

A NEW BUSINESS MODEL FOR BRITAIN

BUILDING ECONOMIC STRENGTH IN AN AGE OF INSECURITY

RACHEL REEVES



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01.

Introduction



A BETTER FUTURE FOR BRITAIN

I believe in a better future for Britain. It is one where British businesses are world leaders and where the industries of the future are built in Britain. It is one powered by the contribution of millions of ordinary people, not based on wealth trickling down from a fortunate few. It is one where every child, wherever they are born and whoever they are born to, has the chance to get on in life. And if I have the chance to become Britain's next Chancellor of the Exchequer, it is the Britain I am determined to build.

Our country has great strengths. We are the second largest exporter of services in the world,¹ and home to Europe's leading financial sector.² We have some of the world's most dynamic businesses, operating at the very edge of possibility in tech, life sciences, and our cultural industries, supported by universities that are at the frontiers of global knowledge. And all of this is built on the work of the talented and industrious people I meet every day as Shadow Chancellor. Speaking to them, hearing their ideas and witnessing their ambition and belief, I am optimistic about Britain's future.

But over the past 13 years we have failed to reach our full potential. Our economy has stagnated, inflation has soared, and working people in Britain have suffered. The result is not just a series of lines on a graph. It is lower wages, rising prices, spiralling mortgages, hollowed out high streets, crumbling public services and higher taxes. Taken together, this amounts to the biggest fall in living standards in a generation. The result is hard-working people struggling to get by, let alone get on in life.

I believe that a good society can only be built on a strong economy. Throughout my professional life, I have sought to understand Britain's economy, first at the Bank of England, then in finance and now as Shadow Chancellor, representing the people of Leeds West as a Labour MP.

In that time, the world has changed markedly. Two decades ago, when I left university and got my first job, western democracies enjoyed strong growth, rising living standards, and an open globalised economy providing cheap energy and goods. For many, though not all, it felt like a time of optimism, hope and progress.

¹ UNCTAD. 2022. *Handbook of Statistics* - Total Trade in Services Available from: https://unctad.org/system/files/official-document/tdstat47_FS05_en.pdf

² Mainelli, M. and Wardle, M. 2023. The Global Financial Centres Index 33. Long Finance. Available from: https://www.longfinance.net/media/documents/GFCI_33_Report_2023.03.23_v1.1.pdf

Today, that has changed. We now live in an age of insecurity, with Russia's invasion of Ukraine bringing this new era into sharp relief. Energy prices have risen dramatically, putting households under immense financial strain and threatening blackouts across the world's richest countries. For the first time in a generation, inflation has soared and food shortages have left our supermarket shelves bare.

But this shock was not a one-off. The war in Ukraine is just the latest in a series of events that have been described as 'once in a generation'. In 2008, we experienced the worst global financial crisis since 1929. In 2020, we fell victim to the worst pandemic since 1918. Now tensions are rising between two world powers, America and China, in a manner we haven't seen since the fall of the Berlin Wall. Meanwhile, the arrival of new technology threatens to change the world of work just as the industrial revolution did two centuries ago.

Rather than stand tall in this new world, Britain is being buffeted by it. With each new shock to the global economy, we suffer more deeply and for longer, than our international peers. This year, the IMF expects the UK to have both the lowest growth and the highest inflation in the G7.³ Meanwhile, we are falling behind in the global race for the jobs and industries of the future.

Thirteen years of Conservative government has left Britain weaker. Austerity starved the economy of the investment it needs to grow. Productivity stalled and has never picked up. Wages stagnated and left millions poorer. Even judged by its own aims – reducing the national debt – austerity failed: our public finances have got worse, with debt as a share of GDP now at the highest it has been in over half a century.

Austerity has been followed by years of instability and dysfunction, made worse by the Conservatives' ideological approach to negotiating our exit from the European Union. Last year they dealt the hammer blow, crashing the economy in Liz Truss's mini-budget, sending markets plunging, undermining already fragile business confidence and leaving millions facing huge hikes to their rent and mortgages. Today, we are left with their wreckage and the managed decline of Rishi Sunak and Jeremy Hunt.

The causes of Britain's economic weaknesses run deep, however. For too long, Britain has been held back by two misguided models of economic thought.

The first error is to think that the state has little strategic role in the economy beyond removing barriers to free enterprise, correcting the occasional market failure, and redistributing the proceeds of growth. That view was wrong forty years ago, when it was enthusiastically embraced by the Thatcherites, and it is wrong today. Government does indeed have a role to play in tackling market failures, but its role must go beyond that too. A modern state must be more active, making and shaping markets that are essential to a nation's resilience and future prosperity.

The second error that persists among policymakers is the belief that the people and places that matter to an economy are few in number and that a nation can rely on growth in just one corner of the country or a handful of industries. The result has devalued people and places, and wasted so much human potential. In the process, it has left our economy dangerously exposed to the shocks that emanate from this uncertain world.

