Moving on

A Labour approach to the post-Brexit economy

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INTRODUCTION

Brexit will have profound consequences for our country's future. But nowhere more than in questions of the British economy. In the immediate aftermath of the referendum result the then chancellor George Osborne made it clear that the government's previous fiscal position and economic strategy would have to change to accommodate the impact of the result. These signals have been reinforced by the new chancellor, Philip Hammond. The Autumn Statement on 23rd November will be the first opportunity to see what this approach looks like in practice.

This short paper aims to outline a possible approach the government could take in the Autumn Statement. It does not address the specific question of the fiscal envelope in which future spending decisions will be taken, but rather looks at the fundamental structural challenges in the economy, many of which are now set to be exacerbated by Brexit. The contributions range across policies on infrastructure and housing, financial services, business support, skills, welfare and childcare. Each is distinct, but will be informed by a central direction that the government should take in the years ahead.

Britain's economy is divided. More and more it appears that Britain is not a coherent economic whole with a shared direction. Prosperity has evaded sections of our country, and whilst the United Kingdom provides a mechanism for transferring money from wealthier places to poorer places, the current structure of our economy - and the policies that support it – reinforce this geographic economic division rather than repair it.

Recent decades have seen incredibly unequal economic growth, and change that has left some in our country without a sense of economic purpose. Far too many, have experienced a decade of drift between 2006-2016, with some towns falling well behind growing cities, and some regions barely developing, whilst London canters away. London is effectively an off-shore island-within-an-island, whose property is a reserve currency, and whose employment market in terms of wages, skills and productivity is barely comparable to the rest of the UK. Whilst poverty still persists in the capital, inequality between regions is as much of a problem as inequality within cities.

The data is stark, with infrastructure spending in the capital thirteen times per head what is spent in the North East, while London is 30% more productive than the average across the rest of the country.

The consequences of this economic and power divide for individuals are serious. Economic ill-fortunes don't just impact the strength and capacities of our country as a whole, they also affect us all individually, constraining our ambitions and diminishing our confidence and ability to achieve. There is a social background to this economic divide which is reflected in low self-esteem and depression.

Britain needs a plan not just to grow our country, but an economic restructuring to remake stagnant towns, giving them an economic purpose, and creating pride and appreciation in places where ill fortune and ill health cluster together. We need to halt and reverse economic stagnation of those places outside London's core that growth has eluded for too long.

This would have been necessary even had Britain voted to remain in the EU, and Brexit is unlikely to create a benign environment in which to develop such a plan, but such a seismic event should at least open the space for a more rigorous debate about the strengths and weaknesses of the UK economy and the change that is needed to prepare our country for the challenges of the coming decades.

We intend this paper to be a contribution to this debate, offering a mix of long term policy strategies and more immediate measures that could begin to form a platform for rebalancing the UK economy in a post-Brexit climate. In chapter one Alison McGovern will argue that the last decade has seen systematic underinvestment in infrastructure outside of London and will make the case for a more active infrastructure strategy that focuses on areas that have been neglected and prioritises investments that will help to create more connected and prosperous regional economies. In chapter two Chuka Umunna sets out how the chancellor could better support businesses by investing in innovation, encouraging expansion and supporting exports. In chapter three Shabana Mahmood looks at how the government could close the skills gap by working strategically and placing skills at the heart of the welfare system. In chapter four Rachel Reeves makes the case for a move towards universal childcare and removing barriers to work. Finally, in chapter five Chris Leslie sets out the challenges for a new Chancellor to pre-empt Brexit austerity and champion a modern and well-regulated financial services sector.

Labour's mission is to give a voice to those who are currently excluded from economic decision-making. Our country does better when everyone has a fair chance of success. Many of these ideas, whether on regional banks or the need for increased investment in infrastructure and skills, have been central to the Labour Party's economic thinking for many years, but they now need to be set within a broader project of responding to the imbalances both exposed and created by the outcome of the referendum.

More broadly, we believe that economic division on this scale is corrosive for progressive politics in general and Labour politics in particular. If these divisions are allowed to widen then it will only become harder to win support for a political agenda based on open economies, strong communities and effective government intervention. The rise of populist politics is at least in part a response to this economic frustration, and will only be overcome by an agenda which both acknowledges, explains and offers solutions to this sense of economic division.

In the end, the Labour Party at its foundation was designed to give power and control to those who depend on our economic fortunes for a decent life. The creation of our party was to make sure the same people working for our country's future could also govern in the interests of the many, not the few. Nothing has changed: Labour is needed now as it was needed at the turn of the last century. It is time we made good on that mission.

1. INFRASTRUCTURE AND HOUSING

ALISON MCGOVERN MP

Infrastructure policy is in a mess. Our unbalanced economy - despite the northern rhetoric of Cheshire's George Osborne - has never been more split, with London overheating and the rest of the regions undercooked.

And there is no clearer indication of the unhealthy state of UK economic policy than the state of our infrastructure and housing policy. Looked at together, they tell a clear story about a country that lacks either a strategy to rebalance our lopsided economy or to cope with the side-effects that such a skew inevitably brings.

UK infrastructure policy under this government has mainly been characterised by delays and indecision. The famous case is of course airport capacity in the South East, where a decision has now finally been taken, but there are countless other examples of stalled projects ranging from energy infrastructure to rail electrification. These delays cost taxpayers in the long term as the costs of projects spiral and vital investment is stalled.

The new National Infrastructure Commission, chaired by Lord Adonis, is a welcome step in the right direction, adding a level of independence and strategic heft to the process of infrastructure decision-making and delivery, but it remains to be seen whether it truly has the power needed to make the necessary changes.

