financial securities only ratcheted up the risk of system failure.

Not even the banks themselves knew who held which assets and who was exposed to how much risk. So everyone was suspect when the property bubble burst, house prices fell and mortgage payers began to default on their repayments.

Things went from bad to worse as it became apparent that bank balance sheets were in double trouble. Not only were their assets in doubt. So too was their ability to withstand losses, due to an excessive dependence on debt.

- Banks had too thin a safety margin of equity capital from shareholders to act as a cushion against losses, and too great a reliance on debt capital borrowed from pension funds, insurance companies and other financial institutions.
- By borrowing heavily over the years banks had built up a balance sheet structure that magnified their return on equity and kept their shareholders happy despite big bonuses paid to directors and senior executives and traders. But this financial engineering left them hugely exposed when the bottom dropped out of the mortgage market.

Similar mortgage-linked problems rapidly began to appear around the world. In France with BNP Paribas, in Germany with Commerzbank and IKB Deutsche Industrie Bank, in Switzerland with Credit Suisse. In Australia two hedge funds closed. In the UK the hedge fund Caliber collapsed and Northern Rock faced a bank run as news spread that it had asked the Bank of England for help when its usual source of funds suddenly dried up.

In this atmosphere of uncertainty banks found it hard raising fresh funds. Selling off assets was difficult because no-one would buy securities whose true value was now in doubt. Banks therefore became reluctant to lend, even overnight, as they conserved their cash. Interbank lending started to dry up. Despite sudden cuts in interest rates and injections of massive amounts of fresh money into their economies by central banks in the USA, the UK and elsewhere in Europe, interbank lending remained stuck.

Within weeks major banks around the world had begun to disclose huge losses linked to mortgage-backed securities on their books. By October 2007 the big banks in the USA had reported losses of $20 billion, quickly revised up to $45 billion. Citigroup, Merrill Lynch and Lehman Brothers in the USA disclosed shocking losses as did Royal Bank of Scotland in the UK, Nomura in Japan, Credit Suisse in Switzerland and Deutsche Bank in Germany [10].

Banks in trouble sought safety either by agreeing to be taken over by bigger, supposedly stronger rivals, as happened with Bear Stearns in the USA and HBOS in the UK in 2008. Or they sought massive injections of fresh capital from billionaire

---

[10] Charles Morris 'The Two Trillion Dollar Meltdown', 2008, page 81.

investors, like Goldman Sachs did from Warren Buffet, or from a foreign government, like Barclays did from Qatar. **In the last resort, horror of horrors, they asked their own government to bail them out with a financial rescue package**.

By 2008 a global credit crunch was well under way, triggering the worst recession since 1945 and threatening a slide into slump on the scale of the 1930s Great Depression, putting jobs in jeopardy everywhere.

The head of the USA central bank, Federal Reserve Chairman Ben Bernanke, explained the significance of what was happening: "Choking up of credit is like taking the lifeblood away from the economy" [11]. UK employment peaked in the first half of 2008 as job losses and short time working started to spread through the economy.

Things came to a head in the USA in September 2008 when investment bank Lehman Brothers went bust and giant insurance company AIG begged the American central bank for a massive loan. AIG had guaranteed hundreds of billions of dollars worth of securities held by banks. If AIG collapsed those banks faced crippling losses.

It cost the American taxpayer over $180 billion to bail out AIG. The true beneficiaries were banks - including European banks like Barclays, HSBC, Deutsche Bank and Société Générale - which had done huge deals with AIG. They escaped a tsunami wave of defaults, losses and collapses that would have cascaded throughout the financial system [12].

American Federal Reserve Chairman Ben Bernanke later summed up the situation: "I honestly believe that September and October of 2008 was the worst financial crisis in global history, including the Great Depression".

The chief executive of major American bank JP Morgan, Jamie Dimon, reckoned that without the AIG bailout America could have faced 20 per cent unemployment. He added that he would have "probably laid off 20,000 people. And I would have done it in three weeks" [13].

To calm panicking financial markets governments in the USA and Europe launched massive bailout plans, injecting huge amounts of taxpayer money into their banks in a desperate attempt to save the world's financial system from total breakdown. Not even this could prevent a collapse of confidence, leading to falls in business investment, consumer spending and tax revenues as firms and families cut back on their outgoings. Economies went into recession. Global output and world trade both fell, at first faster even than in the 1930s Great Depression.

The independent Institute for Fiscal Studies estimates that in the period 2008-11 UK households experienced their biggest three year fall in real living standards since the early 1980s. The IFS expects that real incomes in 2013-14 will still be below those

[11] 'The Financial Crisis Inquiry Report - Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States', Authorised Edition, January 2011, page 372.

[12] 'The Financial Crisis Inquiry Report - Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States', Authorised Edition, January 2011, chapters 19 and 20.

[13] 'The Financial Crisis Inquiry Report - Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States', Authorised Edition, January 2011, pages 353-354.

of 2008-09, and notes the warning by the Governor of the Bank of England that real incomes may stagnate for a lot longer [14].

The Cost of Bailing Out the Banks

- "When financial turmoil strikes, standing aside while banks fall like dominoes isn't an option. After all, that's what policy makers did in 1931, and the resulting banking crisis turned a mere recession into the Great Depression" [15].

British Government support for the UK banks has been through buying bank shares and providing loans and guarantees. The UK National Audit Office reckoned in December 2010 that the total amount that the British government could pay out was £512 billion, of which £124 billion had been paid out already. **£512 billion is five times the annual bill for the NHS**.

Allowing for recovery of some outlays already received, the net direct cost to the British taxpayer of providing support to the UK financial sector has been some £90 billion so far, or about 6 per cent of Britain's gross domestic product (GDP, the value of everything produced within an economy in a year).

That is almost twice the cost incurred by American taxpayers in saving banks in the USA. Bailing out the banks in the Netherlands has cost Dutch taxpayers a similar amount to the UK, while in Germany the net cost of rescuing the financial sector has been nearly double that in Britain.

