A BETTER PLAN FOR BRITAIN’S PROSPERITY
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A BETTER PLAN FOR BRITAIN’S PROSPERITY

This plan sets out an approach to build prosperity in 21st Century Britain – and in so doing raise living standards for all and get the deficit down.

The UK has great advantages, with world-leading firms and sectors, an unparalleled record of invention and innovation, a global language, and a pool of high skilled workers which attracts businesses from around the world to invest in the UK.

But those advantages feel too distant for too many British firms and families. Working people are no longer confident that if they work hard they will be rewarded and are uncertain about whether their children will see a higher standard of living than them. Too many of our businesses feel they are forced to compete on a low skill, low wage business model that does not work for them, their employees or Britain.

This plan builds on our strengths, faces up to the barriers that hold us back, and charts a course for the broad-based productivity that will secure Britain’s prosperity for our times.

At all times it is based on the insight that Britain will succeed when working people succeed.
The Current Situation: Failure on Growth, Living Standards and the Deficit

Britain is currently in the slowest economic recovery we have seen in over a hundred years. The British economy is around four per cent smaller than it was projected to be by the Office for Budget Responsibility’s forecasts of November 2010, and GDP per-person is yet to return to its pre-recession level.

But even as the economy starts to recover, too often it is not benefiting ordinary working people. Real median wages for all employees have fallen by more than £1,600 a year since 2010. Full-time workers have fared even worse, with real wages down by more than £2,000 a year over the same period. And changes in average wages often hide what is happening to those on middle and low incomes, as the average is dragged up by large pay rises for those at the top.

This failure on living standards has meant that this Government has failed to deal with the deficit. Stagnating pay has led to lower receipts, with income tax and National Insurance receipts £95 billion lower than forecast across this Parliament. And the failure to tackle rising housing costs and low pay has also contributed £25 billion more to social security spending than planned in 2010. The result is that the Government has borrowed over £200 billion more than planned over the Parliament. The promise to balance the books by the end of this Parliament has been broken, with a deficit of over £75 billion forecast for 2015-16.

These failures on growth, living standards and the deficit are symptoms of a failure of government to help raise productivity across the economy. The gap between UK productivity per hour worked and the rest of the G7 grew to 17 per cent in 2013, the largest difference since 1991.

This means firms struggle to raise pay, the growth of the economy cannot increase in a sustainable way, and the deficit becomes much harder to bring down.

In part this productivity failure is a failure of a view of how modern economies grow. The focus has been on a narrow group of firms and individuals at the top in the belief that they are the source of national prosperity, which would then trickle down to everyone else.

Britain must build on its existing areas of strength to back sectors where we enjoy a competitive edge now or could do in the future. Growing these sectors of comparative advantage will create more of the well-paid, high-productivity jobs that the country needs.

But as long as the largest shares of output and employment lie elsewhere, an approach which is confined to these sectors will not be enough. Of the ten largest employing sectors in the UK economy, just three are covered by the Government’s industrial strategy. To depend solely on a small group of sectors to generate wealth, in the hope that part of their gains will trickle down will not suffice to trigger the productivity revolution that Britain needs.

A more productive economy will only be based on a broader contribution from firms and working people. Supporting this broad range of firms and working people into higher productivity, higher value business models and jobs is the route to sustainable growth, living standards rising year-on-year, and bringing down the deficit. That will require a new approach across our economy.
The Path to Higher Productivity: An Approach for Firms in all Parts of the Economy

While the last five years has proved the trickle-down approach to be wrong, they also require a new approach for Labour too. Just as relying on wealth from a narrow part of the economy to trickle down leaves Britain without a plan to raise our productivity, so it will not be enough to try and correct the inequalities markets create through subsequent redistribution. Not only will this approach be unavailable to the next Labour government because of the failure to eliminate the deficit, but it would be insufficient to mend the link between growth and living standards. To put it another way, the task of the next Labour government will be one of big reform, not big spending. At the core of that reform agenda is the understanding that we either build a broad-based productivity, or continue to be a low productivity economy. As any British business leader will tell you, there is no short-cut to overcoming the structural challenges we face.

This plan charts a path to higher productivity in all parts of the economy as the basis of a renewed and inclusive prosperity. Specifically it argues that the broad-based productivity we need will require:

1. Recognising that Britain's world class firms, in sectors which enjoy established comparative advantage, need to be able to take long term decisions and access key markets, not simply lower taxes.
2. Doing everything we can to ensure more smaller businesses reach their potential to power future growth.
3. A new industrial strategy that focuses not just on high tech sectors, but also on supporting our big employing sectors such as retail and social care to win a race to the top and not get dragged into a race to the bottom.
4. The public sector playing an active part in driving up productivity across the whole economy, supporting firms through cutting-edge innovation and research, strategic investment and procurement.

The Steps on the Path to Higher Productivity

This new approach will only be delivered through a series of concrete reforms across every part of the economy, transforming the UK's economic model step by step.

Labour will build a strong economic foundation and balance the books. We will:

- Balance the books and cut the deficit every year with a surplus on the current budget and falling national debt as soon as possible in the next Parliament.
- Reverse the cut to the top rate of tax so the highest one per cent of earners pay a little more to help get the deficit down.
- Stop paying the winter fuel allowance to the richest five per cent of pensioners and cap child benefit rises at one per cent for two years.
- Close loopholes that cost the Exchequer billions of pounds a year, increasing the transparency and rigour of the tax system.
- In our manifesto there will be no proposals for any new spending paid for by additional borrowing.
- Capping structural social security spending in each spending review so it is properly controlled.
- Examine every pound spent by government through our Zero-Based Review of spending, which is identifying savings and rooting out waste.
- Introduce a tax on high value properties over £2 million to help raise £2.5 billion a year for an NHS Time to Care Fund as part of our plan to save and transform the NHS.
Labour will support smaller businesses to unleash their potential. We will:

- Cut and then freeze business rates for small business properties, so that the tax burden on small businesses will be lower than under the Tories and that smaller firms have the support they need to invest, innovate and raise their productivity.
- Establish a British Investment Bank, and support a regional banking network to boost lending for small and medium-sized businesses to grow and create jobs.
- Introduce a Small Business Administration to co-ordinate work across government to benefit smaller businesses.

Labour will back British businesses to invest for the long-term. We will:

- Ensure Britain has the most competitive rate of corporation tax in the G7.
- Give institutional investors the duty to act in the best interests of ordinary savers, prioritising the long-term growth of companies they are investing in.
- Reform takeover rules to strengthen the role of investors who are in it for the long-term.
- Better link executive pay to performance by simplifying executive pay packages, requiring investment and pension fund managers to disclose how they vote, and putting an employee representative on remuneration committees.

Labour will transform technical education in Britain so the talents of the next generation contribute to growth. We will:

- Introduce a new gold standard Technical Baccalaureate for 16-18 year olds and ensure that all young people study English and maths to 18, so that more young people are apprenticeship ready when they leave school.
- Require every firm getting a major government contract to offer apprenticeships, and explore whether this should also apply when the government underwrites large projects.
- Give employers more control over apprenticeships funding and standards in exchange for driving up the number and quality of apprenticeships.
- Ensure that every Private Office offers an apprenticeship and create thousands of apprenticeships in the civil service.
- Require large firms recruiting from outside the EU to invest in apprenticeships in the UK.
- Introduce a universal gold standard for apprenticeships and refocus existing spending on low level courses.
- Ring-fence the FE budget for 16-19 year olds to support reform of FE colleges into new Institutes of Technical Education with a core purpose to deliver Labour’s Technical Baccalaureate and apprenticeships.
- Introduce new Technical Degrees delivered by universities and employers so that apprenticeships lead on to higher level qualifications.
Labour will secure Britain’s place in a reformed European Union and boost exports. We will:

- Return Britain to a leadership role in the European Union.
- Champion change in the way the European Union works, including completing the single market, longer transitional controls when new countries enter the EU, protecting the integrity of our benefits system, and getting on with the long overdue reform of the EU budget.
- Ensure there will be no further transfer of powers to the European Union without the explicit consent of the British people.
- Support businesses in the UK to export through better access to finance, better skills including language skills and supported access to markets.

Labour will support long-term infrastructure investment. We will:

- Set up an independent National Infrastructure Commission in order to stop long-term decisions being kicked into the long grass.
- Set out ten National Infrastructure Goals which Britain should achieve over the coming decades, including being the most connected and open trading nation in the world as well as the best place in the world to do scientific research.
- Get at least 200,000 new homes built a year to relieve Britain’s housing crisis.
- Make a swift decision on expanding airport capacity in London and the South East, following the Davies review, while taking into account the environmental impact.

Labour will promote a new broader industrial strategy. We will:

- Secure the jobs of the future by backing sectors where the UK has a competitive edge.
- Set a new broader direction for industrial strategy, so that it includes domestic sectors with the highest shares of employment and output, alongside those in which the UK has an established comparative advantage in international trade.
- Strengthen Britain’s manufacturing supply chains to ensure the UK remains a globally competitive investment environment for advanced manufacturing.
- Boost investment in low-carbon technologies by setting a legal target to remove the carbon from our electricity supply by 2030 and improve energy efficiency.
- Strengthen the Green Investment Bank and be a world leader in green technology, creating one million additional high technology jobs by 2025.
- Implement a long-term innovation strategy in science and research to help create new products and improve the UK’s record of underinvestment in R&D.
Labour will promote competition to ensure market efficiency. We will:

- Build on the UK’s robust competition regime, so that it provides a rigorous framework for incumbent firms and opportunities for new challengers to enter markets.
- Increase competition in retail banking, working with the independent Competition and Markets Authority to deliver new challenger banks.
- Reset the energy market so that it works in the interests of consumers, including forcing them to buy and sell their electricity through an open exchange.
- Freeze gas and electricity bills until 2017 so that they can only fall and not rise and introduce a tougher regulation regime so that if wholesale prices fall and this is not passed on fairly to consumers, the regulator would have the power to cut prices.

Labour will devolve economic power and funding to every part of the country. We will:

- Devolve power and funding worth at least £30 billion over five years in areas recommended by the Adonis Review including employment support, transport and housing, skills and business support.
- Create more Combined Authorities to tackle the chronic problems of poor skills, infrastructure and economic development.
- Allow Combined Authorities to retain 100 per cent of additional business rates raised through growing businesses in their region.
- Strengthen and reform Local Enterprise Partnerships to give businesses a direct say over growth strategies and priorities.
- Deliver the next steps in devolution to Scotland and Wales, including greater responsibility for tax and spending decisions.

Labour will take action to help make work pay and stop firms being undercut. We will:

- Increase the minimum wage to £8 an hour before 2020.
- Encourage more employers to pay a living wage by establishing ‘Make Work Pay’ contracts, giving a tax rebate to those companies that sign up to become living wage employers in the first year of the next Parliament.
- Introduce a new, lower 10 pence starting rate of tax benefitting 24 million working people on middle and lower incomes, paid for by scrapping the unfair marriage tax allowance.
- Require listed companies to report on whether or not they pay the living wage, and follow the lead of Labour Councils by using government contracts to spread the payment of the living wage.
- Ban exploitative zero-hour contracts to ensure that workers who work regular hours get a regular contract.
- Make the exploitation of migrant labour to undercut wages illegal.
- Introduce a Compulsory Jobs Guarantee, paid for by a bank bonus tax, to provide a paid starter job for everyone young person unemployed for over a year which they will have to take up or lose benefits.
Labour leader Ed Miliband visiting the Crossrail site at Canary Wharf, London.
Delivering stronger economic growth and sustained rises in living standards for all working people is the economic policy challenge for our generation, because when working people prosper, the UK prospers as well. It used to be the case that when the UK economy grew, the living standards of working people grew as well. But this has not been the case in recent years.

The approach of prioritising those at the top in the expectation that wealth would then trickle down to everyone else has not worked. The economy has not grown in a way which benefits working people. As the CBI has said: “we should not pretend that the recovery will mean that everyone will automatically benefit from growth – or that there aren’t big longerterm issues in our economy that are holding back living standards for many.”

The UK’s economic model needs to be reformed so that working people prosper, meaning that the UK prospers.

This chapter sets out how the economy has failed to grow in a way which raises living standards, contributing to the cost-of-living crisis. The failure to raise living standards has then led to failure on the deficit. That is why this document sets out a better plan, which recognises that working people hold the key to higher productivity and sustainable growth for the UK.
The Recent Record on Growth and Living Standards

The need to develop policies to deliver rising prosperity for all is a global challenge affecting countries right across the developed world. As the Commission on Inclusive Prosperity has recently warned “powerful forces of globalisation and technological change must be navigated” or the result will be rising inequality, an increasing reliance on low-skill work and a lack of economic growth.²

The LSE Growth Commission found that an economy that grows at two per cent a year in real terms (in line with the UK's average growth rate before 2009) will double its material living standards every 35 years.³ But the principle that everyone will gain from economic growth is not a given. As the Resolution Foundation has argued, growth “makes rising living standards possible – but doesn’t guarantee it.”⁴ Indeed, in recent years the link between rising GDP and rising living standards has been broken with the proceeds of economic growth simply not being passed on in increased earnings for the average worker.

Average Pay Stagnating

The return to growth by the UK economy is welcome – but long overdue. While the economy is now 3.4 per cent above its pre-crisis peak⁵, this has been the slowest economic recovery in over a hundred years. The British economy is around four per cent smaller than it would have been had it grown in line with the Office for Budget Responsibility's forecasts of November 2010.⁶

Worse, the delayed return to growth in the UK has also not been accompanied by the sustained rise in living standards for most people, while the policy response has been inadequate, in part because the measures we use are incomplete. Real wages have continued to stagnate throughout this Parliament. The most recent Annual Survey of Hours and Earnings from the Office for National Statistics found that in the last year, full-time wages grew by just 0.1 per cent - the smallest rate of annual growth since the series began and well below the comparable rate of inflation. In fact, real wages fell more in the last year than they did in the previous two years.⁷

Real median wages for all employees have fallen by more than £1,600 a year since 2010. Full-time workers have fared even worse, with real wages down by more than £2,000 over the same period.⁸ It has been estimated that real wages are nearly 20 per cent below where they would be had pre-2008 trend wage growth continued – the equivalent of a loss of earnings of more than £5,000 for the average UK worker.⁹ The Institute for Fiscal Studies has found that wage falls have been larger for men, young adults and the private sector.

This pattern has been replicated throughout the country, with some regions being hit particularly hard. In Yorkshire and the Humber real wages are down £1,898 since 2010 and in the East of England they are down by £1,901. In London, wages have fallen by £3,273.

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² Centre for American Progress, Report of the Commission on Inclusive Prosperity, January 2015, p.13
³ LSE Growth Commission, Investing for Prosperity: Skills, infrastructure and innovation, October 2013, p.6
⁴ Resolution Foundation, Gaining from growth: The final report of the Commission on Living Standards, October 2012, p.16
⁵ Office for National Statistics, GDP preliminary estimate, January 2015
⁶ Office for Budget Responsibility, Economic and Fiscal Outlook, November 2010; OBR, Economic and Fiscal Outlook, December 2014
⁷ Office for National Statistics, Annual Survey of Hours and Earnings, November 2014
⁸ Office for National Statistics, Annual Survey of Hours and Earnings, November 2014
⁹ University of Bath, Professor Paul Gregg and Dr Marina Fernandez-Salgado, What are the prospects for a wage recovery in the UK?, October 2014, p.2
The number of people who are self-employed has increased by over half a million since the 2010 General Election and now stands at over 4.5 million people. But the Institute for Fiscal Studies has found that gross income from self-employment has seen the biggest fall since 2009-10, down by 14 per cent by 2012-13.10 Furthermore, since 2010, the number of self-employed people with a second job has risen by 68,000 while the number of employees who work a self-employed second job has increased by 22 per cent11, suggesting that the rise of self-employment could in part be evidence of growing insecurity in the labour market.

