

Cut, Tax, Grow?

A policy prospectus for the first 100 days of
the new government



Contents

Executive summary	3
1. The challenge	5
2. Growth	8
3. Cuts	12
4. Full and fulfilling employment	20
5. Conclusions	25
Further reading	27

This paper has been prepared by Ian Brinkley, Alexandra Jones and Steve Overell of The Work Foundation

As the new government grapples with reducing spending in order to cut the UK's very high public sector deficit, it also faces the challenge of encouraging and supporting a fragile private sector recovery in order to increase revenues. It is a tightrope: not only does the government need to be sensitive to the state of the economy when setting the pace of public sector cuts, it also needs to ensure that limited spending prioritises support for high growth firms of the future. Most of the public debate to date has focused on two of the three options available to government – cutting public spending and raising taxes. The third option – encouraging growth and job creation in order to raise revenues – has thus far received little attention in the public debate. This statement is intended to help redress that balance.

The Work Foundation's prospectus offers a set of ideas for the new government to consider during its first hundred days and beyond that can build on the promises laid out in the coalition's programme of government. It argues that:

1. Cutting the deficit requires both reducing spending and raising revenues – and this means economic and employment growth. The government needs to focus strategically on where Britain's future sources of competitive advantage are likely to come from and how limited public spending can support economic and employment growth in these areas. The government should nurture and support innovation and entrepreneurship in the four sectors likely to provide many of these future jobs: manu-services¹, the low carbon economy, the creative and cultural industries, and high tech and business services.
2. Public spending cuts will have different impacts in different regions. Outside London and the South East, job creation has been overwhelming in the public sector and many regions depend upon public services for large numbers of their high quality jobs. It is self-evident that cuts need to be made: what The Work Foundation would argue is that attention should be paid to ensuring that public sector dependent regions cut their spending in a way which does not destabilise their private sector and local economy. Making careful and cautious assessments of each region's strengths and weaknesses and enabling local authorities to take decisions about *how* to implement cuts will be imperative to reducing public spending whilst mitigating the impact it will have upon employment.

¹ Advanced manufacturing in most OECD economies is integrating high value services with the manufacturing process. We term this new sector as 'manu-services'

The paper sets out a range of more detailed recommendations for the government. In outline these are that priorities should be to:

- Invest in the UK's high growth potential knowledge intensive sectors to grow more quickly than hitherto by identifying likely growth sectors and backing them to the hilt. These sectors are: advanced manu-services; the low carbon economy; creative and cultural activities; high tech and business services;
- Delivering smart government intervention quickly to the places and institutions that can aid growth and create a single low carbon economy fund to help encourage private sector investment;
- Develop new high innovation eco systems to provide the bedrock for new industries in green technology, bio sciences, and high tech manufacturing. This includes establishing UK versions of Germany's technology transferring Fraunhofer institutes;
- In cutting the size of the public sector deficit, observe sensible 'speed limits'. In other words, the risks of cutting too deeply are unevenly distributed across the UK; some regions risk greater destabilisation with the withdrawal of services and the possibilities of higher unemployment in the wake of public sector cuts than others. Make the pace of deficit reduction dependent on the strength of recovery in the private sector. Enable local autonomy over spending decisions by devolving decisions down to the local level as quickly, and as far as possible;
- Make the most of existing public sector assets and institutions and seek to generate income from world-class universities through international students and from our healthcare sector through exporting innovations;
- Prioritise moving people into employment and sustaining the quality of work. Prioritise 16-24-year-olds not in education, training or employment for job and training support. Ensure the quality of work does not deteriorate rapidly and promote advanced work practices that encourage and facilitate greater involvement and engagement from workers.

1. The challenge

The new government faces the challenge of tackling the UK's very high public sector deficit while at the same time encouraging and supporting the fragile recovery by the private sector. Much of the public debate and discussion has been on reducing the deficit through public spending cuts and tax rises. However, any successful deficit reduction strategy must include a strategy for encouraging growth and jobs and this has so far received little attention in the public debate. This statement is intended to help redress that balance.

The macro-economic challenge is daunting enough. But in addition the new government faces an underlying structural problem that unless confronted simultaneously will strangle the recovery. Many of the drivers that underpinned the UK's growth over the past decade – the property boom, financial services, consumer borrowing, and the public sector – will not and cannot drive this recovery. Our pre-Election Statement argued that they must be replaced by innovation and productive entrepreneurship centred on four major growth sectors – manu-services², the low carbon economy, the creative and cultural industries, and high tech and business services.

The first, macro-economic, challenge requires the new government to be sensitive to the state of the economy and the strength of the recovery in the private sector in determining the pace at which the public sector deficit is reduced. The second, structural, challenge should be a key determinant of what the government decides to prioritise – across governments there must be a consistent focus on what will help the knowledge intensive private sector and the high growth firms of the future expand, invest and create as many jobs as possible over the next decade.

Success in meeting these challenges will be measured by how quickly the new government can deliver a strong private sector recovery that delivers jobs across the UK and ensures that the workforce, those who lost their jobs over the recession and new job seekers, are well positioned to take advantage of them.

The first requirement is generating enough new jobs in the private sector to bring unemployment down. Total employment in the private sector was still falling according to the statistics available at the time of writing. This suggests the government should be wary of triggering big cuts in public sector employment before the private sector is hiring in sufficient numbers to take up the slack, otherwise the danger is that unemployment will rise even further, particularly given the importance of public sector spending to the private sector in areas such as IT and construction.

² Advanced manufacturing in most OECD economies is integrating high value services with the manufacturing process. We term this new sector as 'manu-services'

The second is growing the private sector outside the South East. Economic activity in the UK became dangerously skewed towards excessive reliance on public sector job generation over the past decade: 70 per cent or more of net job generation came from the public sector in much of the Midlands and North. This imbalance must be corrected, but at a pace and in a way that does not cripple the economic base in areas where the public sector represents the main source of high value knowledge intensive activity.

