

# A NEW BARGAIN: People, Productivity and Prosperity

The case for a refreshed approach to employees,  
unions and collective bargaining to support  
a stronger UK economy

*Jake Sumner and Phillip Blond*





## **Acknowledgements**

This project has been supported by Prospect and we would like to thank them for their contribution to this report.

## **About the Authors**

The paper is written by Jake Sumner, Research Associate with ResPublica and Phillip Blond, Director of ResPublica, with contributions from Prospect.

## **About Prospect**

Prospect is a trade union representing over 142,000 professional, technical and managerial staff in a range of occupations across the public and private sectors - arts, broadcasting, defence, energy, engineering, government, media, science and telecommunications.

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# 1. Summary

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The UK may be experiencing some of its highest ever employment levels, but the country has one of the lowest levels of productivity in the OECD with a long tail of unproductive companies and low-skilled jobs.<sup>1</sup> This productivity challenge is likely to get more acute as the UK attempts to address: the economic implications of Brexit, adapting to the pace of technological change, and increasing global competition.

But, the economic questions are not just about productivity. Britain also faces a prosperity challenge. People do not feel the economy works for them. A decade on from the 2008 financial crisis, for many pay has either stagnated or fallen:

- Nearly three-quarters of people think we should do more to improve the quality of jobs, and less than one in ten think all jobs are fair and decent.<sup>2</sup>
- Three million people are in insecure work.<sup>3</sup>
- Our economic model is profoundly wanting in the distribution and sharing of income and reward. It is deeply resistant to any shift in the creation, ownership and distribution of assets.<sup>4</sup>
- There is a growing power imbalance between employees and employers. Modern working practices, as the Taylor Review showed, can often entrench low skills and low pay, further calcifying labour mobility.<sup>5</sup>

Things do not need to stay the same. The Prime Minister has signaled that her Government understands these challenges. From her first words on the steps of Downing Street, Theresa May spoke of facilitating an economy that works for everyone. Last year, she said that a: *"fairer Britain is a country that protects and enhances the rights people have at work... Not only will the Government protect the rights of workers... we will build on them"*<sup>6</sup>

The publication of the Industrial Strategy has been a clear indication of a reformed approach, including an active role for government in the economy. Intrinsic to this new role is the injunction to foster growth opportunities in all corners of our country. It is however fair to say that too little progress has been made on enhancing productivity through employees and through properly engaging workers in this national endeavour.

To realise the ambitions of a stronger, inclusive and more resilient economy, the UK needs a new approach that recognises the contribution of employees to the work of business and the prosperity of the country. The productivity challenge is also a challenge to current work place orthodoxy and practice. An ever more flexible labour market will not deliver the skills, training and employee enhancements that business so desperately needs. The UK already has some of the lightest touch employment laws, and an active public policy that discourages unions. It is no surprise then that declining UK productivity

has been paralleled by declining collective bargaining coverage, particularly in the private sector. Weak unions and the prescription of employment 'reform' have not produced a more successful economy, as the economic indicators bear out and as we outline in more detail in the body of this paper. Another way is needed.

Lessons from other similarly advanced but higher performing economies demonstrate both a wider and deeper pattern of employee engagement, crucially delivered through collective bargaining. This enables unions to take a constructive role in advancing the interests of the company and engenders a greater degree of prosperity for their members. We are not arguing that this is the silver bullet for solving the UK productivity crisis, but it is a vital and irreducible aspect of the answer.

Enhancing the role of education and reward for workers is something that simply cannot be delivered on an individual basis. Outside of the unions, there is no genuine workers association that theoretically might seek to advance their interests and that of British industry. Positive proof of this is that the UK Government has now become the 'trade union' of first and last resort for workers - it is now the Government, through the living wage, that is setting the living standards of those at the bottom of the wage scale. The failure of both the private and public sector in securing wage and productivity deals with their employees again reveals the structural and institutional gap in our

labour force institutions. We urgently need bodies outside of government that can upgrade the skills as well as the wages of the British people.

A new approach is needed, to develop shared goals around growth, prosperity and productivity. With the coming impact of Brexit on the economy, this is a particularly acute and pressing need. The Government's Industrial Strategy moves towards this direction, as does the Good Work plan published in response to the Taylor Review, which commits the country to pursuing "quality of work". Yet, not enough attention is paid to exactly how the energy of people can be harnessed to secure work quality as a foundation of higher productivity. In short, the UK needs a greater focus on how we engage employees to drive up productivity. If we are serious this must involve a recognition of the role of unions, an acknowledgement of the importance of collective voice and collective bargaining (all largely and regretfully absent from the Industrial Strategy), and critically a new public policy approach that gives the collective voice of workers a decisive new role in securing higher firm and UK productivity.

Let us be clear. The task of engaging employees, creating a voice for workers and involving unions is not about turning the clock back to the 1970s. It is about acknowledging that the current model has not delivered on its promises to increase productivity or to share the proceeds of

growth. If we want growth to benefit all, we need new ways to involve employees and manage change in the economy. This is particularly apposite given that we are now a predominately services-based economy where people productivity is critical.

There is an implicit social contract with modern working voters. They want and need secure employment, but there is nothing on offer to help them re-skill and retrain in the face of rapid technological change. They want also, and not unreasonably, the opportunity to own their own home and to pass on a better quality of life to their children. Unless we speak to this need and offer a new collective rather than individual bargain, then economic and political discontent will only rise. Addressing and linking productivity and wages will be key to addressing these long-standing concerns, as will combatting the sense of powerlessness that many people feel in the modern economy. These problems cannot be adequately addressed without looking at 'worker voice' and the power of employees in workplaces. And to echo a point made earlier – there is no other feasible institution out there that could perform this role other than trade unions repurposed and transformed.

Such an approach would require change on all sides. It would mean Government re-envisioning the role of trade unions, and likewise it would necessitate unions shifting to a more productive economic role. If attained this renewal of trade

unions would enable them to be seen much more fully in economic terms through their new economic role, which is actually at their core, and promote the primacy of this over the political and sectarian view of unions. It would also help to recast unions as a positive employee-led catalyst in the economy.

Our 'New Bargain' requires all willing partners to help create an innovative, dynamic and shared vision of a prosperous economy for Britain - and that means business, government and unions as well, if we really want to tackle productivity together with employees.

Such a development would be a considerable advance from the situation today. As argued above, the Government has increasingly had to step in and perform a collective bargaining role as the negotiator of last resort for many workers, through the setting of minimum wages and other thresholds. We make the case that government-led bargaining is far less effective and far more bureaucratic than that of negotiated productivity settlements between the employer and workforce.

In addition, while employee involvement is not a guarantee against failure, it does help create the checks and balances that help mitigate against poor business decisions and can and should provide early warning systems if things are going wrong. The consequences of leaving things as they are has wide and damaging ramifications;

witness the collapse and cost of Carillion, BHS and CityLink.