Stagnating real wages is an ongoing problem with wages set to be lower at the time of the next General Election than they were at the start of the Parliament, the first time that has happened since the 1920s.12

10 Institute for Fiscal Studies, Living Standards, Poverty and Inequality in the UK, July 2014, Table 2.3
11 Office for National Statistics, Ad hoc analysis: People who are working both as an employee and self-employed, January 2015
12 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014; House of Commons Library analysis
Pay Across the Distribution

Average rates of earnings growth also hide what is happening across the distribution, with large increases in pay at the top able to push up mean wages even if those on lower incomes are seeing little (if any) growth. For example, in April 2013 when the cut in the additional rate of income tax took effect, many higher earners were able to defer bonus payments to take advantage of the cut. The Bank of England linked this behaviour to the “volatile” average weekly earnings growth in the first half of 2013, which saw earnings growth rise from 0.1 per cent in Q1 2013 to 3.4 per cent in the second quarter.13 Meanwhile, the Director-General of the Institute of Directors has said (in the Daily Mail, 20th August 2014) that “the link between executive pay, performance and the wider economy has become very hard to justify.” But developments at the top of the income distribution tell us little about what is happening to low- and middle-income workers.

Furthermore, the Joseph Rowntree Foundation has found that low-income and high-income households have experienced significantly different inflation rates since the start of the recession. Their recent report showed that prices of goods that are more important to the budgets of households in poverty have increased faster than the average rate of inflation while the prices of good more important to higher-income households have risen less quickly than the average.14

Box 1.1: Wages in historical context

This squeeze on pay is historically unprecedented. Since the start of 2008 when the global financial crisis hit average weekly earnings have fallen by over eight per cent when adjusted for CPI inflation. By this stage following the last recession, which began in 1990, real wages had already risen by around 10 per cent.

Real wage growth 1990 and 2008 recessions

In fact, over the course of this Parliament working people are set to see the biggest fall in wages of any Parliament since at least the 1870s.

13 Bank of England, Quarterly Inflation Report, August 2013, p.34
14 Joseph Rowntree Foundation, Measuring poverty when inflation caries across households, November 2014, p.5-6
Falling earning have also seen growth driven by consumer spending being based on growing household debt. The Bank of England recently found that lending to consumers grew at its fastest rate in nearly a decade in the three months to November. The British Chamber of Commerce has warned that the UK economy “still relies too heavily on consumer spending”. In addition, the rapid growth in house prices, particularly in London and the South East, means that many households are facing high housing costs.

**The Shift to Low Pay Sectors and Insecurity**

Stagnating pay is being partly driven by structural shifts in the labour market, highlighting the links between the wider approach to driving growth and the living standards of working people. Recent increases in employment are to be welcomed but The Joseph Rowntree Foundation has found that around 60 per cent of those who moved into work in the last year are paid less than the living wage. The Bank of England has also warned that recent employment growth has been concentrated amongst young people and the lower skilled, which has had the effect of reducing average pay growth in recent quarters. Similarly the Resolution Foundation argued that the “main drags” on wage growth during 2014 included “the changing mix of occupations, with more caring and elementary occupations such as cleaning and fewer managerial roles.”

There are now 5.2 million workers earning less than the living wage, up from 3.4 million in 2009. Between the second quarter of 2010 and the second quarter of 2014 jobs in low-paid sectors grew at twice the rate of those in non-low paid industries. As a result around half of the total growth in jobs since 2010 has been made up of jobs in low-paid industries, despite the fact that these made up only a third of all jobs in 2010.

**Chart 2.1: Growth in jobs, 2010 - 2014**

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18 Bank of England, Quarterly Inflation Report, November 2014, p.28
19 Resolution Foundation, Why 2014 hasn’t been the year of the pay rise, November 2014
20 KPMG, Living Wage Research for KPMG, November 2014, p.3
Once in work, many people just are not getting the hours they want or need. There are currently more than 1.3 million people working part-time because they can’t get a full-time job – an increase of over 200,000 since 2010.\textsuperscript{21} The Office for National Statistics calculates that there are 1.4 million zero-hours contracts in the economy\textsuperscript{22}, and in some companies they have become the norm, with the majority of staff employed on insecure zero-hours contracts despite the fact they work regular and predictable hours in practice. Others are only able to get the hours they want or need by taking on a second job, with the number of people working a second job increasing by 100,000 since 2010.\textsuperscript{23}

In total, there are 3.5 million people in work who say they want extra hours – with an average of 12 extra hours wanted a week. That means that if people could get the hours they wanted, there would be an additional 43 million hours worked weekly.\textsuperscript{24}

\textsuperscript{21} Office for National Statistics, Labour Market Statistics, January 2015
\textsuperscript{22} Office for National Statistics, Analysis of employee contracts that do not guarantee a minimum number of hours, 30 April 2014
\textsuperscript{23} Office for National Statistics, Labour Market Statistics, January 2015
\textsuperscript{24} Office for National Statistics, Ad hoc release: Under and over employment, by more or less hours wanted for ages 16+ in employment, November 2014
Box 1.2: Under-employment: international comparison

The UK is performing worse than many other countries when it comes to part-time workers wanting to work more hours. The only EU countries to have a higher proportion of part-time workers who are underemployed are Cyprus, Spain, Ireland, Greece and France.

% Part-time under-employed workers (2014)

Source: ONS, Underemployment and overemployment in the UK, November 2014
Failure on Growth & Living Standards Leading to Failure on the Deficit

Rising living standards are fundamental to our ability to deliver strong public finances and deal with the UK’s deficit. It is estimated that the Exchequer loses around 50p for every £1 decrease in wages for those paid less than the living wage. The experience of the current Parliament has shown us that low and stagnating pay has resulted in weaker than expected tax revenues, which has and made it impossible for the current Government to meet its commitment to balance the books by the end of the Parliament. Instead, public sector net borrowing is currently forecast to be £75.9 billion in 2015-16 while public sector net debt as a proportion of GDP is not set to begin to fall until 2016-17, breaking the Government’s original supplementary target.

In its November 2010 Economic and Fiscal Outlook – published shortly after the 2010 Spending Review – the Office for Budget Responsibility (OBR) was forecasting an increase in average earnings of 18.4 per cent across the Parliament (2010 to 2015). Outturns and the most recent forecast from the OBR have shown that, in actual fact, average earnings are set to grow by just 8.6 per cent across this period, significantly slower than inflation.

This shortfall has had consequences for the public finances, with the OBR estimating that a one percentage point change in average earnings has an impact on income tax and National Insurance Contributions receipts of between £3.25 billion and £4 billion. A comparison of the OBR’s forecasts for receipts since 2010 highlights this impact on the public finances clearly. At the time of the 2010 Autumn Statement the Office for Budget Responsibility was forecasting income tax receipts of £150 billion in 2010-11, rising to £194 billion by the end of the Parliament. Similarly, receipts from National Insurance Contributions were set to increase from £99 billion to £120 billion by 2014-15.

However, outturns for income tax and NICs receipts have significantly undershot these 2010 forecasts. Taken together, these receipts are set to fall short by £95.5 billion, cumulatively, across the Parliament.

Chart 3.1: Income tax and NICs receipts

Source: Office for Budget Responsibility, Economic and Fiscal Outlook, November 2010; Economic and Fiscal Outlook, December 2014; House of Commons Library analysis

26 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014, Table 1.2
27 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014, p.20
28 Office for Budget Responsibility, Briefing Paper No. 4: How we present uncertainty, June 2012, Table 3.2
29 These forecasts have been adjusted to take account of all income tax measures announced since Autumn Statement 2010
Recent forecasts imply this trend is set to continue. In December 2014 the OBR revised down its March forecasts for receipts by £53 billion cumulatively across the forecast period. £37 billion of this has been attributed to weaker average wages with the OBR describing subdued earnings growth as “the key driver in the lower forecast for PAYE and NIC receipts.”

**Rising social security costs**

The impact on the public finances goes beyond lower tax receipts. A failure to earn enough to make ends meet means more people having to rely on social security which pushes up the benefits bill and adds additional pressures to the public finances.

The current Government is set to spend over £25 billion more on social security than planned in 2010. While much of this can be attributed to the Government’s failure to deliver welfare reforms there is evidence that an increasing reliance on low-paid work and stagnating wages mean that more working people are relying on social security, particularly housing benefit and in-work tax credits.

The rise in the share of the population who are renting has continued at a faster pace than previously expected as the prospect of buying a home becomes even more difficult for many people. Nine million people now rent privately including over 1.3 million families with children. Renters are now paying on average around £1,000 a year more in rent than in 2010, and renting is now the most expensive form of tenure.

As the OBR has highlighted, rent inflation has been higher than expected which has helped to push up the number of people eligible for housing benefit. In fact, the number of people needing to claim housing benefit while in work rose by over 400,000 between May 2010 and May 2014. That means that the Government has spent around £1.8 billion more than planned on housing benefit for people in work over the life of this Parliament.

Furthermore, more than three million working families are reliant on in-work tax credits to make ends meet because they aren’t taking enough home in wages to cover the rising cost of living. In the December 2014 Economic and Fiscal Outlook the OBR found that most people who have moved into work since 2010 have moved into lower paid jobs. Since 2010, the number of people working in jobs paid less than £20,000 (in 2014 prices) has increased by 1.5 million, whereas the number of people working in jobs paid above this level has decreased by 800,000. The same report also confirmed that the Government is now expected to spend £900 million more on tax credits than it planned to in December 2013.

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30 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014, p.118-119
31 House of Commons Library analysis of Department for Work and Pensions, Benefit expenditure and caseload tables 2014
32 Office for Budget Responsibility, Welfare Trends report, October 2014, p.61
33 Shelter, 24 November 2014
34 LSL Property Services, Buy-to-Let Index, December 2014
35 Department for Communities and Local Government, English Housing Survey: Households 2012-13, p.30
36 Office for Budget Responsibility, Welfare trends report, October 2014, p.61
37 Department for Work and Pensions, Stat Xplore, January 2015
38 House of Commons Library analysis of Department for Work and Pensions, Benefit expenditure and caseload tables 2014
39 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014, Chart 3.27
40 Office for Budget Responsibility, Economic and Fiscal Outlook, December 2014; Economic and Fiscal Outlook, December 2013
Delivering Labour’s Plan: Building a strong economic foundation and balancing the books

As this chapter demonstrates, there is a fundamental link between models of growth, their impact on living standards, and our ability to reduce the deficit. A new approach to growth set out in this plan will help more people into better paid jobs, with rising wages which will lead to increased tax revenues and lower social security spending.

But tough decisions will also be needed. In 1997, Labour was able to plan our manifesto on the basis of rising departmental spending. In 2015 we will have to plan on the basis of falling departmental spending. The current Government’s spending plans in 2015-16 will be our starting point. Any changes to spending for that year will be fully funded and set out in advance in our manifesto. Beyond 2015-16, departments outside of a few protected areas will see falling budgets until we have met our fiscal objectives.

Labour will:

• Balance the books and cut the deficit every year with a surplus on the current budget and falling national debt as soon as possible in the next Parliament.

• Reverse the cut to the top rate of tax so the highest one per cent of earners pay a little more to help get the deficit down.

• Stop paying the winter fuel allowance to the richest five per cent of pensioners and cap child benefit rises at one per cent for two years.

• Close loopholes that cost the Exchequer billions of pounds a year, increasing the transparency and rigour of the tax system.

• In our manifesto there will be no proposals for any new spending paid for by additional borrowing.

• Capping structural social security spending in each spending review so it is properly controlled.

• Examine every pound spent by government through our Zero-Based Review of spending, which is identifying savings and rooting out waste.

• Introduce a tax on high value properties over £2 million to help raise £2.5 billion a year for an NHS Time to Care Fund as part of our plan to save and transform the NHS.

To underpin our approach Labour is also carrying out a zero-based review – a root and branch review of every pound the Government spends from the bottom up – which we have already begun and will complete in our first year in office. As chapter three describes, this is also essential to driving up productivity in the public sector.
The role of the tax and benefit system

The progressive nature of the UK’s tax and benefit system has traditionally helped governments in boosting living standards for low to middle income households. The next Labour government will build on the previous Labour government’s success of reducing poverty and supporting households with low and middle incomes, through a fair approach to tax and social security. However, the need to deal with the deficit and meet our commitment to deliver a surplus on the current budget and falling national debt as soon as possible in the next Parliament means that the old reliance on the tax and benefit system to do the job of raising living standards will no longer be available. The realities of an ageing population will put further pressures on social security which any government, in any fiscal environment, will need to deal with.

But not only is the old approach no longer available, it would not be sufficient. The last five years spells out the need to reform the economy as the route to sustainable growth and rising living standards for the many. And it demonstrates that only by doing so will the deficit be addressed. Growth and rising living standards will, alongside fair choices on tax and spending, bring down the deficit in a fair and sustainable way (see box 1.3).

The next chapters set out the approach Labour will take to learn the lessons of these failures on growth, living standards and the deficit. They outline a different approach, an approach which recognises that a wide range of firms and the broad majority of working people will contribute to delivering the growth and prosperity that will enable Britain to succeed.
Shadow Work and Pensions Secretary Rachel Reeves, and Shadow Chancellor Ed Balls visit a social housing project in Manchester.
CHAPTER 2: THE ROOT OF PROSPERITY: HIGHER PRODUCTIVITY

The failures on the growth, living standards and the deficit are symptoms of a failure to raise productivity across the economy. This chapter explores the key link between productivity and living standards – why productivity matters for working families. It then explains why different views about how modern economies grow underpins some of the weak productivity performance of this parliament and why that leads us towards a new approach being needed in future.

Despite the progress made by the last Labour Government, productivity performance has been very poor since 2010. The gap between UK productivity per hour worked and the rest of the G7 grew to 17 per cent in 2013, the largest difference since 1991. This means firms struggle to raise the pay, the growth of the economy cannot increase in a sustainable way, and the deficit becomes much harder to bring down. In part this reflects a model of how you grow an economy that relies on a small number of firms and individuals at the top as the main drivers of progress. In that world the only role for the great majority of firms and the population in increasing productivity is to work longer for less.

That is a fundamental misunderstanding about how success in a modern economy is built. It results not only in a narrow view of what needs to be done to tackle the barriers to firms becoming more productive across our economy but also actively encourages a view that low skill, low wage business models are inevitable for large swathes of our economy.

A different approach is needed to make the UK more productive – one which understands both that productivity is a key constraint on living standards rising but also that the key to genuine productivity growth is not simply to work longer, but to work better.
Why Productivity Matters

A growing economy which raises living standards for the many can only be delivered year-on-year through rising productivity. When people produce more at work – for example, because the service they provide or the goods they make are of higher standard or in greater quantity – that can help improve and increase the output of their employer. The employer can pay them more for their work, and everyone can benefit through rising living standards.

But the route to achieving that improvement in productivity growth also matters, because while higher productivity is necessary to raising living standards, it is not always sufficient.

Productivity & Employment

Getting more people into work can raise the output of the economy as a whole and can transform the life-chances of those who get new jobs.

This is particularly the case for young people. A period of unemployment, particularly long-term unemployment, can blight their future career. Without having a foot on the ladder, young people do not gain the experience they need in the workplace. Their skills can fall behind what is needed, and prolonged unemployment can damage their confidence and motivation. Studies have shown that a period of unemployment, particularly for young people, which is not quickly addressed leads to worse labour market outcomes in the long-term – a process known as hysteresis.43

That is why getting people into work and tackling long-term unemployment – particularly among young people – will always be the priority of a Labour government. Labour has set out plans for a Compulsory Job Guarantee for young people who have been out of work for 12 months and for older people who have been out of work for two years, and better support for disabled people who want to return to work to prevent unemployment becoming entrenched.

So raising employment is important, but it alone does not raise living standards for the many already in work because it has no impact on what they produce or how they are rewarded.