The third is ensuring the ability of both people and places to cope with the acceleration in structural change driven by the recession. Over the past two years employment has gone up in more knowledge intensive jobs. All of the net job loss has been for manual, administrative and unskilled workers and these jobs do not come back in recoveries. This imbalance between the jobs being created and those being lost will become even more acute in those regions where the most knowledge intensive activity is locked up in the public sector.

In response to the economic challenges the new government faces The Work Foundation has prepared this prospectus. It offers a set of ideas for the new government to consider during its first hundred days and beyond that can build on the promises laid out in the coalition's programme of government. The Work Foundation believes that such a strategy should be based on the following building blocks:

1. Helping the UK's high growth potential knowledge intensive industries to grow more quickly than hitherto by backing them to the hilt.
2. Delivering smart government intervention quickly to the places and institutions that can aid such growth.
3. Developing new high innovation eco systems to provide the bedrock for new industries in green technology, bio sciences, and high tech manufacturing.
4. In cutting the size of the public sector deficit observing sensible 'speed limits'. In other words, the risks of cutting too far are unevenly distributed across the UK; some regions risk greater destabilisation with the withdrawal of services and the possibilities of higher unemployment in the wake of public sector cuts than others. These regions need to be empowered to manage the impact of these cuts.

5. Making the most of existing public sector assets and institutions and seeking to generate income from world-class universities through international students and from our healthcare sector through exporting innovations.

These building blocks are based on evidence garnered over years of careful research. The Work Foundation believes that while the current mood of austerity means cuts are certain and tax rises highly likely, ultimately the government needs a narrative about growth. North Sea oil is running out; the boom in construction and financial services driving economic growth in the last decade will not happen in the next. How will the UK earn its corn in the generations to come? In what sectors will it generate world-beating innovation and global brands? Where will the jobs come from? With the relentless focus on cutting, taxing and doing more with less, the bigger, longer-term questions can be overlooked. But it is only through sustaining higher growth that the fiscal deficit can be brought under control in the long term as this is how the government can increase its revenues to reduce the deficit.

2. Growth

The recoveries from the last two recessions here and in many other OECD economies were led by knowledge intensive private service industries. One million new employee jobs were created between 1991 and 1998, of which 600,000 came from high tech and other business services.³ This recovery will be no exception. Indeed, we will be even more dependent on these sectors as in previous recoveries we also saw significant net growth in education and health services and in consumer services such as retail and hospitality. Both will be more limited in this recovery, with net growth in health services confined to care services for the elderly.

Britain is developing a new economic model despite the disaster that befell it with the financial crash. This new economy is based on four pillars – a world class science base; quality higher education – the second best in the world after the United States; clusters of high innovation eco systems and a highly skilled and adaptive workforce in some knowledge based sectors.

Innovation has always been the principal driver of sustained economic growth. In the 21st Century this will never be more true. We are experiencing the combination of a once in a century economic shock and the acceleration in long run global structural changes. The UK is at the centre of this convergence. How well this succeeds depends critically on building a robust innovation 'eco-system' with little new public money available. Much of our thinking and implementation has been against a background of a very long period of what was thought to be sustainable economic growth. We must now rethink our approaches for a decade of economic austerity.

The focus must be on strategic institution building, setting regulatory and planning frameworks, developing new tools to influence individual and organisational behaviour, developing role models for entrepreneurship, and re-positioning the public sector as a lead service innovator in its own right and as an enabler of innovation in the private sector. And it must fit together in a way which so far has eluded policy makers despite innovative policy thinking in many areas.

The goal must be a return to the ILO employment levels or above of 2007; increased levels of social mobility by investing more in educational provision; and to be acknowledged world leaders in high-tech manu-services, low carbon industries and creative and cultural industries.

Managing a new growth agenda based on an innovation driven approach to industrial policy will require the reconciling of two potentially huge issues. As The Work Foundation said in *Innovation, Creativity and Entrepreneurship in 2020*, 'One is to expand the knowledge intensive sectors of the economy quickly enough to move the economy as a whole back to full employment and provide new sources of innovation, growth and exports. The second is to prevent that expansion creating

³ Ibid

greater social and economic divides, with the workforce polarising between those in relatively well paid, secure knowledge related jobs and those in poorly paid, lower skill jobs.’

A renewed focus on the energy and associated sector will be required. This is not just to grow the UK’s low carbon economy and meet the UK’s international obligations on climate change, but also to deal with a potential doubling in the size of the balance of payments deficit over the next decade as we move from being a net energy exporter to a net energy importer. This will require major long term private investments in energy production and efficiency, the development of green manufacturing and the development of a range of service activities, with the State setting clear and long term frameworks in order to encourage growth and demand for innovative low carbon goods and services.

Another fundamental driver of this recovery will be the advanced manufacturing sectors driving innovation, technological advance, and exports by combining high value services with advanced manufacturing – ‘manu-services’. If we are to successfully rebalance the economy from over-dependence on financial services to growth sectors of the future, this must be an early and decisive priority for the new industrial strategy. It will create few new jobs directly, but will have an immense indirect impact on job generation in the rest of the economy.

The Work Foundation believes the new industrial strategy indicated by elements of the new coalition’s programme for government is significant. In particular the promise to implement Sir James Dyson’s Review’s recommendations is significant. The emphasis in the review on a high-tech led export drive is consistent with The Work Foundation’s own analysis of where Britain’s future growth prospects lie. Increasing the Enterprise Investment Scheme (EIS) relief available to 30 per cent for investors is a sensible idea as is encouraging higher levels of lending by banks for high-tech start-ups. Moreover the emphasis in the review for focusing R&D tax credits on high tech companies among others is a very strong policy proposal. The Work Foundation welcomes some of the coalition’s ideas for place contained in the programme for government. Enabling local areas to decide how to manage their futures is on the whole to be encouraged – particularly given the differential impact of public spending cuts. Reform of the planning system, devolution of power and cash and greater transparency over where money is spent through a Sustainable Communities Act are reforms that are long overdue. These two elements must be brought together.