Today, centre-left governments across the world are showing that another way is possible. The US Treasury Secretary Janet Yellen calls this new approach "modern supply side economics". It is focused on building the economy's productive capacity: its ability to make, do and sell things. Its guiding principle is the idea of contribution, with a nation mobilising all its resources – the human potential found in every town and city – to build a stronger economy. And it is underpinned by the concept of a more active state, one that is willing to act in the national interest, pursue national goals, and invest in building the capacity of the industries that will determine the nation's success tomorrow – working in partnership with a dynamic private sector as it does so.

In this paper, I show how the same can be achieved in Britain. I set out a new business model for Britain that follows the ‘modern supply side’ approach. It is one that will make us stronger and more resilient in an uncertain world, and help us seize the opportunities of the future, like clean energy, artificial intelligence and life sciences. It is one that brings government and business together, developing a long-term plan for Britain’s industries that makes us a world leader once again. Crucially, it is one that draws on the talents and efforts of thousands of businesses and tens of millions of working people, in every part of our country. And it is one that rests on the principles of sound money and financial responsibility, so vital to ensuring businesses can and will invest.

The defining mission of the next Labour government will be to deliver the strongest sustained growth in the G7, with good jobs and productivity rising in every part of our country. This is undeniably an ambitious goal, but it is one we’re determined to meet. Economic growth is the only way we can increase wages, bring down bills, revitalise our high streets, and fix our broken public services. And it must be generated and shared right across our country.

Achieving our mission will require new thinking about Britain’s economy. In a world where our adversaries may turn off the taps to energy supply, or remove access to critical technology, Britain needs to be more resilient. Our prosperity and growth will depend on securing the energy that powers our homes, the chips in our phones, the food we eat and the materials that make the buildings we live in. Sometimes, that will mean making more things in Britain. In other areas, it will require greater international cooperation, working with allies to secure supply chains we can trust. Today, other countries are forming new partnerships to do exactly this. Britain must not be a bystander.

Equally, we must seize the opportunities presented to us in a rapidly changing world. The transition to green energy and technology, for instance, holds the promise of good jobs for British workers. As we adapt and build homes for the future, there will be jobs for builders, plumbers and electricians. The revolution in wind energy will create jobs for engineers, scientists and designers. Frontier technologies, like battery technology and green hydrogen, will create new industries and new jobs entirely.



In this paper, I set out a new economic approach for Britain, learning the lessons from our past and building on the potential I see in every part of the country today.

Doing this isn't just good economic sense. It is also morally right. For me, politics and economics have always been about values and mine come from my family. My paternal grandparents were Salvationists. They left South Wales in the 1930s during the Great Depression, moving to England to find work in Kettering's shoe factories. Visiting them as I grew up, I would volunteer in the Salvation Army shop. For me, there could have been no better model for hard work, for contribution, and for the conviction that we all have a duty to give back to our communities.

The contribution of working people all across the United Kingdom should be recognised, drawn upon, and rewarded. Today, it isn't. In the past year, I have thought often about two young parents I met in Worthing. They were good people and they were working hard. Between them they held down five jobs, and yet still struggled to make ends meet, while juggling work and childcare. They could only spend half a day together as a family each week. Despite all their toil, their hope of owning a home had evaporated as house prices soared and mortgages got more and more expensive. Doing all the right things, they were getting nothing in return. They weren't demanding a life of luxury. All they wanted was a home of their own, security and time for family. But they could feel it slipping out of reach.

This human story, all too common in modern Britain, is also an economic one. The link between hard work and fair reward has broken. The contribution of the majority has been undervalued and they have been overlooked.

Labour's economic mission demands that every part of our country thrives and that we value the contribution of every person. It also demands that we do things differently. This paper sets out a new business model for Britain. It is one that will ensure that, in an uncertain world, Britain thrives – and that working people feel the reward.

A handwritten signature in black ink that reads "Rachel Reeves". The signature is fluid and cursive, with "Rachel" on the first line and "Reeves" on the second line.

RACHEL REEVES MP
SHADOW CHANCELLOR

02.

An Age of
Insecurity

Lost Decades

In 1997, the last time Labour overturned a Conservative majority, the world looked very different. Then, we were enjoying a period of relative stability and order. There was widespread optimism about the benefits of globalisation. The new 'world wide web', still years from the dot com crash, held the promise of a more egalitarian 'knowledge economy'. Britain was crying out for modernisation, in a global setting that demanded it.

Three years into that government, I joined the Bank of England as a young economist. There, I was given the job of analysing the performance of the Japanese economy during the first of what we now call its 'Lost Decades'. In those years, I saw what happens to an economy, once the envy of the world, when it becomes trapped in a cycle of low growth, lost confidence and weak demand.

Today, Britain has experienced its own Lost Decade. We too have become painfully aware of the perils of a decade of low growth. We have seen that a small-state ideology, embodied by thirteen years of austerity, has profound economic and social ramifications. And we have seen the profound economic and social consequences of outdated economic ideas.

A Changing World

We have seen all this at the worst possible time. The world today faces a new age of insecurity. Chinese and American competition has created a bi-polar world. The international system of trade, energy, finance and security is being restructured. War has returned to the European continent. Democracies have come under new and dangerous pressures.