Irish taxpayers have borne the biggest burden with a rescue package costing some 30 per cent of Ireland's GDP [16]. Before the financial crisis the Irish economy enjoyed several years of high growth rates that earned it the title the "Celtic Tiger". It changed from an economy characterised by agriculture and traditional manufacturing to one noted for increasingly high tech and internationally traded services. Ireland is now one of the world's leading exporters of pharmaceuticals. But Ireland's rapid growth since 2000 was built upon the highest level of household debt relative to disposable income in the developed world, and on a property bubble financed by banks using wholesale market funding that left it very vulnerable. When the bubble burst Irish banking and construction collapsed, leaving the Irish taxpayer totally exposed when Ireland's government guaranteed all bank debt in September 2008.

£90 billion may be the net cost to the UK taxpayer to date of rebuilding bank balance sheets. But the full cost to society of the recession brought on by the financial crisis has been much higher.

- With national output some 10 per cent lower than it would have been had the economy continued to grow, incomes are now £140 billion per year lower than expected before the crisis.
- If some of these output losses persist, as evidence from past crises suggests usually happens, the true social costs of the banking crisis could lie anywhere between one and five times annual GDP, or between £1.8 trillion and £7.4 trillion [17].

---

[14] James Browne, 'Living standards during the recession', IFS Briefing Note 117, 2011.
[15] Professor Paul Krugman, 2008 Economics Nobel Prize winner, New York Times, 1 May 2011.
[16] IMF Fiscal Monitor, April 2011.
[17] 'The $100 billion question', Andrew Haldane, Executive Director for Financial Stability, Bank of England, March 2010, pages 3-4.

This also matters because banking crises are inherent in market economies, and are occurring more often and on an ever larger scale, according to the Governor of the Bank of England [18].

British banking: from small, conventional and safe to vast, complex and risky

The real UK economy was not always so vulnerable to such serious damage from the financial sector which used not to be so big, so complex or so risky.

Increased Size

In the 1960s the finance sector was small relative to the real economy. Today it dwarfs the real economy, as financial deals have grown enormously relative to real economic activities. By 2007 the total assets of the entire UK banking system amounted to some 500 per cent of GDP compared to only 34 per cent in 1964 [19].

The Bank of England estimates the value of the implicit subsidy that the top five UK banks get from everyone knowing they are too big to fail - that government will always step in to save the financial system if any of the big banks are about to go bust - averaged over £50 billion per year between 2007 and 2009 (equal to their annual profits prior to the crisis) and over £100 billion at the height of the crisis in 2009. This excludes the value of the subsidy due to the government guarantee of banks' retail deposits [20].

Increased Complexity

Banking in Britain used to be simple as well as small scale. In the 1960s banks and building societies took in deposits, mainly from households. They then lent funds to the government and to other households and firms who used them primarily to buy homes or for business investment.

By the 2000s things were very different.

- Both the household and the business sectors borrowed much more relative to income, still spending the funds mainly on homes and commercial property development respectively. Increased household and company debt was secured primarily against residential homes and commercial real estate like retail parks, offices and hotels.
- Bank lending also grew far faster than bank deposits, the gap being closed by wholesale funding - bank borrowing, often short term, from other financial institutions, including the shadow banking sector.
- Especially since the 1990s another new trend across the banking world had been the growth of securitisation - raising funds by selling securities that give the buyer rights to share in a stream of future mortgage or credit card repayments (and to bear the risk of default by borrowers unable to keep up their repayments).

[18] Mervyn King, 'Banking: From Bagehot to Basle and Back Again', Buttonwood Gathering, New York City, 25 October 2010.
[19] Adair Turner, Chairman of the UK Financial Services Authority, in 'The Future of Finance - The LSE Report', 2010, pages 20 and 28.
[20] 'The $100 Billion Question', Andrew Haldane, Executive Director for Financial Stability, Bank of England, March 2010, pages 5 and 25.

The simple relationship between banks on the one hand and households and businesses on the other had been replaced by a complex web dominated by interconnected deals between banks and other financial institutions of all kinds. By 2007 the supply of credit by America's shadow banking sector (including outfits like hedge funds) exceeded that by her traditional banks.

Increased Risk

Something else had also changed since the 1960s. The risks associated with those bigger balance sheets.

Banks function by 'borrowing short and lending long'. This means they use customers' deposits (which may be withdrawn at short notice), equity capital provided by shareholders and debt capital borrowed from creditors to make longer term loans and investments to other clients. They run two types of risk:

- **A liquidity threat**: in the event of the unexpected, a bank risks being unable quickly to raise the cash with which to meet depositors' demands for their money back due to a sudden surge of withdrawals by customers - the classic run on a bank. This happened in August 2007 to Northern Rock when the bank's access to the short term wholesale money market suddenly dried up and depositors feared that they might lose their savings.
- **An insolvency threat**: if for some reason the value of a bank's assets falls rapidly by more than the worth of their equity capital cushion, the bank may become insolvent, with liabilities greater than the value of their assets. If the bank were wound up there would be no monies left for shareholders and some of its debt could not be repaid. Businesses cannot trade legally if they are insolvent.

Since the 1960s, rather than raise fresh equity capital from shareholders by issuing extra shares or ploughing back profits, banks increasingly opted instead to borrow by issuing debt. This allowed them to report higher rates of return on equity without significantly improving their overall rate of return on assets. But it also raised their 'leverage ratios', dramatically shrinking the safety cushion represented by equity capital as a proportion of total capital. *This increased the insolvency risk*.

Banks also became more reliant on more short term, wholesale funding whilst squeezing the share of their total assets formed by highly liquid assets that could quickly be turned into cash if required from around a third to less than 2 per cent in 2009. *This increased the liquidity risk* [21].

Responses to the Recession

Labour 2007 to May 2010

After the financial crisis struck, the Labour Government took firm action to stop a slide into slump and to rescue the economy from recession.

- First and foremost it rescued the UK banks and saved the British financial system from collapse. This provided the basis on which Gordon Brown won

[21] Mervyn King, 'Banking: From Bagehot to Basle and Back Again', Buttonwood Gathering, New York City, 25 October 2010, page 4.

the backing of world leaders for a $1,100 billion global rescue package at the G20 summits of November 2008 and April 2009.