Raising productivity of workers, their living standards and bringing down the deficit

Productivity grows when workers and their firms are able to produce more not through working more hours, but through working more intelligently. GDP growth that is driven just by increasing the number of people or how many hours they work will not make ordinary people better off. What is needed is a sustained increase in output per person to boost living standards. As the LSE Growth Commission concluded:

“Sustainable growth is not about increasing the basic labour input of the population but rather about finding ways to do new things as well as doing the old things more efficiently.”44

44 LSE Growth Commission, Investing for Prosperity, 2013, p.6
In order to raise living standards, higher employment must therefore go hand in hand with increases in productivity. That means doing things better, not simply more people doing them.

As individual workers become more productive they are able to raise their own pay and living standards. Across the whole economy, productivity then means that GDP can grow in a sustainable way. Not only does this raise living standards for the many, but it feeds through into higher tax receipts and a lower deficit.

Each person who is able to produce more, because experience or training makes them better at their job or because the technology they use improves, is worth more to their firm. As the profits of the firm increase, because they can make more or better products, the firm can afford to pay more. Rising productivity and rising wages are bound together. As the CBI have said, “For pay to rise, productivity has to rise” 45, while the TUC General Secretary has said:

“The UK is in desperate need of a high productivity recovery with firms delivering pay rises for hard pressed households. Government, unions and business need to act together to secure such a shift, without which a substantial living standards recovery may never emerge”.

Across the whole economy, increasing the productivity of individual workers then increases the rate at which the economy can sustainably grow. While short-term economic cycles can boost or depress GDP growth for short periods, sustainable growth year-on-year is set by the rate of productivity. If GDP growth gets ahead of the rate at which productivity grows, unsustainable pressure builds up in the economy and interest rates have to rise.

The role of productivity in determining the sustainable rate of growth also has important implications for the public finances. As the OBR says in its December 2014 Economic & Fiscal Outlook:

“As ever, the key judgement underpinning our forecast is about the return of sustained productivity growth. This is necessary to finance private spending and to allow domestic producers to compete in export markets and with foreign producers in the domestic market”. 46

Their assessment is that if the UK economy grew 0.5 per cent faster, it cumulatively would bring in £32 billion in the next Parliament. Productivity growth has a significant impact on future forecasts of the public finances. In their ‘weak productivity’ scenario, lower earnings mean that “living standards are materially lower” and this flows through into lower receipts. 47 In this scenario, neither Public Sector Net Borrowing nor the Cyclically-Adjusted Current Budget are in balance by the end of the next Parliament and Public Sector Net Debt is still rising, even though these forecasts are based on plans to take public spending as a proportion of GDP back to the level of the 1930s.

Alternatively, their ‘strong productivity’ scenario leads to faster GDP growth, stronger average earnings and receipts, and a much better outcome for the public finances. The Cyclically-Adjusted Current Budget is in surplus by the second year of the Parliament and Public Sector Net Borrowing by the third year. Public Sector Net Debt is falling from the start of the Parliament. By 2019-20, Public Sector Net Debt is £660bn lower in the strong productivity scenario than in the weak productivity scenario.

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45 CBI, A Better Off Britain, November 2014
46 OBR Economic & Fiscal Outlook, December 2014, p.207
47 OBR Economic & Fiscal Outlook, December 2014, p.208
Box 2.1 Measuring productivity

Productivity across the economy is often measured as GDP output per person. This measure can rise with the amount of output each worker can produce per hour, the number of people in work and the number of hours worked:

\[
\text{GDP/person} = \left( \frac{\text{GDP}}{\text{hour}} \right) \times \left( \frac{\text{workers}}{\text{population}} \right) \times \left( \frac{\text{hours}}{\text{worker}} \right)
\]

An alternative measure which focuses more closely on the efficiency of each individual worker is GDP output per hour. This can be increased by workers being higher skilled, more investment in capital and by the efficiency with which labour and capital are combined ("Total Factor Productivity").
Productivity & Living Standards in the UK

Strong productivity growth meant strong GDP growth in the advanced countries following World War II, bringing with it an increasing share of prosperity to many households. The Inclusive Prosperity Commission has described how:

“Hundreds of millions of people across developed countries were able to work and gain economic security through higher salaries and a series of benefits provided either directly through employers or through government social security systems. Most households came to believe that hard work and careful planning would deliver heightened levels of security for themselves and opportunity for their children, year after year”.

However, productivity in the UK failed to keep up with other developed economies, and significant gaps had opened up by the 1990s. In government, Labour made some significant progress in reversing this trend before the financial crisis. Rising productivity and GDP growth meant that Labour was able to take significant steps in tackling poverty. Both absolute and relative measures of income poverty fell markedly among children and pensioners, with the relative poverty rate for children falling, lifting over one million children out of poverty.

The global financial crisis had a significant impact on productivity all around the world as credit channels were dislocated, firms found it very difficult to access finance and capital allocation was hit. The position of London in the global financial system meant that the crisis spread from the US sub-prime mortgage market to the UK financial system and then the rest of the UK economy.

As well as the immediate hit to productivity, the global financial crisis also revealed deeper structural problems in the UK economy. While productivity increases lead to economic growth, it became evident that the flaws in the UK’s economic model mean that even when the economy does grow, it is not feeding through into the living standards of ordinary working people. As the Resolution Foundation have described, this:

“broke the familiar rhythm of growth and gain for ordinary working households [where] for most of the 20th century, living standards fell in periodic recessions and, for all except the poorest, rose again solidly in times of growth.”

Instead, median wages have been stagnating even when the economy has grown. Measures of average remuneration have disguised the fact that pay has grown rapidly at the top, while that of ordinary people have been stagnating. Research by Paul Gregg concludes that:

“The growing gap between median wages and productivity suggests that ordinary British workers are no longer benefiting from improvements in economic efficiency in the economy”

with the UK suffering from a de-coupling of typical earnings from productivity, as well as poor productivity and higher sensitivity of wages to unemployment.

48 Centre for American Progress, Report of the Commission on Inclusive Prosperity, January 2015
49 Institute for Fiscal Studies, Labour’s record on poverty and inequality, June 2013
50 Resolution Foundation, Gaining from Growth, the final report of the Commission on Living Standards, October 2012
51 Paul Gregg and MarÌa Fernández-Salgado, What are the prospects for a wage recovery in the UK? Institute for Policy Research, University of Bath.
Reforming the UK’s economic model so that it restores the link between productivity and the living standards, as well as boosting productivity growth itself, is the key challenge to ensuring the UK economy works for the many, and not just a few at the top. It is the dual challenge that motivates this plan.

Box 2.2 Productivity in Public Services

As in the private sector, the route to higher productivity in the public services is by putting working people first - raising the skills and harnessing their talents so that they can innovate, and backing them with investment. This is essential to increasing productivity across the economy and ensuring that high quality services continue to be delivered at a time when many departmental budgets are falling.

Labour’s Zero-Based Review is a root and branch review of every pound the Government spends. It is examining priorities in public spending, service reform and improvements to raise productivity, drive efficiency, and ensure every pound is well spent. No department has been exempt from this process, including areas that may be protected or ring-fenced, because efficiency will be necessary across all areas of spending.

The Review has already identified hundreds of millions of pounds in savings through tackling inefficiency and waste, for example across local authorities back offices and the legal system where savings can be found without significantly impacting on the provision of services. It has also demonstrated how in the Home Office, back-office savings can be channelled into protecting front-line policing. Through this focus on outcomes, public sector productivity can be increased. We will continue this work over the coming months, completing the process with our first Spending Review in government. Alongside productive growth which raises living standards and receipts, and fairer choices on tax and spending, the Review will contribute to bringing down the deficit in a fair way.

The role of the public sector in driving up productivity across the UK also goes beyond the efficiency with which services themselves are delivered, and covers how it supports the private sector to grow (see chapter three).
Why ‘Trickle Down’ Will Not Raise Productivity and Living Standards for the Many

Chapter one described how the economy is not growing in a way which raises living standards, and the result has been failure on the deficit.

At the root of this failure to grow the economy in a way which raises living standards has been their failure to understand the part that working people play in driving growth. Fundamentally the UK economy has not succeeded as it should in recent years because British firms and working people have not been supported to become more productive. The result is a consensus that weak productivity has been “a key feature of the UK economy since the recession”.

As the CBI has said “the UK at the moment could do much better. UK productivity would be 16 per cent higher now if the pre-2008 trend had continued”. The gap between UK productivity per hour worked and the rest of the G7 grew to 17 per cent in 2013, the largest difference since 1991.

Chart 2.2: Labour Productivity Key Measures

![Graph showing labour productivity key measures](source)

The failure of productivity growth in this Parliament has been described by the Bank of England, the National Institute of Economic and Social Research, and others as the ‘productivity puzzle’.

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52 IFS, Green Budget 2014, chapter 2
53 CBI, A Better Off Britain, November 2014, p.8
54 ONS, OECD, International Comparisons of Productivity, First Estimates, 2013
The economy will only grow in a way which benefits working people if we start with working people. An approach of stepping back, thinking that if they help those at the top it will trickle down to working families, has failed to deliver.

If you believe that in the end real productivity growth only comes from a few individuals and firms at the top, then you will encourage a system where for too many firms the only available route to productivity has been cutting costs such as wages, investment and innovation, and making jobs less secure. This can be a route to short-term profits for some firms, who are able to squeeze more out and put less in. But working harder for less, without the investments in training and infrastructure, is not a route a country can take to sustainable growth and living standards rising year-on-year. As the CBI have said, improving national productivity:

“doesn’t mean making people work harder to increase their pay. It’s about finding new approaches that add more value or simplify things so that firms are more effective and their employees can work smarter and reap the financial rewards from it.... A focus on productivity does neither mean jobs have to be lost, nor necessitate a shift from a high employment UK to a lower employment – but more productive – nation.”

As the Commission on Inclusive Prosperity said of the approach of prioritising only those at the top, “unfettered markets and trickle-down economics will lead to increasing levels of inequality, stagnating wages, and a hollowing out of decent, middle-income jobs.”

Not only has this narrow view of what drives productivity (often know as trickle-down economics) failed to benefit ordinary people, but the stagnating living standards for the many that it has produced can undermine the sustainability of growth itself. Research from the OECD has found that:

“focusing exclusively on growth and assuming that its benefits will automatically trickle down to the different segments of the population may undermine growth in the long run inasmuch as inequality actually increases...”

This is because people struggling with stagnating incomes have not had the time or resources to invest in developing their skills and raising their productivity. The CBI have highlighted evidence from the IMF and others that societies where more people share in prosperity tend to have higher GDP growth per capita and experience longer spells of growth than less inclusive economies. And the New Economics Foundation have shown how inequality can destabilise the whole economic system. The risks are that public disillusionment with an economic system which is failing to increase their living standards threatens to undermine the open and outward-looking approach we need to invest, innovate and raise productivity.

56 Centre for American Progress, Report of the Commission on Inclusive Prosperity, January 2015
57 OECD, Trends in Income Inequality and its Impact on Economic Growth, December 2014, p.28:
58 CBI, A Better Off Britain, November 2014, p.19
59 NEF, Inequality and Financialisation: a dangerous mix, December 2014
Lessons of recent years and Labour’s approach

Labour’s plan recognises that the only way to grow the economy in a way which raises living standards for the many is to start with the contribution to productivity of a broad range of firms and working people themselves. In the face of the twin challenges of economies integrated at a global level driving rapid technical change, and a deficit which needs to be brought down, an approach of just prioritising a few at the top will not work.

The following chapters set out Labour’s plan for reforming the economy and how it will be delivered. The Conservative approach which creates uncertainty for the UK’s leading firms, undermining the security of the UK’s place in the EU and failing to invest in long-term infrastructure, will be replaced by certainty and long-termism so that they can expand the proportion of high skill, high productivity jobs in the economy.

But this will not, on its own, be enough to raise productivity and living standards. Labour’s plan recognises that working people in every part of our economy matter, and that reform must start with them. Only when they prosper will the UK prosper. That means a plan which supports small and medium-sized growing firms so that they can raise their productivity and pay. It means breaking the cycle which forces some firms to compete in a race to the bottom on pay and conditions, supporting them instead onto a route to high productivity and high pay. And it means the responsibility of the UK’s public sector to drive up productivity across the whole economy, supporting firms through cutting-edge innovation, procurement, and raising skills.

Only a plan which works for working people across all parts of the economy – in our leading firms, our small and medium-sized growing businesses, firms stuck in a cycle of a race to the bottom which they need help to break – will raise productivity to deliver sustainable growth and raise living standards.
Delivering Labour’s Plan: Promoting competition to ensure market efficiency

Labour recognises that central components of a high productivity plan is reform of broken markets and a robust competition system. For too long government has simply accepted failing markets as inevitable, despite repeated evidence of damage to consumers and other businesses.

Labour will:

- Build on the UK’s robust competition regime, so that it provides a rigorous framework for incumbent firms and opportunities for new challengers to enter markets.
- Increase competition in retail banking, working with the independent Competition and Markets Authority to deliver new challenger banks.
- Reset the energy market so that it works in the interests of consumers, including forcing them to buy and sell their electricity through an open exchange.
- Freeze gas and electricity bills until 2017 so that they can only fall and not rise and introduce a tougher regulation regime so that, if wholesale prices fall and this is not passed on fairly to consumers, the regulator would have the power to cut price.

Monetary Policy

The last Labour government put in place a strong framework for monetary policy, underpinned by the independence of the Bank of England. This has been vital for their ability to respond to developments in the macroeconomy, such as the cuts in interest rates and Quantitative Easing programme following the global financial crisis.

Low interest rates in the short-term are vital for businesses and households servicing their debts. But we need interest rates to stay low for the long-term too, to give businesses confidence to invest in projects where returns can be many years away. Labour’s plan will deliver this through:

- Higher productivity so that the economy can grow more quickly and in a sustainable way without interest rates having to rise;
- A clear deficit reduction plan which will balance the books in a fair and sustainable way.
Labour Leader Ed Miliband and Shadow Chancellor Ed Balls meet joinery students and apprentices at the Futures Community College in Southend, Essex.

Labour Leader Ed Miliband talks to staff during a visit to Morrisons supermarket in Camden, north London.
CHAPTER 3: SUPPORTING THE UK’S LEADING FIRMS

A more productive economy which raises living standards for the many means building on the UK’s existing areas of strength, backing sectors in which we enjoy a competitive edge. Growing these sectors of comparative advantage will create more of the well-paid, high-productivity jobs that the country needs.

The question is now how best to support and maximise the contribution of the UK’s leading sectors to growth and prosperity in the 21st Century. There is a need for a competitive business taxation system which promotes the certainty and incentives to invest. The next Labour government will achieve this by committing to the most competitive corporation tax regime in the G7.

However, the approach of simply cutting headline tax rates is not enough for our leading firms to create more high-productivity, high-paid jobs. To think that taxation is the only barrier to certainty is to misunderstand the lessons from the successes of our most productive industries, and the barriers they face today. In order for these firms to compete in global markets, they need a broader framework to expand – a framework which delivers the kind of certainty which can then permit the long-term investment decisions needed for these firms to raise Britain’s overall prosperity. That means not just tax but access to markets, patient finance, and policy certainty.

Labour’s plan will give these firms the certainty and a long-term approach they need – secure in the EU, with world-class infrastructure, a clear route to a low-carbon economy and a system which prioritises necessary long-term investment over short-term pressures.

As John Cridland says:

“Our world-beating business and professional services, our world famous education sector, our dynamic creative industries experience very similar issues to the aerospace and automotive sectors. What’s critical is identifying where a long-term partnership between business and government can make the greatest difference when it comes to encouraging investment and boosting export.”

60 John Cridland, Pinsent Masons Annual Lecture Series on industrial strategy, May 2013
Why Action is Needed

Britain’s economy includes a series of internationally-competitive, high-productivity industries. These industries drive output growth through capital formation and exports. Our comparative advantages are most felt in these knowledge-based sectors where success rests on a highly skilled labour force, well-versed in science, technology, engineering and mathematics (STEM), such as pharmaceuticals and life sciences, advanced manufacturing, green tech, oil and gas, and financial services. And in the 21st century this also includes the digital and creative sectors that have become increasingly important to the UK’s export base in recent years.