In the years to come, the rate of change will only accelerate. We are at the brink of a new wave of technological innovation that will dramatically reshape the global economy. Artificial intelligence will be able to carry out more tasks, predict things more accurately, take more decisions, and so take on a larger role in our workplaces and even our daily lives. Quantum computers will rapidly accelerate the rate of change, putting a rocket booster behind rapidly advancing digital technology. Advanced robotics and 3-D printing will reshape the factory floors of countless industries. Genomics research will transform the healthcare we receive and even the food we eat. We are living through an era of unprecedented technological change, the scale of which will eclipse even the invention of the internet.

Looming above all this is the climate crisis. The need for action grows more urgent, with the consequences already being felt around the world, including here in Britain. In 2015, Leeds was hit by the worst flooding in seventy years, including in Kirkstall, in the constituency I represent. Thousands of homes and hundreds of businesses were devastated. Tens of thousands were left without power. Further rises in global temperatures will cause more extreme events like these. How we respond to the climate crisis is the defining test of our generation.

Set out like this, the scale of the changes we face might seem daunting. However, they should strengthen our ambition not lessen it. In all the ways in which the world is changing, there is a global race to lead the response – and other countries are stealing a march on us. There will be world leaders in quantum computing, life sciences and artificial intelligence. There will be world leaders in green hydrogen, clean steel, battery technologies, wind and solar. If we make the right decisions now, and set a clear direction, Britain could be that world leader. Though this is an age of insecurity, we can secure our future within it.

This moment does not call for blind optimism. Instead, it calls for a sober consideration of a new approach that will ensure Britain wins this global race. Before we look forwards, however, we must first look backwards to understand what has worked and what hasn't, and the underlying weaknesses in Britain's economy that we must address.

03.

The Old Politics of Supply and Demand

A Post-War Consensus

The 1945 Labour government transformed Britain, creating the NHS, uniting the NATO alliance and rebuilding Britain after the war. In that period, Britain's economy grew faster, became more equal, built new infrastructure and modernised industries. In the process, we laid the foundations for a stronger national economy.

But in the post-war years something went wrong. For much of this period, policymakers believed that the primary tool of economic policy was demand management. The role of the government, in this understanding, was principally to stimulate demand in order to counteract recession and maintain full employment.

However, despite intermittent attempts, successive governments failed to grip profound weaknesses on the supply side of the British economy. In this period, British industries grew uncompetitive and unproductive, industrial relations became increasingly dysfunctional, and the British economy was exposed to global shocks. With supply static and demand pumped into the economy, prices began to rise, ultimately leading to persistently high inflation. This malaise reached its apex in the 'stagflation' of the 1970s, when high inflation combined with low growth to form a toxic brew.

The reaction came in the form of Margaret Thatcher and what has become known as 'supply side economics'. This idea, or perhaps act of faith, held that removing regulations and cutting taxes for the rich would stimulate growth and that wealth would trickle down from the top to everyone else.

In fact, while wealth was indeed created, it did not trickle down. Inequalities between places and people widened, consigning entire regions and industries to inactivity and decline. In the 1980s, Britain deindustrialised faster, and with graver social consequences, than many other countries. New industries did not emerge to replace the work lost in former industrial communities. As the Conservative government sold off formerly nationalised industries, opportunities to invest in Britain's long-term wealth were squandered. While North Sea oil brought tens of billions of pounds into the Exchequer, the Thatcher government failed to divert a share of the proceeds into building our national wealth. Other countries, like Norway, used the proceeds to invest in national infrastructure and opportunities of the future. Today, Norway's Sovereign Wealth Fund is valued at around £1tn. Our economic resilience was undermined in the rush for short-term reward. And by the time Thatcher left office, even her success in taming inflation had proven only temporary, with prices soaring once more⁴.

A New Dawn...

The last Labour government sought to redress many of the failings of Thatcherism. Its approach was founded on a belief that the technological revolution would deliver greater prosperity, equality and freedom, so long as governments ensured stability, equipped people with the skills to succeed and the economy remained open to the world.⁵ In this period, Labour rescued Britain's public services, improved educational outcomes and lifted over a million pensioners and children out of poverty. For over a decade, Labour delivered strong economic growth and raised living standards.

There were limitations to the promise of a new 'knowledge economy' however. Globalisation could widen as well as diminish inequality. It could disempower as well as empower people. And it could displace as well as create good work.

Rather than spreading economic opportunity around the country, as was once anticipated, knowledge industries concentrated it in London and the South East. The productivity boom that accompanied the rise of the internet in the mid-1990s eventually tailed off. As it did, the need for a more active industrial policy, with stronger support and protections for workers, became apparent. The global financial crisis delivered a particularly painful blow to Britain's growth model which demanded a new approach.

