



Memorandum to the Business and Enterprise Select Committee in respect of its enquiry into the Government's support to the car industry

Unite the Union, is the UK's largest trade union with almost 2 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.

It is the leading union in the automotive and motor components industry with a membership of over 60,000. As part of the union's continuing dialogue with government it has stressed the need for the supportive package for the industry to include a viable compensation scheme for workers faced with reduced hours, short time working and lay offs.

The union sets out in this memorandum a paper which it has commissioned which sets out the economic case for a Short Time Working Compensation scheme. Unite would welcome the opportunity to discuss the content of this paper and other areas of government support with the Committee in an oral evidence session.

The Economic Case for a Short Time Working Compensation Scheme

Introduction

It is widely agreed that the root cause of the current economic recession is an unprecedented global decline in demand for goods and services. That this was triggered by a collapse in bank lending is also beyond dispute. The impact of the recession on economic growth and employment has been both swift and dramatic leaving both developed and developing economies facing bleak and deteriorating economic and social conditions. Indeed, forecasters have struggled to keep up with the pace of the decline. For example, the EU between January and April this year revised their economic forecast for the contraction in GDP in the EU from 2% pa to 4% pa. The latest projections from the Budget statement show just how severe the downturn is expected to be in 2009 in the UK with GDP growth predicted to fall away by as much as 3.75% and manufacturing output falling by around 12.5%. The effect of this on the labour market has been to increase the numbers of registered unemployed to 2.1 million a rate of 6.7% currently. The latest OECD projections see UK unemployment rising to average 7.7% this year and continuing to rise to average 9.5% next year. In other words, we are likely to see the unemployment total reaching the 3 million mark over the next year or so.

Looking across the UK economy it is clear that the manufacturing sector has been hard hit and remains vulnerable to further deterioration and job losses. The recent budget report noted that "Manufacturing output fell by 5 per cent in the final quarter of 2008 and a further 3¾ percent in the first two months of 2009." It went on to state:

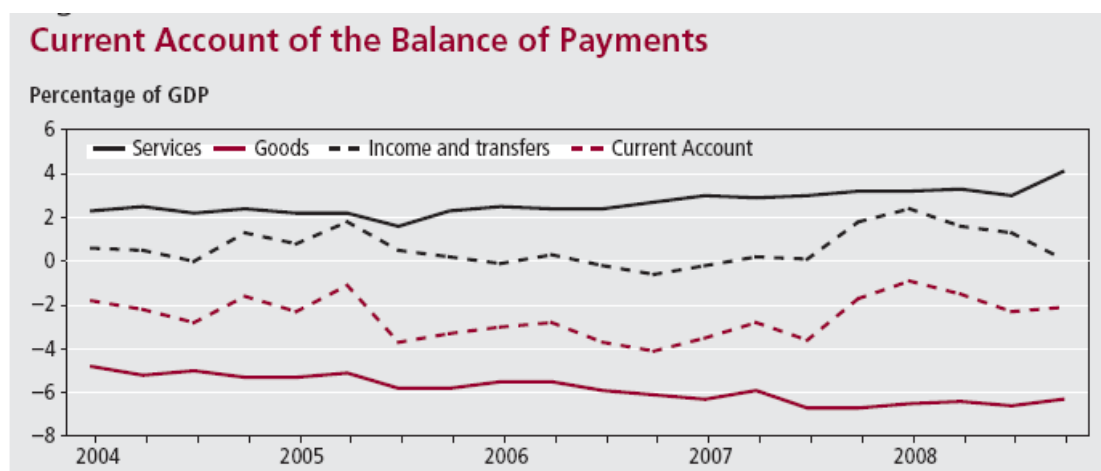
“manufacturing output as a whole was down 14 per cent on a year earlier by February 2009, production of capital equipment was down 17 per cent and consumer durables 21 percent.” Against this gloomy backdrop, the government’s belief that their efforts to restore the flow of credit in the economy will see manufacturing recover to grow by half a per cent in 2010 (Budget prediction) is, in our view, somewhat optimistic. Unite believes that more needs to be done urgently to maintain productive capacity in the manufacturing sector to ensure that the UK economy is in a position to be able to benefit from any resumption in economic growth. To this end, this paper sets out the economic arguments in favour of the introduction of a temporary short time working compensation scheme to be introduced to boost the UK’s ability to maintain current employment levels in the manufacturing sector.

