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#UK

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What would Labour do? 4. Economic strategy

Labour is focusing on an ambitious package of supply-side reforms to incentivise private sector investment and boost growth in the UK. This significantly more interventionist style of government has the potential to offer a clearer policy landscape for investors, but delivery risks will be high.

Key Takeaways

- Labour is seeking to fight the next UK general election on economic grounds. It will argue that its vision of 'securonomics', involving ambitious supply-side reforms and greater state intervention in sectors of national importance, is an answer to the UK's sluggish growth.
- To achieve this, Labour is targeting increased infrastructure investment – planning reforms are a priority. While this is essential to the party's economic goals, passing reforms may prove difficult.
- Labour sees a greater role for the state in co-financing and shaping investment in key sectors. It would create planning documents setting out the infrastructure investment each area needs, then work to co-finance investments, with the private sector providing the majority of funding.
- Labour's reforms are extremely ambitious and will require government to become rapidly more adept at handling large infrastructure projects than it has demonstrated in recent years. For a party that has been out of government for over a decade, this will be extremely difficult, with high delivery risks.

This is the fourth note in our ongoing series on how Labour would manage policymaking should it form a government after the 2024 UK general election. Read our notes on the

party's approach to [green industrial strategy](#), [foreign policy](#) and [EU policy](#).

Labour is beginning to set out its policy agenda ahead of the 2024 election

The UK's party conference season is finally over for another year. While no party managed to deliver a conference for the history books, the contrasts between Labour and the Conservatives are becoming more clearly defined. The former used its conference to hint at a significant shakeup of fiscal policy and economic philosophy should it enter government, and would use the review of the Trade and Cooperation Agreement (TCA) to seek greater regulatory alignment with the EU.

Economic strategy is centred on supply-side reforms

Inspired by what US Treasury Secretary has referred to as 'modern supply-side economics', Labour's approach, described as 'securonomics' by Shadow Chancellor Rachel Reeves involves a significantly expanded role for the state in the planning and financing of a reinvigorated industrial sector, utilising private sector co-financing and planning reforms to increase the scale and pace of industrial projects in the UK. This business-friendly focus on incentivising, part funding and guiding investments would also be coupled with a tougher approach to regulation, particularly in public-facing sectors such as utilities and public transport.

Labour aims to achieve the highest growth in the G7 by the end of the next parliamentary term. It has also stated it will target increasing business investment in the UK by 1% of GDP. To achieve this, it has set out an ambitious reform agenda, focused on infrastructure and housing projects.



Planning reform is high on the agenda

There is broad cross-party agreement that the UK's planning system is a barrier to growth. However, successive Conservative governments have struggled to implement significant reforms, held back by backbench concerns over the implications of large-scale building works in their constituencies. As a result, multiple attempts have been scaled back or dropped in recent years.

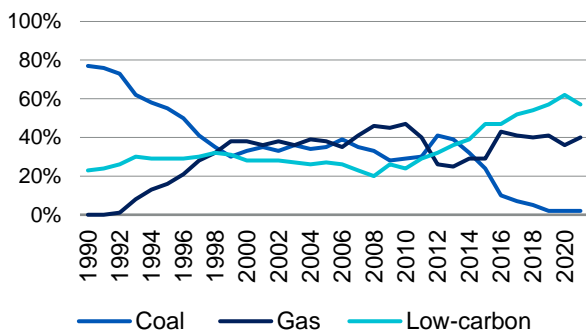
Labour's planning reforms comprise two main components, one focused on industrial projects and the other on housing. For industrial projects, the principal aim is to reduce approval times by updating national policy statements within six months of entering government. A new fast-track system would be introduced for priority projects, including battery factories, laboratories and 5G infrastructure.

In housing, Labour is largely pledging a continuation of the housing targets introduced by Conservative governments. It would retain the target of building 300,000 new homes per year. To achieve this, it would partially deregulate planning, encouraging councils to speed up approvals and redesignating low quality 'brownfield' land for development.

A major overhaul of the national grid is proposed

Labour has an extremely ambitious target of decarbonising the electricity system by 2030, five years earlier than current government plans. To achieve this, a rapid expansion of the electricity grid is a necessity (see Figure 1).

Figure 1: The UK electricity system is currently operating on around 60% renewables



Source: Climate Change Committee, abrdn (October 2023)

Labour's publicly owned energy company GB Energy would open future grid construction to competitive tendering, coordinating a "super tender" to procure the grid supply chain. It would also be able to submit its own bids individually or as part of a joint tender. Labour hopes that by increasing competition in the sector, overall investment can be increased and grid connections sped up.

The private sector would play a dominant role in financing

Any government will inherit an extremely difficult fiscal situation after the next election. With Labour's ambitious

reform agenda, a key question is how it will be able to finance its plans while maintaining its stated commitment to fiscal discipline.

Labour has not yet provided a full answer to this question, but one key component has been made clear: private sector financing plays a significant role in its infrastructure plans. The party has set a target that for every £1 allocated through its £8 billion National Wealth Fund, £3 of private sector capital will be committed. Current plans are for this investment to be first deployed in gigafactories, clean steel and renewable-ready ports.