The current mechanisms to involve the 'workforce voice' in how businesses operate are either absent or inadequate. If we truly wish to drive productivity, innovation and higher value work in British companies this must change. As we outline in Chapter 3, research is highlighting the link between engaged workforces and more productive companies.<sup>7</sup> The presence of a union as the vehicle of such, is also positively associated with a greater number and greater effectiveness of high performance work practices, while collective bargaining drives better performance on a wide range of key productivity enhancing measures.<sup>8</sup> The interests of capital and labour both coalesce around greater productivity; we simply and manifestly lack the mutual recognition to capture that shared interest and drive it forward on a business and sector level basis. We suggest that the only serious employee organisations that can drive this forward are the unions, in a renewed and reformed relationship with British business.

There is an opportunity for those who champion corporate reform and more responsible business, to seek institutional changes that place the role and value of people at the heart of successful economic activity. The prize is great: sustained and expansive economic growth, a Britain able to compete in the world and a shared prosperity with business, distributing ownership, assets and skills to all Britain's workers.

## RECOMMENDATIONS SNAPSHOT

### 1. Establish a 'New Bargain' focused on people, productivity and prosperity

- Renew and create modern forms of collective bargaining to address pay, productivity and the gender pay gap.
- Establish a national 'Work 4.0 and Productivity Council' and 'Work 4.0 plan'.

### 2. New powers for workforces to be consulted on change, efficiency and fairness in a business and a right to a new 'Workforce Red Card' warning system

- New right of a 'Workforce Audit' on business performance on pay, training and productivity and a new right for workforces to be consulted on significant change to the business.
- New right for a 'Workforce Yellow and Red Card' as an early warning and whistle-blowing mechanism.
- New right to establish a 'Workforce and Productivity Forum'.
- New rules of engagement to allow and encourage people to join unions and participate.
- Enable company models to transition during their lifecycles to ones that embed more workforce accountability and involvement.

### 3. Develop and build institutions to bring about industrial progress and accord

- Prioritise dispute resolution, including through collective bargaining.
- Benchmark and audit the UK against other OECD countries on labour market institutions.
- Ensure Ministers have dialogue mechanisms with unions, supported by the Cabinet Office.

### 4. Commit to 'Employee Voice Deals' through sector deals in the Industrial Strategy

- Commitments by sectors to engage employees and embed employee voice with specific focus on low productivity sectors.

### 5. Establish a 'Productivity Partnership Fund' to drive people-led productivity gains in business

- Business or sector bodies making joint bids with unions to fund firm-based productivity gains in skills uplift and deployment, employee engagement and innovation.
- A strand would fund joint bid of primes and unions to improve domestic supply chains.



## RECOMMENDATIONS SNAPSHOT

### **6. Support and enable unions to become 'lifelong learning banks'**

- Enhance union expertise through becoming an impartial voice in skills development and a key deliverer of lifelong workplace learning through skills and training advice.

### **7. Celebrate businesses and sectors with good union relations and widen the employee voice agenda**

- Develop a kitemark for business good practice on unions, voice and employment standards.
- Government and businesses should cite examples of good union and workplace voice.
- Improve communication with employees and employers regarding unions.
- Support joint business/union programmes responding to work and tech-based change.
- Local areas should seek to be voice and union exemplars as they have with the Living Wage.

### **8. Create and support employee share ownership**

- Deliver employee share ownership to at least 10 per cent of the UK's private sector workforce by 2025.



## 2. Political Context

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The Prime Minister's commitment to an economy that works for everyone represents an important change in economic policy-making within the Conservative Party, as it moves away from the orthodoxy of non-intervention in markets and the sole privileging of shareholder value in governance.

As Business Secretary, Greg Clark, said in a key speech last July:

*"To enjoy a high and rising standard of living we must plan to be more productive than in the past. Economists have pointed to what they have called a productivity puzzle in Britain. That we appear to generate less value for our efforts than, say, people in Germany or France. In other*

*words, we have to work longer to get the same rewards. ...we need to ensure that we find and seize opportunities to work more productively - as a country, as cities and regions, as businesses and as individuals. If we can do so, we can increase the earning power of our country and our people."*<sup>9</sup>

Productivity is key to economic growth. Engaging people through better skills, workforce engagement and partnerships is key to productivity. The Industrial Strategy White Paper outlines a commitment to generating high value industrial growth across the country. However, much more focus is needed to realise the potential of workforce engagement in the Industrial Strategy. For example, a commitment to

widening employee voice could be made explicit within the Industrial Strategy, by making workplace voice an integral part of 'sector deals' - what we call 'employee voice deals', expecting sectors to bring forward ways to strengthen and improve employee collective voice and engagement as has happened in the Ship Building Strategy.<sup>10</sup>

Scarred by the experiences of the 1970s and seduced by the solutions of the 1980s, we have lacked the necessary ambition in driving forward new forms of workforce involvement in the operation of businesses. The Government has previously advocated a limited involvement of workers in companies by placing them on company boards. This has been weakened by the Government's notional inclusion of workers in non-executive board positions. It is hard to see

how this measure can meet the scale of the productivity challenge.

Workers on boards is a relatively modest step, especially when one looks at other countries. The April 2017 BEIS Select Committee report on corporate governance, welcomed by the TUC, presents a cross-party approach. The report recognises the value of worker board representation and recommends that worker representatives should be the norm. It notes that there is some form of worker board representation in 19 countries across Europe.<sup>11</sup>

But the scale of the productivity puzzle demands a greater response than just including workers on boards. To compete globally post-Brexit, the UK faces a choice between becoming a high-engagement,

## CASE STUDY: INDUSTRY LEADERSHIP AND UNIONS

Germany offers an example in relation to the corporate reform agenda. The model of "co-determination" introduced in the 1950s guarantees employees are represented on company boards with an institutional voice over managerial decisions. Feedback from German firms to government indicates that the restrictions which workers place on managerial power are largely compensated by a higher sense of responsibility for the business felt among workers. In this way, the benefits are shared by employees through empowered workforces rather than through unions exercising power.

Similarly, in Japan, there is often a much closer relationship between management and unions. The Japanese Federation of Employers' Associations found that 15 per cent of the directors of large companies were former trade union officials.

*Source: The Spirit Level (Penguin, p245)*

high-productivity service economy, or being a low-wage, low-productivity tax haven. The consequences of the latter would be very damaging for equality, employee wellbeing and arguably tax revenues. The UK needs to build on its international strengths as a service-based economy by focusing on raising employee engagement and skill level, to increase the productivity of labour. Human capital is core to a service-based economy and employee engagement is the key to unlocking this. At the very least it should be reflected in the Industrial Strategy and corporate governance reform programme.