The UK desperately needs to increase the amount we invest in infrastructure. A report from the OECD last year found that we invest less in our infrastructure than other OECD and G7 countries and concludes that "protracted underinvestment has taken its toll on UK infrastructure".[1] The World Economic Forum Global Competitiveness Report 2014-15 ranked the UK 27th in the world for the quality of infrastructure. UK infrastructure investment has long been overly reliant on the private sector, with insufficient capital spent by the government.

But the problem is not just how little we spend, but where that spend is concentrated. Analysis by SPERI last year highlights a staggering regional inequality in infrastructure spending in our country. Based on figures from the government's own national infrastructure pipeline, they found that planned infrastructure spend per capita in London (£5305) was over two and a half times that in the North West (£1946), over six times that in Yorkshire and Humber (£851) and an eye-watering thirteen times that in the North East (£414).

This matters because of the knock on effects on the rest of the economy. Poor infrastructure is a key driver of low productivity, according to the ONS GVA per hour in London is around 30% above the national average, while every other region bar the South East lags well behind. But it also has an effect on housing. When investment and jobs growth is concentrated in the South East, it causes overheating of the economy there. Figures from the DCLG show that 44% of the projected growth in the number of households in England by 2039 will be in London and the South East. This in turn has an effect on house price growth, with London house prices racing away from the rest of the country.

The practical effect is that the regional imbalance in the economy is becoming bad for London too as even high average London wages struggle to keep pace with the rising cost of housing. Instead of increasing supply to keep try to take the heat out of the housing

[1] http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2015)62&docLanguage=En

market, the government has driven demand through policies like Help to Buy that have only fuelled more growth in house prices in the overheated capital.

So what should be done? Brexit offers British policy-makers the opportunity to step back and examine the future direction of infrastructure and housing policy. The Autumn Statement should be used signal a change in direction towards an economic strategy which uses infrastructure and housing policy as a tool to boost growth and productivity in regions that have suffered a lack of investment.

The Chancellor has already spoken of using infrastructure investment to boost growth as part of a move away from loose monetary policy. There are also signs that the Treasury is preparing a fund of around £3bn to allow smaller housing developers to build more, although it is unclear how much of this money is genuinely new.

What there has not been is any signal that there will be a shift in the regional distribution of infrastructure spending or indeed any recognition of this as a problem at all. In the Autumn Statement, priority should be given to projects outside of the South East that would improve connectivity and boost productivity in the regions.

- The pause on the electrification of the Great Western line is damaging for the South West and for Wales and should be reversed.
- The government should commit to honour their agreement to complete the electrification of the Midland Mainline by 2023.
- Commit to speed up the delivery of major road upgrades, for example the dualling of the A1 from Newcastle to Scotland.
- There should be more investment in Local Growth Deals to help fund specific local projects, with focus given to isolated areas such as Cumbria and the South West.

- Follow the recommendation of the British Chambers of Commerce and make a one-off investment of around £1.2bn to close the road maintenance funding gap.
- Overall Public Sector Net Investment should be brought towards 2% of GDP by the end of the parliament, this should be done by raising investment outside London with a long term target of equalising investment per capita across the regions.
- Funds for new housing developments should be underpinned by new money, not simply an amalgamation of existing funds.

In the longer term there are a number of structural changes to UK infrastructure delivery that should be announced in order to ensure lasting change to the inadequate and uneven levels of investment seen over recent years.

- The National Infrastructure Commission (NIC) should be put on a statutory footing as promised in the Queen's Speech in May.
- The NIC should be given an expanded mandate, including responsibility for housing projects and a responsibility to correct the disparity in regional per capita infrastructure investment.
- A package of measures to speed up the delivery of infrastructure projects should be developed, including looking at accelerating the compulsory order process.
- The borrowing cap on local authorities should be lifted to allow councils to invest in housing supply.

These proposals will go some way towards reversing a trend of government policy that has seen investment in infrastructure and housing supply neglected, especially outside of London and the South East. Future economic success depends on having modern infrastructure capable of supporting the connections and high productivity that will power growth. This should be accompanied by investment in housing that will manage overheating, raise living standards and create modern communities to accompany growth in employment.

The extent to which the Autumn Statement acknowledges and acts on the challenge described here will be a measure of how serious this new government is about creating a post-Brexit economy that genuinely works for our whole country.

Ignore this problem and it is clear that unity in our divided country will be even further away. Accept the challenge, take steps to rebalance investment, and the United Kingdom has half a chance at sticking together.

2. SUPPORTING BUSINESSES AND JOBS IN POST-BREXIT BRITAIN

CHUKA UMUNNA MP

Labour is the party of working people. The Labour Party has always been in the business of ensuring that whatever your background and whatever your start in life, if you work hard and play by the rules, you should have the opportunity to do well and get on, find decent work with a good level of security. Our economy is failing to make this a reality for the majority of people in our country. So, we seek to redistribute power and wealth to ensure a level playing field between labour and capital, and to empower people to fulfil their dreams – it has been our mission since we were founded 116 years ago. Businesses have a vital role to play in this. Growth is a prerequisite to building a fairer, more equal and prosperous Britain - without the growth and wealth businesses help create, there would be nothing to redistribute or use to invest in our people.