In order to build on the coalition government’s plans The Work Foundation suggests the following strategy:

Macro-economic environment

- Ensuring that a growth and jobs strategy is a central component of the approach to deficit reduction;
- Making the pace of deficit reduction dependent on the strength of recovery in the private sector;
- Reinstating the protection for long term capital investment against short term cuts implicit in the pre-recession fiscal rules;
- Heading off the potential balance of payments constraint by making the most of a more competitive exchange rate and address the growing gap between energy imports and exports;
- Reforming the banking system to minimise the risk of another destabilising financial crisis that would overwhelm the State and create a new system capable of supporting the growth and jobs strategy.

Investment

- Adopting a manu-services first strategy. Manu-services will be a major engine of growth, innovation and exports over the next ten years. They are high value, high tech businesses in bio-technology, aero-space, pharmaceuticals, and green technologies;
- Creating new intermediary institutions that ease technology transfer from research institutions into manufacturing processes such as the Fraunhofer institutions in Germany in order to speed up the development of innovation eco-systems;
- Protecting and enhancing funding for high quality university research, particularly in STEM areas and other areas linked to 'winning sectors' as recommended in the Dyson Review;
- Developing more effective support for R&D taking account of the changing nature of manufacturing and what is on offer in other locations around the world;
- Creating a single low carbon economy fund to help secure private sector investment given private sector uncertainty over demand for low carbon manufactures;
- Encouraging creative industry integration with manu-services through design awards and prizes and through more interdisciplinary courses at FE and HE level;
- Creating a new Higher Education export division as part of the activity of the Foreign Office to expand UKHE overseas and establish a 'University Consultancy' – a joint venture with major PLCs to identify and network ideas for commercial exploitation. This could well include healthcare technologies.

Place

- Reforming or replacing RDAs with City based Innovation Panels to, among other things, manage City based Innovation Funds to support clusters and specific knowledge generation. This proposal chimes well with the coalition's idea to establish Local Enterprise Partnerships (LEPs);
- Supporting each City to have a 'Total Innovation' strategy in order to realise their potential for 'market-making'. This means that cities will create demand for innovative products such as low energy street lighting or updated IT packages. These 'buy' signals will then encourage private sector investment, production and distribution of new technologies, services and products.

3. Cuts

Public spending cuts are necessary and inevitable. But maintaining a balance between tackling the deficit and reassuring nervous international markets, at the same time as encouraging and supporting private sector growth to avoid lurching back into recession, must be integral to how these cuts are targeted and managed. This is why The Work Foundation has called for appropriate speed limits to be placed on cuts to public spending over the next ten years, emphasising that 'cutting with care' – the coalition government's promise – may not go far enough. For the country has not seen cuts at ratios the government proposes since the 1920s. As we say above, cuts should be geared to coincide with concrete evidence of private sector recovery, especially private sector job creation, and targeted to ensure that we make the most of opportunities to create these jobs.

The recently announced £6.24 billion of savings in government budgets have largely dealt with the froth of government spending. Cuts have been announced by the Chancellor and Chief Secretary to the Treasury in areas of discretionary spending such as advertising, consultancy services, travel budgets and hospitality. These amount to around one sixth of the planned reductions for 2010-11. Freezing recruitment saves another £120 million without causing the pain of major redundancy programmes, while car-sharing for ministers reduces a perk to a utility and cuts a third off government spending on its car fleet.

Some innovations already announced The Work Foundation would endorse, such as the new Office for Budget Responsibility, designed to make growth forecasting as technocratic an activity as the setting of monetary policy by the Monetary Policy Committee of the Bank of England (though with a major caveat that growth forecasting is a more imprecise activity than the setting of interest rates). So too it welcomes the announcement that the Government will not pay tax credits to people earning more than twice average earnings. An emphasis on raising the hopes and expectations of those on lower incomes – particularly the ten million people who are already in work and existing on £15,000 a year or less – is critical to a sustainable recovery.⁴

Of most concern in the savings already announced is the more than £800 million in reductions from the Department of Business, Innovation and Skills, only slightly offset by a £200 million investment in adult apprenticeships and expanding higher education places this year. Details on what is being cut in this department are of most interest since, as the new Secretary of State himself has said, BiS is the 'growth' department. The Work Foundation would not welcome reductions to R&D spending on high tech industry or a further culling of the HE budget.

⁴ Based on employees and self-employment estimates from the Labour Force Survey and Family Resources Survey, 2009

In establishing the ground rules for the new Treasury and Cabinet office-led Efficiency and Reform group in Whitehall The Work Foundation would stress that cuts should be mindful of overall economic strategy for growth (as outlined in Section 1 above). Indeed some areas of public spending such as innovation support; higher education linked to innovation systems; and support for creative and cultural industries should arguably be increased. Cutting with little regard to the impact on local economies (on which more below) could lead to slower growth locally and lower local tax takes with higher levels of economic inactivity and a rising benefit bill – which serves to increase rather than reduce the deficit. Additional cuts to be announced in the Budget in June and the Comprehensive Spending Review in the autumn must therefore also be mindful of the impact on jobs and employment in different regions.

All governments look for quick wins in cutting public spending. Often these might be described as ‘invisible’ cuts – typically to capital spending. Cancelling a new building doesn’t seem as immediate as closing a centre or cutting a well-used service. As has been indicated above The Work Foundation believes this would be a mistake if such cuts undermined the innovative capacity of the manu-services industries or other areas of the economy that promise higher levels of growth. Cutting investment that enables growth will make it more, not less, difficult to reduce the deficit.