Effective unions can enable different approaches to regulation in relation to a service-based economy. Weak, restricted unions or de-unionisation in sectors and companies can lead to government needing to step in and adopt a more regulatory or centralised approach. Recognising the role of unions in creating bespoke arrangements that are appropriate to advancing business interests is more preferable than centralised and distant mandates from a regulator that does not understand the sector.

There is also an opportunity for City Mayors to drive change at a local and regional level, providing leadership and promoting employee voice as part of increasing local productivity. This could be achieved by providing regional support structures for employee voice across sectors and by leading a local version of the German 'tripartite' negotiations between employer

and employee representatives, on matters of significant political or social impact in their area. Local politicians and Local Enterprise Partnerships (LEPs) could and should also promote employee voice as a productivity enhancing measure in their own areas.

Employee voice, the role of unions and collective bargaining in productivity has not been fully recognised because the UK has suffered from the decay and long-term absence of labour market institutions and intermediaries. There are few mechanisms to talk about labour related issues in a non-confrontational way. Two examples that do exist are Advisory, Conciliation and Arbitration Service (Acas) and the Low Pay Commission. The Low Pay Commission was established to secure industry and employee voices in the setting of the National Minimum Wage rate. In relation to Acas, whilst it has a broad agenda, its prime focus is dispute resolution, but reaching a dispute and going to Acas is still a sign of systemic failure. We should be aiming to build consensus, dialogue and agreement much earlier in the system.

A renaissance of collective voice and bargaining can support more sophisticated and consensual approaches to our shared productivity challenge. A new 'worker's offer' focused around gains for labour and capital can shift both unions and management from a discredited past and create a new bargain secured and underpinned by productivity, partnership and industrial accord.



### 3. The Case for Change

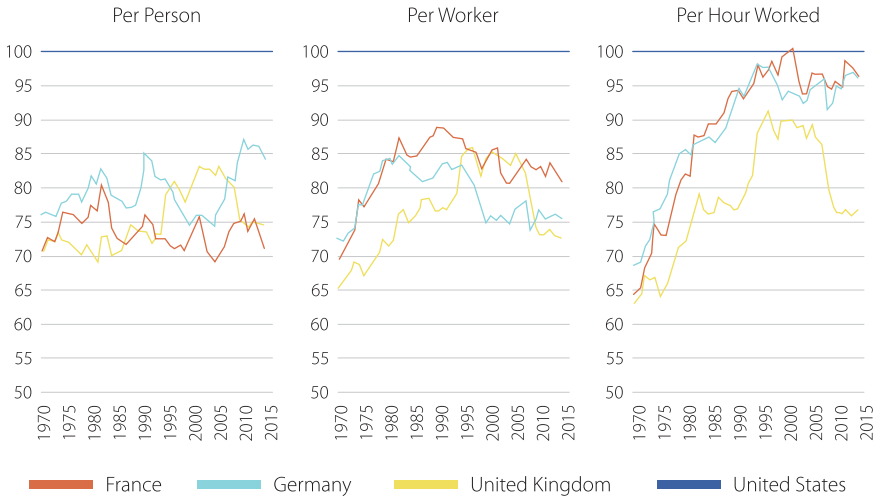
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Productivity is a challenge that has faced successive governments. The UK continues to lag behind many of its major competitors. Increasing productivity by one per cent per year would add £20bn to UK output, adding £250 p.a. to the average pay packet and increasing annual profits across the country by £3.5bn.<sup>12</sup>

Yet, despite repeated initiatives to raise productivity, there has too often been a missing ingredient: the workforce. Academic research and case studies from other economies show that there are strong links between engaged workforces and more productive and profitable companies.<sup>13</sup> Raising productivity through harnessing the power of workforce

engagement and employee voice is the challenge. Our argument is that stronger employer-employee engagement is now, in the global context, absolutely central for protecting and developing the capacity and productivity of workers. Companies with the most extensive and evolved practices for employee participation score highest on both performance and wellbeing.<sup>14</sup> Effective unions, as platforms for that voice, lead to a greater range and effectiveness of high performance work practices, whilst collective bargaining drives better performance on key productivity enhancing measures.<sup>15</sup> Union density helps lead to increases in firm productivity<sup>16</sup>, while union representatives deliver productivity gains to the UK economy in the billions.<sup>17</sup>

Figure 1: Productivity and output in the UK, France and Germany – compared to the US



\*As a percentage of the USA (USA=100)

Source: OECD Dataset: Level of GDP per capita and productivity 2017 as published in the Industrial Strategy Green Paper<sup>20</sup>

## Why does productivity matter?

Poor productivity has been a long-term characteristic of the economy and too few sectors attain high productivity levels.<sup>18</sup> Productivity today is no higher now than it was before the 2008 financial crash. As the Government's 'Good Work' response to the Taylor Review highlights, productivity is currently around 17 per cent lower than it would have been if it had followed its pre-downturn trend.<sup>19</sup> The graph above shows how the UK lags behind G7 competitors on productivity measures.

The headlines figures for employment look more positive. At the start of 2017, the Government reported that the proportion of people in work (74.6 per cent) was the highest since comparable records began in the 1971.<sup>21</sup> This record has been highlighted as a sign of a successful economy. However, the employment figures mask the composition of the workforce. Since the recession, critical questions have rightly been asked about the quality of the jobs in the UK and the dependence on low productivity and low-wage sectors.<sup>22</sup>

As well as an economy rooted in low productivity and skills there has equally been an overall decline in wage growth with the UK performing worst among 32 OECD countries.<sup>23</sup>

### ***Making the case for renewed workforce voice***

Good collective bargaining is about handling effective change management, asking more of middle managers, leaders and frontline workers, and providing a statutory framework to balance out information and power asymmetry between executives and the workforce. Being aware of your rights does not mean you are able to exercise them. Voice and influence are therefore crucial for achieving change. The Government's Good Work response to the Taylor Review however, does not address this issue of

rights enforcement in an environment of unequal bargaining power. This is where unions and collective bargaining come in. Collective approaches support stronger industry standards, pensions, workforce pay and progression, safety standards, and prevalence and maintenance of workplace conditions. The trusting relationships that underpin collective bargaining unlock knowledge, aid conflict resolution and focus on prosperity and productivity. This is critical for the UK economy which is services-based and where improving the productivity of the workforce is key.