Despite this emphasis on private sector investment, Labour is still committed to increasing the amount spent on green infrastructure compared to the current government. It has pledged to spend £28 billion per year on green infrastructure by the middle of the parliamentary term. However, it has since clarified that this figure includes the £8 billion of planned spending already committed by the current government, meaning the actual increase will be £20 billion per year.

Labour is likely to use this money principally to support the growth of emerging technologies and provide seed capital. It will also utilise funding to ensure the government retains a partial stake in strategically important infrastructure through the use of co-financing arrangements.

Finding the money will be tricky, and risks Labour's credibility. It would hold a budget as soon as possible upon entering government and would need to set out how it proposes to finance the establishment of GB Energy and the National Wealth Fund. This is almost certain to involve borrowing, and the party will have to communicate its plans for the bodies extremely careful to ensure markets retain confidence in its plans.

Growing business confidence with an increase in long-term policy planning

One frequent criticism of current government policy is that changes of direction are taking place too often, undermining business confidence. Labour is conscious that this is a major barrier to its goal of increasing private sector investment in major infrastructure projects in particular, with a direct implication for its growth targets. To rectify this, it has committed to publishing a number of roadmaps early in its time in office, setting out its policy plans – including on business taxation and regulation – for a number of years.

While on paper this will help address the issue of policy swings undermining business certainty, there are also clear risks to this approach. Should circumstances mean Labour has to deviate from its stated plans, the roadmaps may risk doing more harm than good.



On worker and consumer rights, Starmer is no Blairite

Labour is proposing an overhaul of workers rights in the UK, focusing on improving working conditions for low-paid sectors. It has pledged to increase the minimum wage to take account of the cost of living.

The party also plans to introduce sector-wide collective bargaining in several low-paid sectors, with the initial focus being on adult social care. The policy would allow employees to negotiate pay and conditions at a sector level, but would not see Labour set minimum pay levels for the sector.

A tougher regulatory landscape across consumer-focused businesses, particularly utilities, is also likely. The party has proposed an overhaul of the regulatory regime for water and will put an increased emphasis on consumer rights should it enter office.

Policy priorities are notable for their lack of emphasis on public services

The Labour Party conference demonstrated the commitment of Labour to fight the next general election largely on economic terms. This is new ground for the party, which has tended to either attempt to tack as closely to Conservative positions as possible on economic issues, or seek to divert the conversation to the quality of public services.

Starmer and Reeves now believe that in order for additional funding to be provided to public services – a concept they are still supportive of – the government first needs to generate higher economic growth. This is reflective of the difficult fiscal situation any government will find itself in, and also explains Labour's reluctance to set out any large-scale funding commitments for the NHS, education and other high-profile areas.

If, as the party hopes, its infrastructure plans begin to bear fruit, the additional fiscal headroom would allow for increasing public sector funding in the run up to the next general election in 2029.

Parliamentary arithmetic is likely to be tight

Labour has ambitious plans for government and has chosen to set out an economic plan that strongly diverges from current policy. Successful implementation of this agenda will likely depend on two things, neither of which are guaranteed. First, a Labour government will have to learn

quickly on the job. Very few in the current shadow cabinet have ministerial experience, and even fewer have run a department. Successful delivery of its reform agenda will depend on Labour's ability to transition from long-time opposition party into the party of government quickly.

Implementing this reform agenda will also be made significantly harder if Labour governs with a small majority or as a minority government dependent on the support of other parties. Both these scenarios are extremely possible; although Labour holds a 20-point lead in polling averages, it would require a historic vote swing for it to secure just a single-seat majority.

Planning reform is likely to be a particular sticking point. If operating as a minority, Labour will have to rely on the Liberal Democrats to pass legislation. While the parties can find common ground in a number of areas, the Lib Dems have traditionally opposed the relaxation of planning laws, risking Labour's plans being watered down if it cannot find the votes elsewhere. With planning reform an essential part of Labour's economic strategy, this poses a significant risk to its growth plan.

Correcting long-standing issues in the functioning of government is key

Labour's ambitious vision for a more interventionist government focused on shaping markets in key sectors requires government machinery to significantly improve its oversight of capital expenditure. A study by Reform, a think tank, has found that state expenditure is currently poorly allocated and often does not reflect the government's priorities, with departments often struggling to track the progress and performance of large-scale projects.

This is a major issue and seriously hampers the ability of any government to complete significant investment projects successfully, as recently evidenced by the scrapping of parts of HS2 following cost concerns. Labour is aware of these risks, particularly given its vision to expand state involvement in infrastructure projects. Starmer's Chief of Staff and former Second Permanent Secretary in the Cabinet Office Sue Gray is leading work on a potential restructuring of the civil service to aid government efficiency. Regardless of the outcome of this work, Labour would be attempting to carry out any changes at the same time as launching its reform agenda, meaning it will have to manage multiple complex undertakings at once.

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