Further cuts to public spending should therefore be forensic, targeted and politically deliverable. It should be separated into investment spending and support spending. Education, innovation support, infrastructure such as road, high speed rail, broadband and low carbon energy are examples of innovation spending. Moreover where public spending cuts are to be made, the decision-making should be devolved as far down the food-chain as possible. The abolition of the ring-fencing of £1.7 billion of local authority spending in the Chancellor’s statement on 24 May 2010 is therefore a welcome development. The impact on local employment should be considered and thus local decision-makers should be set an overall target but left to decide how best to achieve it. Different places must devise different strategies that work for them.

In setting sensible speed limits for further public spending cuts and ensuring flexibility for different places to respond to their distinctive circumstances, it is important to understand just how much the UK economy has changed, how inter-dependent the private sector has become with the public sector and how different the economy looks in different places.

First, employment growth in Great Britain over the last decade has been heavily dependent on the expansion of publicly funded activities.⁵ Across Great Britain, 2,349,300 net new jobs were created

⁵ These figures are based on work we have conducted for Local Government Yorkshire and Humber, due to be published in the next few months

between 1998 and 2008. Of these, 1,485,500 or 63.2 per cent were created in the public sector and just 863,800 or 26.8 per cent were created in the private sector. In other words, for every net new job created in the public sector over the last decade, 0.6 net new jobs were created in the private sector. Moreover the dominance of public sector job creation over the last decade means that Great Britain has become more dependent on public sector employment over time. The proportion of the workforce employed in the public sector rose from 24.1 per cent in 1998 to 27.5 per cent in 2008. The largest proportion of those working in the public sector (34 per cent) are in education, with health having 28 per cent and local government 27 per cent. Only 7 per cent of public servants work in Whitehall.

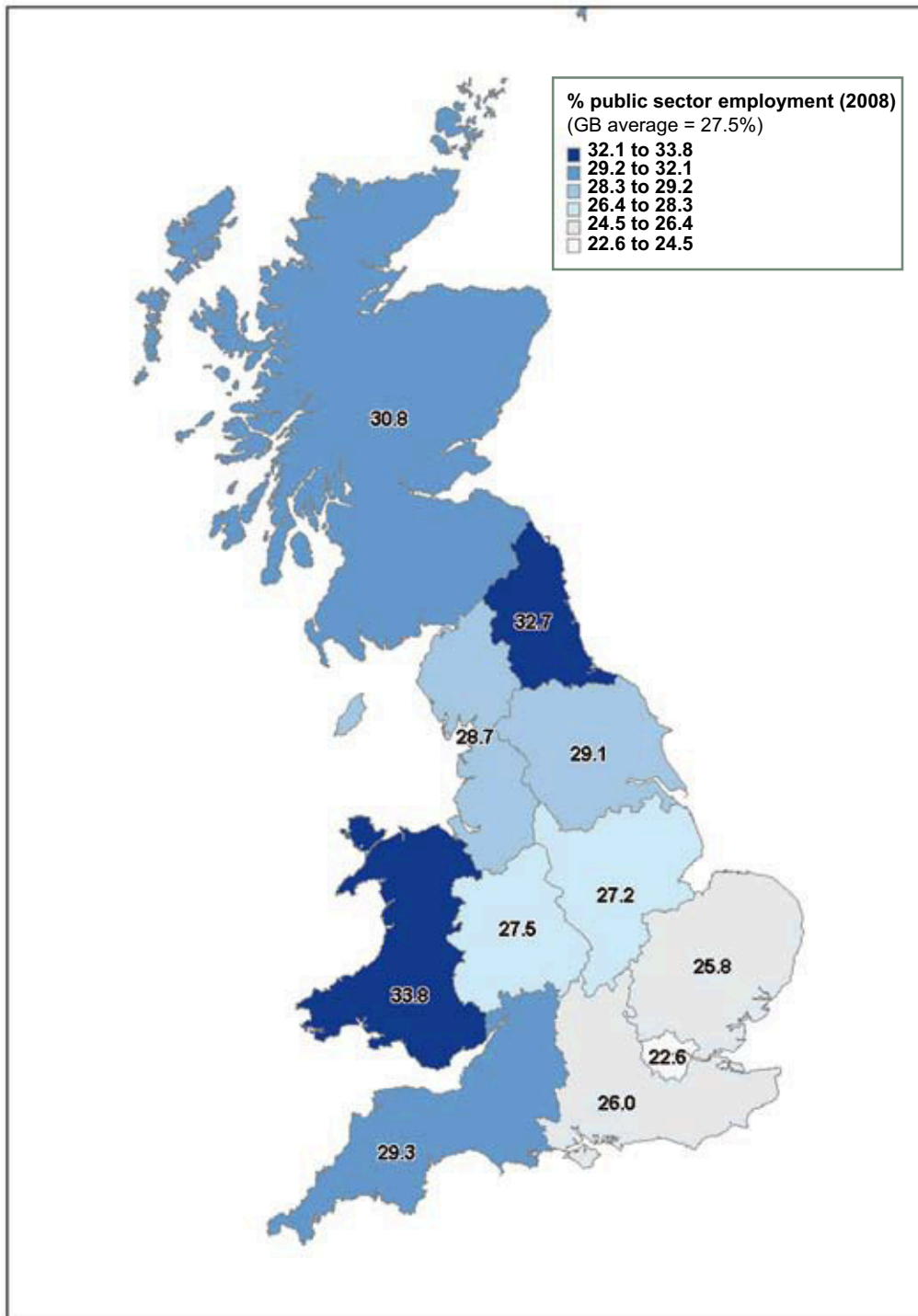
Second, the UK's economy has become skewed with the North, Midlands and Wales much more dependent upon public sector employment than the South. Amongst the British regions, Wales is the most dependent on public sector employment: whilst the average across Great Britain is 27.5 per cent, more than one third (33.8 per cent) of the Welsh workforce is employed in the public sector. The North East (32.7 per cent) and Scotland (30.8 per cent) are also heavily dependent on public sector employment.