With attitudes to work changing,<sup>24</sup> especially amongst the next generation of Millennial workers,<sup>25</sup> unionised workplaces are more likely to offer better flexible working practices, including job shares, term-time working and annualised hours. For example, 52 per cent of unionised

## WHAT IS COLLECTIVE BARGAINING?

*Collective bargaining is the process of negotiation between the representatives of trade unions and employers covering terms and conditions such as pay, hours of work and working conditions. The negotiations are 'collective' because a trade union acts on behalf of the employees, and the management acts on behalf of the company. Collective bargaining provides employees with a voice to negotiate on their behalf with their employers. Through give-and-take, employers and unions are able to reach an agreement that not only benefits union members but also meets the objectives of the business. In other forms of bargaining, workforce voice may be provided via a Works Council or other employee forum. A collective agreement provides both employers and employees with certainty on the issues that have been agreed.*

workplaces provide enhanced maternity pay and 77 per cent offer retraining for women returning to work after maternity leave. This is compared to 35 per cent and 58 per cent of non-unionised workplaces. Unionised workplaces are also more likely to provide additional workplace benefits, including employer-provided pensions.<sup>26</sup>

### ***Evidence on productivity, unions and employee engagement***

Research internationally and within the UK economic context is increasingly demonstrating the link between engaged workforces and more productive and profitable companies. The Gallup Business Survey has, for example, found that engagement on the bottom line has a significant impact. The survey states, "When compared with business units in the bottom quartile of Gallup's database, those in the top quartile of engagement realise 10 per cent higher customer metrics, 17 per cent higher productivity, 20 per cent higher sales and 21 per cent higher profitability. Organizations at the top achieve earnings per share growth that is more than four times that of their competitors."<sup>27</sup> A 2015 European survey and analysis of company performance across the continent also concluded that companies with the most developed practices for employee participation scored highest on both performance and wellbeing.<sup>28</sup>

Similarly, an Acas study found "the presence of a union is positively associated with a

greater number and greater effectiveness of high performance work practices" while collective bargaining drives better performance on a wide range of key productivity enhancing measures.<sup>29</sup> Another investigation, which used data on firm performance in Norway, found that increases in union density led to substantial increases in firm productivity.<sup>30</sup> Finally, government research from 2007 estimated that union representatives delivered productivity gains to the UK economy worth between £3.4bn to £10.2bn a year.<sup>31</sup>

Aside from economic performance, union workplaces are also safer, with union safety reps reducing serious workplace injuries by 50 per cent. Indeed, it is estimated that union safety reps save taxpayers between £181m and £578m p.a. They achieve this by reducing the time lost to occupational injuries and work-related illnesses by between 286,000 and 616,000 days per year.

Low productivity, low skills and low pay correlates with lack of employee voice and workplace organisation. In turn, reports outline the role of unions and collective bargaining in helping our economy function and deliver greater shared prosperity. Indeed, a 2010 IMF paper reports that the restoration of workers' bargaining power could reduce asset inequality, a problem which underpinned the 2008 financial crisis.<sup>32</sup> This is echoed by findings which suggest union decline has contributed to rising income inequality.<sup>33</sup>



The restoration of a new role for collective bargaining could help contribute to higher engagement and better productivity. In 2015 a New Economics Foundation study showed that for each one per cent reduction in the share of national income going to wages, UK national income - measured by GDP - is reduced by 0.13 per cent, with a net loss to the economy of £27bn.<sup>34</sup> This highlights that contrary to common perceptions, a decline in collective bargaining and weak or restricted unions has a negative impact not only on the individual but on the country's overall economic performance.

### *Rise of the gig economy*

The rise of the gig economy adds further urgency to this debate. Alongside the challenges of productivity, there are wider concerns about the quality of work, rising inequality and the skills deficit. The role

of workforce voice is an even greater challenge within this growing area of the economy, since insecure workers are less likely to be members of a union and less likely to be in workplaces with unions.<sup>35</sup> Platform-based companies that employ shift workers are often strong opponents of employee regulation.<sup>36</sup> Until a recent court challenge by unions, platform companies often denied workers any legal claim to employment rights or even the minimum wage. Government has now had to intervene, outlining new rights for workers in these groups. However, with more precarious employment conditions and lower union density, the problems will become harder to correct and will need yet more government intervention.

The advocacy carried out by BECTU, which is now part of the union Prospect, demonstrates the benefit brought by unions to more fragmented sectors. BECTU

## CASE STUDY: INDUSTRY 4.0: THE LOOKING AT THE IMPLICATION OF DIGITAL CHANGE IN THE WORKPLACE

Over a two year period, the German Federal Ministry of Labour and Social Affairs undertook a comprehensive programme on 'Industry 4.0'. This focussed on the digital transformation of the German economy. The Ministry engaged with associations, trade unions and businesses, and undertook consultations, workshops, events, and the commissioning of academic studies. Aside from this, they also asked the German people how to preserve and even improve "quality jobs." The work brought flexibility, security, automation, the labour market, skills and training, collective bargaining and digital and societal changes together into a policy programme. Ultimately, the union voice and expertise was integral to this programme.

organises workers in the digital, film and entertainment sectors, dominated by freelance and self-employed work. Their role in negotiating sector-wide standards has helped raise performance, creating a level playing field for wages and providing more durable industry practices, which have been supported by the industry. Collective approaches can also have a wider impact on the labour market more generally. For example, one car manufacturer, in agreeing collective workforce improvements, also includes cleaners, and therefore raises the bar for a wider group of workers. Collective bargaining also helps those who are not union members. Although union density is just 13 per cent of the private sector<sup>37</sup>, collective bargaining often covers more.

### *UK skills challenge*

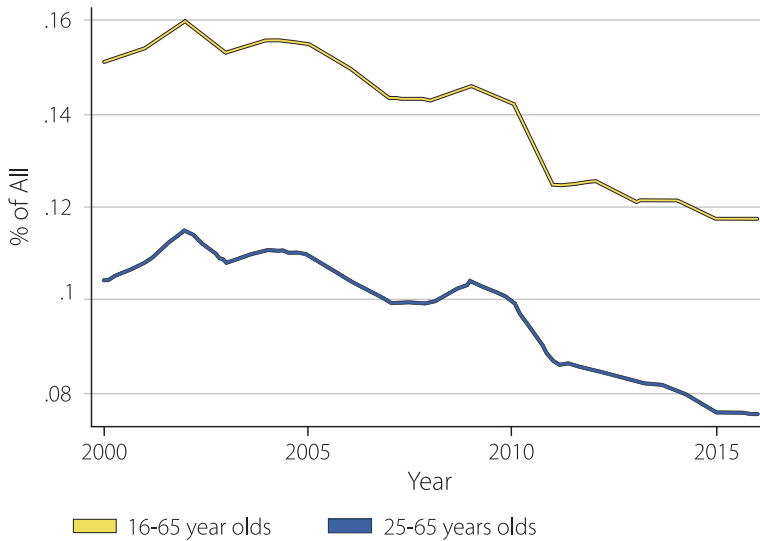
Fixing our skills challenge is essential to solving the productivity puzzle. Our economic model has failed to provide an effective strategy for addressing skills and capacity shortages. This is particularly the case at higher occupational levels, in engineering and technical roles, with the UK currently ranking 16th out of 20 OECD countries for the proportion of people with technical qualifications.<sup>38</sup> Incentives are too marginal for business to invest in skills, and firms can simply poach staff from those firms that do invest. Workplace training and lifelong learning is in decline.<sup>39</sup> And yet at the same time, under utilisation of existing skills by employers is also a significant problem.<sup>40</sup>

The UK's most recognised industrial sectors, such as automotive and aerospace, as well as our value-creating sectors, such as energy and shipbuilding, all share a common characteristic. This is a commitment, from both business and unions, to keep operations competitive and plan for future work force changes (including skills). This is mirrored in high productivity countries where unions play a much greater role in skills improvement across a range of sectors. Indeed, union members tend to have a higher skills level than non-union members, as figure 3 demonstrates.