- Second, it boosted public investment by 25 per cent above that originally planned in the 2008 Budget by bringing forward over £30 billion of investment planned for future years, raising public investment to record levels.
- Third, it added a £25 billion budget stimulus through a VAT cut, the car scrappage scheme, and extra investment in new technology and businesses, including a £5 billion jobs programme.
- Fourth, it allowed the automatic stabilisers to offset some of the fall in private sector spending by raising government spending and borrowing.

Without such action the recession would have been even deeper than it has been, the danger of depression more acute, and the wait for recovery even longer.

Labour planned for public spending to rise by nearly 5 per cent a year in real terms from 2009 till 2011. Thereafter its medium term plans envisaged a three year standstill on total public spending before allowing it to expand again from 2014, the exact rate depending on the pace and the pattern of economic growth.

Within and beyond the standstill period Labour saw scope for current spending to rise, albeit only slowly, as public investment fell back from its 30 year peak and public borrowing was cut substantially. Alistair Darling planned in 2009 to bring the budget back into balance by 2017-18. His March 2010 budget planned to more than halve the public sector deficit by 2014, though public investment would still be twice the share of national income that John Major managed in his last year in office.

It is a George Osborne myth that Labour "maxed out on the country's credit card". Had Labour really taken Britain to the brink of bankruptcy there would have been warning bells ringing all over the City of London. In fact the signals all showed steady-as-she-goes throughout the last four years. Since the financial crisis began, yields on British government bonds have stayed low, with City investors ready to lend to the Labour government at low rates because they had confidence in the UK public finances, with good reason. If Britain had actually been a bankrupt borrower no investor would have bought government bonds on such terms.

Blaming the Labour government for the extra public borrowing caused by the global credit crunch and ensuing recession is like blaming the coalition government for the increase in the world price of oil and its consequences for family fuel bills.

Labour left office in 2010 having delivered over a decade of increased investment in public services. In 1997 they had inherited public services starved of funds, with sections of the social fabric wasting away. Over the next 13 years Labour established a formidable infrastructure of support for citizens from the state.

- It cut NHS waiting times and waiting lists by recruiting 70,000 more nurses and 40,000 more doctors in England alone, and provided over 100 new hospitals and 650 one-stop primary care centres. Labour left the NHS with the highest ever levels of public satisfaction [22].

[22] BBC News web site, reporting health economist Professor John Appleby of the King's Fund, 22 March 2011, commenting on data from the British Social Attitudes Survey.

- It cut school class sizes by recruiting over 40,000 more teachers and 115,000 more teaching assistants, and opened 3000 Sure Start children's centres.
- Though falling short of its target to halve child poverty by 2010 Labour did lift half a million children out of relative poverty, whereas the last Tory government allowed child poverty to double.
- It introduced pension credit which took one million pensioners out of poverty. Its Financial Assistance Scheme protected occupational pension rights for over 140,000 people who had lost their pensions through no fault of their own.
- Its national childcare strategy helped mothers wanting to return to paid work.
- Its working tax credit cut in-work poverty for two million families, till the recession hit home.
- Its training and skills initiatives led to 375,000 more students in higher education, 80,000 more youngsters aged under 19 in further education and 160,000 more people in apprenticeships.
- 15,000 more police officers and 16,000 new community support officers helped to cut crime by a third.
- Tripling the overseas aid budget helped to lift more than 400 million people out of desperate poverty.

These positive achievements yielded real benefits to working people. They arose in part from unions like the GMB working with the Labour government to achieve shared objectives. Naturally, the unions that reached the Warwick agreement with Labour championed workplace-related issues. So we welcomed the progress that the Labour government made in providing greater protection for striking workers, eradicating a two-tier workforce in the public sector, expanding the number of union learning representatives and providing four weeks paid leave for all.

But the unions also urged government action on wider social issues. The advances made on matters such as corporate manslaughter, healthy eating in schools and assistance for people who had lost out on occupational pensions were all prompted by pressure from unions. Together with the even wider social benefits stemming from Labour's investment in health and schools they are testament to the continuing ability of unions, working with a Labour government, to make life better for working people.

Tory/Lib Dem Coalition since May 2010

By spring 2010 the UK economy was making a fragile but real recovery, and public borrowing came out £20 billion lower than the Labour government's final forecast. But by autumn 2010 the recovery was showing signs of losing momentum in face of announcements of drastic coalition spending cuts. Growth appears to have stopped over the following six months. The full impact of the tax and spending squeeze has yet to be felt.

The reasons why are only too clear. Instead of keeping growth going, the coalition has opted for spending cuts, cuts that are too fast and too deep.

- Frontloaded cuts that risk stalling recovery.
- Cuts that squeeze the UK fiscal deficit quicker and tighter than required by the G20 Toronto Declaration of June 2010.
- Cuts that are tightening the UK's belt faster than any of the advanced economies [23].
- Cuts aimed at shrinking the deficit far faster than needed to stay on track to hit the IMF debt ceiling target of 60 per cent of GDP by 2030.
- Cuts that could condemn the UK economy to years and years in a no-growth/slow-growth trap, while public services are starved of funds.

The coalition has cut public spending plans by £80 billion by 2014-15 and £95 billion by 2015-16 and raised taxation by £30 billion, making a total budgetary squeeze of £126 billion by 2015-16 [24].

Gordon Brown warned the 2009 GMB Congress of ten per cent cuts in public services if the Tories were to win the next election. He was way off the mark.

- Departmental budgets other than health and overseas aid are being cut by an average of 19 per cent over four years, reducing public spending in real terms in 2014-15 to its 2008-09 level [25].
- Some are bearing an especially heavy burden, with local government suffering a 27 per cent cut, business innovation & skills 25 per cent, and environment food & rural affairs 29 per cent [26].

GMB members can testify from personal experience to the results of the recession, the damage that Tory/Lib Dem cuts are doing, and the impact of the coalition's fiscal squeeze on people on low and middle incomes. It is not for nothing that many members distrust the coalition's promises and fear seeing the National Health Service become a Notional Health Service. They see David Cameron's 'Big Society' for what it is: a threadbare society with bigger holes in the social safety net as public service providers struggle to balance impossible budgets.