Third, there is a North/South divide to employment growth since the 1990s. Over the last ten years the South has enjoyed growth in private sector jobs. For the North the real jobs growth has been from new public sector jobs (see Figures below). The expansion of publicly funded employment accounted for more than three quarters of overall employment growth in the North East, Yorkshire & Humber and the North West: The North East, Yorkshire & Humber and the North West experienced net private sector growth between 1998 and 2008 but public sector expansion accounted for more than three quarters of overall employment growth in each region over the last decade.

The West Midlands faces an even more challenging situation. It experienced a 64,800 net reduction in the number of private sector jobs between 1998 and 2008. Overall employment growth in the West Midlands was therefore driven solely by the expansion of publicly funded activities which grew to the tune of 130,100 jobs over the same period.

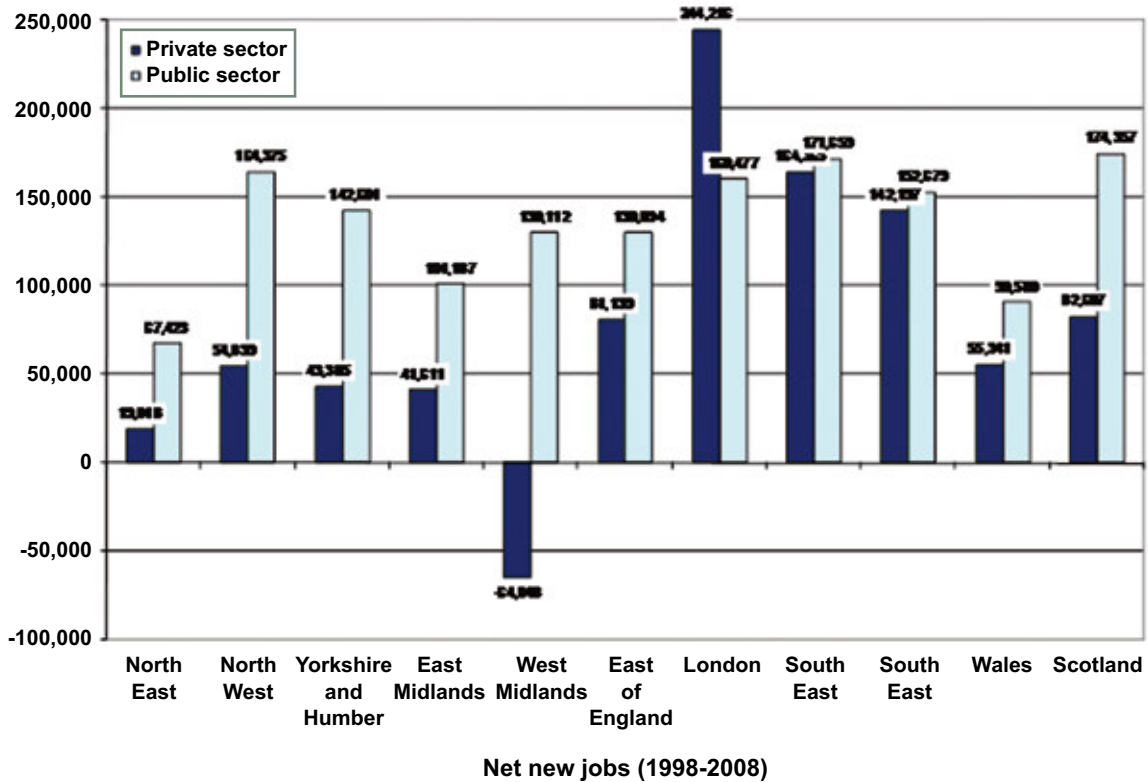
London was the only region in which private sector growth outpaced public sector employment growth over the last decade: A total of 404,700 net new jobs were created in London between 1998 and 2008. Of these, 167,500 (39.7 per cent) were created in the public sector and 244,200 (60.3 per cent) were created in the private sector, so that for every new job in the public sector in London,

Figure 1: Public sector dependence (2008)



Source: Annual Business Inquiry – Workplace Analysis (1998 – 2008)