A new role for collective bargaining is not just about pay and conditions, it should also be about lifting the performance of businesses and addressing the skills challenge. Unions have a key role to play as peer-led organisations in understanding and engaging directly on workforce development and skills issues. TUC research has shown that every £1 of government investment into the Union Learning Fund generates a total economic return twelve times that.<sup>43</sup>

The application of industry knowledge and the galvanising of staff is also why unions have an important role helping secure investment across the economy. In a roundtable that took place as part of this paper, a leading UK advanced manufacturer with a global footprint said that the investment in the new UK plant and jobs was only possible with trade

Figure 2: People in dependent employment aged 16-65 working towards a recognised qualification



Source: UK Labour Force survey data, spring quarters<sup>41</sup>

Figure 3. Qualifications union members and non-members

Highest qualification	Union member	Non-Union member
Degree	43.2%	32.2%
Other higher education	13.5%	8.8%

Source: HMG (BEIS) Trade Union Membership 2016: Statistical Bulletin<sup>42</sup>

union involvement. With supply chains and production across countries and to enable growth globally, workers are required to learn and pass on knowledge, to and from, other areas of the world. There is a shared interest for unions and industry in skills development and is a benefit to the UK - indeed it should be considered within the context of how we secure investment as we move to a post-Brexit environment. Unions are also a route to harnessing the skills of employees to promote UK expertise and skills in exporting service sectors, such as the automotive industry.

### *Why unions?*

While union membership is in decline, as the graph below shows, they remain the UK's largest voluntary movement, with six million members.<sup>44</sup> Unions also

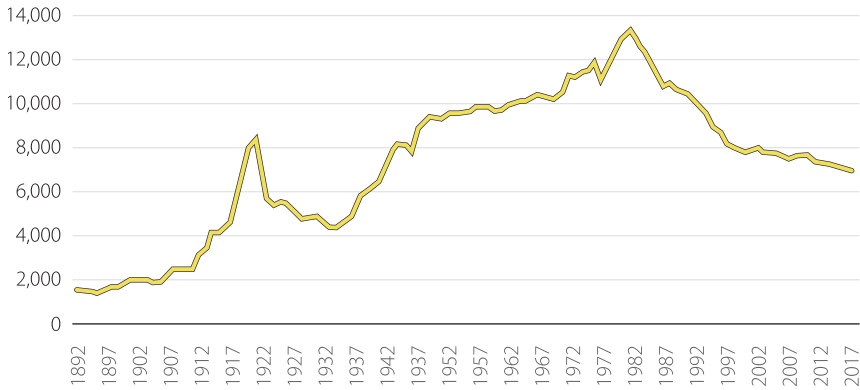
have public support, with 78 per cent of people believing that "trade unions are essential to protect workers interests"<sup>45</sup> and two-thirds believing that unions should be involved in workplaces.<sup>46</sup> This public perception is backed by evidence, with union environments showing higher skills requirements, higher performance related work practices, higher on the job training and higher product development.<sup>47</sup>

Unions are associations anchored in workplaces. They learn their craft from advising on working environments and harnessing the expertise of workforces. Being routed in this way allows them to drive and spread innovation within businesses, spotting opportunities management often overlooks. Good unions, particularly those underpinned by a robust structure, understand the fabric of their business and

## CASE STUDY: ROLE OF COLLECTIVE BARGAINING

The Dutch Polders model is an example of a collective bargaining system that can secure workers' rights without sacrificing business stability and growth. Under the Polders model, trade union membership is not necessarily high but collective agreements are widespread, with 80 per cent of the Dutch workforce covered. In the Netherlands, as in France, collective bargaining is extensive at the company rather than national level. Workers councils are given consultation rights on important corporate decisions such as M&As and even over allocating employees educational funding. The result is that industry invests in its own workforce, taking some responsibility from the Government for up-skilling labour. The Polder system has also proved itself in the wake of financial crisis, helping maintain the levels of jobs and avoiding industrial action.

Figure 4: Trade union membership (thousands) 1892-2016

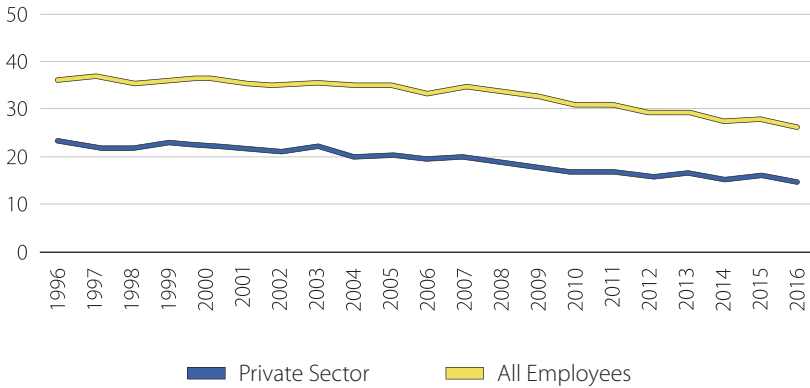


Source: Department of Employment Statistics Division (1892-1974); Certification Office (1974-2015)<sup>48</sup>

can improve skills uplift and development. And this does not only apply to union members - unionised industries have higher skill levels for all individual workers across sectors. For example, industry proposals for a Nuclear Sector deal clearly reference the important role of the union/business partnership in contributing to a high productivity working environment.<sup>49</sup> Successful businesses which prioritise employee voice, such as Jaguar Land Rover and John Lewis, enjoy the skills and productivity benefits. Another example is Prospect, which, through BECTU, recently agreed a groundbreaking deal for major motion pictures made in the UK. These covered the terms and conditions for many freelancers, small businesses and employers.