The Office for Budget Responsibility (OBR) has forecast that 400,000 public sector jobs will be lost by 2015. This may be an underestimate since the milder 1990 recession cost 600,000 such jobs. If the OBR proves right, this may be because more public services have been outsourced since the 1990s [27]. Nearly two thirds of public sector workers sacked will be women.

In his haste to bring down public borrowing George Osborne is risking repeating a mistake made by President Roosevelt in the 1930s and by Geoffrey Howe in 1981. In both cases premature cuts in public borrowing caused economic recovery to falter.

[23] IMF Fiscal Monitor, April 2011, page 5.
[24] HM Treasury 'Budget 2011', March 2011, page 10.
[25] HM Treasury 'Spending Review 2010', October 2010, page 5.
[26] HM Treasury 'Spending Review 2010', October 2010, page 81.
[27] Nicolas Timmins, Financial Times 24 March 2011, page 17.

- After the initial success of his 1933 New Deal policy, which led the USA economy to grow quickly for four years and unemployment to fall from 25 per cent to 14 per cent, Roosevelt faced a backlash from Congressional and public opinion. Two thirds of Americans supported calls to balance the budget. He cut back in 1936, hoping to balance the budget within two years, and the American central bank tightened monetary policy. The economic recovery stalled and unemployment soared to nearly 20 per cent. Full employment was not achieved until the 1940s spending boom generated by World War Two, more than a decade after the financial crisis that had triggered the 1930s slump.
- Geoffrey Howe's 1981 Tory budget aimed to cut public borrowing by 2 per cent of GDP, equivalent to £30 billion today, during what was then the worst UK economic downturn since the 1930s. Unemployment shot up to three million by 1983 and stayed there for four years, condemning millions never to work again.

These are ominous warnings. It is all too easy for a weak economy to get stuck in the doldrums, with unemployment or short time working stubbornly high, industrial capacity hugely underused, and workers, in JK Galbraith's phrase "abundant, redundant and poor".

The coalition is intent on ignoring other lessons from the past. Notably what can happen when governments relax their regulatory grip on the financial system. Both in the UK and in the USA the authorities largely stood by as a largely unregulated shadow banking system emerged, as traditional banks took ever greater risks, and as a credit bubble expanded. Key safeguards against excess were either removed, as in the repeal of the USA's Glass-Steagall Act, or dismissed as belonging to a bygone age. Today George Osborne scorns sensible regulation as red tape. He mocks those who call for proper control over the financial system as "the forces of stagnation" [28].

Finding a Fresh Way Forward

- "The brutal reality is that there is no painless way out of this mess" Larry Elliott, Economics Editor, Guardian, 4 April 2011.

While GMB members are focused on the here and now, they can also see beyond the current crisis. That crisis has awakened a deep disquiet about economic insecurity, reminded people of their vulnerability to unpredictable events, rekindled their concern about fairness in a society under stress, and revived their interest in the role of the state.

- **Our members want to hear how a Labour government would prevent the banks from inflicting any such catastrophe on society ever again.**
- **They want to be sure that the state will always stand ready to provide practical help in ways that market forces fail to do.**

[28] George Osborne MP, speaking at the Institute of Directors Annual Convention, 11 May 2011.

- **They want to be clear about the part government will play in building a better, fairer society and opening up opportunities for all.**
- **And they want Labour to fight for government borrowing to be cut steadily, not precipitately, so that the public finances and the wider economy can be brought back onto a sustainable basis.**

New Labour lost touch. They only wanted to be with people they regarded as winners, be they bankers, footballers, film stars or TV celebrities.

They won as New Labour in 1997 but lost 3 million votes by 2001, 4 million by 2005 and 5 million by 2010. Former Labour voters simply stayed at home. New Labour lost touch with millions of Labour's natural supporters as well as its new found friends, prompting many to ask what Labour stood for. What Labour stands for is still an open question today.

Economic and Tax Policies to Promote Growth and Jobs

The GMB is no deficit-denier. We know that government borrowing has to be brought down, to restore economic stability. But we insist that there is a better and a fairer way than the path being pursued by Britain's coalition government.

That way is to adjust the rate of deficit reduction to the pace of economic recovery and growth, cutting borrowing more when the economy is expanding quickly and less when the pace of economic growth slows. A longer time scale than George Osborne's absurd four years would allow economic growth to bear much of the burden of deficit reduction.

Of 29 advanced economies only Iceland and Ireland plan to cut their share of government borrowing in national income faster than the UK by 2015. Britain's coalition government is cutting too soon and too deep for the good of the economy. By rushing to reduce government borrowing prematurely, before recovery is established, they are repeating Roosevelt's mistake in the 1930s and Howe's in the 1980s. The consequence is a tax and spending squeeze that is unnecessarily tight as well as unfair.

The priority should be to get the economy growing again, since this will generate both jobs and the tax revenues needed gradually to bring the budget back into balance. We cannot realistically stick to pre-recession expectations of the scope for public spending. To try to do so would be to turn a blind eye to one uncomfortable and overriding fact: the recession has cut the ground away on which those expectations were based. It has done so by causing national output and income to fall short of where we expected them to be, both now and in the years ahead. The plain fact is that Britain faces a decade of tight budgets and restrained spending to bring the public finances back into shape.

By seeking to eliminate the deficit entirely within just four years the coalition is strapping the economy into a financial straightjacket. Easing the squeeze by spreading the adjustment over two Parliaments would improve the prospects for steady economic growth, thereby allowing sustained reductions in public borrowing without sacrificing public services.