The Conservatives traditionally like to think of themselves as the party of business. Labour is a party of business but not business as usual – we seek to nurture productive businesses that invest for the long term and have due regard for the stakeholders that contribute to business success, not least its workers who make the business what it is. However, in holding a referendum on our membership of the European Union on 23 June 2016 without putting in place any plan whatsoever in the event Britain voted to leave the European Union, the modern Conservative Party led by David Cameron and then Theresa May has done more damage to British business than any political party in this country in a generation. This looks all the more foolhardy given the uncertain global context and the election of President-elect Trump.

Tory uncertainty is the enemy of British business

Uncertainty is the enemy of business and the current Conservative Government has created uncertainty by the lorry load for British firms. We, of course, respect the result of the EU referendum - the UK voted to leave the European Union - but it was a disgrace that following the vote, the Cabinet had to convene in August to "brainstorm" on what to do.[2] We were told by members of the Cabinet, at the forefront of the Vote Leave campaign, such Andrea Leadsom and Chris Grayling, that they had a plan for what would happen after a Leave vote and there would be few adverse economic consequences. We have not left the EU yet but already Sterling has depreciated by over 21% since the last Autumn Statement thanks to the Brexit vote they promoted.

There was an initial 15% decline following the Brexit vote but the bulk of the decline actually occurred in October. Why? Because it became increasingly clear by October that the Government had no plan and there was increasing uncertainty around the UK's future trading arrangements no thanks to Ministers. On the one hand the International Trade Secretary Liam Fox made remarks suggesting he was relatively relaxed about the UK trading with the EU under World Trade Organisation rules[3], on the other hand the Chancellor Philip Hammond seemed to be fighting a lonely battle to keep the option of Single Market membership on the table in cabinet[4]. We have no idea whether Britain will be in or out of the EU customs union – Fox seems keen, given it will give him something to do in his new role, the Treasury less so.

[2] Government to 'push ahead' with Brexit, BBC News, 31 August 2016 - http://www.bbc.co.uk/news/uk-politics-37219143
[3] "Liam Fox looks to WTO in hint at 'hard Brexit' stance", The Guardian, 29 September 2016 - https://www.theguardian.com/politics/2016/sep/29/liam-fox-looks-to-wto-in-hint-at-hard-brexit-stance
[4] "Philip Hammond in Cabinet row over accusations he is trying to undermine Brexit", The Telegraph, 16 October 2016 - http://www.telegraph.co.uk/news/2016/10/16/philip-hammond-in-cabinet-row-over-accusations-he-is-trying-to-u/

British business has paid the price for these conflicting messages and the failure to set out the negotiation strategy the Government intends to pursue with the other 27 EU member states. For example, the US owned car maker Vauxhall employs 4,500 people at its plants in Ellesmere Port (which I have visited), in Luton and at its head office. It will be deciding in the next few months whether to continue making Astras at Ellesmere Port and they were on course to break even this year but have already taken a $100million hit from the depreciation of sterling and expect to take a $400million hit in total this year – which will hardly encourage Vauxhall's parent company to increase its investments in the UK.

Above all, Sterling's 21% fall will carry a cost for households as inflation picks up and incomes are squeezed. As the CBI has pointed out, 28% of produce on high street shelves comes from the EU – we will all be paying more for the daily essentials we pick up at the local shop as a result.[5]

The need to boost demand and investment post the Brexit vote

Whilst Ministers have acted indecisively, the Governor of the Bank of England took swift emergency action with aggressive monetary policies to prevent the economy sliding into a downward spiral. The principal measures the Bank introduced were:

- a further cut in the bank base rate to 0.25%;
- putting in place a Term Funding Scheme to ensure the pass through of the base rate cut to households and businesses; and,

[5] Retail and the EU, CBI, 11 April 2016 - http://www.cbi.org.uk/insight-and-analysis/retail-and-the-eu/

- the purchase of up to £10 billion of corporate bonds and £60 billion of UK Government bonds, increasing quantitative easing, financed by the issuance of central bank reserves.[6]

Tory Brexiteers have hailed the improved indicators of activity and business sentiment since the negative data that greeted the Brexit vote in August but this ignores the impact of a further loosening of monetary policy - had the Bank of England not acted so decisively and so quickly, the story would have been altogether more disastrous. For his efforts the Governor of the Bank of England, Mark Carney, has been rewarded with veiled criticism by the new Prime Minister – for which she has since repented - and demands for his head by Conservative Leave campaigners.[7]

The OBR was predicting growth at the March 2016 Budget of 2% in 2016, 2.2% in 2017, 2.1% in 2018 and 2.1% in 2019.[8] New forecasts will be published alongside the Autumn Statement but we know the Bank of England has already revised its pre Bexit vote forecasts for growth from 2.3% to 1.4 for 2017, and from 2.3% to 1.5% for 2018. Given the extent of the forecast slowdown, the Government cannot dump sole responsibility for clearing up their mess with the Bank. Fiscal policy should be used to stimulate growth in the Autumn Statement.

It is not just people on the Left of the political spectrum making this demand. Readers will recall the Tory Communities Secretary, Sajid Javid, calling for a stimulus in the order of £100billion over the summer.[9] The fact that the Chancellor has indicated that he will move

[6] Bank of England, Inflation Report, November 2016, pg2 - http://www.bankofengland.co.uk/publications/Documents/inflationreport/2016/nov.pdf
[7] Daniel Hannan MEP on Twitter, 29 October 2016 - https://twitter.com/DanielJHannan/status/792328855335895040
[8] “Economic and fiscal outlook – March 2016”, Office for Budget Responsibility, March 2016 - http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/
[9] “Tory contender Stephen Crabb pledges £100bn fund”, BBC News, 4 July 2016 - http://www.bbc.co.uk/news/business-36700080

off his predecessor's inflexible fiscal target – which was to achieve budget balance by 2019-2020 and to run always run a surplus in "normal times" - provides the Chancellor with some flexibility to make prudent and smart investments, beyond simply allowing the automatic stabilisers to kick in in the event of unemployment during the choppy years ahead. Borrowing for these purposes will pay for itself in the long term and, as my Labour colleague Rachel Reeves has pointed out, the Office for Budget Responsibility or National Infrastructure Commission could be tasked with identifying projects that could be expected to generate positive financial returns (either directly or through higher tax receipts) for the Exchequer – an idea supported by the Institute for Fiscal Studies and the ICAEW.[10]

A plan to support business and jobs

So how should the Chancellor use this new flexibility to support business, which is key to creating growth, safeguarding and creating jobs?