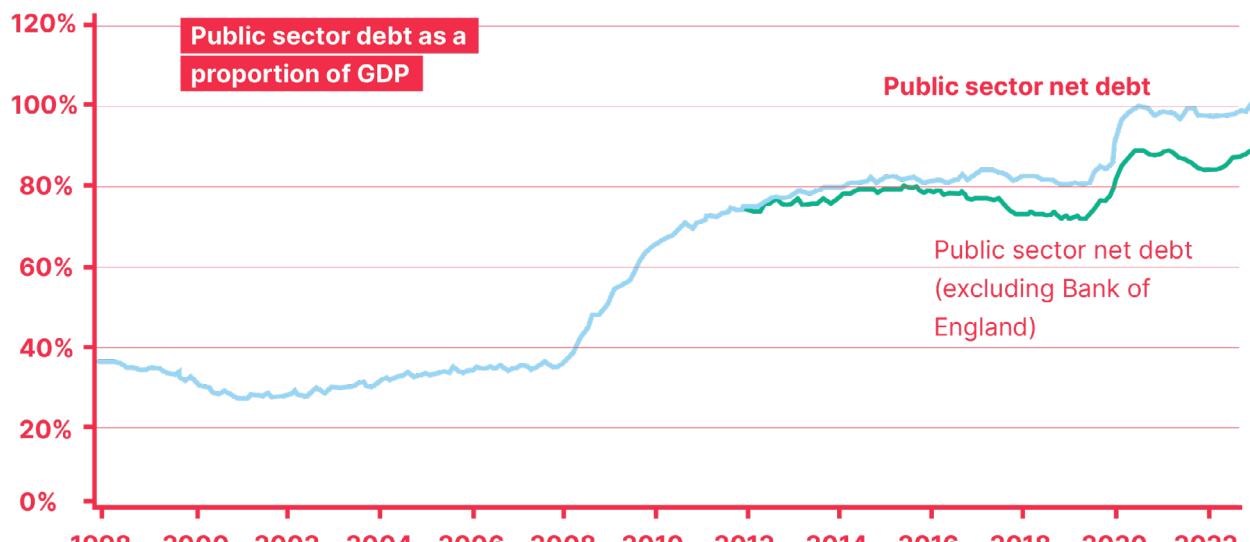
⁴ Jones, J. 2013. Margaret Thatcher in six graphs. The Spectator, available from <https://www.spectator.co.uk/article/margaret-thatcher-in-six-graphs/>

⁵ O'Donovan, N. 2022. Pursuing the Knowledge Economy: A Sympathetic History of High-Skill, High-Wage Hubris. Agenda Publishing.

In its latter years, the last Labour government increasingly turned its attention towards improving productivity with a revival of industrial strategy. The success of this approach is clearly evident in Britain today. As a result of it, the UK became a net exporter of cars by 2010 and dramatically expanded its capacity for renewable energy generation. The seeds of our life-sciences industry, which have now blossomed into a truly world-leading sector, were planted in the early 2000s and nurtured by Labour's industrial strategy. As the Conservative government's own Industrial Strategy Council (now abolished) showed, the success of Britain's Covid vaccine programme would have been impossible without this early investment.⁶

... Was Broken

In 2010, however, the Conservatives returned to power. Instead of fixing Britain's supply side fragilities, they responded to the Financial Crisis with deep and damaging cuts. The austerity programme cut public spending harder and faster than most other European countries, squandering the gains of the previous thirteen years.⁷ By 2020, real-terms day-to-day public spending was 9% lower per person than a decade before.⁸ This did not just hollow out the public realm and widen inequality, it also undermined our economic resilience. Sucking demand from the economy and cutting investment corroded British infrastructure and sent private investment tumbling. Even judged on its own terms, the approach failed. The nation's finances were left weaker by austerity. Even before Covid necessitated a major increase in public spending, Britain's debt-to-GDP ratio had grown by almost 30%. Although we are now on the other side of the pandemic, it continues to rise.⁹



Note: Data from Office for National Statistics, Public sector finances time series

6 Labour Party. 2022. Prosperity Through Partnership: Labour's Industrial Strategy. Available from: <https://labour.org.uk/wp-content/uploads/2022/09/Industrial-Strategy.pdf> and Balawejder, F., Sampson, S. and Stratton, T. 2021. Lessons for Industrial Policy from Development of the Oxford/AstraZeneca Covid-19 Vaccine. Industrial Strategy Council. Available from: <https://industrialstrategycouncil.org/sites/default/files/attachments/Covid-19%20vaccine%20-%20lessons%20for%20the%20IS.pdf>

7 The Organisation for Economic Co-operation and Development. 2021. Government at a Glance. Available from: <https://data.oecd.org/gga/general-government-spending.htm>