Instead of unfairly focusing three quarters of the fiscal squeeze on public spending cuts, the GMB would shift the balance towards raising extra tax revenue. The scope for doing so is immense. For instance:

- Tax Research UK estimates that some £25 billion annually is lost from tax avoidance and tax planning by wealthy individuals like Sir Philip Green and by companies like Arcadia. Green cost the taxpayer £285 million in 2005 by channelling a massive dividend payout through a network of offshore accounts and tax havens, eventually to his wife in Monaco. Vodafone saved £6 billion in tax after doing a deal with the taxman. Investment bank Goldman Sachs avoided over £10 million in unpaid tax after the tax authorities recently waived an interest penalty on 10 years of unpaid tax. Alliance Boots' latest accounts show it paid a very low tax charge due to the costs of tax-deductible interest paid on over £7 billion of debt incurred in a 2007 leveraged buyout. Exploitation of residency rules by the so-called 'Monaco boys' - city high-fliers who commute by jet to London on Mondays and leave on Thursdays - could be costing up to £1 billion [29].

- Tightening up capital gains tax, reforming tax relief for charities to stop abuses, and cracking down on international tax havens and tax avoidance schemes are just some of the ways in which extra tax revenue could be raised and a fairer tax system created [30]. By clamping down on tax fraud by firms that avoid filing annual accounts the Treasury could recover much of an estimated £16 billion in unpaid taxes [31].

- A financial transactions tax (or "Robin Hood tax") levied at up to 0.5 per cent on deals like share sales and currency transactions could raise over £100 billion per year globally and £20 billion annually in the UK. In the UK half the proceeds could be devoted to cutting government borrowing and avoiding spending cuts, with the rest split equally between international development aid and combating climate change [32]. The value of foreign exchange trading has rocketed from 11 times global trade value in 1980 to 73 times today [33]. A tax on such transactions has been backed by 1000 of the world's economists [34]. German Finance Minister Wolfgang Schäuble has included revenues from such a tax in his outline budget plans for 2012-15 [35]. The best way to achieve a global financial transactions tax is to start at EU level since the EU is the largest financial market in the world. The European Parliament voted in favour of a European-level financial transactions tax in March 2011.

- By restoring the higher rate of VAT on high value luxury goods that Denis Healey introduced in 1974, initially at a 25 per cent rate, and that Thatcher scrapped in 1979, a Labour government could send a message to working people that the Labour Party is on their side, whilst raising valuable revenue. There is no reason why a working family buying a humble Ford Fiesta should pay the same rate as a millionaire buying a flash Porsche Panamera.

---

[29] TUC "Tackle jet set tax dodgers and raise £4 billion", 16 October 2010.
[30] TUC 'The Missing Billions'.
[31] Phillip Inman, Guardian 14 March 2011.
[32] TUC Executive 12 January 2011
[33] Adair Turner 'The Future of Finance - The LSE Report', 2010, page 29.
[34] Heather Stewart, Guardian 14 April 2011.
[35] Financial Times 17 March 2011.

Fighting Poverty and Encouraging Fairness

The recession has increased the number of working-age adults in poverty, now more than six million. As the economy recovers government must provide a new deal for working people, with a guarantee that work really is a route out of poverty. That means increasing the minimum wage and ensuring that employers pay a living wage.

As well as tackling poverty we have to reduce the gross inequalities that the free market system generates, since unequal societies tend also to be unhealthy ones. Fairer societies tend to be safer societies with less stress, less crime, more mutual trust and greater inter-generational mobility [36].

It is time to recognise that, contrary to conventional wisdom, taxes overall are currently proportional rather than progressive. Higher income groups in fact pay a similar share of their income in taxes of all kinds as do lower income groups. This is because indirect taxes like VAT and duties on alcohol and tobacco offset the progressive tendency for direct taxes like income tax to take a higher share from people on higher incomes.

What really bites on inequality is not the tax system but the provision of state benefits like the pension, tax credits and child benefit plus benefits in kind from public services like education and the NHS. Which is why they must be defended.

Boosting Housing and Construction

Forecasts for the next five years suggest that the number of new homes to be built will fall short of the number of new households by over 600,000 [37]. Fewer homes were built in England in 2010 than in any year since 1923. Sadly, this is no great surprise. For all its enormous significance to the UK financial system and the credit crunch, the mortgage system has not worked well in encouraging the building of new homes.

Though mortgage debt as a percentage of GDP and the market value of housing have risen markedly since the 1960s, capital investment in housing as a percentage of GDP has remained largely unchanged. The main function of mortgage finance has not been about funding investment in new housing construction. It has been about financing the purchase of existing homes by the younger generation from the older generation who already own them [38].

The shortage of affordable new housing means 1.8 million households are on waiting lists for a social home. In 2009 the Labour government announced plans to treble investment in such housing and to insulate six million extra homes. The GMB wants a £6 billion investment in affordable social housing, to build 100,000 new homes and create 750,000 new jobs in construction and the manufacturing supply chain.

[36] Richard Wilkinson and Kate Pickett 'The Spirit Level' 2009.
[37] Ed Hammond, Financial Times 11 April 2011.
[38] Adair Turner 'The Future of Finance - The LSE Report', 2010, pages 34-35.

Reforming Banking

- "Of all the many ways of organising banking, the worst is the one we have today" [39].
- "The banking system, on both sides of the Atlantic, is more dangerous now than before the financial crisis began in 2008" [40].

The modern economy has become as dependent on financial and credit networks as it is on utilities like water and energy supplies. All such services are now so interconnected that society cannot afford for any major part to fail without risking catastrophic consequences. The financial sector has shown itself to be far more prone to seizing up, threatening entire economic collapse.

In such circumstances the government has an overriding obligation to intervene, to promote the common good. A much firmer framework of active government involvement and tighter regulation is required. We especially need stricter rules for all financial institutions, including the shadow banking sector and hedge funds, so that the public interest becomes paramount.

In April 2011 the Independent Banking Commission chaired by Sir John Vickers proposed new rules for UK banks. First, it suggested that banks like Barclays, HSBC and Royal Bank of Scotland ring fence their retail banking operations from their investment banking operations.

- **Far better than such dubious financial firewalls would be to separate retail banking from investment banking altogether, so that taxpayers only guarantee the socially essential or utility parts like payment systems and deposits, and not the very risky casino side, most of which has been described by the chairman of the UK Financial Services Authority Lord Turner as "socially useless"** [41].