First, he should do all that he can to stimulate investment in *innovation*. Coming up with new ideas, products and services which the rest of the world wants to buy is the best way we can remain internationally competitive post Brexit without seeking to pursue an alternative strategy, advocated by those on the Right, of making our labour markets ever more flexible and embarking on a race to the bottom on people's terms and conditions of work. Innovation will also help improve UK productivity which is 18% below the G7 average, the largest gap since 1991 when the ONS started collecting such data.

However, our country's investment in innovation is poor compared to international counterparts. We invest just 1.7% in R&D, well below that of most other Western European countries, the U.S. (2.74%),

[10] Rachel Reeves MP, Speech to the Social Market Foundation, 7 March 2016 - http://www.smf.co.uk/rachel-reeves-speech-to-the-social-market-foundation/

Japan (3.6%) and Korea (4.3%), so we need to up our game.[11] The Government should set a target of getting investment into science and R&D to 3% of GDP, bringing us more into line with other countries - the Chancellor should set out a route map to achieving this goal later this month.

He could start by properly funding Innovate UK (previously known as the Technology Strategy Board), which does important work funding and supporting innovative British businesses with a mix of programmes and investments. Established by Labour in office in 2004 it went on to established a network of Catapult Centres where scientists and businesses work together to promote innovation in particular sectors and help businesses bring new products and services quickly onto the market. But Innovate UK is simply not properly funded to a scale comparable to similar bodies in other advanced economies. It was my intention to scale up Innovate UK considerably had Labour won last year's General Election. The CBI, amongst others, is calling for substantial boost to its resources.

Another important spur for innovation has been the EU given the cross boarder UK-EU collaborations between academics, researchers and scientists which are at risk during the Brexit negotiation process. The importance of the EU to our innovation eco-system was underlined by the strong support for our membership from the country's higher education institutions. The Chancellor and Business Secretary must spell out their strategy for ensuring such cross border work continues.

Second, beyond innovation, to boost productivity we need to increase levels of *business investment* more generally and fill the *skills* gaps that employers continue to complain about. As the Bank of England points out, heightened uncertainty about the UK's trading arrangements post the Brexit vote is likely to reduce growth in capital

[11] Source: Main science and technology indicators, OECD

stock and stand in the way of companies investing in plant, machinery, skills and training. It would make sense therefore to encourage businesses to invest by increasing investment allowances. The British Chambers of Commerce have suggested including business premises improvements for a period of five years, alongside investments in plant and machinery, in the widening of the Annual Investment Allowance.

Our antiquated system of business rates continues to act as a disincentive to investment and is unfair. It was designed for a different era – the last industrial revolution, not the the current one - illustrated for example by the way it hammers high street retailers whilst online retailers fail to make an equal distribution to the Exchequer though they take advantage of the same public investments in workforce skills and general infrastructure like any other business.

According to the latest UK Commission for Employment and Skills' Employer Skills Survey, 14% of UK employers reported skills gaps within their establishments. For example, engineering companies will need to recruit 56,000 engineering technicians per year between now and 2022. Currently, an annual shortfall of 30,000 is predicted.[12] To tackle this we need more higher level apprenticeships and increased take up of STEM subjects. There has been a welcome expansion of apprenticeships in recent years and there is cross party support for a lot more but the issues is who pays and what is the incentive for companies to do more. The apprenticeship levy is a start but is supposedly for big companies only, most of whom already do apprenticeship training. So the Chancellor need to spell out what will be done to help the 90% of companies, almost all small, who under-invest in training.

[12] Engineering UK, 2015 http://www.engineeringuk.com/Research/At_a_glance_2015/

Thirdly, for businesses to thrive, we must sort out the country's creaking *infrastructure*, particularly local transport and digital to create the right environment for firms to thrive in an era of globalisation and technological advance, as the TUC and others keep arguing.[13] We know that over the last five to six years instead of increasing investment and capital projects like this the Government has actually decreased it. Public Sector Net Investment, used by the Treasury generally to measure infrastructure investment, rose steadily through the early 2000s before falling sharply in 2010/11 to 2.7% to 1.8% of GDP. Making investments in local "shovel ready" projects that can be started fairly quickly will not only improve the local infrastructure but boost demand. As the Federation of Small Businesses, argue whilst delivering significant national projects such as expanding aviation capacity in the South East is important, smaller scale road improvement and maintenance projects are just as important to their members.[14]

Limited digital connectivity is one of the biggest barriers to business and Ofcom estimates that 1 in 5 small business premises will still not be able to access superfast broadband without further action from government. The Universal Service Obligation – which sets a target of all homes having 10MB per second speeds by 2020 is nowhere near ambitious enough – a more ambitious target and timeframe for delivery should be set if Britain is to be at the forefront of the fourth industrial revolution. The Institute of Directors has proposed a target of 10GB per second by 2030.