Yet, this is not simply a question of increasing government engagement with unions. Trade unions themselves also have a representation problem. Trade union membership in the UK has been falling swiftly since the early 1980s, from 13 million in 1979 to 6.5 million today. With this reduction, the trade union demographic has changed. The demise of UK heavy industries, restrictions in public policy, and the impact of shrinking average workforce size on union organisational capacity, means the concentration of union activity has been shifting to the public sector. Although union membership within the public sector remains relatively high, just 13 per cent of workers are members in the private sector.<sup>50</sup> Lower densities are more likely amid the lower-skilled and lower

Figure 5: Decline of Collective Bargaining Coverage



Source: BEIS trade union statistics 2016<sup>51</sup>

wage bracket. However, this is precisely where collective bargaining and union representation is most needed to anchor wage levels and standards.

### *Collective bargaining*

Despite growing evidence of the value of engaging employees, collective bargaining is at an all-time low, with just 15 per cent of the private sector workforce covered, as the graph above outlines. Decisions and actions in the economy and labour market are more or less dictated by business executives. This places significant responsibility on the Government to address low pay, training and productivity on behalf of workers, as a negotiator of last resort.

The lower paid and lower productivity workforce is particularly under-unionised, with only 14 per cent of insecure workers located in workplaces that have unions. This is half the unionisation rate observed for more secure work.<sup>52</sup> The absence of collective bargaining, underpinned by a lack of union density and little government support, is reinforcing the prevalence of lower paid work.



## 4. A New Consensus and Bargain: Unions in Economic Not Political Terms

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Our New Bargain calls for a new consensus on productivity, involving unions as well as business. The Government needs a long-term view on employee voice, just as it has on infrastructure, as a critical part of prosperity. The two 'consensus shifts' of the Twentieth Century - 1945 and 1979 - were marked by the reform of trade union governance and regulation, shaping a new political and economic culture. An equivalent shift is needed now, resetting the role that trade unions and workforces play in driving growth and sharing

prosperity. The aim is not to revisit older models, but to develop a new solution that enables business, unions and government to work together tackle changing economic needs and the realities of today.

Rethinking UK union models provides challenges, especially for Conservative policy makers, since unions have often been understood politically, rather than economically. As a result, legislation has tended to be restrictive, rather than enabling.

For example, there is an assumption that unions are affiliated to a particular political party, and only use industrial action to achieve change. However, in reality union approaches and relationships to political parties vary.

By exercising their political voice, unions have successfully highlighted issues around workplace safety, holiday entitlement, low pay and the gender pay gap, which have led to necessary legislative reforms. As membership organisations, it is right that members should have a say over the approach their union adopts. Yet, this often gets clouded by the fear of disputes and industrial action. Strikes actually make up a relatively small part of union activity, but they feature disproportionately because the UK's economic model puts less emphasis on dispute resolution and consensus. Since a legal framework exists for industrial action, unions use strikes because they are one of the few powers they have left. However, the greater focus of union activity, often unrecognised, is on workplace and productivity improvement. A New Bargain should re-emphasise this point, and enable unions to promote the primacy of their economic (rather than political) role to re-establish themselves as a renewed voice on the economy.

### *Learning new ways of working*

There are models in other countries to consider which have a different approach to trade unions. Examples from Germany,

Sweden and the Netherlands show how there can be more productive arrangements on collective voice, unions and collective bargaining. Unions are given responsibilities, are key players in the economic landscape, and do not just possess (and use) the power of protest. There is also a strong dialogue with unions. As outlined before, Germany through its 'Industry 4.0' has had a strategic dialogue with business, unions and the public to assess the future of work, and implications of changing technologies and workplaces to agree a path forward on economic reform and productivity improvement. Unions are also at the heart of Sweden's industrial and innovation strategy.<sup>53</sup>

There is an understandable focus on the benefits of sectoral collective bargaining bringing together companies, unions and government to address underlying performance issues at a sector level. Yet, to enable this presupposes the creation of employer or business 'coalitions' on the other side of the bargaining table. This may work in some sectors and may engage sufficient employers. However, we believe there is an equally strong case for new forms of 'enterprise' bargaining. This form of collective bargaining is particularly applicable for the private sector.

For collective bargaining renewal to be a successful policy initiative, some degree of employer consent, engagement and reciprocity is necessary. Private sector businesses of all sizes are used to



operating in their own circumstances, guarding their competitive posture and intellectual property. Advocates for reinvigorating and winning support for new forms of collective bargaining need to recognise this, and engage in the construction of policy that understands the nature of the corporate landscape.

The willingness of private sector companies to form employer coalitions at a sectoral level may be present in some sector environments, but in others there will be resistance or simply a lack of knowledge and understanding, given the absence

of such mechanisms in recent decades. To overcome this firstly there should be a public policy drive and requirement for increasing collective bargaining. Secondly, there should be recognition that effective employee voice can be developed through a recognised union. In turn, this can enable a dialogue, which should be encouraged and supported, that tailors the bargaining arrangements to the specific business circumstances or industrial environment that the business operates in. In doing so, this can give a level of confidence to companies, as well as a mechanism of engagement. As opposed to a whole sector

### CASE STUDY: INDUSTRIAL CO-OPERATION THROUGH INDUSTRIAL STRATEGY AND PROMOTING GENDER OUTCOMES

The Swedish model is built on consensus. As document produced by the Swedish Department for Trade and Manufacturing summarises this: “availability of skilled workers, leadership in advanced technology and strong productivity growth have been key success factors for the pharma sector and other industries. Swedish companies have long been characterised by flat organisations with decentralised decision-making, and good relations between employers and unions have created an open climate of trust. This provides good opportunities for problem-solving, cooperation and development and promotion of knowledge-intensive, creative and customised production.”

The Swedish Government’s innovation and industrial strategy also outlines that corporate social responsibility is a self-evident part of a modern industrial policy with companies expected to contribute to social development with regard to gender equality and decent working conditions. The Government is working to ensure the governing boards of listed companies comprise at least 40 per cent women.

*Source: Swedish Trade and Investment Council<sup>54</sup>*

wide negotiation, enterprise bargaining would be collective bargaining between a business (the management) and staff (through a union) at a firm level. This would draw on industry standards that the union is involved in helping set, such as through sector deals or obligations by government (in regard, for example, to improved skills).

How such a policy shift is designed and implemented should shape a debate that engages employers and unions. What cannot continue is the absence of public policy support for the maintenance and extension of collective bargaining.

### ***Shared goals - harnessing the economic role of unions to improve productivity***

At the launch of the Taylor Review the Prime Minister asked for cross-party contributions to secure the best ideas to help improve our national productivity. There is an opportunity to extend this to unions. Meaningful workforce engagement requires an independent voice for workers able to aggregate and share ideas with employers. Although other models exist unions are the best vehicle to provide this voice. Equally, a corporate reform approach should be adopted; this would enable company models to embed more workforce accountability and involvement, as well as enable companies to transition during their lifecycle to these models.