Second, the Vickers Commission proposed requiring UK banks to beef up their top quality equity capital safety cushion to at least 10 per cent of capital, provided they also have genuinely loss-absorbing debt on their balance sheets. While this is an improvement on the seven per cent in the 2010 international agreement by the Basle Committee on banking supervision, it falls far short of what is required to protect against banks that are "too big to fail" and that have to be rescued by taxpayers.

It is much lower than the 19 per cent required by Swiss regulators of Credit Suisse and UBS and the 20 per cent suggested by Professor David Miles of the Bank of England Monetary Policy Committee [42].

- **Much higher capital requirements, twice as high as those proposed by the Vickers Commission, are needed. They could be varied according to financial conditions in the economy, and raised if signs emerged of a bubble in property or other asset prices, to help choke off speculation.**

[39] Mervyn King 'Banking: From Bagehot to Basle and Back Again', Buttonwood Gathering, New York City, 25 October 2010, page 18.

[40] Peter Boone, Associate at the LSE Centre for Economic Performance, and Professor Simon Johnson, former Chief Economist at the International Monetary Fund, FT.com 10 April 2011.

[41] Philip Stephens, Financial Times 12 April 2011.

[42] Bank of England External MPC Unit, Discussion Paper 31, 'Optimal Bank Capital' by David Miles, Jing Yang and Gilberto Marcheggiano, April 2011.

- **They could also be targeted so that the biggest, most complex and most interconnected banks have to hold higher amounts of loss-absorbing capital** [43].

Building up such buffers would take time. The place to start would be to temporarily restrict bank dividends and require profits to be ploughed back instead of being paid out to shareholders or squandered on bonuses for top bankers.

Even much tighter capital requirements could still leave bank bosses liable to take excessive risks, pocket obscene bonuses from the resulting artificial profits, and walk away with golden goodbyes if their institution fails and has to be rescued by the taxpayer.

- **To guard against such dangers there should be a rule that no board member or senior executive of a failing bank would be allowed to hold a similar post at a bank unless they can prove to the regulator that they warned against the risk-taking that led to failure and tried to reduce it** [44].

Such a lifetime ban would temper the risk addiction so typical of the financial sector.

- "Barclays chief ready to increase risk appetite in search for profit" [45].

The top bankers, the so-called "masters of the universe", wield great power and influence. They reign supreme, even after their "greed is good" culture has done so much damage to the lives of millions. Despite having clocked up billions in losses and brought their institutions to the brink of bankruptcy they have been able to keep the huge bonuses they pocketed in the years of illusory profits. What saved them was intervention by government and rescue by the taxpayer. Few of those who lost their top jobs suffered much by way of personal sanction, receiving extraordinarily generous golden goodbyes and compensation packages.

Unless the rules are changed and the financial system is subjected to vigorous regulation the bankers will face the same temptation to take irresponsible risks with other peoples' money, confident that if the worst happens the taxpayer will step in to save them. Except that next time even governments might not be able to afford to do so. Without serious reform the banks may become too big to save.

Manufacturing, Innovation and Industrial Policy

Economic growth springs from three sources.

- From extra labour, with a bigger workforce with better skills and more education.
- From extra capital, with new plant and equipment.
- But mostly from innovation, with technological progress, including improvements in the way work is organised and people are managed.

---

[43] Andrew Haldane and Robert May, Financial Times 21 February 2011.
[44] Adair Turner, Chairman of the UK Financial Services Authority, Financial Times 8 December 2010.
[45] Patrick Jenkins, Banking Editor, Financial Times, 5 April 2011.

The steady economic growth that preceded the financial crisis left the UK economy even more lopsided than ever, with a shrunken manufacturing base and a swollen service sector (though official statistics overstate the contribution that financial services make to Britain's GDP). Manufacturing's share stayed stuck in a rut that threatens to turn into an open-ended grave, almost halving in only ten years from over 20 per cent in 1997 to 12.5 per cent in 2007 [46].

What a contrast with manufacturing in Germany, which has stayed one of the world's leading exporting economies by continuing to invest in manufacturing industry and in workforce skills. By competing on quality precision and reliability rather than on price, by adopting cutting edge technology and forging ahead with new product development, and by organising work and managing people in ways that usually respect and value the contribution that they make, German industry has outperformed its British rivals.

The UK suffers from an "innovation deficit". While Britain is a leader in elite science we are laggards when it comes both to research & development in "hard" technologies and to organisational innovation, like the way firms organise work and manage people. Research shows the UK with a long tail of poorly run firms, leaving British management only mid-table by international standards. Between them unions and employers can address such organisational weaknesses. But coalition government policies that increase youth and long term unemployment, cut back on apprenticeships, and scrap Education Maintenance Allowances only weaken our human capital and make it more difficult to boost productivity [47]. They discourage young people from disadvantaged communities from continuing in education, fostering low aspiration and social breakdown, when Britain urgently needs to boost social mobility.

In the face of the most severe downturn in the world economy since the Great Depression radical steps were the only way to save the economic system. The Labour government took unconventional measures to tackle a threat that was unprecedented in the post war period. That readiness to respond to reality by adopting a fresh approach showed also in its industrial policy.

In their early years in office Labour ministers saw little scope for an active industrial policy. Their 2002 manufacturing strategy statement dismissed aid to industry as “handouts to domestic companies”. Their 2003 “Prosperity for All” strategy document pooh-poohed industrial policy as “protecting companies from competition and propping them up with subsidies”.

Things changed when the global credit crunch hit. Labour's 2009 “New Industry, New Jobs” statement marked their adoption of an active industrial strategy. Not just to limit the damage of the downturn but also to prepare for the upturn and promote future growth through targeted interventions. It is a model that the GMB wants Labour to develop for the future.

“New Industry, New Jobs” recognised that suitably tailored state action could complement markets, notably in respect of infrastructure, training or investment in innovation. It could shape the business environment without seeking to substitute for

[46] HM Treasury 'Budget 2011', March 2011, page 7.
[47] Professor John Van Reenen, 'Restoring Growth', LSE Centre for Economic Performance, November 2010.

markets, such as through public procurement of goods and services where large private sector investments depend on government commitments.