Fourth, we must ensure *better balanced growth across the regions*. With this in mind, Ed Miliband and I committed Labour to establish

[13] "Weaker growth warning shows public investment needed in Autumn Statement", TUC, 2 November 2016 - https://www.tuc.org.uk/economic-issues/economic-analysis/international-issues/europe/weaker-growth-warning-shows-public
[14] Federation of Small Businesses, Autumn Statement Submission, 16 October 2016 - http://www.fsb.org.uk/docs/default-source/fsb-org-uk/16-10-07-mike-cherry-amp-martin-mctague-to-chancellor---fsb-autumn-stateme.pdf?sfvrsn=0

proper British Investment Bank, with funds distributed through a network of geographically mandated regional banks – a British version of the German Sparkassen.[15] This helped pressure the then Business Secretary Vince Cable to establish the British Business Bank and has since been adopted by Labour's Shadow Chancellor John McDonnell. The Chancellor should now finish the job by setting implementing our idea of this network of regional banks to help ensure businesses in every region can better access the finance they need.

The Chancellor has announced that certain sectors which currently receive EU funding in the short term will receive guarantees over some of that funding beyond our departure from the EU. So all structural and investment fund projects, including agri-environment schemes (eg. payments to farmers, academic researchers, unis etc), signed before Autumn Statement will be fully funded subject to certain criteria but those signed between the Autumn Statement and Brexit will receive no such guarantees. To the extent these funds will be replaced by the Government, this will be until 2020 in most cases. If Article 50 is triggered early in 2017, Brexit will be completed around early 2019 and so this commitment will apply for up to a year only. Businesses in every region will want more detail and certainty on what they will and won't receive.

Finally, we cannot assume the depreciation in the value of Sterling will do all the work in reducing our trade deficit. As the Office for National Statistics has pointed out, there is so far little evidence in the data of the lower pound feeding through into the volume of trade yet.[16] Those UK companies who might be thinking of *exporting* for the first time, with our nearest and biggest customer being the EU, may hesitate before doing so because they have little certainty as to what our

[15] "The Future of Financial Services", Chuka Umunna MP, Canary Wharf, 15 April 2013 - http://www.chuka.org.uk/the_future_of_the_financial_services
[16] "UK trade deficit widens unexpectedly as exports fall despite pound drop," The Guardian, 9 November 2016 - https://www.theguardian.com/business/2016/nov/09/uk-trade-deficit-widens-september-exports-fall-pound-drop?utm_source=dlvr.it&utm_medium=twitter

trading arrangements will be with other countries – for example, we do not know if the UK will remain in or be out of the EU Customs Unions. Also, our exports may be more competitive in price but the imported parts we use to make our goods will increase in price. At the very least, the Chancellor should set out in detail how he will support businesses, large and small, to export. The biggest boost he could provide is by declaring that the Government's goal during the Brexit negotiations is to continue with the UK's membership – not just access to – the European Single Market, as I set out in my speech to the Centre for Progressive Capitalism last month.[17]

A new economic model

The common thread running through the proposals set out above is that they are all component parts of developing a national industrial strategy but this alone is insufficient. Our economy is one with too few savings, too concentrated in too few sectors and regions of the UK, and too based around cheap credit – an economy with severe imbalances that have grown since the 1980s. The pressure to deliver short term results in our business culture has been a persistent problem compromising long term investment, often resulting in drastic cost cutting and job losses whenever revenue fails to keep up with expectations.

Tackling these imbalances and fundamentally changing business culture in our country goes beyond managing the public finances sensibly, boosting demand in the short term, or implementing an industrial strategy. It requires a new kind of economy in which productive businesses, an enterprising state, trade unions, other stakeholders and citizens work together to create wealth and ensure that globalisation – which has fundamentally failed to deliver sufficiently for lower and middle income households - works for many

[17] "The progressive challenge – healing the divisions after Brexit", Chuka Umunna MP, Centre for Progressive Capitalism - http://progressive-capitalism.net/2016/10/6810/

more people in this country. This 2016 Autumn Statement alone cannot complete the transformation needed but it does give the Chancellor an opportunity to set our economy along the right path – he should grab it with both hands.

3. A STRATEGIC APPROACH TO SKILLS POLICY

SHABANA MAHMOOD MP

The Autumn Statement this year will be the first fiscal event following the Brexit referendum result and the election of Donald Trump and will take place in the midst of a growing backlash against the trade and immigration forces of globalisation. The stakes have never been higher; the need for bold moves on longer term economic policy has never been greater.

Why? Well, in addition to the changes unleased by globalisation, huge changes are occurring in our country. Today, competition for jobs is framed as a debate about immigration, migrant labour, wages and working conditions. But in the near future, this competition for jobs will be multi-dimensional. Demographically, we will see the rise of older workers, as we live longer, save less and receive poorer pensions; and technologically, the much talked of rise of the robots. There will be new possibilities for flexible and virtual working and, on some forecasts, by 2020 there will be more self-employed workers than public sector workers. Our cities, which power economic growth and prosperity, will get larger, but inequality is forecast to increase.

These trends will have huge implications for the labour market: work is changing, and the lives, living standards, hopes, dreams and fears of workers are changing too. And in turn, our economy and society will change as will our potential for economic prosperity.

These shifts in demography, technology and labour were underway long before Brexit. They were underway long before the global financial crisis. But the political class have continued to offer policies designed for a past era in changed circumstances.

The Chancellor now has his chance to seize the moment. With events moving so fast, he cannot miss it. We need bold, forward looking decisions on key policy areas that will give workers the chance to succeed in the turbulent times ahead. And I believe a game changing moment is needed in skills and retraining policy.