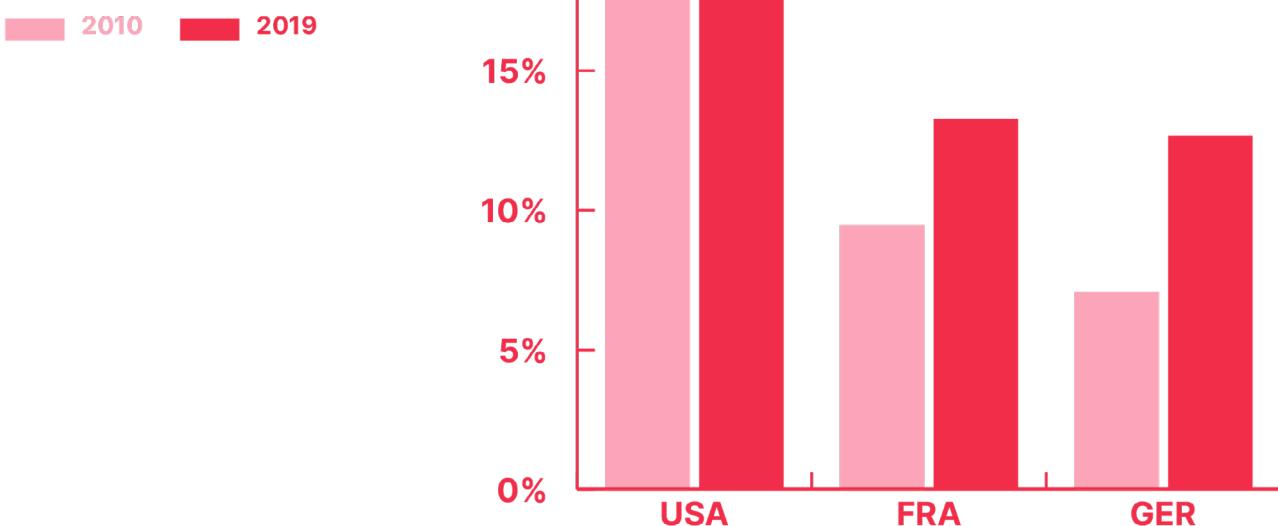
8 Crawford, R. and Zaranko, B. 2019. Tax and spending since the crisis: is austerity over?. Institute for Fiscal Studies. Available from: <https://ifs.org.uk/publications/tax-and-spending-crisis-austerity-over>

9 Office for National Statistics, Public sector finances time series. Available from: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/datasets/publicsectorfinances>

The Productivity Problem

One particular problem illustrates and underpins Britain's economic malaise: persistently low productivity. While Britons have always worked hard, we are not becoming more efficient and effective. This is a long-standing issue, but it is also one that has been aggravated by the past thirteen years of economic mismanagement. It is also an area where we lag behind our neighbours. Even in a widespread European productivity slowdown, Britain sits behind our peers and competitors. Today, our productivity levels are 15th out of the 38 OECD nations, and they are a fifth lower than those in the United States.¹⁰ The economic historians Nicholas Crafts and Terence Mills have shown that our productivity slowdown in the decade up to 2018 was the worst we have experienced in 250 years.¹¹ There is no doubt that this has a direct impact on our global competitiveness. Last year, our negative trade balance (the total value of what we import minus the total value of what we export), as a percentage of GDP, was three times higher than it was a decade previously.¹²

How much more productive other countries are than Britain



Note: Data from ARDECO 2019

As our levels of productivity have diverged from our neighbours, our living standards have too. Working people in Britain have suffered the longest and most painful squeeze on living standards in a generation. For almost five decades after 1970, real wages grew by an average of 33% a decade. In the last decade, they fell. Average real wages in Britain today are now no higher than in 2010.¹³ The average French and German family are 10% and 19% richer than their British counterparts. The difference is even starker for lower-income households, where the gap rises to 21% and 22% respectively.¹⁴

10 Crafts, N. and Mills, T. C. 2020. Is the UK Productivity Slowdown Unprecedented?. National Institute Economic Review. 251, pp. R47-R53.

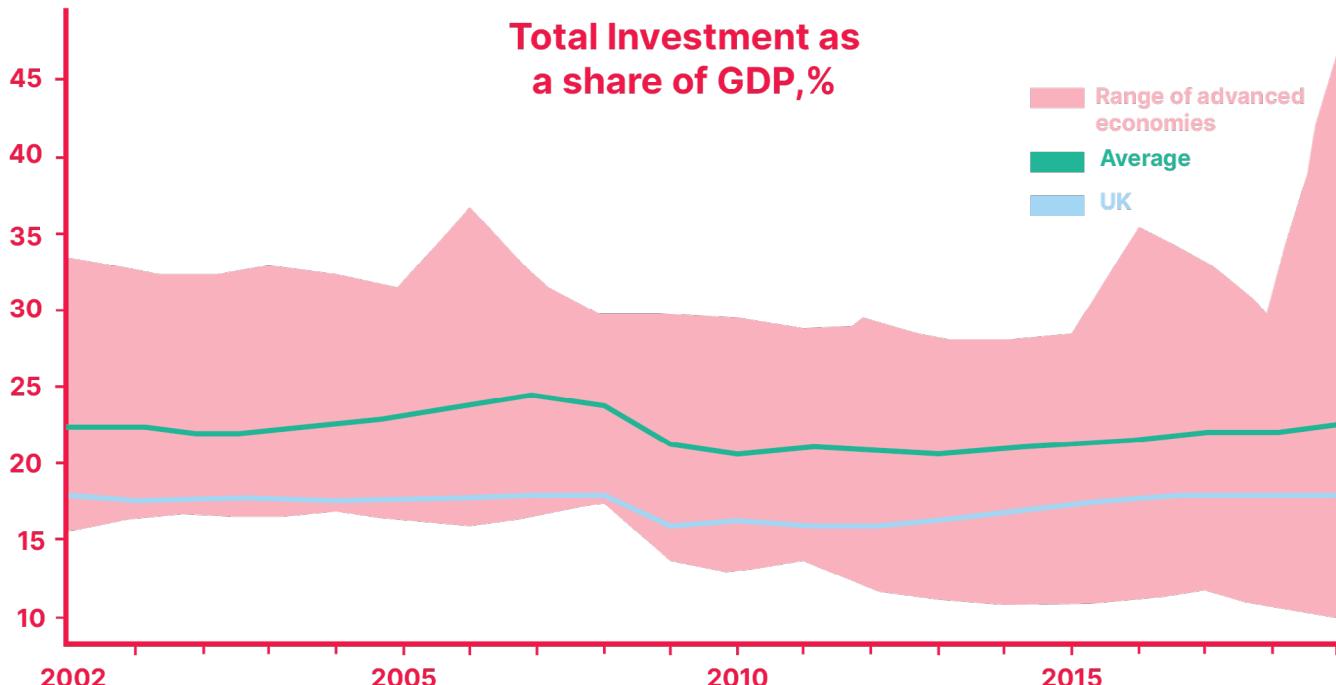
11 Crafts, N. and Mills, T. C. 2020. Is the UK Productivity Slowdown Unprecedented?. National Institute Economic Review. 251, pp. R47-R53.