An analysis of UK sectors by BIS of revealed comparative advantage – indicating the relative specialisation of countries in particular sectors in global markets – found that the UK, France, Germany and the USA were more or less equally specialised in aerospace, chemicals and pharmaceuticals, while the UK is more specialised in finance, business, communication and personal services. Compared with the leading emerging economies, the UK is relatively specialised in knowledge intensive sectors such as business services and pharmaceuticals – a sector which is a particular British strength, supported by the existence of a co-ordinated and integrated NHS. 61

To restore the link between growth and living standards, our economy needs more high skill, high pay jobs in these high-productivity sectors. Defining features of these sectors are that they generally rely on a pool of high skilled workers and often have to make decisions on investments which will bring returns years – or even decades – later. Such business investment is a vital engine of productivity growth. But, despite our strengths in these sectors business investment is still too low. In 2013, the UK had the second lowest rate of business investment as a share of GDP among the 24 OECD countries for which there was available data. 62 Higher investment would be a significant boost to productivity. But higher investment requires greater certainty for firms.

61 Department for Business Innovation & Skills, Industrial Strategy: UK Sector Analysis, September 2012
62 OECD Stat, National Accounts
**Box 3.1: High-productivity sectors of the UK economy**

Advanced manufacturing: The UK's automotive industry is one of the most productive across Europe. The industry's gross valued-added per employee has risen to £75,000 in 2013, from £40,000 in the 1990s. Other advanced manufacturing industries where we outperform key competitors include information and communications technology, other transport, and green energy. Mike Wright's Review of advanced manufacturing in the UK and its supply chain sets out the successes of the UK, but also highlights the importance of avoiding complacency and taking our progress for granted.\(^{63,64}\)

Pharmaceuticals: The pharmaceutical industry is a key driver of research and innovation in Britain. In 2012, the industry spent £4.2 billion on research and development. This was more than other sectors and approximately a quarter of total business expenditure. It is also a major exporting industry to other European countries, accounting for 9 per cent of manufacturing output and 10 per cent of manufacturing exports. In industry rankings, the UK is 10th in the world.\(^{65}\)

Financial services: The UK is the leading exporter of financial services across the world with a trade surplus of $71 billion. The UK has the fourth largest banking centre globally. The insurance industry is the largest in Europe and the third largest in the world. London is the second largest global centre for legal services. Three of the largest five global firms based on headcount are headquartered in the UK.\(^{66}\)

Creative and cultural industries: Today the UK's creative industries contribute five per cent of UK GVA and account for 1.7m jobs. Since 1997 they have been one of the UK's fastest growing sectors and a key export industry. The value of services exported by the Creative Industries was £17.3bn in 2012, or 8.8 per cent of total UK service exports.\(^{67}\)

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\(^{64}\) Source: Mike Wright, Making the UK a Globally Competitive Investment Environment, The Wright Review of advanced manufacturing in the UK and its supply chain, June 2014  
\(^{65}\) Source: Angela Monaghan, Pharmaceutical industry drives British research and innovation, The Guardian, 22 April 2014  
\(^{66}\) Source: The City UK, Key Facts About UK Financial and Related Professional Services, January 2014  
\(^{67}\) Source: DCMS, Creative Industries Economic Estimates, Statistical Release, January 2015
Certainty allows firms to plan for the long-term, take major investment decisions with foresight, develop new products, undertake research and recruitment, and invest in the skills of their workforce. That is why uncertainty over the fiscal framework for the oil and gas sector has been so damaging in the UK, and why Labour has called for an industry roadmap to help it adjust in face of falling oil prices.

Many of the UK’s leading firms also recognise that engaging employees, including through trade unions, can play a key role in ensuring businesses can innovate and plan for the long-term. But certainty is undermined by the threat of the UK leaving the EU, the lack of a clear path to a low-carbon economy, the weakness of the UK’s infrastructure, the lack of a long-term vision for science and innovation, the incentive system which drives short-termism in many firms, and a failure to recognise the role of the public sector in driving productivity across the economy.

**Threats to the UK’s role in the EU and wider world**

Whether it is international investors or businesses in Britain, the uncertainty of Britain’s future position in the European Union is an obstacle to securing long-term investment. Access to international product markets for UK exporters is also in jeopardy, which will also long-term planning for the most productive industries.

Recent surveys of CBI members show that access to and participation in European markets has been the largest single benefit of EU membership for the UK, with 76 per cent of firms of all sizes and sectors stating that the creation of the single market specifically had a positive impact on their business.  

Concerns over Britain’s future in the EU have been echoed by many leaders in the business world.

> “some in the UK are questioning the value of our membership of the EU, and some are even advocating withdrawal. For British business, large and small, the response to this is unequivocal: we should remain in a reformed EU. Membership of the EU’s single market remains fundamental to our economic future.”

John Cridland, CBI Director General, November 2013

> “The UK is part of the European Union — that’s very important. From the foreign investor’s point of view, I hope that the UK will remain an EU member.”

Toshiyuki Shiga, COO, Nissan, October 2013

The Conservative approach of setting an artificial timetable on an EU referendum therefore risks already undermining investment in the UK.

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Weak national infrastructure

Investment by firms is often dependent on investment by government. Putting in place the necessary transport, information or energy network can be vital to firms then following up with investment of their own. For example, the Federation of Small Businesses describes broadband as “the fourth utility”. Britain has some great infrastructure successes, from the Olympics to Crossrail. But at the moment there is no long-term plan for delivery of infrastructure or a mechanism to promote clear decision-making, meaning investment decisions are often deferred by opposition from vested interests.69

As the former Chair of the Olympic Delivery Authority, Sir John Armitt CBE, set out in his report on infrastructure for the Labour Party, the coherent 25-30 year national infrastructure strategy Britain needs:

“cannot be delivered without a strong and enduring political will. However, this presents challenges given the confrontational nature of UK politics and the short-term pressures of our electoral cycle. Indeed, political and policy risk around UK infrastructure is perceived to be growing with the result that investor confidence has been undermined.” 70

This Government’s short-term decision making has directly undermined productivity – reducing investment in infrastructure and incentives for firms to invest. Business investment is lagging behind our competitors. Even where infrastructure projects have been restarted, delivery is slow with the latest infrastructure pipeline figures showing that only around a fifth of the projects listed classed as “in construction”. The CBI has said that two thirds of business leaders believe that Government infrastructure policies will have no tangible impact, or even a negative one, and that the underperformance of infrastructure in the UK is holding back inward investment and growth.71

Lack of a long-term vision for science and innovation

Some investments, such as in scientific discovery and technological advance, are often too high risk for firms to carry out without support from government. The benefits for the wider economy from the spillover benefits can be immense, but firms can find it difficult to internalise those benefits and therefore the costs are prohibitive. But such investment will form the basis of much of the economic advance of the coming decades. It will give rise to new industries and new corporate success stories such as today’s Skypes, Googles and Microsofts.

A prosperous UK needs both firms able to develop the advances in technology, and others who are able to exploit them. To place our economy at the pinnacle of these advances and encourage higher levels of business investment, science and innovation policy require a long-term funding framework, similar to that which was previously developed by the former Labour Science Minister Lord Sainsbury.

69 FSB, Business Manifesto for the 2015-20 Government, September 2014
71 Confederation of British Industry, Connect More, CBI/KPMG Infrastructure survey, 2013
As Mike Wright’s Review for the Labour Party of advanced manufacturing in the UK and its supply chain sets out:

“As a country we spend far too little on research and development: China spends ten times more in absolute terms, while Slovenia and Estonia spend more as a proportion of their gross domestic product. We are just starting to invest in the organisations and systems that link research with business innovation, for example spending £440m in 2013 through the Technology Strategy Board. In the same year Germany spent £1.6bn on its Fraunhofer Institutes alone. Other countries see this agenda as a matter of foremost national importance. For example the Japanese Prime Minister personally chairs their Council for Science, Technology and Innovation. We have a lot of ground to make up in the face of exceptionally determined international competition.”

At the moment UK R&D expenditure by the private and public sectors as a share of output is 1.73 per cent, less than that of Japan, the USA, Germany and France.

Chart 3.1: R&D expenditure as a per cent GDP

A system of incentives which drives short-termism

The Cox Review, commissioned by the Labour Party and guided by the EEF and Institute of Directors, demonstrated how a key structural failure which inhibits the performance of our top firms is a culture of short-termism. These large firms, often publicly listed, come under pressure from investors and others to focus on immediate profits as the lead indicator of management performance. But this can come at the expense of attention paid to the firm’s long-term growth potential. Nearly three-fifths of senior business leaders in the most successful companies judged short-termism to be the major impediment to growth.

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72 Mike Wright, Making the UK a Globally Competitive Investment Environment, The Wright Review of advanced manufacturing in the UK and its supply chain, June 2014
73 OECD iLibrary, Main Science and Technology Indicators
74 Sir George Cox, Overcoming Short-termism within British Business: The key to sustained economic growth, 26th February 2013
75 Sir George Cox, Overcoming Short-termism within British Business: The key to sustained economic growth, February 2013
These short-term incentives can shape the business models firms adopt and the investment decisions they take, which in turn set up further obstacles, making it harder to entrench the advantages of our most productive sectors. This can curtail business ambition and create disincentives to recruit, undertake research, develop new products, invest, and plan long-term.

The Cox Review concluded that short-termism:

“does not just slow down company progress, it impedes the creation and development of the businesses and industries on which the future economic health of the UK depends. This is in sharp contrast to our competitors, particularly those in the fast-growing new economies...”76

Changing patterns of ownership over the past thirty years have exacerbated the historic problems of short-termism in the UK. Long-term investors in the UK have turned elsewhere and short-term shareholders have become the most active engagers in UK firms. As Will Hutton has said, firm ownership determines firm behaviour. He describes how Britain's greatest industrial companies twenty years ago, ICI and GEC, have now disappeared, unable to compete under the pressure to deliver short-term profits. In contrast, Rolls Royce, was secure from hostile takeover because of a government golden share that entitled the government to override other shareholders and block an unwanted bid. The result was a board that was committed to research and to investing in its business. Great German companies such as BASF and Siemens also took the Rolls Royce route. The result is that “Britain has no indigenous quoted company in the car, chemical, glass, industrial gases, industrial services, and building materials industries – to name but a few.”77

The Fabian Society has also argued that:

“The obligation for publicly listed companies to account for their performance is necessary, but the truncated length of the reporting cycle imposes a barrier on the time horizons over which corporate planning takes place and erodes the incentives to take a long-term view. It can encourage hyperactive or tactical investment strategies aimed at boosting short-term performance rather than the gradual accumulation of social and economic value.”78

The influence of short-term investors is felt nowhere more than in the UK’s takeover regime, where the long-term future of a company can be decided by parties whose participation as shareholders is intended to be measured simply in weeks see box 3.2. While takeovers are an essential part of a functioning economy, in the UK takeovers are more common, more likely to be hostile, and more likely to succeed than they are in any other major economy. In 2010, Roger Carr, former Chair of Cadbury and CBI President, stated the UK was “the most open goal of almost any country in the world in terms of foreign takeovers and, indeed, takeovers in general”.79 As John Longworth, Director General of the British Chambers of Commerce, has said:

“The public interest test must be strengthened to ensure the UK’s long-term economic interests are appropriately considered.... Sensible countries can’t just wave through every deal: they need to consider these complex arguments. We must remember that there’s a lot more to being an open economy than saying “yes” to every takeover.”80

76 Sir George Cox, Overcoming Short-termism within British Business: The key to sustained economic growth, February 2013
77 Will Hutton, How Good We Can Be, February 2015
78 Fabian Society, In It Together, January 2015, p.20
79 The Observer, 12 December 2010.
80 City A.M., Has the row over the Pfizer-Astrazeneca deal harmed our reputation as an open economy?, 14 May 2014
Need for policy certainty over the transition to a low-carbon economy

As well as supporting sectors the UK’s current world class sectors, the policy framework set by government also needs to provide opportunities for the leading sectors of the future to develop. This is particularly true of new industries based on cutting edge technologies. For example, only creating the right policy framework will attract the scale of investment the green technology sector needs. As the CBI have said, “green is not just complementary to growth, but a vital driver of it” and that means establishing clear and stable market frameworks as well as the UK playing a strong role internationally.  

However, large scale clean energy investment fell from £7.2 billion in 2009 to under £3 billion in 2012. This is because of the the failure to provide the policy certainty needed to de-risk investment. An unwillingness to commit to a 2030 decarbonisation target, the scrapping of plans for a full assessment of resource scarcity issues and their impact on our economy, signals that the Government would unpick the 4th Carbon Budget, an implicit policy bias towards gas over low carbon alternatives, and the slow pace of energy market reform have all combined to destabilise the investment climate. This puts an estimated £180bn worth of investment at risk this decade.

The Green Alliance has set out the importance of the UK not falling back on its progress in the green infrastructure sector where it is already a world leader:

“The UK is ahead in the global trend to make new infrastructure low carbon. We are already a world leader in offshore wind and planned low carbon infrastructure projects make up over 70 per cent of the Treasury’s infrastructure pipeline. This will create a cleaner, more productive economy that will allow the UK to prosper while respecting environmental limits. The readiness of many of these projects also means they can have a significant short term growth impact, creating jobs and attracting investment at a time when the country desperately needs them. Increasing private sector confidence that the UK is committed to decarbonisation is essential to fully unlock investment.”

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81 CBI, The Colour of Growth, Maximising the potential of green business, 2012
82 Bloomberg New Energy Finance, 2013
83 The Green Alliance, The future of UK infrastructure, 2013
84 The Green Alliance, The future of UK infrastructure, 2013
Box 3.2: The Takeover of Pfizer

In 2014, the US pharmaceutical group Pfizer attempted a takeover of British firm AstraZeneca in a £70 billion bid to create the world's largest pharmaceutical business. During the takeover process, Pfizer's bid for AstraZeneca was criticised in both the US and the UK after Pfizer admitted that tax advantages of taking over a UK company were part of their decision. Pfizer also provided inadequate assurances on preserving British jobs – high-skilled jobs in science and technology which are key to Britain maintaining its comparative advantage in a globally competitive sector.

The episode highlighted the current Government's approach when it comes to standing up for key industries. Despite concerns within the science and business communities, the response of the Government was in the words of the Prime Minister “neutral”.

Lord Sainsbury, former Labour science minister and a British philanthropist, pointed out that Pfizer had a record of asset stripping and that the company had cut 1,500 research and development jobs at one of its UK facilities just three years ago. Any assurances made over UK jobs and investment would be “frankly meaningless,” he said.

A future Labour Government will prevent this from happening again by reforming the UK's takeover rules. We will broaden the public interest test for takeovers to take into account the impact on the UK's science base – a reform which could have prevented Pfizer's bid. And we will change voting rules so that only those who have held shares prior to a takeover bid being launched can vote on its outcome.

Failure to use the strengths of public services to drive up productivity across the economy

Driving up productivity across the economy will also require us to achieve greater output for every pound of public spending, as well as making use of our most effective public services to drive up productivity across the rest of the economy. This means supporting firms through cutting-edge innovation and research, procurement, and strategic investment.

The academic Mariana Mazzucato has argued that some of the most radical new technological developments have been sparked by public sector institutions. In the US, for example, strategic defence spending led to the development of the internet, while at a local level the collaborative working relationship between the tech industry and universities such as Stanford in California have supported many of the more recent digital innovations and corporate success stories. See box 3.3 for further details.

In the UK, it is no accident that our leading sectors such as pharmaceuticals and life sciences, the creative industries and aerospace reflect significant areas of government investment through the NHS, the BBC and the Armed Forces.