Skills enhance economic performance by supporting the introduction of new technologies, facilitating knowledge transfer and fostering innovation. They should not be an add-on to education policy, or a policy for the young post-16, post-18 or post-21. -they are crucial for dealing with the key issues that our country and economy face: re-booting poor wage growth under the Tories; improving skills in the manufacturing industry to rebalance the economy towards exports with a view to increasing trade with the rest of the world post-Brexit; eliminating regional economic inequalities across the UK; developing a high-tech economy that provides wealth and job creation for the 21st century; helping those left behind from welfare into work; and giving our citizens confidence that their skills have not left them vulnerable to the global forces of immigration and free trade.

Despite the importance of skills to all these areas, the Tories have left us with a 'skills gap' at crisis levels and one of the worst records on productivity growth amongst developed countries, of which strong skills constitute an important part.

The Chartered Institute of Personnel and Development has argued that the UK has a skills mismatch with too many graduates in non-graduate roles while industry struggles to find the skills they need. This year in a survey of 500 employers, the CBI found that 69% were concerned about not being able to hire enough highly-skilled staff, 14% more than last year. Moreover, businesses anticipate cutting more low-skilled jobs and hiring more skilled workers, only exacerbating the problem.

The 'digital skills gap' meanwhile has been estimated as costing the economy £63 billion a year in lost additional GDP. Also holding us back from the high tech economy of the future is the lack of new engineering and technology recruits meeting employers' expectations. We are also facing an engineering 'retirement cliff' with the average engineer currently in their fifties.[18] According to the Engineering UK 2016 report, engineering employers have the potential to generate an additional £27 billion per year from 2022 but only if we can meet the forecasted demand for 257 000 new engineering vacancies.[19] And these are exactly the type of professions we need to build our industries and export to the world after we leave the European Union.

What is worse, the failure of skills policy as part of a broader active industrial and welfare-to-work policy in the Cameron-Osborne era, has only widened inequalities amongst people and regions.

Forecasts suggest that the UK will see a decline in mid-ranking jobs such as administrative, secretarial and skilled trade positions as the use of automation in the workplace increases. While our skills policy flounders, we are facing a greater need to retrain workers who have paid into the system their whole lives, so that those who have lost their jobs are not forgotten, and a new generation can replace those who retire from the mid-ranking jobs that still exist.

At the same time, regions outside of London and southern Britain have productivity levels comparable to poorer regions of Central and Eastern Europe.[20] Even in regions that have jobs, those in deprived areas may not be able to access the jobs because of a lack of skills

[18] http://www.bbc.co.uk/news/business-27764671
[19] http://www.engineeringuk.com/Research/Engineering-UK-Report-2016/
[20] http://blogs.lse.ac.uk/lsereviewofbooks/2016/08/23/book-review-the-uk-regional-national-economic-problem-geography-globalisation-and-governance-by-philip-mccann/

and poor regional inclusive growth strategies.[21] Analysis from the Learning and Work Institute shows that the Work Programme is producing fewer job outcomes in high unemployment areas, which is arguably where they should aim to be most effective. However, the Government now plans to cut the £1.5 billion budget of the Work Programme and the Work Choice scheme by around two-thirds in their new incarnation as the Work and Health Programme.[22] Welfare-to-work henceforth will only be able to support less people, or provide worse support to a larger number. This will do nothing to help those in deprived areas who currently do not benefit from the economic growth that benefits others.

In 2015, after five years of Tory complacency, the Government decided that the 'UK's skills weaknesses … are of such long standing, and such intractability, that only the most radical action can address them.[23] Unfortunately, such radical action has not been apparent.

The Government's apprenticeships, Post-16 Skills and Digital Strategy policies, which aim to raise the level of technical skills and qualifications and bring the population's skills into line with computer age have all been unimpressive.

OFSTED has found weak apprenticeship provision and a failure to provide training to develop new skills. A recent National Audit Office report argued that the Department for Education has not set out how the increase in apprenticeship numbers will improve productivity, and how it will influence the mix of apprenticeships to achieve the most value. Nor did it feel that the target of 3 million apprenticeships by 2020 demonstrated how apprenticeships will impact overall skills levels, address skills gaps or improve achievement rates. Was that not

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[21] JRF 'Overcoming deprivation and disconnection in UK cities'
[22] http://www.publicfinance.co.uk/news/2016/11/mps-warn-new-work-support-scheme-being-front-loaded-failure
[23]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf

the point of the apprenticeships policy? The Post-16 Skills plan will not achieve its potential with the current lack of funding to further education providers. And we are still waiting for the Government's Digital Strategy.

In the short term, there are, as always with this Government, immediate steps the Government should be taking with skills for the sake of the economy, young people and those who are unemployed or in low-wage jobs.

The National Audit Office for instance has recommended that the Department of Education should set out the planned overall impact of its apprenticeships policy on productivity and growth, along with short-term key performance indicators to measure the programme's success. The Government must also adequately fund welfare-to-work in the Autumn Statement, get a grip on inclusive regional growth and ensure that welfare-to-work helps those in areas with high-unemployment and not just those who find it easiest to get back into work. As the Science and Technology Select Committee has said, the Government should now publish its Digital Strategy policy without further delay and include goals for developing better basic digital skills and increasing digital apprenticeships as well as providing a framework through which the private sector can more readily collaborate with communities and local authorities to raise digital skills in local SMEs.

These are all urgent and there is no excuse if the Government does not now use the Autumn Statement to follow through, especially since Theresa May has indicated that the Government has changed its mind about an active industrial strategy.