To make workplace voice central and meaningful we need renewed, modern unions operating across more of the private sector. No other vehicle exists to provide the scale and expertise employees need to exercise their voice. We are at a watershed moment; union density is now approaching a critical point. Any further reduction in density would be severely detrimental to union impact and make this harder to rebuild. This would mean greater responsibilities for government, with fewer tools to act. There is a mutual interest to address this now.

Therefore, can the antagonism which we have seen in previous Parliaments, in particular between the Conservative Party and trade unions, be overcome? It is easier to achieve when there is a recognition of shared goals and where this starts from good faith. If Conservatives can lead a more positive approach can there be one from unions? This is the environment that needs to be built.

There are many areas where Conservatives and unions can coalesce including:

- Support for and effective delivery of the Industrial Strategy
- Improving productivity and economic value through workforce improvement
- Upskilling workforces, improving training and lifelong learning
- Enabling the economy to work better for all including providing voice and value at work

- Corporate governance and business practice reform including addressing the gender pay gap
- Harnessing employees to promote British expertise and skills in exporting service sectors
- Addressing technological and economic changes including responding to the 'gig' economy

This paper underpins the case for resetting relationships between Conservative Party and trade unions to create a much more meaningful approach for workers and business. The prize is great- economic growth, a Britain able to compete in the world, and shared prosperity.



## 5. Recommendations

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The economic challenges facing Britain require a New Bargain between government, industry and employees. The productivity puzzle, economic implications of Brexit and the changing nature of the economy cannot be dealt with by 'business as usual'. We need a new approach which harnesses the role of unions and the productivity power in people. A new approach would enable employees to have a new voice in efficiency and productivity, change and security, and the fairness of the businesses in which they work.

### **1. Establish a New Bargain focused on people, productivity and prosperity**

*Public policy should undergo a 'consensus shift' to recognise and promote a rejuvenated role for collective bargaining and unions. Forging a new consensus on the nature of work and the shape of the economy, the New Bargain has two main pillars:*

- **Create a modern role for collective bargaining:** establish a rejuvenated role for people in collective bargaining and provide a way to address productivity, pay and workplace change. This could include flexible working, technological advances, the gender pay gap, as well as sectoral bargaining to set standards

across industrial sectors. We also encourage a renewed role for enterprise bargaining at company level. It would replace the current form of dictated bargaining which has failed and produced rising inequality, falling productivity and government stepping in as a negotiator of last resort for workers, through setting minimum wages and other thresholds.

- **Establish a ‘Work 4.0 and Productivity Council’ to bring together economic partners to tackle the productivity challenge:** bring together business, unions and government in a ‘Work 4.0 and Productivity Council’, which could be part of the Industrial Strategy and deliver the Government’s Good Work plan’s goal to measure, assess and promote quality work. The Work 4.0 and Productivity Council would develop a shared approach to drive productivity and economic growth, respond to the challenges of the changing nature of work, and support industrial accord (using the successful German model of ‘Industry 4.0’). The council would also oversee a ‘Work 4.0’ plan, which would include a full analysis of the impact of the decline in collective bargaining and changes to labour market conditions and productivity.

## **2. New powers for workforces to be consulted on change, efficiency and fairness in a business and a right to a new ‘Workforce Yellow or Red Card’ warning system**

*As an economy, we routinely fail to harness the valuable input of employees in driving productivity. In more extreme cases workforces also face a loss of their jobs and security from precarious decisions undertaken without any reference to them (as the Carillion collapse showed). New powers should enable people to play a greater role in their workplaces:*

- **‘Workforce Audit’:** through a union or other collective voice employees could ask for an annual ‘Workforce Audit’, with a report on the performance of the business around performance, pay and productivity including: the gender pay gap, National Living Wage, pay ratios and productivity and business training plan. This would act as a stronger version of the ‘People Statement’ put forward in the Government’s Good Work response to the Taylor Review.
- **‘Workforce Yellow or Red Card’:** as part of a programme of reforming corporate culture, through a union or other collective voice, employees should have the power to issue the senior management or company board with a ‘yellow card’ or ‘red card’. This would provide an early warning and strengthen whistle-blowing mechanisms. This would then trigger a response from the senior management or company board.
- **Workforce consultation:** Employees should have a right to be consulted on significant developments in the business.

- **‘Workforce and Productivity Forum’:** employees should have a right to establish a forum to engage with the management of a business on workforce and productivity issues.
- **Widen union access and enable people to exercise their freedom of association:** too many workplaces are restricted, and unions and employees are prevented from engaging or communicating. New rules of engagement should be established to allow and encourage people to join unions and work associations, so unions can organise and gain recognition where employees are interested in this.
- **Implement corporate reforms to enable company models to transition during their lifecycles:** this would allow companies to transition to forms that embed more workforce accountability and involvement - what we term a chrysalis company.
- **Prioritise dispute resolution:** explicitly seek to enhance the role of collective bargaining and dispute resolution to reduce the use of industrial action and embed industrial accord.
- **Benchmark and audit:** alongside the Work 4.0 and Productivity Council (above), the Government should benchmark and audit the UK against other OECD countries on the shape and effectiveness of labour market institutions and implement reforms to these institutions to support a high skilled economy.
- **Union engagement:** while some Ministers have established dialogue mechanisms with unions, many do not. It should be standard that unions are involved across departments, and the Cabinet Office should be given a role to support this.

### 3. Develop labour market consensus building institutions to bring industrial accord

*We lack the Nordic consensual approach or German co-determination model. The UK has a more conflictual business and union environment with the country lacking consensus building labour institutions, with a use of industrial action rather than dispute resolution. This should change in the following ways:*

### 4. Commit to ‘employee voice deals’ through sector deals in the Industrial Strategy

*Sector deals are key components of the Industrial Strategy and are intended to set the broad objectives for the success of key industries. The Industrial Strategy also outlines five foundations of productivity; one being ‘people’. However, it says little on unions and collective bargaining, or the links between people and sectors. If people are our greatest assets, then there should be a clear role for workforces to have a*

*voice on industrial and workplace issues through the Industrial Strategy.*

- **‘Employee Voice Deals’:** use the Industrial Strategy Sector Deals process to promote ‘Employee Voice Deals’, which would include commitments by sectors to engage employees and embed employee voice (including unions). ‘Employee Voice Deals’ would support modern collective bargaining arrangements and specific commitments on workforce engagement and developing joint approaches to shared industrial challenges, such as attracting new entrants and improving skills. Priorities could be sectors with a long-tail of low productivity, wages, skills, and lack of employee voice.