The significance of manufacturing to the UK economy and labour market

Whilst employment levels in the manufacturing sector have steadily declined over the last 30 years as figure 2 and 3 below show, the output from manufacturing remains crucial to the overall economy. National Income Accounts show that for 2006 manufacturing output was worth some £448 billion second only to the value of the business services and finance sectors’ output that totalled £596 billion. Given, the drastic restructuring of the banking sector resulting from the current recession, it is likely that the value of the manufacturing sector will become even more significant to the UK economy in future years if the UK is to maintain its position in the global economy. This being so, the current imbalance between government support for the finance sector (massive) and that, so far announced, for manufacturing (minimal) has to be redressed. We simply cannot afford to allow the manufacturing sector to slide even further into decline.

If we continue to neglect the manufacturing sector the balance of payments consequences will be dire. For many years the fact that the UK has run a deficit in our trade in manufactured goods (i.e. we have imported a greater value of goods than we have exported) has been roughly counterbalanced by the surplus we have run in our trade in services. In recent years this has not been sufficient and the UK has experienced a widening gap in its overall balance of payments as the following figure shows.

Figure 1



Source: ONS Balance of Payments

It can be seen here that whilst the surplus in services trade has averaged around 2 to 4% of GDP the deficit on manufactured goods has, by contrast, dropped from around 4 to 6% of GDP leaving the overall trade deficit at around 2% of GDP. Given the

current turmoil in the financial sector and the likely weakening in the position of the UK's financial sector in the short to medium term, It is likely that further sharp falls in our overall trade balance will be seen over the next few years. The budget forecast, for example, foresees the deficit growing to 3.5% of GDP in 2009 and 2010. The point to be made here is that it would be foolish in the extreme to rely on a dramatic recovery in the fortunes of the banking sector to pull the UK out of this downward balance of payments spiral. With low inflation and a weaker pound it makes much more sense to boost the export efforts of the manufacturing sector but this will not be possible unless the productive potential of our manufacturing base is both maintained and enhanced.

To do this employment levels in the manufacturing sector have to be secured and a coherent programme put in place to ensure the UK skill base is appropriate for any future upturn in economic growth. In addition, the industry needs to be able to develop and apply new skills that will enable it to move towards a more sustainable form of economic growth.

There is also an important lesson to be learned from the recessions experienced in the 1980's and 90's in the UK, namely, the phenomenon of 'jobless growth'. Table 1 below shows that UK unemployment rates continued to rise during the first years of recovery following the recession of 1981 despite annual economic growth rates that had reached 4% pa by 1986. It was not until 1987, a full 6 years after the worst of the recession, that unemployment began to fall. A similar, if not quite as bad, experience in the recession of the early 1990's where, despite a pick up in economic growth between 1991 and 1994, unemployment continued to rise and did not fall back to the 1991 level until 1995.

Table 1 Jobless growth in the 1980's

Year	Real GDP growth % pa	Unemployment rate %
1981	-1.3	7.6
1982	2.1	9.0
1983	3.6	9.9
1984	2.7	10.1
1985	3.6	10.3
1986	4.0	10.5
1987	4.6	9.4
1988	5.0	7.5

(ONS Annual Abstract of Statistics)

It is clear, as the last two recessions have shown, that employment growth lags economic growth. The lesson here is that we cannot rely on economic growth alone to boost the demand for labour in our economy in the short to medium term. The UK's previous experience of recovery suggests it will take between 4 and 6 years for unemployment to fall back to the pre recessionary level. Moreover, the current recession is set to exceed the severity of those experienced in the 80's and 90's. The economic consequences of allowing current levels of unemployment to rise for the next 3 or 4 years will involve a downward spiral of falling demand (with falling tax revenues and rising benefit costs) that could significantly undermine the government's fiscal stimulus and monetary easing policies. There is then an urgent need to bolster employment particularly in the manufacturing sector as the first step towards ensuring that economic recovery has a much quicker impact on the labour market than has been the case in the last two recessions.