The UK is failing to fully exploit these opportunities now. For example, there is little effort to mobilise public procurement, data sources or investment in training in a way that maximises wider benefits to the economy and raises living standards. But reducing public spending in the next parliament back to the share of GDP it was in the 1930s will only further harm the role of public sector in enabling productivity.
Box 3.3: Harnessing the Strengths of the Public Sector to Drive Productivity

More effective deployment of existing funding streams across different departments could help to solve some of today’s challenges and drive new growth and innovation across our leading sectors. The RSA’s City Growth Commission, led by Jim O’Neill, has called for more strategic use of local and national government spending to drive growth and highlighted the need to capitalise on our network of world-class universities and research facilities. More needs to be done to foster collaboration between industry and the research community to drive new technologies, incubate new ideas and meet the needs of a high skill, high wage economy. In particular, there is a gap in the sort of training required to tackle the severe skills shortages affecting some of our leading sectors. Although information and communications technology is our one of our fastest growing sectors, for example, the number of people taking computer science degrees has fallen by a nearly third over the last decade.

There are also huge opportunities to support social and economic innovation through more strategic use of government ‘big data’. An independent review of digital government submitted to the Labour Party’s policy review argued that Ordinance Survey and local planning data, for example, could help the construction industry to deliver the 200,000 houses Labour wants to see built every year more cheaply and in collaboration with local communities. The review also argued that much more could be done to make better use of NHS data to drive innovation and growth in the care, pharmaceuticals and life sciences industries, while learning from the Government’s mistakes in compromising personal data in the recent care data debacle. The Oldham Commission on Whole Person Care argued that patient-owned data could be used to inform how we organise modern public services to cope with an ageing society. And with proper safeguards to protect privacy and put people in control of their own data, analysing patient owned data records could also drive new research and development in pharmaceuticals and life sciences.

Long-term funding frameworks for key areas of government spending – such as science, innovation and infrastructure – will deliver certainty to our most productive sectors to take long-term investment decisions along with the Small Business Research Initiative (SBRI) which uses government procurement budgets to spur innovation by small firms and solve public problems.

Finally, higher education is also a key export industry in its own right, attracting international students from all around the world to study. In 2012 education exports were worth £17.5 billion, with 75 per cent of these due to international students studying in the UK. However, the UK’s ability to compete in the global market for students has been weakened by the inclusion of international students in the government’s net migration target. Research by HEFCE, the university funding body, found that the number of international students at English universities fell for the first time in almost three decades.

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85 RSA City Growth Commission, Unleashing Metro Growth: Final recommendations of the City Growth Commission, October 2014
86 HEFCE, Data about demand and supply in higher education subjects – UCAS acceptances
87 Digital Government Review, Making Digital Government Work for Everyone, November 201
89 Oldham, One Person, One Team, One System: Report of the Independent Commission on Whole Person Care for the Labour Party, February 2014
90 HM Government, International Education: Global Growth and Prosperity, July 2013
91 Higher Education Funding Council for England, Global demand for English higher education, An analysis of international student entry to English higher education courses, April 2014
**Labour’s plan for leading firms**

In order to entrench the advantages of our leading firms, we need to start from what they see as the biggest barriers to their growth. So alongside a competitive tax system we will do everything we can to give these firms the space and incentives to invest for the long-term.

That means tackling uncertainty across our most productive sectors. We will secure the UK’s place in a reformed EU, provide long-term certainty on infrastructure investment, use public investment to support science, innovation and strategic sectors, and reform corporate governance and takeover rules.

**Securing the UK’s place in a reformed EU and boosting exports**

Labour will secure Britain’s place in a reformed EU. At a time when we need to prioritise growth and jobs it is not right to threaten the interests of Britain’s most competitive firms with an in/out referendum on Europe at an arbitrary date. They not only depend on the Foreign Direct Investment which membership of the single market secures but also cannot make long-term decisions on investment when they are unsure about the UK’s membership of the EU. Membership of the EU also means access to product markets around the world, strengthening the UK’s ability to negotiate trade agreements with countries outside the EU.

As well as securing access to markets, our approach in Europe should be to focus the EU on growth, and recognising the role it has to play in supporting a high wage, high skill productivity strategy in a globalised world.

By putting the UK at the heart of the EU we can also reform it to make sure that jobs, growth and rising living standards are at the heart of its agenda. Labour will push to change the way that the EU budget is spent – with the 40 per cent still spent on the Common Agricultural Policy being too high. Instead more of the money should be focused on like infrastructure, energy and innovation. Labour will also lead reform of state aid rules in the EU so that future governments have powers to pursue more active industrial strategies that support national growth and prosperity.

As Britain looks to compete in 21st Century the EU offers an important tool to facilitate cooperation amongst European countries. While many of the pressures within a globalised economy are towards a race to the bottom the minimum standards and common objectives that the EU can provide are important levers for Britain in choosing a high skill, high wage growth model. (See box for further details).
Delivering Labour’s Plan: Securing Britain’s place in a reformed European Union and boosting exports

Labour is clear that there is no future for Britain turning inwards, away from the world. Calls to leave the European Union present a danger to businesses across the UK that trade with Europe every day. Leaving the single market and stepping away from a trading block that allows us to work with the new economies like Brazil, India and China would be a disaster for our country and would risk billions of pounds in lost profits, risk millions of jobs and would make Britain weaker, not stronger, in the world.

Labour will:

• Return Britain to a leadership role in the European Union.
• Champion change in the way the European Union works, including completing the single market, longer transitional controls when new countries enter the EU, protecting the integrity of our benefits system, and getting on with the long overdue reform of the EU budget.
• Ensure there will be no further transfer of powers to the European Union without the explicit consent of the British people.
• Support businesses in the UK to export through better access to finance, better skills including language skills and supported access to markets.

Graham Cole, Chairman of AgustaWestland, is also conducting an independent review for Labour into how government can better export. The review is focusing on how to boost trade and what government can do to support businesses in the UK to export.

Specifically, the Cole Review is examining:

• The UK’s current performance on exports, highlighting areas of success but also where challenges still exist. This will include comparisons with our major competitor countries.
• How government export schemes and bodies can be simplified and streamlined to provide more effective support for exporters.
• How Government can support small and medium sized high-growth businesses to take advantage of growing global export markets.
• How to better use underutilised diaspora links to reach new markets, encourage city-to-city links, and make more effective use of ex-pat communities.
• How we can utilise strengths including the UK’s major exporters and growing sectors.
Delivering Labour’s Plan: supporting long-term infrastructure investment

An economic plan that works for everyone requires an approach to infrastructure that supports sustainable growth to earn our way to higher living standards. But for too long successive governments have ducked and delayed the vital decisions we need to take for the long term.

Labour will:

• Set up an independent National Infrastructure Commission in order to stop long-term decisions being kicked into the long grass.
• Set out ten National Infrastructure Goals which Britain should achieve over the coming decades, including being the most connected and open trading nation in the world as well as the best place in the world to do scientific research.
• Get at least 200,000 new homes built a year to relieve Britain’s housing crisis.
• Make a swift decision on expanding airport capacity in London and the South East, following the Davies review, while taking into account the environmental impact.

Long-term certainty on infrastructure investment

Government also needs to take a more long-term approach when it comes to the major investment decisions facing the UK. The Armitt Review has recommended a coherent 25-30 year national infrastructure strategy so that governments will be held to account for taking a long-term view, making decisions, and sticking to them. (See box for further details).
Using public investment to support science, innovation and strategic sectors

The ongoing success of our leading sectors is rooted in the ideas, the research and the technology that allows us to compete internationally. Growing those sectors means recognising that we must do more to support the research community to work with employers and other partners to tackle the challenges of the future, such as climate change, and to drive investment in a high skill, high wage economy. It also means understanding that the relationship between our leading sectors and strategic state investment is complex and mutually beneficial.

So Labour will introduce a new long-term framework for science and innovation to provide the stability and long-termism that our research base and companies need. This will build on the previous Labour Government’s ten year funding framework for science, which ends this year, and cover spending on innovation and applied research as well as traditional science spending. Developing the network of Catapult Centres further will also be a priority.

Labour will use the power of procurement to boost investment in training, develop industry strategically and spur innovation. All firms wishing to get a large government contract will need to offer apprenticeships. Procurement can also be used more strategically, for example by taking into account local social and economic benefit when awarding contracts and supporting small business growth. And we need to ensure that in departments such as Health, Energy, Culture, Media and Sport, Defence and Transport, data and public spending streams are being used strategically to support growth and innovation and drive growth, innovation and investment in our leading sectors.

Labour will foster innovation and investment in new low carbon technologies – supporting the ‘green’ economy to unlock 400,000 additional high skilled jobs by 2020, capitalising on new opportunities in the energy and housing industries in particular. Labour will strengthen the Green Investment Bank and provide long term certainty to the industry with a 2030 decarbonisation target, providing a framework that allows British business compete with the best in the world in one of the key industries of the future.

And Labour will ensure that our universities are collaborating with industry to solve global challenges and meet the needs of a high skill, high wage economy. That is why the next Labour Government will make new high level Technical Degrees a priority for expansion of university places. This will support universities to drive new collaborations with industry. Co-funded, co-designed and co-delivered by employers and universities, new Technical Degrees will also give firms real influence over the curriculum to ensure they get the skills they need to succeed. This sort of highly vocational provision is not currently a priority within our university system because it has never been a priority for government. Labour will also take steps to protect our higher education sector more broadly as one of our strongest performing exports – that is why Labour has called for foreign students to be removed from the Government’s net migration target.
Delivering Labour's Plan: Backing British businesses to invest for the long-term. We will:

- Ensure Britain has the most competitive rate of corporation tax in the G7.
- Require institutional investors to act in the best interests of ordinary savers, prioritising the long-term growth of companies they are investing in over short-term profits.
- Reform takeover rules to strengthen the role of investors who are in it for the long-term.
- Better link executive pay to performance by simplify executive pay packages, requiring investment and pension fund managers to disclose how they vote, and putting an employee representative on remuneration committees.

Reforming corporate governance and takeover rules

The rules which determine how our most important firms are run need to change. When it comes to takeovers, it is wrong that short-term speculators who hold shares for days or even hours have the same voting powers as those investors who are in it for the long-term and support value creation.

To tackle this problem Labour will restrict who is able to vote on a takeover to those already holding shares when a bid is made, giving long-term shareholders a greater say and look at broadening the public interest test for takeovers to take into account the impact on the UK’s science base. Labour will also put duties on investors to act in the best interests of ordinary savers and people with pensions, prioritising the long-term growth of companies they are investing in over short-term profits. These duties will be added to the Stewardship and Corporate Governance Codes which companies and investors follow.

Conclusion

Backing our leading sectors as a major source of growth and high skill, high wage jobs is an area of consensus in Britain today. But doing that in the 21st Century requires more than providing a competitive tax environment, crucial as that is. It requires a detailed engagement with the pressures these firms face that militate against the long term investments in technologies, products and ideas that will enable them to continue to succeed in the future. From infrastructure to innovation, from market access to the high level vocational skills, Labour’s plan will help tackle these pressures as part of a drive to increase productivity living standards. It also requires the public sector playing an active part in driving up productivity across the whole economy, supporting firms through cutting-edge innovation and research, strategic investment and procurement.

But supporting only the UK’s leading firms is not enough to raise productivity across the whole economy and raise living standards for the many. Labour’s plan will therefore also focus on smaller growth firms employing millions of working people that struggle to break through.
Labour Leader Ed Miliband and Shadow Business Secretary Chuka Umunna meet small business owners in Brixton Village.
CHAPTER 4: UNLEASHING THE POTENTIAL OF OUR SMALL FIRMS

The majority of people in Britain work in our small and medium sized firms. So unleashing the potential of smaller business to grow is key to growing our economy and raising living standards. These firms have the ability to deliver more high skill, high pay jobs but at present they are being held back by a view that they do not have a major role to play in driving up productivity. The result has been that public policy does not focus enough on giving them the support they need.

While Britain’s entrepreneurship and ability to generate new ideas means that the rate at which we generate new businesses outpaces many of our major competitors, this Government has been unwilling to implement the long term reforms required to ensure that these businesses can survive and thrive. Too often small firms are unable to find or utilise the skills that would boost their performance, or get access to the finance they need to invest and grow. They are not receiving the help they need with the costs of doing business, with business rates rising rapidly since 2010 and becoming an unsustainable burden for many. And many small firms struggle to get the business support they need, particularly when located outside London and the South East, with firms who want to export unable to access the networks and support that would help them make the leap.

These businesses need active government support to break down the barriers in their way. Labour’s plan to help our smaller businesses deliver the jobs we need for rising living standards will tackle the short term pressures on business costs. We will take action on late payment and energy bills, alongside a cut in business rates, because we know that these businesses are those that most suffer from cash constraints. A Labour government will build the new institutions we need to work in partnership with business, with a new gold standard vocational route for skills, a British Investment Bank focused on enabling small and and medium-sized businesses to get the finance they need, and a new regional settlement to ensure that growth plans are focused where businesses are.
Why we need action

The UK has a strong record of entrepreneurship. Jamie Mitchell's report to Labour's Youth Jobs Taskforce highlighted how this entrepreneurship can address problems of youth unemployment. The challenge for Britain is to support more of these start-ups to survive and thrive. Small and medium sized businesses make up the vast majority, over 99 per cent, of UK firms and employ most workers in the country. But at present, too many smaller firms are held back from fulfilling their potential to grow and deliver well paid jobs.

The lack of a structured system to support our small and medium sized businesses to survive and thrive helps explain why Britain's pattern of growth is concentrated on just a few firms. Research from Nesta found that while the UK tops the rankings when it comes to the fastest growing firms, we come bottom when it comes to middle ranking companies, with US firms at the 75th percentile of growth growing 50 per cent faster than firms in the UK. So helping our smaller sized firms to grow is a central part of Labour's plan to deliver the high pay, high productivity jobs we need to raise living standards. The CBI estimate that narrowing the gaps between high and low growth mid-sized firms "could add up to £50bn to the economy by 2020." And as the Wright Review of Advanced Manufacturing made clear, building the success of our smaller firms will help larger firms too:

"We are more likely to have successful large firms if we have a thriving UK-based supply chain, and vice versa. We should never set the interests of large and small businesses against each other." 97

Small and medium firms are being held back

We know that with the right support, our small and medium sized companies could be growing faster, which is why Simon Franks is conducting a review for Labour of how we can best support early stage and high growth businesses. In other European countries, small and medium sized firms, can drive steady growth, focus on exports, and build strong links with local economies. As the CBI put it with regard to Germany:

"family owned Mittelstand companies have shown what is possible in this regard. They are not big risk takers but manage to grow at a steady pace, and are confident enough to seize new opportunities when they present themselves, particularly internationally. Sometimes referred to as the 'hidden champions' these companies create the foundations on which the German economy is built." 98

Within the UK too, there are many small and medium sized companies showing exceptional success. The CBI have found that among hi-tech manufacturers producing electrical machinery or telecommunications services the productivity gap between medium sized businesses and larger firms is nearly non-existent, and has been closing over time. In contrast in the non-high-tech manufacturing sector, mid-sized firms are only two thirds as productive as their larger counterparts. Closing the productivity gaps between larger and smaller firms in industries such as these could bring huge benefits to the UK economy.

92 Britain's rating in the early stage entrepreneurs' index, measuring the proportion of the population involved in starting or running a business (under 42 months old) is nearly twice that of France and Germany, and just three percentage points below that of the U.S. Lord Young A report on growing micro-businesses May 2013.
94 House of Commons Library Small Businesses and the UK Economy 2014.
96 CBI Future Champions – unlocking growth in the UK’s medium sized businesses October 2014
97 Mike Wright Making the UK a globally competitive investment environment: The Wright Review of Advanced Manufacturing in the UK and its Supply Chain June 2014.
98 CBI Future Champions – unlocking growth in the UK’s medium sized businesses October 2014
99 CBI A Better off Britain: Improving lives by making growth work for everyone November 2014
But to realise the potential within our small and medium sized firms to grow and deliver jobs that raise living standards, we need a systematic approach to addressing the barriers that hold small firms back. At present, firms tell us that:

- The rising costs of doing business are absorbing resources that should be focused on growth;
- Our skills system is holding businesses and young people back; and
- The support businesses need to grow isn’t there when and where they need it.