Figure 2: Employment growth 1998 – 2008



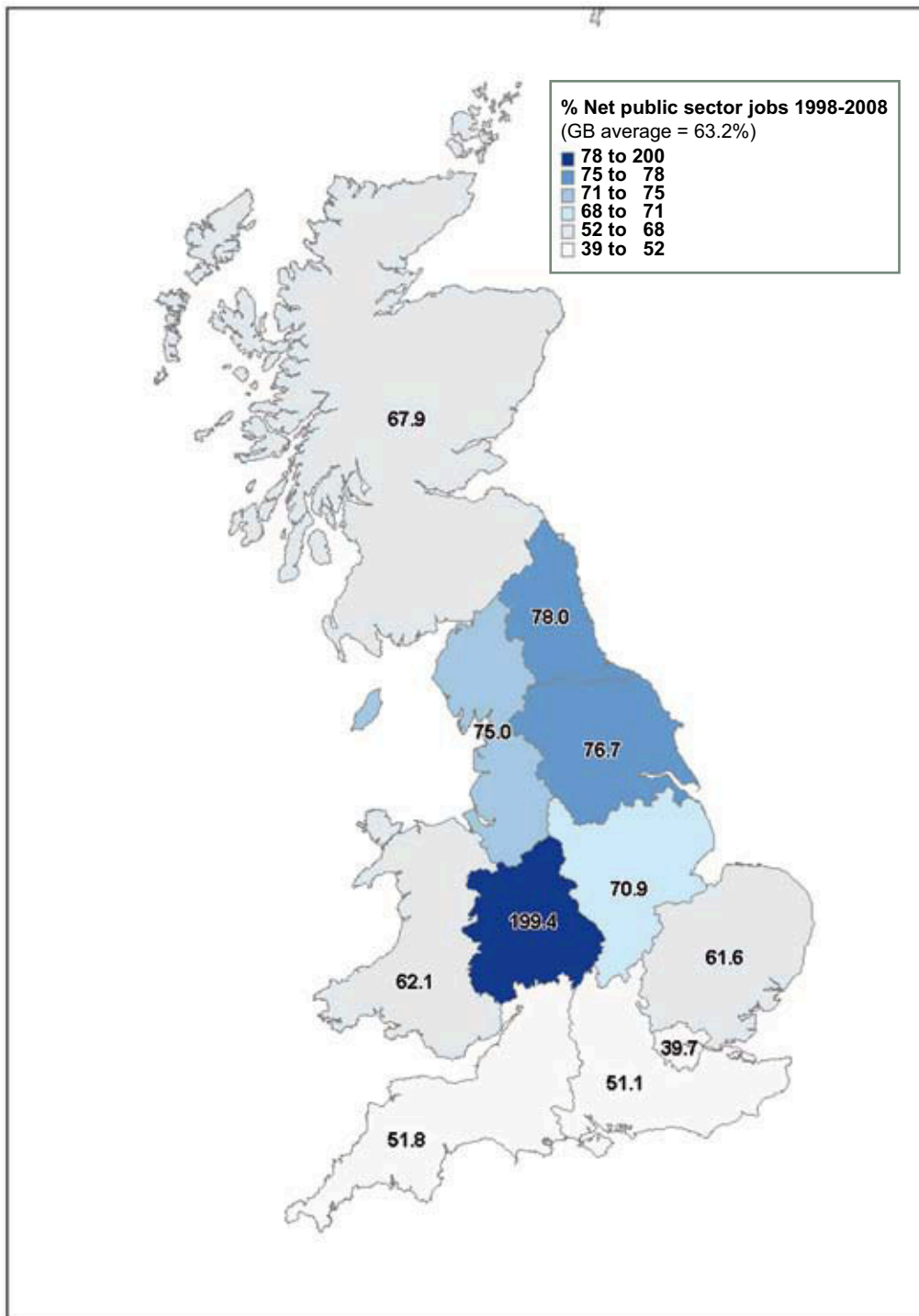
Source: Annual Business Inquiry – Workplace Analysis (1998 – 2008)

1.5 new jobs were created in the private sector. As such, London was the only British region in which private sector employment growth outpaced public sector employment growth.

The recent general election almost mirrored the map of the UK shown in Figure 1 where the more private sector dominated south voted Tory and the more public sector dominated North, Wales and Scotland and South West voted Labour and Liberal Democrat.

This would indicate that swingeing workforce cuts across the public sector are more likely to damage those areas of the country with the highest levels of new public sector job creation – and these are already the places that were hardest hit by the recession. For example between the first quarter of 2008 and the first quarter of 2010 it was the West Midlands, Wales, Yorkshire and Humber and Northern Ireland that saw the biggest increases in unemployment as a percentage of those employed, largely as a result of high levels of private sector employment in manufacturing and lower skilled jobs, both of which were hit hard by the recession. The concern is that, if it was public sector jobs in these areas that formed the economic backbone for those regions, continuing

Figure 3: Public sector jobs growth



Source: Annual Business Inquiry – Workplace Analysis (1998 – 2008)

investment from the public sector helped to limit the damage overall. With public sector cuts now necessary, this may have a particularly significant impact on economies already reeling from the recession.

So in deciding on where, when and how to start cutting the fiscal deficit beyond this year's £6 billion nugatory belt tightening, The Work Foundation would suggest that the government begin by doing the following:

- Developing 'excellence hubs' across the public sector in which 'high performance' and innovative work practices are encouraged and productivity, well being, absence rates and other indicators are actively measured. Best practice can then be virod across the whole sector as part of the efficiency drive now underway;
- Encouraging an 'intrapreneurial approach' within the public sector, looking at ways in which public sector organisations can share resources (for example, senior managers), 'sell' each other services and therefore reduce costs whilst sustaining quality services;
- Ensuring that local authorities are empowered to make decisions about how best to cut public spending in their own area to mitigate the impacts of these cuts on the local economy;
- Starting a cross-cutting audit as part of the next Spending Review that will simplify the institutional support and delivery infrastructure. The principle should be based on 'one is enough'. Getting rid of tiers that distance decision-making and delivery from the public should help cull 'excessive' bureaucracy. The objective is to create single tier delivery, advice and support institutions wherever practicable. The coalition government has intimated in their programme that they are already minded to do this;
- Simplifying of the planning regime to aid private sector investment as indicated in the programme for government;
- Ensuring the commission to investigate fair pay in the public sector investigates the impact of pay freezes, the introduction of differentials, the impact and efficacy of performance related pay systems, the introduction of regional pay bargaining;

- Increasing employee contributions into public sector pensions and reduce the state contribution accordingly. Reform state pension schemes to ensure more value for money in the costs of maintaining and running them;
- Targeting support in areas where the bottom ten million are clustered;
- Clawing back funds sitting in school, health service, local authority and other accounts left unspent from previous years through a thorough investigation by the Audit Commission.

4. Full and fulfilling employment

Growing employment is integral to the future prosperity of the UK, but now is the time to consider how a strategy for employment growth can consider both quantity and quality. A strategic approach to both now, considering how to manage the legacy of the recession, may avoid storing up a wide range of challenges in the future, including poor physical and mental health and people falling out of the labour market.

Perhaps the central work-related achievement of the Labour government was to maintain 'full' employment of around 5 per cent in the years to 2008.⁶ Fortunately the precipitous fall in economic output over the last eighteen months has not been matched by a corresponding fall in employment, but the labour market remains very weak and the risks of considerably higher unemployment remain high.

As Gregg and Wadsworth have pointed out recently⁷ the recent recession was atypical in that employment rates did not shrink at the same rate as in previous recessions despite the loss of over 6 per cent of the UK's productive capacity. The reasons they cite are largely to do with the government's broadly Keynesian reflationary policy allied to labour hoarding, (affordable due to the relatively high levels of profitability enjoyed by firms going into the recession), and the willingness of people to work for reduced wages and/or reduced hours.