12 Office for Budget Responsibility. 2023. Economic and Fiscal Outlook March 2023. Available from: https://obr.uk/docs/dlm_uploads/OBREFO-March-2023_Web_Accessible.pdf

13 Office for National Statistics. 2023. Average Weekly Earnings in Great Britain: April 2023. Available from: <https://www.ons.gov.uk/employmentandlabour-market/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/april2023>

14 The Resolution Foundation. 2022. Stagnation Nation. Available from: https://economy2030.resolutionfoundation.org/wp-content/uploads/2022/07/Stagnation_nation_interim_report.pdf

Underlying the UK's productivity shortfall is chronic and sustained underinvestment. By 2019, private investment as a share of GDP had fallen below every other country in the G7. As shown below, it has sat below the G7¹⁵ average for over thirty years.



Note: Advanced economies are the 31 countries in both the OECD and IMF's Investment and Capital Stock Dataset.

Our productivity and investment problem is inextricably linked to geographic inequality. The UK is one of the most geographically unequal nations in the developed world.¹⁶ The areas with the highest productivity, like London and the South East, equal the most productive regions of Germany and are more productive than those in France. And yet the economic potential of millions of people and large swathes of the country has been stifled. Our other great cities - like Manchester, Birmingham and Glasgow - are significantly less productive than their European counterparts of a similar size, like Brussels, Gothenburg, Munich and Marseille.¹⁷

15 Dibb, G. 2022. Cutting corporation tax is not a magic bullet for increasing investment. Institute for Public Policy Research. Available from: <https://www.ippr.org/blog/cutting-corporation-tax-not-magic-bullet-for-increasing-investment>

16 Getzel, B., Giovannini, A. and Raikes L., 2019. Divided and Connected. Institute for Public Policy Research. Available from: <https://www.ippr.org/files/2019-11/sotn-2019.pdf>

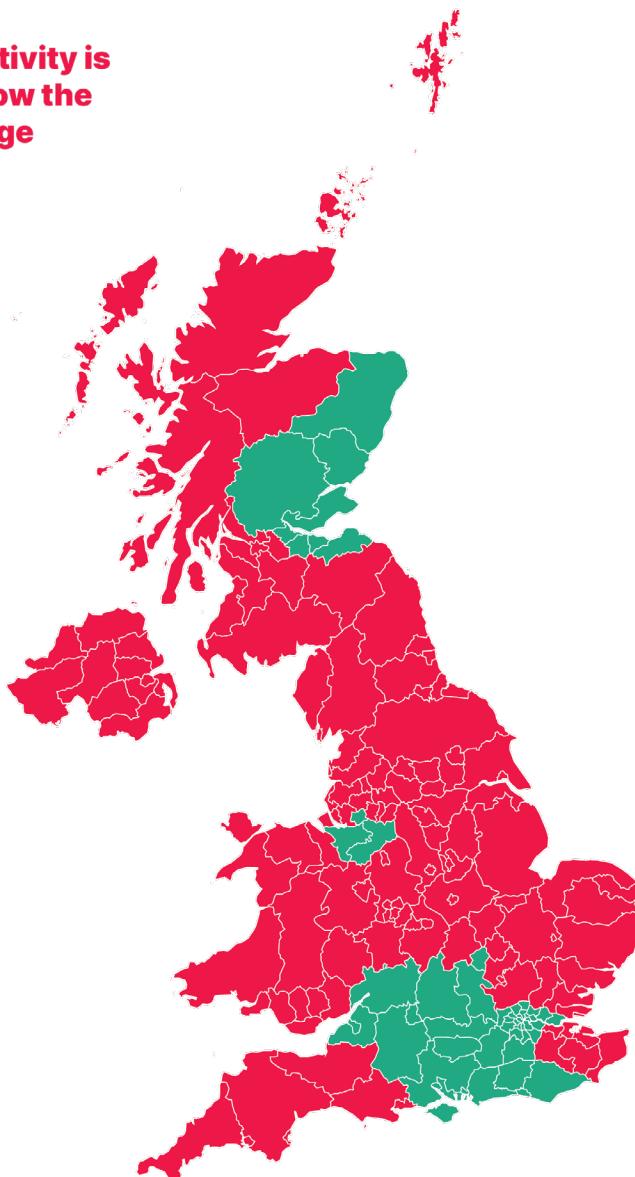
17 Swinney, P. 2021. So you want to level up?. Centre for Cities. Available from: <https://www.centreforcities.org/wp-content/uploads/2021/06/So-you-want-to-level-up-Centre-for-Cities.pdf>