**The rising costs of doing business are absorbing resources that should be focused on growth**

Firms who want to concentrate their resources on growth are being held back by rising costs from business rates and energy bills, and put under financial pressure from late payments from customers.

Business rates have increased by around £1,500 since 2010, forming an ever more significant part of companies’ overall tax burden. The British Retail Consortium notes that business rates are currently higher than property taxes anywhere else in Europe and are the second highest of anywhere in the OECD. This burden falls particularly heavily on start-ups which need retail outlets, workshops or offices, manufacturers that need factory space, and businesses that are taking their first steps towards expansion by growing existing sites or renting new premises. In contrast, cuts to the main rate of Corporation Tax have benefited less than 10 per cent of companies – those who are the largest companies with the highest profits. That is why cutting taxes for smaller businesses will be the priority of a Labour government.

Energy bills are putting increasing pressure on firms, with small businesses saying that ‘utilities’ are now the second largest cause of rising business costs. And an increasing number of businesses are finding their ability to grow hampered by late payment. The Federation of Small Businesses report that 51 per cent of their members have been paid late in the last 12 months, while BACS, who administer payment systems, have found that smaller businesses are now carrying a debt burden of over £39 billion as a result of their customers’ failure to pay on time.

**Box 4.1: The burden of late payment on small business**

Premier Foods, one of the UK’s largest manufacturers, recently hit the headlines for charging suppliers to remain part of its supply chain, a practice that Labour would make illegal. But while few companies operate such extreme measures, thousands of small firms are hit by late payment from customers, restricting their ability to grow.

“Late payment... harms small firms’ cash flow, seriously hampering their ability to invest and grow and in some cases threatening their existence.”

**FSB Business Manifesto for the 2015-20 Government**

The latest figures from BACS, the payment scheme, found that sixty per cent of UK SMEs are experiencing late payments, with the average SME waiting for over £38,000.

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100 House of Commons Library analysis.
101 British Retail Consortium, Business rates: Manifesto milestones, July 2014, p.8
102 Federation of Small Businesses FSB Voice of Small Business Index, Quarter 4, 2014 December 2014
103 FSB, Business Manifesto for the 2015-20 Government, September 2014; BACS News release: ‘UK companies face a late payment burden of £46.1 billion’ July 2014
104 Laura Kuenssberg (BBC News) Premier foods accused over ‘pay and stay’ practice December 2014.
105 Federation of Small Businesses FSB Business Manifesto for the 2015-20 Government September 201
Our skills system is holding businesses and young people back

Rising day to day costs restrict small businesses’ ability to expand. But easing these pressures will be insufficient to deliver the productivity growth that we need from our smaller firms if we do not address the long term inability of the British educational system to provide businesses with the vocational skills they need, and young people with the opportunities they deserve.

Labour’s Skills Taskforce, led by Director of the Institute of Education Chris Husbands, found serious problems with the quality and quantity of both college and work-based vocational training in the UK. The Husbands review of skills found that:

“Low quality vocational training in schools and colleges means we fail to support young people into good jobs or further training. Some qualifications are so low quality they actually offer negative returns in the labour market – young males with level 2 (GCSE level) NVQs earn 12 per cent less than their contemporaries with fewer qualifications.” 107

“Fewer than one in 10 employers in England offer apprenticeships, and nearly half of employers say that the prospect of trained staff being poached by rival firms deters them from training employees.” 108

The weakness of the UK’s vocational training system goes back many years, but the Tory-led Government has made this situation worse by re-badging low level workplace training rather than engaging in a genuine effort to create new high quality apprenticeships. Two-thirds of apprenticeships in England are at a level that would not be recognised in our competitor countries, the number of young people starting apprenticeships has actually fallen and one in five apprentices receives no training at all.109 The Government has also removed the requirement for college lecturers to hold a teaching qualification and overseen a fall in the quality of further education provision. In 2012-13 a quarter of learners were in FE provision that was judged less than good by Ofsted.110

This situation means that as a country we are failing to train the next generation of skilled workers, while employers struggle to get the skills they need to succeed. The UK Commission on Employment and Skills’ most recent survey concluded that:

“Today too many organisations find it hard to recruit the skilled people they need; this poses serious risks to the health and survival of businesses and to their bottom line performance. The survey reveals a sharp rise in skills shortages which may be holding back the UK’s economic recovery.”111

106 BACS News release: ‘UK companies face a late payment burden of £46.1 billion’ July 2014
108 The Husbands Review of Vocational Education and Training A Revolution in Apprenticeships 2013
109 The Husbands Review of Vocational Education and Training A Revolution in Apprenticeships 2013
111 UKCES UK Commission’s Employer Skills Survey 2013: UK Results January 2014
Box 4.2: The UK’s engineering skills challenge

The UK has a historic reputation as a world leader in technology and manufacturing. Half of the display space in the Great Exhibition of 1851 was occupied by British inventions, from a massive hydraulic press to printing presses, textile machines and agricultural machines. But our failure to develop engineering skills means we are falling behind. At the modern-day equivalent - Expo-2012 in Korea - the UK didn’t even exhibit.

EngineeringUK estimates that the UK is facing a looming shortfall of more than 400,000 engineers by 2022. They estimate that we will need approximately 1,304,000 more engineers between now and 2022 to meet industry demand, or 163,000 per year. Currently we are only producing approximately 108,000 per year. If this trend continues over the next eight years, there will be a shortfall of more than 400,000 engineers by 2022.

In the 21st century this is not just about the traditional civil, mechanical and electrical engineers, but also the engineering sectors of the future in which the UK could also excel, including information technology, green energy, and life sciences.

Tackling this gap also means attracting more women into engineering. In 2013, only 14 per cent of engineering graduates were women. And only four per cent of professionally-registered engineers are female.

112 Based on the numbers of people with a first degree in engineering.
Business groups have also said that management skills can be a key gap. Recent research by the British Chambers of Commerce found that leadership and management skills were the second most cited skills gap by firms. As academics at the LSE have concluded, the UK lags behind our international competitors in this area:

“The UK has a deficit in management quality relative to the US, Germany, Japan and Sweden. This management deficit is likely to be a cause of our productivity gap with countries like the US, Germany, and Japan. If we want to increase our competitiveness vis-à-vis such countries, then we need to consider how to improve management practices in the UK.”

Small businesses are not getting the support they need to grow

To ensure that businesses have the support they need to grow and build the jobs that will raise living standards, we need institutions that work with businesses. But at present, our institutions are poorly designed to meet these needs: our banking system has consistently failed to support small business with finance for growth, and too often the business support we do provide is delivered where convenient for government, with firms who want to export unable to access the help they need.

Our banking system lets small businesses down when they need it most

The global financial crisis exposed deep structural flaws in our banking system. The major banks have tended to seek quick profits in the City and in the property markets, rather than invest in the real economy – in the decade before the crisis, 84 per cent of the money lent to British residents by British banks went into property and financial services.

This Government has failed to tackle these long term issues, and the problem has got worse, with total lending to small and medium-sized businesses falling by over £12 billion since 2011. This is despite a series of government schemes to increase the flow of finance to business. Meanwhile the Government’s Business Bank does not have sufficient capital or ambition to have the impact which is needed. As Nick Tott’s report on The Case for a British Investment Bank showed, the UK has been the only country in the G7 without a state-backed institution supporting small business finance on a significant scale.

The flaws in the way our banking system is currently structured clearly impact on the ability of small and medium sized businesses to fulfil their potential. Labour’s Small Business Taskforce, chaired by Nigel Doughty and then Bill Thomas, found that lenders often did not understand the local needs of small businesses, recommending that the British Investment Bank should be used to support a regional banking network.

114 Nicholas Bloom, Renata Lemos, Mingxuan Qi, Raffaella Sadun, and John Van Reenen Constraints on developing UK management practices: BIS research paper no. 58 November 2011
116 Bank of England data on ‘Monthly changes of monetary financial institutions’ sterling and all foreign currency loans (excluding overdrafts) and reverse repos to small and medium sized enterprises’ December 2014.
As a result many firms that wish to invest and expand are dependent on credit cards and overdrafts. Research by the EEF found that the most common forms of external finance are bank overdrafts (53 per cent of all smaller businesses that report use of external finance), credit cards (42 per cent) and bank loans (23 per cent).\textsuperscript{119}

\textbf{Box 4.3: Lending to Small and Medium-Sized Businesses – how the Government’s schemes have performed}

Since it took office the Government has launched a number of schemes designed to increase lending to SMEs.

\textbf{Project Merlin}

The Project Merlin agreement between the Government and major banks (Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland, and in relation to lending, Santander) was published in February 2011. In announcing the deal, George Osborne claimed that the banks would “lend more money, especially to small business; pay more taxes; pay less bonuses; be more transparent about the bonuses that they do pay; and make a greater contribution to our regional economy and society.”\textsuperscript{120}

However the targets were not met. The Project Merlin agreement committed the banks to lending £76 billion to small and medium sized enterprises in 2011. This was part of an overall gross lending target of £190 billion to all businesses, large and small. Official figures published by the Bank of England have shown that the banks failed to meet their lending target by over £1 billion.

\textbf{National Loan Guarantee Scheme}

The National Loan Guarantee Scheme was announced by George Osborne in his 2011 Party Conference speech, with further details outlined in the 2011 Autumn Statement. Osborne claimed that “in the short term”, credit easing, which includes the NLGS, would “relieve constraints on the supply of bank lending” and that it would “help those small businesses and create jobs”.

However the Scheme was effectively shut less than six months after it became operational, with the Government saying that the new Funding for Lending Scheme would ‘supersede’ the NLGS.\textsuperscript{121} The latest Treasury annual report confirmed that “the NLGS is not currently open for new guarantees”.\textsuperscript{122}

\textbf{Funding for Lending}

The Government’s Funding for Lending Scheme was launched in July 2012 with the aim of incentivising banks and building societies to boost their lending to the UK real economy. George Osborne said at the time that the action would “inject new confidence into our financial system and support the flow of credit to where it is needed in the real economy”.\textsuperscript{123} However the most recent FLS data shows that net lending to businesses was down £2.4 billion in the third quarter of 2014, with net lending to small and medium-sized enterprises down by over £100 million.\textsuperscript{124}

\textsuperscript{119} EEF Finance for Growth: Increasing Competition in SME Banking, 2012
\textsuperscript{120} George Osborne, Hansard, 9 February 2011, Column 311
\textsuperscript{121} BBC, 1 August 2012, http://www.bbc.co.uk/news/business-19066444
\textsuperscript{122} HM Treasury, Annual Report and Accounts, 2013-14, p.165
\textsuperscript{123} HM Treasury, 13 July 2014
\textsuperscript{124} Bank of England, Funding for Lending Scheme, 27 November 2014
Decision-making on business support are made too far from businesses themselves

Smaller businesses are deeply rooted in their local communities, which is why Labour initiatives such as Small Business Saturday have been so important. Lord Adonis’ independent Growth Review for the Labour Party set out how resources and power are centralised in London and the southeast, resulting in a lack of business support or investment in other regions and the industries based there. The Government abolished Labour’s Regional Development Agencies and replaced them with a patchwork set of under-resourced Local Enterprise Partnerships with inconsistent boundaries, no clear remit and weak accountability to the regions they operate in.

“It is the strongly held view of most business and political leaders at city and county level – including in London – that excessive centralisation is holding them back, particularly in promoting skills, infrastructure and economic development”.\(^{125}\)

The Government has also failed to effectively reform wider support for businesses. Help that is available is frequently duplicative and complex for small firms to navigate, with the Federation of Small Businesses finding over 800 different support schemes available to small firms.\(^{126}\)

This failure to develop an effective support infrastructure for small and medium sized firms holds back businesses that want to grow through UK markets, and those who want to export their goods and services abroad. The Federation of Small Businesses found in 2014 that over three quarters of small businesses struggle to access export support from Government, reflecting previous research that showed that only half of UK small business exporters were even aware of UKTI, the main government body to promote exports, and just one in five had accessed its services.\(^{127}\) They concluded that:

“Our research shows that, despite best efforts, our members continue to be frustrated in their attempts to expand overseas. It is vital that UK’s small firms receive the right support, not just their medium-sized or larger counterparts, and that it is maintained for the long term”.\(^{128}\)

Despite repeated promises to transform the landscape of support that could help small businesses who want to sell their goods and services abroad, targets to increase exports have been missed repeatedly, with the Chancellor likely to fall short of his 2020 target to double exports to £1 trillion by around £350 million.\(^{129}\)

Labour’s plan to unleash the potential of our small and medium-sized firms

Labour believes that unleashing the potential of our small and medium size firms is a key route to building the high quality jobs we need to ensure rising living standards. These are the firms where most people work – and the firms where there is most potential to improve our productivity and ability to generate jobs that pay a decent wage. Recognising that these firms are a key part of Britain’s growth plan is a major change for government, but one we need to meet if we are to compete in the 21st Century. Achieving this potential means a new partnership between business and government to:

- Tackle the cost-of-doing business crisis faced by too many small firms;
- Build a skills system that works in partnership with employers; and
- Deliver support for small businesses when and where they need it.

\(^{125}\) Lord Adonis, Mending the fractured economy, Adonis Growth Review July 2014.
\(^{126}\) Federation of Small Businesses Enterprise 2050: Getting UK enterprise policy right 2013.
\(^{127}\) Federation of Small Businesses Enabling small businesses in the drive for more UK exports June 2013.
\(^{128}\) Federation of Small Businesses (press release) FSB discovers an opportunity for growth, as small businesses struggle to access support to export July 2014
\(^{129}\) Office for Budget Responsibility, Economic and Fiscal Outlook, Supplementary tables December 2014
Box 4.4: A British SBA

As the Federation of Small Businesses have called for, and Labour’s Small Business Taskforce and the Adonis Growth Review recommend, Labour will establish a Small Business Administration to ensure a voice for small business at the heart of government. Taking inspiration from the successful US Small Business Administration – and learning from other examples of good practice around the world like the SPRING programme in Singapore – the UK SBA will bring a clear strategic focus to small business policy across government.

The SBA will ensure that the voice of small business is heard in the development of policy right across Whitehall; that programmes are well designed for the needs of small firms; and blockages to growth are rapidly removed. In particular, the SBA will be given a remit to ensure regulations or requirements on small business are proportionate, appropriate, avoid any unnecessary burdens or compliance costs and are designed from the perspective of the smaller firm. This remit includes regulations which originate in the EU; determining how any changes can be made as simple as possible for businesses to understand and implement; and challenging government departments on existing regulations where businesses raise explicit concerns about them.

The SBA will also ensure that government contracts are properly accessible to small firms, and the full potential of procurement programmes that encourage innovation – like the Small Business Research Initiative – is realised. Working with the British Investment Bank and regional network that Labour will establish, the SBA will seek to match the design of finance offerings to the real needs of small firms. Working with the network of Local Enterprise Partnerships, the SBA will ensure that business support is well coordinated, and best practices can be quickly shared.

Helping small firms with the cost of doing business

To ensure that our small and medium sized firms are not held back from growing to deliver the high skill, high paid jobs we need, Labour will take immediate action to reduce the growing cost of doing business.

Rather than a further cut in corporation tax for multinationals and large companies, we will instead cut and then freeze business rates for small and medium-sized firms. While another the corporation tax cut would benefit just 80,000 firms, or two per cent of British businesses, a cut in business rates will mean an average saving of over £400 on 1.5 million properties, helping those businesses where cash constraints have the biggest impact.

Labour will freeze energy bills until 2017 while we reform the energy market, so that bills can fall but not rise. This will benefit 2.4 million businesses across Britain and save them £1.5 billion in total. And we’ll ensure that energy companies are banned from offering unfair contracts and rolling small businesses over on to more expensive tariffs without their consent.