The Work Foundation has argued that in order to ease higher levels of unemployment caused by the recession⁸ high-quality job search and support services must be sustained. This is particularly important for the new single welfare-to-work programme where expanding the training elements within the New Deal for those claimants who might benefit should be a key part. All these activities will help get people back to work and then sustain them in work.

The coalition government programme document states that the government will ensure that receipt of benefits for those able to work is conditional on their willingness to work and all current claimants of Incapacity Benefit will be re-assessed for their readiness to work. Those assessed as fully capable for work will be moved onto JSA. This will achieve considerable savings in government spending worth between £2.5 billion and £5 billion or more over the life of a parliament.

Indeed the Chancellor has already announced scrapping what are described as 'ineffective elements of employment programmes', including ending further rollout of temporary jobs through

⁶ Labour Force Survey

⁷ Gregg and Wadsworth, *The UK Labour Market and the 2008-9 Recession* National Institute Economic Review No 212 April 2010 p61-72

⁸ Brinkley, Overell, Clayton et al *Hard Labour: Jobs, Unemployment and the Recession* (2008) The Work Foundation

the Young Person's Guarantee (the 'Future Jobs Fund') and removing recruitment subsidies from the 'Six-Month Offer'.

The coalition also says rather obliquely that the government will investigate how to simplify the benefit system in order to improve incentives to work and this formula could cover a very wide range of possible changes to the benefit system. Interestingly the government has agreed to support the National Minimum Wage because of the protection it gives low income workers and the incentives to work it provides. It is also clear that those who need help most will get such help faster with adults being referred to the new welfare-to-work programme immediately and young people under 25 after six months.

The Work Programme will be financed through rigorous outcome based contracts. The latest document says 'we will realign contracts with welfare to work service providers to reflect more closely the results they achieve in getting people back into work.' This it is quite likely that all funding will be paid on the basis of outcomes. This will mean transferring the risk to providers who will be expected to finance their contracts from their own resources and the providers will only get paid after a claimant has been placed into secure work. David Freud in his initial work recommended three years as a timescale for deciding when someone had enjoyed security of employment. The coalition also intends to introduce a self employment programme 'Work for Yourself', which the government says will give the unemployed access to business mentors and start-up loans.

Training for jobless people will rely on a range of Service Academies to offer pre-employment training and work placements for unemployed people. There will also be local work clubs. Places where unemployed people can gather to exchange skills, find opportunities, make contacts and provide mutual support.

As with every welfare-to-work programme the emphasis must be on stopping people becoming long-term unemployed and thus economically inactive. The evidence is overwhelming that prolonged unemployment damages individual's mental and physical well-being more than just about any other status. The Work Foundation believes it is of particular importance that those aged 16-24 are prioritised: with nearly one million (941,000)⁹ young people currently not in education, employment or training this is a matter of the highest urgency to avoid the risks of prolonged detachment from the labour market.

⁹ <http://www.guardian.co.uk/uk/feedarticle/9074058>

Existing major projects (like the London Underground modernisation and the Olympics) must be sustained. The supply of social housing still needs to be increased – hence why the announcement of £170 million by the Chancellor to safeguard 4,000 homes in the social housing sector and protect 3,500 jobs is so welcome. Investment in transport infrastructure such as the high speed rail network is a priority. Whatever their other merits, all these programmes offer valuable employment opportunities. A total of £3.45 billion is spent by the public sector on purchasing goods and services that help sustain employment opportunities for millions of people.¹⁰

But there are reasons why the quality of work should also be more of a policy concern than it has been in the past. The quality of work affects the ability of businesses to engage their staff and to generate higher levels of productivity; it affects individual capabilities and life chances; and it affects the wellbeing of societies and communities. The knowledge economy is also an economy that should support good work, not bad jobs. Too many of the UK's jobs remain low quality, low productivity jobs: according to Cabinet Office estimates, some 18 per cent of workers are trapped in 'bad work' (meaning low skill, low pay, low prospect work). Despite the rhetoric of empowerment, 'autonomy' (the scope to exercise discretion over how to do a job) has fallen over the last 20 years. Comparing 1992 and 2006 it is today 14 per cent lower overall.¹¹ This trend has been particularly acute in the public sector and among women. This seems to be because of the introduction of tougher target and performance management regimes; the manner in which regulation has been rolled out and a form of 'Digital Taylorism' (eg standardising tasks through new technology, eg work-flow systems). It also seems clear that the investments that aid the growth of autonomy such as training have been in decline as work has become much more intense.

Additionally skills are poorly used – resulting in lower levels of productivity – and poor management and a preference for a low skills approach to doing business means that the supply of new skills may be outstripping demand for those skills. The numbers of workers claiming over-qualification for the job that they do has risen sharply. Some 40 per cent of those with level 3 skills (roughly A level equivalent) reckon they are overqualified for the work they do while a third of graduates say they do not need a degree to do their job. The problems of autonomy and skills utilisation are closely connected to low levels of 'high performance working' among firms – referring to a strategic approach to involve people in their work, gain flexibility, offer 'voice' and elicit a willing contribution. Just 1-5 per cent of UK workplaces have adopted a meaningful 'bundle' of high performance practices – low by comparison with other industrialised nations. Flexible working has been increasing over time – good for both productivity and wellbeing – however they remain a minority entitlement and too often contingent on employer benevolence.

¹⁰ ONS

¹¹ Based on the Skills Survey 1992-2006. Questions measure influence over task; over work effort; over choice of task; and over quality standards

Management skills must be improved by higher levels of investment in management and leadership development. In order to release higher levels of employee discretionary effort and hence raise productivity, more businesses should be encouraged to give their employees a financial stake in the business.