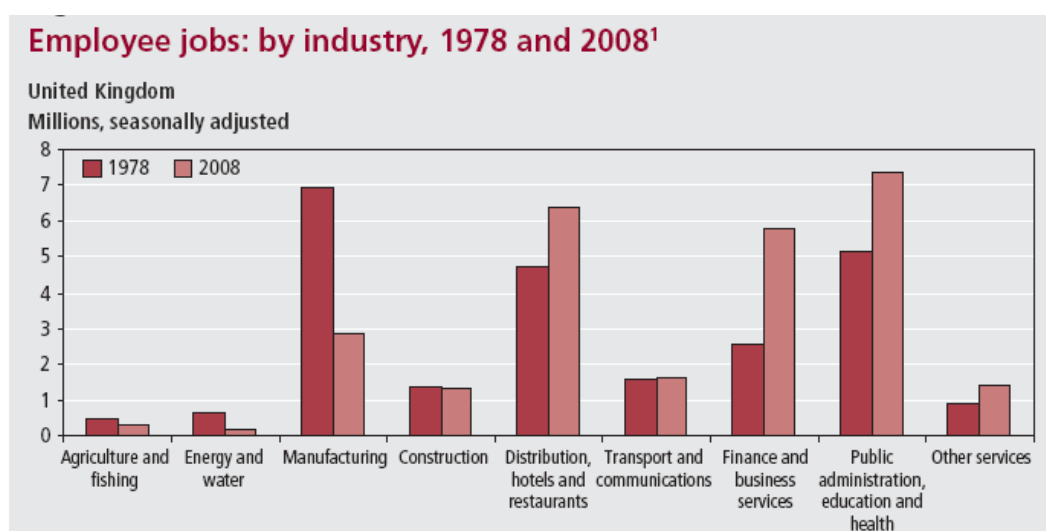
A temporary short time working compensation scheme is a key first step here but there is also a need to ensure that it forms part of an integrated and longer term training and skills enhancement strategy. We need this to ensure that key UK sectors have a strong competitive advantage to meet future economic opportunities and that the shift into more sustainable forms of economic growth can be achieved efficiently and effectively.

The decline in employment in the UK manufacturing sector

The following figures show the extent to which employment in the manufacturing has declined in recent years. Figure 2 reveals the way in which job growth in the UK labour market has shifted away from manufacturing over the last three decades. The UK is not alone in seeing employment levels shifting towards the service sector. It is a phenomenon that has been observed in virtually every other developed industrialised nation but arguably the job losses in manufacturing over the last decade (table 2) have left the UK in a particularly vulnerable position insofar as planning a sustainable recovery is concerned.

First of all there is the loss of skills and productive capacity to be considered. Table 2 reveals that overall employment in the manufacturing sector fell by 30% in the decade to 2007. In certain sub sectors, notably textiles and leather and footwear, the decline was particularly acute. In short, some parts of the manufacturing sector are becoming dangerously close to losing the ‘critical mass’ they will need to be able to withstand the current recession let alone be in a position to benefit from any upturn in demand in 2010 and 2011. There is a real risk that skills will be lost here that will seriously damage any chance of recovery. In the second place, it needs to be recognised that the financial and banking sector which has been a strong engine of employment growth in the last couple of decades is now in an unprecedented crisis. As such, it is wholly unlikely to be able to contribute to employment growth in the foreseeable future. Add to this the consequences of public expenditure cutbacks foreshadowed in the budget and it can be seen how the public sector (another key area of job growth in recent years) will be similarly constrained in the short to medium term. These constraints are, amongst other things, what differentiates the current recession from those we experienced in the 80’s and 90’s.

Figure 2



Note:

1 Three months to September.

Source: *Employee Jobs*

**Table 2 Recent employment trends in the UK manufacturing sector
Employment levels**

000's

Industry	1997	2007	% change
Manufacturing Total	4,175	2,917	30.1
Food and Tobacco	490	411	16.1
Textiles	344	98	71.5
Leather and footwear	38	12	68.4
Wood & wood prods	88	79	10.2
Pulp paper and printing	466	366	21.5
Coke & refined petroleum prods	30	23	23.3
chemicals	252	189	25
Rubber & plastics	251	194	22.7
Non-metallic minerals & mineral prods	148	104	29.7
Basic metals and prods (not machinery)	573	381	33.5
Machinery nes	389	270	30.6
Electrical & optical	507	305	39.8
Transport equipment	388	306	21.1
Manuf. nes	209	176	15.8

Source Annual Abstract of Statistics ONS

It is also clear that the flaws in the 'economic model' forged by successive governments of the 80's and 90's that accepted the run down of the UK manufacturing base in favour of a service based economy with de-regulated banking and finance at its core, have been ruthlessly exposed by the current recession. Yet the response from the government to date has been extraordinarily one sided if we consider the financial support that has flowed to the banking and finance sectors compared to that made available to manufacturing.