But the Chancellor will have failed if he merely tweaks what is already in progress at such a critical moment following 6 years of complacency and looking into an uncertain and changing new world.

We need a more fundamental shift. A shift that recognises that skills policy should be at the heart of a welfare system that partners with citizens to achieve their goals of a fulfilling, independent, and prosperous life – a lifelong offer that follows students as they become workers, and then workers as they navigate a changing and highly competitive world of work, right up to the day they retire.

4. MAKING WELFARE AND CHILDCARE WORK FOR ALL

RACHEL REEVES MP

The vote for Brexit has cast a cloud of uncertainty over our economy. While we must respect the people's verdict, we need to work to ease that fragility and create a climate that fosters jobs and prosperity.

The first opportunity to set our economy on the right course after the EU referendum falls to the Chancellor, Philip Hammond, with his first Autumn Statement. He should start by removing what I believe are two major road blocks on the path to a more stable economy with a strong base to get more people into jobs and improve their skills.

Firstly, he must reverse cuts to Universal Credit (UC) and restore confidence after the programme's chaotic introduction so it genuinely provides an incentive to work.

Secondly, the Chancellor has to do more to help parents join or rejoin the workforce and give every child the best start in life. We should move towards a system of universal free childcare for all working parents of pre-school children, starting with free childcare for all two-year olds.

The two issues of making work pay for families and improving childcare are inextricably linked. At present, Universal Credit – introduced with cross-party support to increase incentives to work - seems to have been reduced to a Treasury ruse to cut costs. According to the Resolution Foundation think tank, UC risks failing to achieve its aim of letting people keep more of their top-ups to low wages as their income rises because of the cutbacks. The Resolution Foundation estimated 1.2 million families who get tax credits would be £41 a week worse off because they would no longer be entitled to help under UC. A further 1.3 million people would qualify for UC, but would be an average of £46 a week worse off. That's not an encouragement to find work. It's a major disincentive and needs to be fixed before UC is rolled out nationwide.

The project – aimed at streamlining existing working-age benefits into a single monthly payment - is six years behind schedule and risks failing in its aim of making work, and working longer hours, a more attractive option than relying on benefits. The cuts, a result of changes in the work allowance drawn up by George Osborne, reduced the amount people can earn before low-wage top-ups are withdrawn at the rate of 65p for every £1 earned.

Earlier this year, The Child Poverty Action Group estimated families with a sole earner working full-time on the Government's "national living wage" of £7.20 an hour would have to work a 13-month year to make up for the cuts, while a full-time single parent would have to work a 14-month year. As a priority, the Chancellor must ensure that working, or working longer hours, pays.

He also needs to fix another key flaw of UC and the way it treats low-paid second earners - predominantly women - for whom there is a reduced incentive to work under the current system. The numbers returning to work are much lower than anticipated under the earlier design of UC and the cuts will hit families and lone parents hardest. By 2020, an estimated 2.6 million working families on universal credit will be £1,600 a year worse off and some single parent families will lose as much as £2,630 per year.

Lone parents without housing costs will endure the largest reduction in their work allowance from £8,800 last year to £4,764 this year—a cut of £4,000, according to House of Commons Library statisticians. The children of single parents are already at twice the risk of living in poverty as those in couple families. These cuts will put them at an even greater disadvantage. For second earners in a couple the situation may be worse still, with increasing numbers deciding not to enter work at all.

There is also a worrying picture on pay progression too. Universal Credit was intended to help workers move onto higher pay levels, as well as get a job in the first place. But as the Resolution Foundation has said “implementation realities scuppered the ambition of the design". The likely result is that UC will leave an increasing number of workers stuck on the minimum wage when they should be looking to earn more.

The implications will be a workforce that fails to grow as quickly as it should, lower productivity, lower growth and stagnating pay. But the problems with UC are not just about adult earners. They are linked to issues about childcare. When UC was introduced, it was expected to lift 350,000 children out of poverty. That figure was revised downwards to 150,000 last year and child poverty is set to get even worse.

According to analysis from the Institute for Fiscal Studies in February, child poverty is projected to increase from 15.1% in 2015-16 to 18.3% by 2020. The Resolution Foundation believes that 200,000 more children, predominantly from working households, will fall into poverty this year. Lifting over a million children out of poverty was one of the last Labour Government’s most important achievements. These estimates would almost entirely reverse that progress.

That’s why, as well as making sure the right incentives to work are in place, the Chancellor must do far more to remove a second barrier to work by helping families with young children. The Tory policy to introduce free childcare from next September for the parents of three and four-year-olds is in disarray as nurseries run out of money due to government cost cuts.

That needs to be fixed. But far more needs to be done to give parents more opportunities to work and give their children the best life chances. I have long called for major improvements to the childcare and I believe the Chancellor should move towards a system of universal free childcare for all working parents of pre-school children, starting with two-year-olds.

He could start to pay for this by cancelling the Tories' unjust and unwarranted £1 billion cut to inheritance tax due to be phased in from next year. All benefits of the inheritance tax cut go to the 10% of wealthiest families, while nothing is done to address the inequalities of wealth and opportunity that divide and hold back our country.

The Autumn Statement is a huge opportunity to put our economy on the path to stability and higher growth. But the Chancellor must be clear about what is required and how we get there. The priority must be to make sure work pays by removing the barriers that discourage people from getting a job.

The benefits are clear - for employment, productivity, for the economy, and for tackling child poverty.

This Government has claimed it is on the side of those who are "just managing". It must put its money where its mouth is and help those who are just managing rather than just managing to help millionaires.