Britain is, in short, a two-track country. London and the South East pulls ahead, while the rest of the nation falls behind. This is not just reflected in economic output but in health outcomes, life expectancy and the opportunity available to millions of people.¹⁸ More than half the UK population lives in areas that are poorer than the poorest US states¹⁹ Working people in Britain are no less hardworking or capable than their counterparts in Europe. But with too little opportunity and investment, they are not able to fulfil their potential and contribute to Britain's economic success.

Where productivity is above and below the national average

 Below average

 Above average



Note: Based on ARDECO data for 2019.

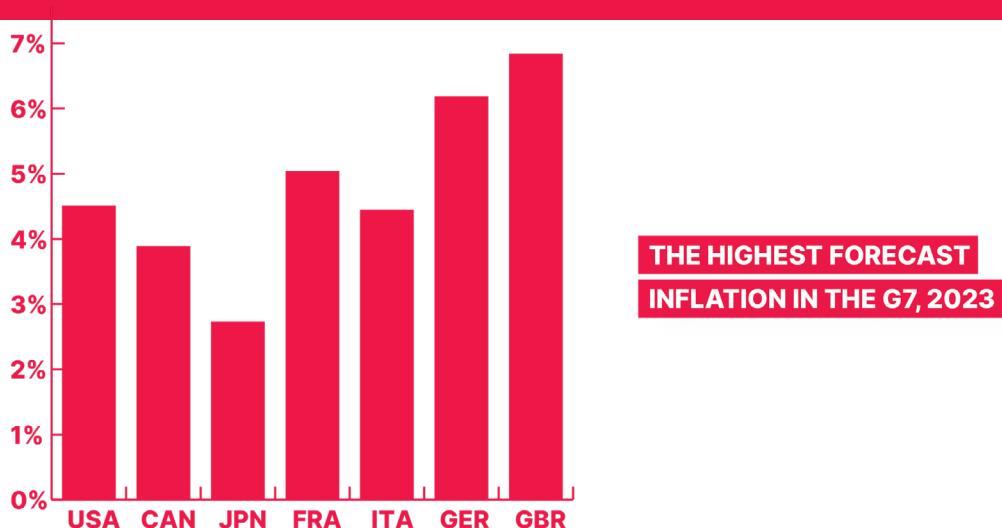
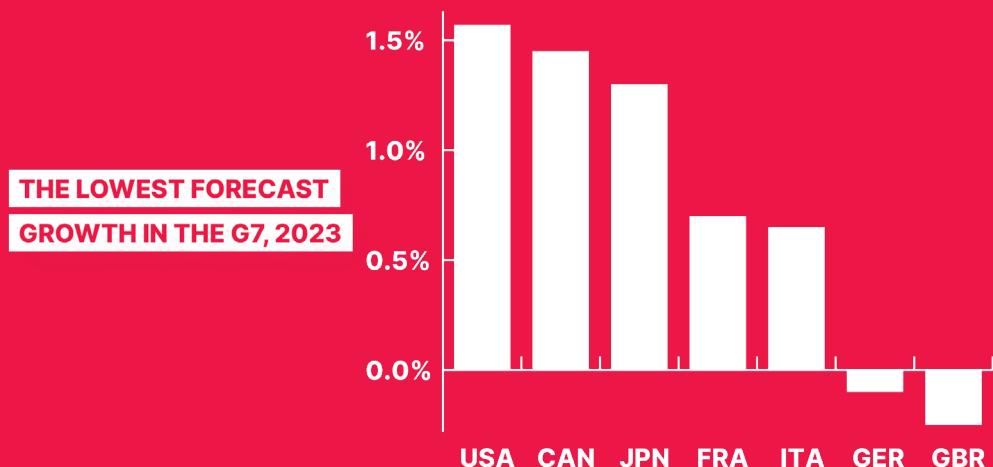
This amounts to a vast waste of human potential, which costs us all. One small example of this is particularly illustrative of what we are missing. The economists Raj Chetty, John Van Reenen and their colleagues have shown that children growing up in areas with less economic prosperity are far less likely to become inventors.²⁰ Inventors and entrepreneurs are the engines of economic growth. The squandered potential of Britain's lost Einsteins and Marie Curies leaves us poorer.