### **5. Establish a ‘Productivity Partnership Fund’ to drive workforce led productivity gains**

*The Industrial Strategy highlights the importance of people and skills to productivity but the primary focus is infrastructure. The National Productivity Fund for transport, housing and digital infrastructure was increased to £31bn in the Industrial Strategy, while the £1bn Challenge Fund for innovation was increased by £750m, and a new £115m Strength in Places fund announced for local innovation eco-systems. Just £64m was dedicated to a new National Retraining Scheme, with little focus on improving management and the employee role in*

*business. This should be addressed in the following ways:*

- **Establish a business-based ‘Productivity Partnership Fund’** to drive employee voice and productivity in business, as part of an expanded and properly resourced National Retraining Scheme or Strength in Places Fund, or as a new strand of the National Productivity Fund. Businesses or sectors bodies would make joint bids with unions to fund firm-based productivity gains and best practice, such as skills uplift and deployment or management improvement. To make the most impact focus should be on sectors or geographical areas that have a long-tail of low productivity. LEPs should be given a role in the process, which could link to Employee Voice Deals (above).

- **Primes and supply chains:** an additional strand of the ‘Productivity Partnership Fund’ should fund joint bids of primes and unions to make similar improvements within their supply chains.

### **6. Support unions as ‘lifelong learning banks’**

*As we transition through working life, holding many different jobs and working in various sectors, we need effective mechanisms to reskill and retrain. Compared to other OECD countries, the UK has some of the lowest skill levels, poorest skills deployment, lowest levels of business investment in skills, poorest levels*

*of management, and most fragmented training environment. Unions should be harnessed to play a role to help address this.*

- **Support unions to become ‘lifelong learning banks’**, building on their expertise in running UnionLearn and as an impartial voice in supporting skills development. Unions would be a key pillar of continuous workplace lifelong learning providing careers and skills advice, delivering training, and advising on skills deficits and training needs, working with sectors and industry skills bodies on standards and pathways.
- **Business to union career progression:** support career exchange between unions and business, breaking down the barriers and improving an understanding of both.

## **7. Celebrate businesses and sectors with good union relations**

*As union density diminishes, there is a lack of familiarity with unions. There are few examples where a positive view of unions and their role is promoted. It is in union and government interests to enable a more positive view of unions, as otherwise government will have to step into the role that unions once undertook.*

- **Kitemark: Unions**, through the TUC, should develop a kitemark for good practice for businesses who recognise unions and offer good employment

standards. Government and businesses should more readily cite examples of good union and workplace voice practice. Within business reporting requirements there should be a mechanism for monitoring standards on unions and workplaces. This type of mechanism would encourage technologies, such as apps, to help job seekers find companies with good standards, and to enable businesses to use for recruitment.

- **Communication with employees and employers:** The Government’s Good Work plan commits HMRC to enforcing basic rights on pay for vulnerable workers and to proactively check that firms using unpaid interns are compliant. The plan also tasks the Government with improving awareness of worker’s rights. This should be extended to raising awareness of union-related rights, particularly for people entering employment and to raising awareness of the implementation of good practice for employers.
- **Local forums and ‘voice’ leadership:** local areas could seek to be ‘voice’ and union exemplars as they have with the Living Wage. Resources and platforms of local politicians, such as City Mayors, could be leveraged to promote voice in their areas, and to drive all business and institutions to improve employee voice mechanisms. Authorities could also provide regional support structures to enable employee



voice to discuss matters of significant economic or social impact and agree plans for improvement.

## **8. Create and support employee share ownership**

*Employee share ownership is a proven method of raising productivity, with employee owned firms in the UK having twice the rate of productivity gain than the economy as a whole. However, the proportion of employee share ownership remains pitifully small at just 0.8 per cent of the private sector workforce. The Government must explore at scale policy options to raise this workforce participation figure to 10 per cent, an ownership level already reached in the United States and a policy goal recently endorsed by President Macron in France.*

- **Scale up employee share ownership:** The Government should create and support policy initiatives and incentives that will deliver employee share ownership to at least 10 per cent of the UK's private sector workforce by 2025. This could and should include specific incentives for firms offering wider employee ownership through locally led new employee voice and productivity deals.

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## Prosperity

The UK has some of the highest levels of wealth concentration in the developed world. It has an economy where most mature markets are dominated by a small number of players and the barriers to entry are far too high. It is not an exaggeration to suggest that in many areas, from energy to banking to groceries, the UK has a monopolistic rentier rather than a market economy – a system in which certain individuals or small groups gain market dominance and excessive returns through anti-competitive practices. This conspires against innovation and is detrimental to the small and emergent businesses that generate growth and spread prosperity. Added to this, our education system, by specialising too early and often in the wrong areas, fails to produce students with fully rounded skill-sets. We are simply not equipping our future workforce with the means to safeguard our, and their, economic future. This is one reason why the real value of wages in proportion to growth in GDP continues to stagnate or fall. Our long-term productivity dilemma is a function of market capture and the effective de-skilling of the population.

We believe that shared prosperity cannot be achieved by simply tweaking the market. Britain needs significant demand and supply-side transformation, with new visionary institutions re-ordering our economy. We need long-term solutions that give power over wealth and assets, not simply handouts, to ordinary people. Central to this process of economic empowerment is an ethical, practical and adaptable education that gives people the skills to build their own businesses, or develop their own talents, rather than a conveyor belt to a service industry of low wage and less return.

New financial institutions to promote small business lending are required, and this involves smaller, more specialised and decentralised banks that can deliver advice as well as capital. We wish to explore ways in which all financial transactions can be linked to a wider social purpose and profit, which itself needs a transformation of the legal framework within which economic transactions take place. We believe that the future lies in the shaping of a genuinely social market which would be in consequence a genuinely free and open market. Internalising externalities and creating a level economic playing field in terms of tax paid and monopolies recognised and challenged, remains beyond the scope of contemporary governments to deliver. Such a vision requires new concepts. The viable transformative solutions lie beyond the purview of the current visions of both left and right in the UK

The UK has a productivity and prosperity problem. The country languishes at the bottom of productivity indices with employees working longer but producing less. At the same time pay has fallen or stagnated for many as the economy has failed to create and share income and assets.

Lessons from other higher performing and advanced economies show a clearer pattern of employee engagement and a fairer distribution of prosperity. In this context, there is a renewed role for unions as workplace representatives, and for new forms of employee voice and collective bargaining.

Rethinking union models provides challenges, particularly within the Conservative Party, as unions have often been viewed in political not economic terms. Yet, what often goes unrecognised is that workplace and productivity improvement are the key focuses of union activity. This paper calls for a new approach to forge a consensus between government, industry and employees on the nature of work in a productive economy. This 'New Bargain' would establish a rejuvenated role for people in collective bargaining and provide a way to address productivity, pay and workplace change.

We recommend that employees should have new powers to be consulted on change, efficiency and fairness in the workplace. We propose a new 'Workforce Yellow or Red Card' warning system addressing issues like the Carillion collapse; 'employee voice deals' for non-oppositional bargaining; 'lifelong learning banks', to support workforce skills and development; and an increase in employee ownership to help drive productivity and share prosperity.