Labour will take action to end the scandal of late payments that is putting small firms under pressure, with a new requirement on larger businesses to set out the extent of late payment they have been responsible for, and the action they have taken to compensate suppliers.

130 House of Commons Library analysis.
We will also give business organisations like the Federation of Small Businesses the legal right to represent their members in the courts or before the relevant authorities when contractual terms or practices are grossly unfair, ensuring that small businesses have a powerful voice on their side when challenging larger suppliers.

Reforming vocational education to ensure businesses get the skills they need to succeed

Investing in education will be one of the most important drivers of our national economic success in the 21st century. The CBI says that if we raise education standards in UK schools to match the best in Europe this would add £8 trillion to GDP over the lifetime of a child born today. This is equivalent to one percentage point on GDP growth every year.  

We will therefore will protect the overall education budget, ensuring that it rises in line with inflation.

But we also have to change the way we think about training the next generation. Although the record of investment in education and expansion of university under the last Labour Government led to a significant increase in the skills of young people, too often those skills are not utilised and the lack of high quality vocational education is failing young people and means that businesses cannot get the skills they need to succeed.

Labour will end the culture that says the academic route is always best and vocational skills are second best, with reforms to our education and skills system to create a clear gold standard vocational route from school right through to university.

Delivering Labour’s Plan: Promoting a new broader industrial strategy

Labour is clear that our plan to grow more of the high-skilled, better paid jobs Britain needs to raise the living standards of all working people requires an active industrial strategy, supporting long-term investment and working in partnership with business.

Labour will:

- Secure the jobs of the future by backing sectors where the UK has a competitive edge.
- Set a new broader direction for industrial strategy, so that it includes domestic sectors with the highest shares of employment and output, alongside those in which the UK has an established comparative advantage in international trade.
- Strengthen Britain’s manufacturing supply chains to ensure the UK remains a globally competitive investment environment for advanced manufacturing.
- Boost investment in low-carbon technologies by setting a legal target to remove the carbon from our electricity supply by 2030 and improve energy efficiency.
- Strengthen the Green Investment Bank and be a world leader in green technology, creating one million additional high technology jobs by 2025.
- Implement a long-term innovation strategy in science and research to help create new products and improve the UK’s record of underinvestment in R&D.

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131 CBI, First steps: A new approach for our schools, 2012
Delivering Labour’s Plan: transforming technical education in Britain to unlock the talents of the next generation

Our education system needs to change if we are to build the high-skill, high-wage economy we need to succeed as a country. Labour believes in a Britain where every young person that gets the right grades has a right to a high quality apprenticeship, just as people with good A-levels have a de facto right to go to university.

To achieve that goal Labour will put apprenticeships at the heart of every area of government strategy, as part of a plan to create a clear gold standard vocational route from schools right through to university.

Our relentless focus on the quality and quantity of apprenticeships will mean that we will:

- **In Schools and Colleges:** Introducing a new gold standard Technical Baccalaureate for 16-18 year olds and ensuring that all young people study English and maths to 18, so that more young people are apprenticeship ready when they leave school.

- **Through procurement:** Requiring every firm getting a major government contract to offer apprenticeships, and explore whether this should also apply when the government underwrites large projects. Under these plans, companies benefiting from the £100bn planned infrastructure investments over the next Parliament would be required to offer new apprenticeships. Based on estimates by the BIS Select Committee, this could create up to 100,000 new apprenticeships over the Parliament.

- **Through giving firms more control:** Giving employers more control over apprenticeships funding and standards in exchange for driving up the number and quality of apprenticeships.

- **Through the Government playing its part:** Ensuring that every Private Office offers an apprenticeship and creating thousands of apprenticeships in the civil service.

- **Through migration rules:** Require large firms recruiting from outside the EU to invest in apprenticeships in the UK – creating up to 100,000 new apprenticeships over the Parliament.

- **Through high standards:** Introducing a universal gold standard for apprenticeships and refocusing existing spending on low level courses

- **Through spending choices:** ring-fencing the FE budget for 16-19 year olds to support reform of FE colleges into new Institutes of Technical Education with a core purpose to deliver Labour’s Technical Baccalaureate and apprenticeships.

- **Through higher education:** Introducing new Technical Degrees delivered by universities and employers so that apprenticeships lead on to higher level qualifications.

Delivering the finance businesses need to innovate and grow

We need a smarter system of support if our small and medium sized businesses are to realise their potential as drivers of innovation and jobs growth across the country. This means building a banking system that serves businesses in the real economy, driving growth and innovation across the country through a radical devolution of power and resources, and boosting support for exports.

Labour’s plan will address the long term failure in our banking system to serve the needs of small firms, with a plan to drive up competition in the banking system, fund a proper British Investment Bank, and develop a network of regional banks to promote growth.
Large businesses can work around problems in our finance sector by raising funds directly by issuing bonds. But the lack of competition in the banking sector is preventing small businesses getting the support they need, while alternatives are either not available or expensive. Decisive measures are needed to break the deadlock and make progress. At least two new effective challenger banks need to enter the market and Labour will put mechanisms in place which prevent the return of concentration and ensure that future governments and regulators are not able to duck the challenge.

Labour will therefore work with the competition authorities to put in place a market share test for the banks that ensures the market stays competitive for the long term. We will ask the Competition & Markets Authority, as part of their ongoing investigations into key retail banking markets, to advise within the first six months of a Labour Government on how steps to improve competition can be implemented.

Labour will also go further to tackle the lack of growth finance for small businesses by setting up a proper British Investment Bank, building on the existing Business Bank, with greater resources all funds raised from the planned increase in the licence fees for the mobile phone spectrum - estimated to be up to £1 billion in the next Parliament subject to Ofcom consultation – will be allocated to the British Investment Bank.

And to ensure that businesses across the country can access support, Labour will also use the BIB to support regional banks, which understand the needs and challenges of businesses in their area, harnessing local energy and demand for such institutions. It will have centres in each of the main city and county regions, whose role it would be to understand and build relationships with local businesses.

A radical devolution of resources and power to support business growth across the country

Labour is clear that for our smaller businesses to succeed, support needs to be delivered where they are, not simply where it is convenient for government.

Nationally set policies and priorities inevitably underplay the role of smaller businesses that are distant from Whitehall. Lord Adonis’s Review Mending the Fractured Economy set out a plan to tackle that, devolving power and control to local areas, so that economic plans could be a shared project between local government and local employers to deliver the high skilled jobs that drive living standards. In response Labour has set out a radical plan to devolve power to City and County Regions (see box for further details).

Labour will ensure that business support delivered in local regions is geared up to help small and medium businesses achieve their export ambitions. Graham Cole, Chairman of AgustaWestland UK is currently leading an independent review of exports, reporting to Ed Balls and Chuka Umunna before the election. Amongst other things the review will examine how Government can support small and medium sized high-growth businesses to take advantage of growing global export markets.

Labour will support smaller businesses to unleash their potential. We will:

- Cut and then freeze business rates for small business properties, so that the tax burden on small businesses will be lower than under the Tories and that smaller firms have the support they need to invest, innovate and raise their productivity.

- Establish a British Investment Bank, supporting a regional banking network, to boost lending for small and medium-sized businesses to grow and create jobs Introduce a Small Business Administration to co-ordinate work across government to benefit smaller businesses.

132 Adonis Review, mending the Fractured Economy, July 2014
Conclusion

The majority of people in Britain work in our small and medium sized firms. So unleashing the potential of smaller businesses to grow is key to raising productivity and living standards. These firms have the ability to deliver more high skill, high pay jobs but at present they are being held back by a view that they do not have a major role to play in driving up productivity. The result has been that public policy does not focus enough on giving them the support they need.

Labour’s plan to help our smaller businesses deliver the jobs we need for rising living standards will tackle the short term pressures on business costs.

We will take action on late payment and energy bills, alongside a cut in business rates, because we know that these businesses are those that most suffer from cash constraints.

A Labour government will build the new institutions we need to work in partnership with business, with a new gold standard vocational route for skills, a British Investment Bank focused on enabling small businesses to get the finance they need, and a new regional settlement to ensure that growth plans are focused where businesses are.

But growing raising growth, productivity and living standards across the whole economy also requires a plan for our domestically-traded sectors. The lack of attention paid to these sectors means that they tend to be less productive, lower skilled and lower paid in the UK than they are in other countries. Britain will only succeed when the millions of workers in these sectors see rising productivity and living standards as well.

Delivering Labour’s Plan: Devolving economic power and funding

Too many parts of our country are being left behind. Labour’s plan is about ensuring every part of the country and all working people can benefit from economic recovery, not just a few.

Labour will:

- Devolve power and funding worth at least £30 billion over five years in areas recommended by the Adonis Review including employment support, transport and housing, skills and business support.
- Create more Combined Authorities to tackle the chronic problems of poor skills, infrastructure and economic development.
- Allow Combined Authorities to retain 100 per cent of additional business rates raised through growing businesses in their region.
- Strengthen and reform Local Enterprise Partnerships to give businesses a direct say over growth strategies and priorities.
- Deliver the next steps in devolution to Scotland and Wales, including greater responsibility for tax and spending decisions.
Labour Leader Ed Miliband speaks at a Q&A session with staff during a visit to Griffon Hoverwork in Southampton.
CHAPTER 5: SUPPORTING FIRMS TO WIN THE RACE TO THE TOP, NOT GET DRAGGED INTO A RACE TO THE BOTTOM

The Government thinks that only a small number of firms matter for productivity growth. But a 21st Century plan for growth cannot ignore large sectors of the economy and must take a broader approach. In particular the lack of attention paid to our domestically-traded sectors over many years means that some of these sectors tend to be less productive, lower skilled and lower paid in the UK than they are in other countries. Of the ten largest employing sectors in the UK economy, just three are covered by the Government’s industrial strategy. For example, retail, hotels and restaurants, and transport, storage and distribution – covering seven million people, or nearly one in five workers in the UK – are not included.

Too often it is assumed that the only way for firms in sectors such as retail, hospitality and social care to compete is by cutting employee pay and conditions. But many firms in these sectors want to be able to compete through higher skill, higher wage business models, without being undercut and dragged into a race to the bottom. Such an approach can benefit the individual firms, their employees and more importantly would contribute to raising productivity and sustainable growth for Britain as a whole.

That is why Labour will implement a new industrial strategy. This will build on the focus that Lord Mandelson put on sectors, and extend that approach into the lower paid, domestically-traded sectors that employ millions of people to raise productivity, training and pay. This is about giving employers the tools they need to raise standards, and also protect them from being undercut, by raising the minimum wage, ending the abuse of zero-hours contracts and making it illegal to use agency workers to undercut wages and conditions.
Why we need action

There has been a growing consensus since the financial crisis about the need to support firms in high skill export sectors to boost productivity and create more jobs. The last Labour Government pioneered this approach by setting up the Automotive Council, bringing together key stakeholders in the industry to develop a strategy to boost skills and jobs in the car industry, and this approach has gradually been extended to a limited number of other high skill export sectors.

As chapter three set out, growing these high skill export sectors is crucial if we are to succeed in the world. But sustainable and broad-based growth relies on improvements in investment and productivity across broader parts of the economy, including the domestically-traded sectors that employ millions of working people. Sectors such as retail, health and social care, food and accommodation and administration make up more than 40 per cent of all workforce jobs in the UK. Our largest sector is wholesale, retail and motor repair – employing nearly five million people, or 15 per cent of all workforce jobs in the UK.

Chart 5.1 Workforce jobs in the UK, non-tradeable industries

Despite their importance in the economy, policymakers have paid scant attention to levels of productivity and investment in domestically-traded sectors. As a result, many of these sectors are less productive, lower skilled and lower paid in the UK than they are in other countries. The CBI estimates that four high employment, low pay sectors together account for almost one-third of the UK’s productivity gap with the USA: they estimate that raising UK productivity rates in retail and wholesale; transport and storage; administration and support; and arts and leisure to US levels could boost GDP by nine per cent, or £144 billion.¹³³

High levels of low pay in these sectors are a key obstacle to building an economy that delivers rising living standards. More than one in five people in work, or five million people, are low-paid in the UK, one of the highest rates in the OECD ¹³⁴—and one in three low paid workers are still “stuck” in the lowest earnings group after 14 years, suggesting that such jobs do not necessarily operate as a temporary ‘stepping stone’ to higher paid and more secure jobs.¹³⁵ Low pay is particularly prevalent in the domestically-traded service sectors such as retail, hospitality, storage and distribution and care – and in lower skilled occupations such as cleaners, catering assistants, security guards and leisure workers. Just two sectors – wholesale and retail and hotels and restaurants – account for 43 per

¹³³ CBI, A Better Off Britain: Improving lives by making growth work for everyone, 2014
¹³⁴ The OECD defines low pay as those earning less than two-thirds of median earnings.
¹³⁵ CBI, A Better Off Britain: Improving lives by making growth work for everyone, 2014
percent of all low paid workers in the UK. More than two-in-three (70 per cent) of employees in the hotels & restaurants sector and 41 per cent of staff in wholesale and retail are low paid.136

Too many employers in these sectors are not able to take advantage of the innovation and productivity gain that should flow from a higher skilled population. Analysis by the UK Commission of Employment and Skills (UKCES) shows that nearly half of employers report that they are under-using the skills of their workforce. This rises to 60 per cent in the hotel and restaurant sector, where employers report that a quarter of their employees have qualifications and skills above those that are required for the job. Overall, nearly a quarter of all jobs in the UK (23 per cent) require no entry qualifications and a third of employers do not train. Meanwhile only 11 per cent of the workforce has no qualifications – down from 22 per cent in 2003.137

Chart 5.3 Skills under-use in the UK, by industry

Source: Corlett and Whittaker, ASHE, 2014 (workers paid less than two-thirds of median earnings)

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136 Corlett and Whittaker, Low Pay Britain 2014, 2014

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In other northern European countries many of the same sectors and occupations are better paid and higher skilled. They are characterised by more firms that compete on the basis of higher skill, higher productivity business models. Just five per cent of employees in the Danish food processing industry are low paid, for example, compared to nearly a third (31 per cent) in the UK. A comparative study found that the higher starting salary in the Danish food processing industry (€17.50 compared to €7.80 in the UK) is underpinned by higher productivity, skills utilisation and investment in technology, while in the UK the jobs are more likely to be low skilled and routine.  

**Box 5.1 Case studies: lorry driving and bricklaying abroad**

Comparative studies have found that people undertaking similar roles in construction, care, cleaning and distribution are often more skilled and better paid in northern Europe than they are in the UK.

Many British companies offer skilled positions in these trades, and where they do so they reap the benefits of a more productive workforce – the CBI for example cites the case of the John Lewis Partnership, which improved the productivity of their drivers by retraining them to fit kitchen appliances on delivery. However in England lorry drivers are required to hold little more than a driving license and some basic road safety knowledge, while in some other countries they receive training in logistics and foreign languages, and are paid accordingly.

Similarly, there are no formal training requirements for bricklayers in England. In contrast, bricklayers in countries such as Denmark, Germany and the Netherlands are expected to develop and utilise broad skills in carpentry and civil engineering, to work with a wide range of materials, to set up and manage construction sites, and to work both collaboratively and independently. Their broader knowledge base delivers a higher standard of service for consumers, and also commands higher wage returns.

**Why these sectors are being held back: a race to the bottom in wages and skills**

In the 21st century the most successful firms and sectors are built on a modern workforce, with well-trained and engaged employees providing high quality products and services. But the low skill, low wage equilibrium in some of the UK’s domestically-traded sectors means that too often the discussion about how to raise productivity assumes that the only way to compete in these sectors is to reduce labour costs by weakening wages and conditions. Firms such as the John Lewis Partnership, which famously competes on the basis of well-trained staff with a financial stake in the success of the company, are seen as an anomaly that bucks the trend.