It accepted that previous policy had too often been over-cautious and recognised the potential offered by a closer sectoral focus. Government has a vital role to play in encouraging investment in the new high technology jobs of the future: in the digital economy, in low carbon, in renewables and in bioscience. For instance:

- To help foster knowledge and transform it into economic growth Labour backed university spin-outs and expanded centres of excellence developing British capabilities in plastic electronics, composites and industrial biotechnology, as well as investing in carbon capture technology.
- To help build the skills on which future jobs depend Labour adopted a fresh focus on vocational training, one aimed at ensuring that three quarters of people should take part in higher education or complete an advanced apprenticeship or equivalent technician level course by the age of 30. This built on Labour's investment in young people by introducing Education Maintenance Allowances.
- To modernise Britain's infrastructure Labour pushed ahead with plans for high speed rail links and for next generation broadband.
- To build on Britain's industrial strengths Labour committed £1 billion to the Strategic Investment Fund, to bring government action to bear on areas where it could help unlock potential, like electric vehicles, offshore wind and other renewable energies.

The scope for action to boost green jobs in particular is tremendous. For instance, Germany has generated 250,000 jobs in its renewable energy sector alone, while the UK employs only some 16,000. Successfully developing carbon capture and storage technology could create thousands of new jobs. The rail industry could also provide green jobs in mainline rail, light rail and tram projects.

Government could encourage low carbon vehicle development by improving the tax incentives for consumers and fleet managers to shift to lower emission vehicles, and by helping the motor industry in Britain to manufacture such vehicles here instead of continuing to import them from Japan and Bangalore. Through public procurement it could encourage the development of advanced petrol engines and electric vehicles. Sadly, much of this potential for creating green jobs is not being taken up due to coalition cuts to business investment schemes and the abolition of regional development agencies in England.

- **In the GMB view Labour should now consider whether the Department for Business Innovation and Skills needs to broaden its innovation focus from science, technology and engineering to also include organisational innovation, since the way work is organised and how people are managed, especially job design and skill building, are key to improving productivity.**
- **Labour should also examine the boost that Bavaria in Germany has given to small and medium sized firms, how this regional authority encourages science-based growth industries, and the role played by the network of research bodies like the Fraunhofer and Max Planck**

institutes [48]. It should look too at the roles played by Taiwan's Industrial Development Bureau and the USA's Advanced Research Projects Agency and Department of Energy in encouraging innovation.

Rights at Work

The Labour government introduced a national minimum wage and made improvements to employment protection and union recognition rights. These were welcome but only modest advances which fell short of the workplace reforms called for by the trade union movement. For instance, protection against unfair dismissal only took effect after one year instead of from day one. No significant change was made to union rights to take secondary action, and industrial action ballots remain a legal quagmire.

Things may be about to take a turn for the worse. The Tory/Lib Dem coalition, prompted by the CBI and the Institute of Directors, is currently considering a wide ranging attack on employment rights and employment tribunals. Their readiness to turn the clock backwards beggars belief.

Their agenda includes making it more difficult for workers to seek redress for workplace disputes by:

- increasing the qualifying periods for unfair dismissal claims
- charging employees a fee for lodging a claim
- changing the role of ACAS from helping to settle disputes to striking out tribunal claims
- scrapping the "two tier" code that protects workers who are transferred from a local authority to a private contractor
- reviewing the sickness absence system
- allowing employers to hire agency temps to provide emergency cover for striking workers
- doubling the notice that unions must give of industrial action after a ballot
- introducing 40 per cent thresholds for industrial action ballots
- abolishing rights to request flexible working or time off for training
- and scrapping national collective bargaining in health and education.

Such an agenda would fatally undermine workplace justice. And it could be just the start. The CBI and the Institute of Directors are now claiming that rights at work and employment protection are just "red tape" that hampers flexibility and hinders growth. A Cabinet Office web site consultation entitled "red tape challenge" asks if equal rights regulations (which include maternity and paternity rights, flexible working rights, and anti discrimination and harassment rules) should be scrapped or simplified.

[48] Julia Kollewe "Beyond the beer halls: how Bavaria became a European silicon valley", Guardian 15 March 2011.

In reality unions provide a vital voice for people at work, a place where millions spend a large part of their lives and where unfair treatment of employees by employers is widespread. The latter is confirmed both by the number of harassment and unfair treatment cases reported by ACAS and Citizen's Advice Bureaux and by the day to day workplace experience of union representatives.

The legal environment in which unions operate needs to provide a fair balance between rights and responsibilities if we are to organise successfully and perform effectively our fundamental role of representing people at work. No such balance applies today. The GMB wants to make fair rights at work a solid fact rather than the legal fiction that they often are today.

The GMB is looking to Labour to oppose the Tory / Lib Dem onslaught on workplace justice and to give a firm commitment to deliver fair rights at work, starting with protection against unfair dismissal from day one of employment. We want rights that are consistent with the EU Charter of Fundamental Rights, decisions of the European Court of Human Rights, ILO Conventions and the Council of Europe's Social Charter.

The GMB wants to be free to grow in strength and to organise in a fair climate, not to have to depend upon the good will of employers. The principles on which we intend to proceed are set out in the GMB@Work organising agenda:

- The workplace is the building block of the union. It is at work, rather than in the community or in the media, that working people can best build the collective security they need to tackle head on the injustice and inequality that they face.

- Each workplace should be organised as if a ballot for industrial action were due. We need our members to be match fit and ready, but we also need our organisation in each workplace to be democratic, transparent and accountable every day.

- The employers have different interests than our members. It is our members' employers who are the cause of most of their problems at work. Our job is to stand up for and to promote our members' interests, not bury them in partnership agreements.

- It is the process of industrial relations that builds a union. People don't join unions out of gratitude for what we have done in the past, but out of fear and anger for the present and hope that we can give for the future.