5. PRE-EMPTING BREXIT AUSTERITY AND CHAMPIONING KEY SECTORS

CHRIS LESLIE MP

The 2016 Autumn Statement will herald Phillip Hammond's 'arrival' on the political stage, having risen to the office of Chancellor of the Exchequer with barely any trace. Opinion is mixed on whether George Osborne's successor has a difficult act to follow; Osborne was a deeply unpopular character across great swathes of the country, but inside the Westminster bubble there were plenty who admired his shrewd grip of the levers of government. Hammond's promotion to the second most powerful office of State coincided with the shifting political paradigm, away from the era of 'global financial crisis' and now into the era of Brexit and leaving the European Union. The referendum vote truly did change everything – and although in reality it's Conservatives 2.0, to many it has felt like a change of administration. So Hammond has an opportunity to make his name and set out his stall.

The signals from the Treasury are that there will be a mild infrastructure uplift and a new fiscal framework replacing the fixed deadline for deficit eradication with a more malleable set of objectives. The failure of the Conservatives to fulfil their goal on public borrowing and the national debt is significant. Yet as the personnel have changed and the conversation shifted to Brexit, somehow the Tories have evaded criticism for this. Brexit has made people appreciate the value of public investment as a tool for offsetting market uncertainty and the Chancellor would be wise to pause deficit reduction for the two-year period of Article 50 negotiations, instead reallocating that £30billion to investment in housing, skills and even a stimulus for businesses and consumers. But I would expect more of a 'steady-as-she-goes' approach from Hammond who, like Theresa May, will want a contrast with what he regards as the rather gaudy tradition of headline-grabbing initiatives and rabbits-out-of-hats which characterised the Osborne & Cameron Budget traditions.

The truth is, Phillip Hammond doesn't really know yet how to handle this Brexit scenario. Leavers are arguing that everything is fine with the economy because – apart from a 17% currency depreciation – they say that the sky hasn't fallen in. But that's because *we haven't actually left* the European Union yet. I believe that there are grounds for a pre-emptive fiscal stimulus to counteract the growing anxieties, uncertainties and postponed investments that accumulate month by month, especially in some of our core industrial and service sectors. The Bank of England action over the course of the summer has undoubtedly helped, but they have reached the limits of their powers, especially given the inflationary pressures starting to build. Rather than throwing barbs at the Governor, Ministers should recognise that growing consumer debt and the reluctance to save are issues where millions of working people could do with assistance, requiring fiscal interventions to help the least well-off get by.

Unless we see Ministers play their part in offsetting pressures on earnings and the growing hesitancy in the business environment, we will see severe consequences in the longer run for vital public services including social security and the NHS. Steadily degrading economic performance relative to the rest of the world risks creating a 'Brexit austerity', a mutant strain of the Conservative austerity variant. Of course, this is partly self-inflicted, following the public decision in June's referendum. But there were plenty of politicians who seemed blasé about the benefits of European Union membership and on whose shoulders responsibility for the consequences must now also rest. Brexit austerity will be more insidious, with a multiple parentage but without a straightforward Keynesian antidote.

Because Brexit austerity could last beyond a conventional economic cycle, it will require fundamental policy change and supply-side efforts to counteract. Take, for example, the risks now hanging over the financial services sector – which represents 12% of our economic output, nearly two million jobs in the UK and which generates £67billion of revenues for the public purse. It's not simply a case of having an 'industrial strategy' to play to this core comparative advantage for the UK. We will need to negotiate long term access to EU markets where a whole series of product lines face the prospect of being banned and outlawed. Should this turn out to be the case, and the cluster of specialisms in UK financial centres erode with core competences like clearing relocating to Frankfurt or to New York, then we lose a vital skills infrastructure as well as year by year corporation and income tax revenues. So the Chancellor cannot simply tweak tax rates or announce policy reviews in his Autumn Statement – he needs to set out precisely how the Treasury will be retaining and growing opportunities for sectors like financial services when faced by the potentially disastrous future outside the Single Market. There's no two ways about it; this will be a fiscal event dominated by Brexit and not just tax-and-spend reportage.

The tragedy for Labour is that a confident centre-left approach, willing to *champion* a successful financial services industry but in a framework of robust regulation, could reap great popularity among the business community and beyond. Rather than denigrating this sector, Labour could contrast an attitude that is in harmony with the sector's desire to plug into a global network of robust regulatory 'equivalence' including in the EU (where many of the rules and standards have UK authorship) with the Lawson / Redwood laissez-faire light-touch low-regulation model that would seek to convert the UK into a giant offshore tax haven. The business community know that would be a chimera, because any short-term tax gains and savings from deregulation would be more than offset by the massive loss in access to modern markets which now actively want and insist upon higher regulatory standards as a condition of doing business. Labour should be speaking up on behalf of those in the financial services sector who now accept we need robust worldwide safeguards for taxpayers and consumers. There is a constituency here which is currently unrepresented.

So we should test the Autumn Statement for whether it counteracts the looming Brexit austerity and whether it can deliver access and opportunities for sectors under threat, like financial services. Yes, there are reforms still needed to many of the tax regimes in which the financial services sector operate. Some lucrative practices need loopholes closing – for instance in the taxation of financial spread betting or old Osborne legacies such as the wasteful 'shares for rights' dodge that is rife for abuse. But fundamentally this is a time for the Government to be neutralising the likely hit to our key exporting sectors, the loss in revenues that will ensue and delivering a fiscal event that shows a Chancellor who grasps the enormity of the challenge the country now faces.