The Government has actively encouraged a race to the bottom by weakening the UK’s enforcement regime and promoting a hire-and-fire culture – doubling the qualification period for unfair dismissal, introducing fees for employment tribunals and setting up a controversial scheme whereby employees trade their employment rights in return for a share in the company. Under this Government there has been a sharp increase in the use of precarious forms of work such as zero-hours contracts in certain parts of the economy:

138 See Gautie and Schmitt (eds.), Low Wage Work in the Wealthy World, 2010
139 CBI, Better Off Britain, 2014, p.41
140 Brockmann, Clarke and Winch (eds.), Knowledge, Skills and Competence in the European Labour Market; What’s in a vocational qualification? 2011
141 Brockmann, Clarke and Winch (eds.), Bricklaying is more than Flemish bond: Bricklaying qualifications in Europe, 2010
• There are now 1.4 million zero hours contracts in the UK, and in the accommodation and food services industry up to 45 per cent of businesses are now reported to use zero-hours contracts.142

• There is also evidence that some firms and sectors are using them as a permanent management tool for large sections of the workforce. Sports Direct for example hires 85 percent of its 20,000 workers in the UK on zero-hours contracts.

• Precarious and exploitative work is a particular problem in sectors that employ a high proportion of migrant labour, with evidence that migrant workers are being paid below the minimum wage and being asked to work very long hours and to have money deducted from their salaries for travel and accommodation – thus making their employment cheaper than local workers.143

The main industry body for the recruitment industry has also warned that rogue ‘intermediary’ organisations have increased over the past three years and are undercutting the rest of the sector.144 Agency workers are also now being used to undercut wages, with evidence that rogue agencies are marketing a legal loophole that allows agencies to pay agency workers a lower rate provided they are paid between assignments as a way to undercut the wages of employees.145 Legitimate employment agencies have raised concerns that they are being undercut by rogue operators in the sector, and last year leading employers including Tesco, Primark and Debenhams backed a letter to David Cameron calling for stronger regulation of employment agencies across the construction, clothing, cleaning, care and hospitality sectors:

“Those agencies, like my own, who will not take part in the gruesome race to the bottom that characterises our sector of the recruitment industry, are paying a high price for a compliant and ethical approach: we simply cannot enter vast sections of our market. In a progressive, modern economy, this sort of exploitation is bad for those being exploited, many of whom are migrants; bad for workers already here, who see their wages and conditions undercut; and bad for those firms, like my own, who play by the rules. It is also bad for the economy as a whole – costing the exchequer hundreds of millions in lost revenue.”146

“The Gangmasters Licensing Authority is an example of an effective body that UK industry helped establish to manage and mitigate risks of slavery in the food and agriculture sector. We would like to see this model extended to other high risk areas such as fisheries, apparel, construction, cleaning, care and hospitality. ... Effective and strong regulation can ensure such change occurs across industries, not just in the supply chains of responsible companies.”147

These approaches can lead to productivity gains for some individual firms, but working harder, for less is not a sustainable strategy for the country. They lead to low levels of investment relative to other countries. They create insecurity for employees, making it more difficult for families to plan or make ends meet. And they are bad for businesses, dragging them into a race to the bottom that makes it harder to unlock the higher wage, higher skill business models we see in other European countries. Many employers in these sectors face higher rates of staff turnover and absenteeism, and even in sectors such as retail where price is a central element of competition, problems of understaffing and poor service standards can lead to inefficiency, poor operational standards and low customer satisfaction that ultimately affect profits.148 International studies show that it is possible in these sectors to combine value for money for consumers with strong business performance and better paid, better skilled jobs.

142 ONS, Analysis of Employee Contracts that do not Guarantee a Minimum Number of Hours, April 2014
145 See, for example: Liverpool City Council, Report to the Employment Enterprise and Skills Select Committee, 2014
146 Adrian Gregory, Director, Extraman Limited
148 See Ton, The Good Jobs Strategy: How the smartest companies invest in employees to lower costs and boost profits, 2014
Case study: the ‘good jobs strategy’ in retail

Many have come to see the retail sector as one that is inevitably characterised by relatively low wage, low skill work. But a recent study of retail firms by MIT management professor Zeynep Ton cites a number of retailers across the world operating on the basis that satisfied employees provide good customer service, which then drives customer loyalty, which, in turn, drives sales and profits – what she calls the ‘good jobs strategy’:

• QuikTrip is a large American chain of convenience stores which, like Walmart, offers low prices, but in this case employees are well-paid, with stable schedules and healthcare provision. The company's stated purpose is to provide employees with opportunities for growth and success and the store has appeared on Fortune magazine's list of the top 100 companies to work for 11 years in a row. QuikTrip offers excellent customer service, has low turnover, and enjoys profits of more than double the industry average.

• Similarly the supermarket chains Trader Joe’s in the US and Mercadona in Spain both enjoy high profits through a strategy that combines low prices with knowledgeable and empowered employees offering excellent customer service. In contrast with firms like Sports Direct that seek to flex staff numbers up and down, Mercadona maintains relatively stable staff numbers at all times. Store managers cope with variable customer demand by training their employees to do a range of tasks so that they can be productive even when the stores are quiet. The company has continued to grow and increase investment in employees throughout the financial crisis in Spain.

Ton argues that many of the most successful firms recognise that employees are profit-drivers and not simply a cost. She cites the US electronics chain Best Buy, which has boosted sales and profits in recent years by increasing staffing levels and investing more in store employees, having ignored warnings by financial analysts that they should better control costs. These firms often also look to reduce costs in other ways, such as smaller product ranges, reduced packaging and in some cases shorter opening hours.149

Labour’s Plan to help firms escape the cycle of low pay, exploitation and a race to the bottom

For Britain to succeed as a country we must grow our high-tech export sectors and create the jobs of the future, but we cannot simply rely on these sectors to drive growth. Rising prosperity also depends on raising our ambitions for the domestically-traded sectors that employ millions of working people.

Many employers in these sectors are keen to adopt higher skill competitive strategies in order to boost productivity, recruit and train higher quality staff or move into higher-value markets, but lack the resources or wider institutional support to do so. So Labour will remove the barriers facing these sectors, changing the rules of the game so that traditionally lower paying sectors are able to move to higher pay, higher productivity business models without fear of being undercut.

That’s why Labour’s plan includes an industrial strategy for low skill sectors, not just high skill, including measures to help firms break the cycle of low pay and the race to the bottom.

149 Ton, The Good Jobs Strategy: How the smartest companies invest in employees to lower costs and boost profits, 2014
Industrial strategies for low skill sectors, not just high skill

More needs to be done to support the traditionally lower skilled, lower paid domestically-traded sectors to compete on higher wage business models, with productivity improvements driven by greater investment in and better utilisation of workforce skills. As UKCES has argued, harnessing the latent capabilities in the workforce could “yield wide-ranging benefits for some employers” and is also crucial to boosting our productivity and competitiveness relative to other countries:

“If the UK is to remain competitive in the global context it is vital to ensure that employers across the board are able to make full use of the skills and talents of their people to drive business performance and growth.”

So Labour will implement a new industrial strategy that focuses not just on high tech firms, but also ensures employers in sectors such as retail, social care and hospitality benefit from the support they need to boost productivity, jobs and pay.

The CBI has identified five broad sectors, together employing 30 per cent of the population and 60 per cent of those on low earnings, that would benefit from sectoral strategies to tackle the underlying causes of weak productivity and low innovation:

• Accommodation and food services;
• Wholesale and retail trade;
• Admin and support;
• Arts and entertainment; and
• Transport and storage.

Building on the CBI’s analysis, Labour will give domestic sectors with the highest shares of employment and output the tools they need to raise standards. The Low Pay Commission will also have the power to identify sectors with high levels of low pay and initiate industry-led taskforces to develop and implement strategies to tackle the underlying causes of low pay in different sectors. This will enable employers to highlight national policy issues to Government and collectively invest in measures to improve productivity, pay and training without fear of skilled workers being poached by non-training firms or those seeking an advantage through ‘undercutting’ the competition.

Delivering Labour’s Plan: Sectoral approaches in the public sector: care sector reform

Under Labour care will be the first sector to benefit from an industrial strategy to raise job quality and performance. A report to the Labour Party by Baroness Kingsmill, published in May 2014, argued that although social care workers carry out some of the most important work in society, long-term problems within the sector have led to the work they do being undervalued.\(^\text{151}\)

The Kingsmill Review highlighted evidence that up to 220,000 care workers are paid less than the National Minimum Wage and an estimated 307,000 care workers are on zero-hours contract. Baroness Kingsmill argued that these practices also impact on the quality of care, with the people that rely on these services increasingly facing care visits lasting just 15 minute long. Employers in health and social care report that almost 20 per cent of their workforce has skills that are currently underused.

Labour has set out a comprehensive plan to end the scandal of care visits limited to just 15 minutes. That means action to: reform payment systems to provide incentives for prevention, early intervention and better social care; tackle the low-cost business models and exploitation that too many care providers operate on; and support employers to better utilise and develop the skills of the workforce through more higher-level apprenticeships and opportunities for progression.

We will achieve this by:

- **Introducing a Year-of-Care budget for those with complex needs, such as frail older people, which will increasingly provide incentives to offer more preventative and re-ablement services in the home, including social care services.** Accountable providers, who will have to pay more if clients deteriorate and need acute care, will suddenly be incentivised to commission care services that provide better quality care.

- **Tackling exploitation in the care sector as a route to protecting staff and improving standards, including banning zero hours contracts that exploit workers and increasing penalties for non-payment of the NMW.** Time-limited 15-minute visits are often part of a low-cost model that relies on exploitative zero-hours contracts and non-payment of the national minimum wage, so cracking down on these practices should help drive up standards.

- **Raising standards by creating new apprenticeships and providing more opportunities for progression.** Currently, training levels are low and opportunities for progression are limited, so driving up the levels of apprenticeships, including new higher-level apprenticeships, will help raise standards in the sector.

\(^\text{151}\) Kingsmill, Taking Care: An independent report into working conditions in the Care Sector, 2014
Supporting employers to pay more through a strong wage floor and incentives to pay the Living Wage

In his independent review to the Labour Party, Alan Buckle, former Deputy Chairman at KPMG International, highlighted that raising wages is not only good for employees and the exchequer, but also good for businesses, underpinning a modern workforce that is well-trained, productive and engaged.\textsuperscript{152} The Buckle Review cites research showing that 80 per cent of Living Wage employers in London say that the move to higher wages improved the quality of work of their staff, with absenteeism down by an average of 25 per cent, and that two thirds of Living Wage employers report a significant impact on recruitment and retention within their organisation.

Labour will support employers to raise standards and pay higher wages, creating a level playing field through a higher minimum wage, combined with support and incentives for firms to pay the Living Wage.

Protecting employers from the race to the bottom on wages and conditions

Unlocking higher investment and pay in low paid sectors is much harder if they can be undercut by those competing through exploitative working practices. Flexible contracts such as zero-hours contracts and agency working can provide vital flexibility that works for both employers and employees, but there is evidence that in recent years that these have been associated with exploitative working practices and rogue operators. In an independent review to the Labour Party, Norman Pickavance, former Head of Human Resources at Morrisons, argued that stronger regulation to stamp out exploitative zero-hours contracts would support employers to compete on the basis of quality customer service, with a well-trained and engaged workforce:

“A more dynamic, innovative and fairer economy needs a set of shared rules to prevent the majority of good employers from being undercut by those that seek to cut costs and create incentives for more businesses to compete in higher value markets that support the growth of well-paid and more secure jobs across the UK.”\textsuperscript{153}

That’s why Labour’s industrial strategy for lower paid sectors also includes measures to reduce the pressures employers face to get dragged into a race to the bottom on wages and conditions by banning the abuse of zero-hours contracts, tackling rogue employment agencies engaged in undercutting, and properly enforcing the rules on non-payment of the minimum wage and use of illegal migrants:

- Banning the abuse of zero-hours contracts: giving workers on zero-hours contracts new legal rights to be protected from employers forcing them to be available at all hours, insisting they cannot work for anyone else, or cancelling shifts at short notice without compensation, and giving workers on zero hours contracts who are actually working regular hours week-in week-out a right to a contract with fixed minimum hours. We will also introduce a new ACAS Code of Practice to end the confusion surrounding rights and responsibilities.

\textsuperscript{152} Buckle, Low Pay: the nation’s challenge, 2014
\textsuperscript{153} Pickavance, Zeroed Out: The place of zero-hours contracts in a fair and productive economy, 2014
• Tackling undercutting by rogue employment agencies: taking action to crack down on rogue agencies that exploit workers illegally for profit – for example through a licensing system that ensures agencies are complying with basic standards or stopped from operating; extending the Gangmasters’ Licensing Authority approach to cover sectors where there is evidence of high levels of migrant labour and exploitative working practices; and closing the loophole in the Agency Workers Directive that allows agency workers to be used to undercut employees.

• Ensuring proper enforcement of the rules: there is no point in having rules if they are not enforced. Under this Government, the number of inspections into whether the National Minimum Wage was being paid has more than halved and here have been just two prosecutions for not paying the NMW since 2010. There is widespread agreement that better enforcement would support employers that play by the rules. Labour will improve this by: increasing the fines for breaching the minimum wage to £50,000; extending the remit of the HMRC minimum wage unit to cover holiday pay, and giving councils a role in enforcement; and trebling the fines for knowingly employing illegal migrants.

**Conclusion**

The lack of attention paid to our domestically-traded sectors over many years means that some of these sectors tend to be less productive, lower skilled and lower paid in the UK than they are in other countries.

Too often it is assumed that the only way for firms in sectors such as retail, hospitality and social care to compete is by cutting employee pay and conditions. But many firms in these sectors want to be able to compete through higher skill, higher wage business models, without being undercut and dragged into a race to the bottom. Such an approach can benefit the individual firms, their employees and more importantly would contribution to raising productivity and sustainable growth for Britain as a whole.

That is why Labour’s plan includes a new industrial strategy which supports the lower paid, domestically-traded sectors that employ millions of people to raise productivity, training and pay.
Delivering Labour’s Plan: taking action to help make work pay and stop firms being undercut

An economic plan that works for all working people, not just a few at the top, requires action to tackle low pay, raise wages and address insecurity in the workplace.

• Increase the minimum wage to £8 an hour before 2020.

• Encourage more employers to pay a living wage by establishing ‘Make Work Pay’ contracts, giving a tax rebate to those companies that sign up to become living wage employers in the first year of the next Parliament.

• Introduce a new, lower 10 pence starting rate of tax benefitting 24 million working people on middle and lower incomes, paid for by scrapping the unfair marriage tax allowance.

• Require listed companies to report on whether or not they pay the living wage, and follow the lead of Labour Councils by using government contracts to spread the payment of the living wage.

• Ban exploitative zero-hour contracts to ensure that workers who work regular hours get a regular contract.

• Make the exploitation of migrant labour to undercut wages illegal.

• Introduce a Compulsory Jobs Guarantee, paid for by a bank bonus tax, to provide a paid starter job for everyone young person unemployed for over a year which they will have to take up or lose benefits.
CONCLUSION

Britain is a great country. Our people start, sustain and drive forward companies that beat the best in the world. Wherever investors come from they want to invest in Britain, and wherever in our country people work they have shown huge resilience to the difficulties of recent years.

With those advantages it is then for this generation to face up to the challenges of our time: how to deliver a step change in the productivity of our economy to underpin the sustained growth, rising living standards and falling deficit that have proved so elusive in the last five years.

This document has laid out Labour’s plan to answer that challenge. It rejects the failed idea that growth in a modern economy can be driven by simply cutting taxes for a narrow range of firms or individuals, but recognises too that the approach of the next Labour government will be different to that of the last.

Instead it charts a course for the broad-based productivity we need. That will come from unleashing the small businesses that are the backbone of Britain, seeing our largest employing sectors as part of the answer to higher productivity rather than a drag on it, and building the long-term climate that will allow our world beating firms to invest in their continued success.

This is a plan for partnership with British business based on the shared understanding developed over the last five years that the only way Britain can succeed in the 21st century is when working people succeed. On May 8th 2015 we intend to begin the real work of putting it into practice.