- People are strongest when they organise themselves. GMB members must be encouraged to find their own solutions to the problems they face, with our support. We must take steps to give our members in each workplace the power and authority they need to make decisions, and we must stop doing for our members what they can do for themselves. Workplace democracy and organising must co-exist and GMB will support this process through the work of full time GMB Organisers, GMB Branches and GMB@Work Training Programme.

A New Vision for Labour

What these GMB proposals amount to is a new vision for Labour. At its heart is a complete policy shift, away from the belief that an increasingly deregulated economy stimulates economic growth and a flexible workforce, and towards one which accepts that stronger workplace rights enhance Britain's economic prospects.

The pursuit of private profit regardless of risk, whatever the consequences for society, was the root of the banking problem. But New Labour's enthusiastic embrace of deregulation, privatisation and contracting-out meant that the same motive was also allowed to drive developments elsewhere in the economy. This was especially true in the case of public services farmed out to private providers where New Labour's belief that private is best led it to confuse best practice with sharp practice. Too many Labour councils proved willing partners in partnership deals that put the public interest in second place to profit. Too many former New Labour ministers and advisers took up posts on the payroll of businesses heavily dependent on public funds.

Nowhere are the dangers of privatisation clearer than in the case of care for the elderly and vulnerable where financial manipulation around Southern Cross has ended up putting the welfare of 31,000 senior citizens in peril. The combination of private equity speculators, sale and leaseback deals and sky high rents resulted in a deceptively attractive share price, promptly followed by cut and run tactics by both investors and top managers. Public funds intended to provide support for care home residents have been diverted to offshore destinations. Sadly, this case could prove to be only the first swallow of a very unwelcome spring. The Labour government did set in train a review of the entire care system. The GMB wants that system to be put onto a fresh basis, to prevent exploitation of the elderly and vulnerable.

This fresh perspective on the future recognises fundamental flaws in New Labour thinking, notably the neo-liberal argument that a laissez-faire attitude to business would boost investment. The idea that deregulation would make the UK a magnet attracting long term investment and jobs from abroad proved to be false. Too many inward investments turned out to be only short term successes, with foreign investors exploiting UK industrial development funds and regional assistance schemes before moving production overseas.

Britain's weak employment laws made that an easy option by making UK workers the easiest to sack or make redundant in Europe. That is still the awful reality behind all the talk about workforce flexibility. There have been too many cases of inward investors cutting back first in the UK. Cases like Tata Steel sacrificing 1500 jobs in Scunthorpe and on Teesside. Or Nissan's reaction to the recession, which was to cut 1200 jobs in Sunderland.

Other long-established UK household names have switched production abroad – iconic names including:

- Marks and Spencer
- Burberry
- Findus
- Birds Eye
- HP Sauce – bought out by Heinz
- Nestlé

- Twinings
- Bendicks
- Clarks Shoes
- Hornby Trains/Scalextric
- Wedgwood
- Vestas wind turbines

even firms that were founded on strong ethical principles, companies like Rowntrees and Cadbury, have done the same and turned their backs on their workers in Britain.

They have moved not because of skill shortages, inflexible workers or industrial relations problems in the UK, but because British employment law makes it easy to do so.

Sadly, employment rights are being weakened right across the European Union. Decisions by the European Court of Justice in the Viking and Laval cases have allowed employers to challenge the legality of union collective action. The Rüffert case undermined employment protection. But the UK remains in pole position in the race to undercut workers' rights in Europe.

The contrast between the UK and Germany is stark. One reason why the German economy is recovering quicker from recession is that workers in Germany enjoy better employment protection. Their government took special measures to encourage employers to hold on to their workforce as the recession hit, helping for example to minimise the erosion of skills that long term unemployment can cause.

The UK needs a strategy to generate a million new manufacturing jobs. This report has shown that there is plenty of scope, notably in the opportunities offered by green technology and innovation elsewhere, for achieving such an aim. But it has to be on a fair basis, one in which government help for research and development is matched by company commitments to continuity of production here. "Doing a Dyson" - first taking public money, then exporting the jobs - belongs in the past.

Conclusion

Britain stands at a fork in the road. David Cameron and Nick Clegg want to veer off to the right, to the kind of insecure society we see in the USA. One where redundancy or illness or an accident can see respectable people treated as social pariahs. A precarious world where job security today can become time limited social security tomorrow.

This is not the "compassionate Conservatism" once pledged by Cameron, but the harsher world favoured by right wing Tories and Orange Book Liberals. Nor is it a place where the five million people on Britain's social housing waiting list could hold out much hope, nor where our two million pensioners still living in poverty could face anything other than a bleak future, nor where the 17 million people in Britain living with a long term health condition could feel secure.

The GMB is not calling for a blanket ban on all public spending cuts. The recession has made some rescheduling of public expenditure essential because national income has fallen. As a nation we have to cut our coat according to the cloth we have available. We are where we are, not where we had expected to be, and we have irresponsible bank lending to thank for that.

But there is an alternative to the coalition's course. We reject their ideologically driven plan to remove the role of the state in protecting the citizens of our country. The priority should be to get the economy growing again, not risk choking off recovery by rushing to cut public borrowing. Easing the squeeze by spreading the adjustment over two Parliaments would allow economic growth to carry more of the burden of deficit reduction. Shifting more of the squeeze onto taxation rather than on spending cuts, by cracking down on tax avoidance and international tax havens, would allow the burden to be spread more fairly.

Savage coalition public spending cuts will have disastrous consequences well beyond the boundaries of the public sector. The whole economy is caught in the grip of a budgetary squeeze that is set to go on for years and is bound to cause untold harm. It took 13 years of Labour government to transform some of Britain's major cities, notably Liverpool and Manchester, from the state that Thatcher and Major left them in to the renewed and reinvigorated condition that they are in today. Public sector investment radiates out via private sector supply chains to the benefit of the economy as a whole. Slashing public sector budgets weakens the private sector too.

The economic crisis brought on by irresponsible bank lending will cost the UK economy a decade of damage and fiscal frustration. Tough choices about tax and public spending are inescapable. But there is an alternative to the Tory/Lib Dem coalition policy of fast and furious cuts to public services. One that the GMB is looking to Labour's leadership to support.