The emergence of temporary short time working

Decisions by employers reacting to the current recession have led to substantial numbers of workers losing their jobs as witnessed by the recent rise in unemployment.

Alongside these job losses, there has been a rapidly rising tide of workers agreeing to a range of short term working measures in order to preserve their employment. The motor industry has been in the forefront here as a combination of falling demand and high levels of stock has seen output from UK car and commercial vehicle manufacturers slashed by around 30% in the first few months of this year. As a result, virtually every motor manufacturer in the UK has opted for some form of working time reduction varying from wholesale plant shutdowns for given time periods to cuts in the working week. The reduction in car output has had an inevitable knock on effect on the supply chain to the sector and on the retail motor trade leading to similar cuts in working time. Whilst such developments have been prominent in the motor industry we should not ignore the wider economy where falling demand for goods and services has brought similar responses as well as substantial job losses. In all cases, hundreds of thousands of employees involved have suffered a drop in earnings commensurate with these hours reductions or with their loss of jobs.

Table 3 below show those parts of the manufacturing sector that have suffered the biggest job losses over the last couple of years.

Table 3 Change in Employment levels in the UK Manufacturing Sector 2007-2009

Sector	000's			
	2007 (1st qt)	2008 (1 st qt)	2009 (Jan)	% change 07-09
Manufacturing total	2,831	2,793	2,657	-6.5
Food, Drink & Tobacco	394	395	386	-2.0
Clothing textiles & Leather prods	106	99	93	-12.2
Wood & wood prods	74	75	62	-16.2
Paper print and publishing	364	349	334	-8.2
Chemicals & manmade fibres	185	179	171	-7.6
Rubber & Plastics	182	176	164	-9.9
Non Metallic minerals, metals & metal prods	472	468	435	-7.8
Machinery & eqpt nes	267	270	259	-3.0
Electrical & optical eqpt	299	290	278	-7.0
Transport Eqpt	300	305	292	-2.7
Coke, nuclear fuels & other manuf nes	190	187	178	-6.3

Source Monthly Digest of Statistics

It seems likely that the next 18 months will see employment falls in all the sectors shown in table 3 at least in line with and more than likely exceeding the job losses that have come through since the first half of 2007. In short, in the absence of any offsetting measure we can expect job losses in manufacturing in the next 18 months in the order of 270,000 jobs assuming the rate of decline increases to around 10%.

UK compared to other EU member states

The use of short time working by companies as a means to avoid declaring redundancies as the recession has developed has been widespread throughout the EU. The automobile, clothing and textile and construction sectors have been particularly prominent here. In sharp contrast to the UK, the state in a number of EU member nations has played an active role in providing financial subsidies to ensure that the wages of the workers affected are maintained at or close to their normal level. The following table summarises the type and level of governmental support in 4 EU states.

Table 4 Short time working compensation elsewhere in the EU

Country	Short time working scheme
Germany	State funded payments: 67% of last monthly net wage (workers with children) 60% for single employees. Payments available for up to 6 months normally but can be up to 12 months in exceptional circumstances affecting specific sectors or regions or 24 months in very exceptional circumstances affecting the entire labour market.
France	State funded payments for up to 1000 hours per employee on short time working: 60% of gross hourly wage (80% for the chemical industry)
Belgium	State will pay blue collar workers 75% of maximum wage but not more than 2,206 euros per month for single earners with or without children for 6 months and 2,056 euros per month for the next 6 months
Netherlands	State will pay 75% of the worker's wage for the first 2 months and 70% for the next 4 months up to a maximum of 183 euros per day. In return companies undertake to (re)train the affected workers

Source: Glassner, V. and Galgoczi, B. Plant Level Responses to the Economic Crisis in Europe. ETUI 2009

It is plain that the UK is out of step with other leading EU nations who as well as providing fiscal stimulus packages to their own economies, have also been prepared to subsidise short time working as a temporary means of easing the negative pressures in their labour markets. It is time that the UK followed their lead with a temporary short time working compensation scheme of its own.

There is of course a fairly recent historical precedent for this. The UK government introduced a Temporary Short Time Working Compensation Scheme on 1st April 1979 to run until March 31st 1980. It was to be a successor to the Temporary Employment Subsidy and the Short-time Working Compensation Schemes the labour government had introduced earlier to help deal with rising unemployment and was intended to be a temporary measure pending the introduction of a statutory scheme. The change of government in 1979, however prevented this from happening. The main purpose of the scheme was to help employers protect threatened jobs by giving them a breathing space during which they could make necessary adjustments to safeguard jobs and thus avoid redundancies. Each job would only be supported once, for a maximum period which varied between six and twelve months, at levels of reimbursement which dropped from 75% to 50% during the operation of the scheme. It was necessary for the job itself to have a recognised long-term future. Occupations excluded from the scheme included police, dock workers, and share fishermen.