The employment relationship in the UK has become more individual as the reach of the Trades Unions has declined, particularly in the private sector. Yet though strikes have been reducing dramatically the hidden costs of conflict remain large. Claims to employment tribunals have grown exponentially peaking at 180,000 in 2007, while absenteeism has cost 50 times as much as strikes during the 2000s, though most of the cost is externalised by employers so that they bear around 10 per cent of the real cost and society pays for the rest. The era of extending new rights at work (sometimes spurred by European social legislation) has almost certainly come to an end. Rights have been closely bound up with the previous Labour government's approach to fairness. In future, attempts to increase fairness in work are likely to be more in the arena of 'nudge-based politics' – attempts to encourage certain types of behaviour.

The Work Foundation thus urges the new government to do more to improve the quality of work in the UK by:

- Moving ahead swiftly with its plans to consult on extending the right to request flexible working to all employees. This has been a long-standing ambition of The Work Foundation and we urge the government to be bold in its delivery of it;
- Encouraging the Department of Business, Innovation and Skills to place a higher priority on developing a 'quality of work' agenda. The approach to employee engagement pioneered by the previous administration via the MacLeod review needs to be developed and extended. Government needs to co-ordinate further stakeholder efforts to drive up engagement as an issue;
- Developing new tools that incentivise employers to up-skill and value their staff. Options here could include a re-engineered Investors In People standard;
- Developing people management skills within firms through a new 'management development fund' managed through Sector Skills Councils that provides matched funding for management development;
- Small and medium size employers should be able to access a 'skills fund' offered through the Sector Skills Councils that enables better job profiling development techniques, and job-matching;

Full and fulfilling employment

- Encouraging all private sector businesses with turnover in excess of £10 million to offer an employee share ownership scheme as part of their reward packages in order to motivate staff, help with retention and create more long-termism in growing businesses;
- Enabling organisations of more than 50 employees to develop 'voice' mechanisms especially when such mechanisms are absent;
- Tackling the problems of absenteeism and presenteeism by rigorously applying the new 'Fit' note and reviewing the evidence about whether tax incentives would affect employer behaviour and encourage the uptake of occupational health services designed to help people return to fitness more quickly;
- Finally, due to falls in overall working time, there is less of a case today for the opt-out from the working time directive. To send an important signal to families and carers, the opt-out should be scrapped.

5. Conclusions

As with many new governments, the coalition has set a brisk pace with its plans for 23 new bills. Some of these contain important pledges that The Work Foundation warmly welcomes – the extension of the right to request flexible working, for example. But the overwhelming priority – the priority which is likely to crowd out at least some of the grander intentions – is the need to get the budget deficit down. This paper has sought to make two fundamental points.

First, that this immediate priority does not distract from the longer term need to focus on where Britain's future sources of competitive advantage are likely to come from. How will Britain pay its way in the world? Where will the jobs come? There appears to be little of the strategic thinking that is demanded on this issue. Our analysis has pointed to four sectors that are likely to provide many of these future jobs and called on the government to exert itself in nurturing and supporting innovation and entrepreneurship in these sectors. They are: manu-services¹², the low carbon economy, the creative and cultural industries, and high tech and business services.

Second, analysis suggests the risks of aggressive public spending cuts are very disproportionate in different regions of the UK. Outside London and the South East, job creation has been an overwhelmingly public sector phenomenon (and often high quality jobs, too) while the private sector remains very weak. Unless due attention is paid to these disproportionate risks, cuts and wishful thinking about the private sector being able to create jobs in economically stricken regions could destabilise some communities. The big cities of the North East and the Midlands, for example, have turned their fortunes around in the last 16 years – but they have done so courtesy, in large part, of public spending largesse. It will be much harder to continue such regeneration in a new and more austere public spending climate. What we have called 'speed limits' refers to the need to make careful and cautious assessments of each region's strengths and weaknesses prior to making decisions regarding cuts.

The current plans for cutting the fiscal deficit involve public spending cuts the like of which haven't been seen since Lloyd George asked Sir Eric Geddes to wield his scalpel in 1921. This will indeed be an age of austerity. But it needn't be an age of poverty, inequality, worklessness and hopelessness. There is a vast difference between belt-tightening and anorexia. As has been briefly described above, the UK's economic fundamentals are promising. It has world class higher education establishments; an innovative and inventive population; strong trading links with partners in Europe and around the world and the benefit of English as the language of commerce, culture and diplomacy. More from less is a distinctly achievable outcome so long as the bottom ten million are protected and spending cuts are intelligently applied over time.

¹² Advanced manufacturing in most OECD economies is integrating high value services with the manufacturing process. We term this new sector as 'manu-services'

Conclusions

The Work Foundation will be engaging fully with the new government as it sets out its programme for the first 100 days and beyond. Indeed it already has, with its Executive Vice Chair and Managing Director having been invited to help run a new Commission into Fair Pay in the Public Sector. As time passes The Work Foundation will review and assess progress against its proposals and against the evidence. But its mantra will be growth, growth, growth.

Further reading

Innovation, Creativity and Entrepreneurship in 2020

Is Knowledge Work Better for Us?

Flat or Spiky: The changing location of the British knowledge economy

Why do employees come to work when ill?

A 2020 Low Carbon Economy

Driving Economic Recovery: Core Cities – a new partnership with Government

The Business Case for Employees Health and Well Being

Recession, Recovery and Medium-Sized Cities

All available from: <http://www.theworkfoundation.com/research/publications.aspx>

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording and/or otherwise without the prior written permission of the publishers. This publication may not be lent, resold, hired out or otherwise disposed of by way of trade in any form, binding or cover other than that in which it is published, without the prior consent of the publishers.

We provide:

Research
Advisory Consulting
Policy and Voice
Partnership

The Work Foundation is the leading independent authority on work and its future. It aims to improve the quality of working life and the effectiveness of organisations by equipping leaders, policymakers and opinion-formers with evidence, advice, new thinking and networks.

© The Work Foundation

Registered as a charity no: 290003

First published: May 2010

The Work Foundation
21 Palmer Street
London
SW1H 0AD

Telephone: 020 7976 3500

Website: www.theworkfoundation.com