Funding a temporary short time working compensation scheme

As the recent budget has shown, the cost of the fiscal measures the government has put in place to deal with the recession are such that there will be very little room for additions to public expenditure over the next few years. Accordingly, we have to look for innovative ways to make use of public funding already announced. There are two ways that government financial support for a temporary short time working scheme could be forthcoming. First of all there is a considerable surplus in the national insurance fund. This grew from over £34 billion in 2005/06 to £38 billion in 2006/7 and the Governments Actuary department forecasts that the surplus will grow to over £114.7 billion by 2012. Plainly then this could be one source of existing revenue that could be diverted to supporting temporary short time working.

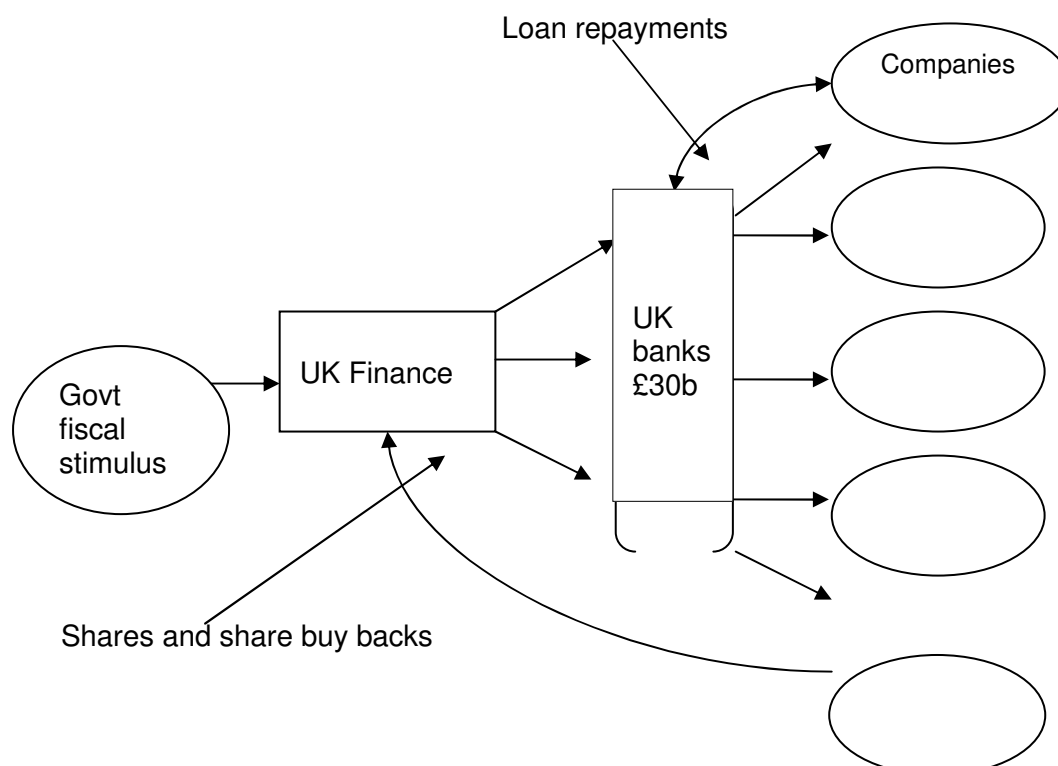
A second approach would involve using some of the huge injection of public cash that has gone into propping up the banking sector. The IMF estimated recently that by the end of February this year the UK government had spent £285 billion in up front support of the banking sector. More recent estimates, that include further public support for RBS and Lloyds TSB, put the figure at around £300 billion. In other words, since the crisis began the banks and financial institutions in the UK have swallowed the equivalent of 20% of our annual GDP. Whilst clearly happy to receive this funding the banks have, in the meantime, been reluctant to use their newly acquired liquidity in ways that the government would desire. The hoped for boost to bank lending has yet to materialise. Involving the banks in channelling some of this money to support temporary short time working elsewhere in the economy would be one effective way of ensuring that taxpayers' money finds its way into taxpayers' pay packets or salary cheques.

Unite has set out its proposal in figure 3 below

The essence of the funding scheme proposed in figure 3 is as follows:

- The government requires the banks who have received around £300 billion of public funds to make loans to companies to subsidise temporary short time working;
- The banks agree with the companies a standard low interest repayment of these loans within three years;
- Alternatively, the companies could issue shares to the value of the loans to be held by UK Finance (the entity set up by the government to handle our interests in the banks we have bailed out recently);
- The companies would agree to buy back the shares at either the issue value or the prevailing market price- whichever was the greater- at any time during the three year period of the loan.
- UK Finance would be free in the meantime to sell the shares on the open market giving the company involved the first option to buy back.
- The profit from any share sale would revert to UK finance and ultimately the public purse.

Figure 3 Funding a TSTW scheme



The advantages of this approach to funding a temporary short time working scheme are as follows:

- It would not require any 'new' money from the government since it would draw upon the existing £300 billion already invested in the banks;
- It ensures that taxpayers' money is used to subsidise taxpayers;
- Maintaining pay levels in this way helps to ensure that demand is bolstered which fits more readily with the government's demand boosting strategies;
- It would, to a limited extent, restore some sense of balance in terms of where public funding is to be channelled since to date the vast majority of state financial aid has been swallowed up by the banking sector;
- It addresses the 'moral hazard' argument in that there would be a modest cost (spread over three years) to the participating companies;
- It ensures that we do not 'privatise profit and nationalise debt';
- The revenues flowing through to UK Finance could be used to invest in new public training infrastructure and support the sort of training that will be needed to implement new approaches to sustainable economic growth. The manufacturing sector has the potential to play a key role here and, depending upon how it is supported, could result in the UK gaining real competitive advantage in a range of products and services linked to the challenge posed by climate change.

Linking a short time working compensation scheme to strategic training needs

It is increasingly clear that the national business model the UK has implemented is no longer fit for purpose. It has proved disproportionately vulnerable to the global downturn in economic demand and has failed to respond meaningfully to the challenges posed by climate change. Yet there is an urgent need to develop a new national economic model that is both robust in the face of economic downturns and attuned to the needs of sustainable economic development. Developing a new skill set within the manufacturing sector workforce is going to be crucial here. Ensuring that appropriate training and skills enhancement is a quid pro quo for employers using the short time working compensation scheme would enable employees to acquire the sort of skills that will be required for the future. Some of this could be funded from the government's train to gain scheme.

In addition, employers participating in the scheme would be expected to agree:

- Forward business plans that recognised that at the end of the period of short time working there was an expectation to return to the employment levels which existed prior to the commencement of short time working;
- A guarantee from the employer that there would be no compulsory redundancies within a period of 12 months from the return to normal working;
- The terms of the short time working period would be the subject of a collective agreement between the employee representatives and the employer.

To summarise, there is clear need to restore aggregate expenditure levels to ensure a steady reflation of the UK economy. To date government attempts to stimulate the economy have been constrained by the sluggishness of Bank lending but also by the effect that rising unemployment is having on consumer confidence. Negative signals from the labour market, such as increasing levels of short term working, are bound to further adversely affect consumption patterns and thus hold back any recovery in demand. Moreover, there is a real risk that without any direct support for companies

and their wage and salary bills, skilled workers will be lost to key parts of the economy and in particular to the manufacturing sector. Elsewhere in the EU governments have recognised the importance of maintaining their skilled workforce and have understood the value of firm specific human capital. The UK should urgently be following suite here. The need for a temporary short time working compensation scheme is compelling and essential if the UK is to benefit from opportunities that are presented as the global economy begins to recover.

The size of the workforce in manufacturing may have halved over the 30 years since 1978 (as can be seen from table 1 b) but the sector remains the second biggest in terms of contribution to GDP and in the foreseeable future is likely to have a crucial role in helping to make a green alternative economic strategy a reality. There is both employment growth and export potential here if the government is bold enough to link support for the sector with appropriate investment in training infrastructure. It should also be noted that the ability of the service sector to pull the UK out of the current recession will be severely limited by the restructuring of the banking and finance sector whilst the size of public sector debt will effectively constrain growth potential from this direction.

A temporary short time working compensation scheme is in this context an important strategic step towards rebuilding the manufacturing sector and providing the UK with a manufacturing base that is both competitive and fit for purpose in the challenging times that lie ahead.

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May 2009

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