18 See for example, the Institute for Fiscal Studies' Deaton Review, which details inequalities through a range of lenses and metrics, including demonstrating the significant differences in life expectancy between London and the South East, and the North of England. Available from: <https://ifs.org.uk/inequality/>

19 McCann, P. 2023. Levelling-up economics. Institute for Fiscal Studies. Available from: <https://ifs.org.uk/inequality/wp-content/uploads/2023/02/Leveling-up-economics-IFS-Deaton-Review-of-Inequality.pdf>

20 Bell, A. et al. 2018. Who Becomes an Inventor in America? The Importance of Exposure to Innovation. The Quarterly Journal of Economics. 134 (2), pp. 647-713.

Today we live with the legacy of a failure to grip structural problems that have plagued the UK economy for decades. The result is that Britain, and Britons, have been left uniquely exposed. On the eve of the pandemic, anaemic growth and stagnating living standards had left British people vulnerable, with 11.5 million having less than £100 in the bank.²¹ Since then, that figure has risen to 14 million.²² One in five Britons today live in poverty and successive Conservative governments have made no progress in bringing that number down.²³ Poverty has even come to touch those in work. Well over half of adults in poverty live in a household where at least one person is in employment.²⁴ The sight of police officers, nurses and ambulance drivers queueing at food banks has become an all-too-common symbol of an economic system that has gone catastrophically wrong.



Note: Data from IMF April 2023 WEO

21 Money Advice Service. 2018. Financial Capability in the UK: results from the 2018 survey. Available from: <https://www.fincap.org.uk/en/insights/financial-capability-in-the-uk--results-from-the-2018-survey>

22 Money and Pensions Service. 2022. One in six UK adults have no savings. Available from: <https://moneyandpensionsservice.org.uk/2022/11/07/one-in-six-uk-adults-have-no-savings/>

23 House of Commons Library, 2023. Poverty in the UK: statistics. Available from: <https://commonslibrary.parliament.uk/research-briefings/sn07096/>
24 Joseph Rowntree Foundation, 2023. UK Poverty 2023. Available from: <https://www.jrf.org.uk/report/uk-poverty-2023>

What Government Can Do

Our persistently poor performance can be traced to the two errors previously mentioned in this paper, which must both now be corrected.

The first is that the state has little role in the economy beyond correcting market failures and redistributing the proceeds of growth. An effective, modern government cannot simply get out of the way and place our economic future in the hands of markets.

Doing so misunderstands the nature of markets and the role the state has to play within them. Markets are not abstract forces that exist apart from society. They are the product of the interaction between laws and institutions, businesses and societies. Governments always shape markets. Good governments consider how they do so.

As the economist Mariana Mazzucato has long argued, the state's role is not simply to correct the failures and redress the negative externalities of free markets.²⁵ It is a myth that the private sector alone can set a country up to take advantage of new opportunities. Success has always rested upon a partnership between the market and the state. The market can see what our current advantages are, but not necessarily what they could be in the future. It is not all that long ago that South Korea's comparative advantage was in agriculture. Today, with far-sighted government action in partnership with a vibrant market, it is an advanced economy with cutting edge industries.

Markets are extraordinary engines of prosperity and opportunity. Governments have a central role in shaping, making and regulating new markets in the interest of national objectives and economic success. Governments can take a strategic view of a nation's comparative advantages and where they could lie in the future. They can, and must, set direction, provide stability and catalyse investment.

Narrow Growth

The second error that we must now address flows from the first. It is the idea that the people, businesses and places which contribute to a strong economy are few in number. This misconception suggests that all we need are a few dynamic cities and a few successful businesses to thrive. The usually unspoken implication of this is that the contribution of most people, most places and even most businesses simply does not matter.

The result of this has been a paucity of ambition for too many places. The policy implication has been that nations have focused on maximising the national growth rate by growing the already prosperous regions, like London, hoping that economic gains will then trickle out to the rest of the country.

As a result, a wide gap has grown between the most dynamic businesses, at the frontier of new technology, and the rest. It has also led to a neglect of what I call the 'everyday economy'. The parts of the economy which provide the basics for a good life, strong communities and economic security – like childcare, social care, retail, hospitality and supermarkets – have been forgotten. As Germany's Chancellor Olaf Scholz has said, however much politicians might have spoken the language of merit, 'those who actually keep the show on the road don't get the respect they deserve.'²⁶

An economy that is so over-reliant on a few regions and industries is vulnerable to shocks and less able to seize opportunities. For too long, Britain has been trapped by outdated economic ideas. There is another way: where wealth doesn't trickle from the top down, but instead builds from the bottom up and from the middle out. How we achieve that demands that we adopt a new business model for Britain.

25 Mazzucato, M. 2013. *The Entrepreneurial State*. Anthem Press; and Institute for Public Policy Research. 2018. *Prosperity and Justice: A Plan for the New Economy*. Available from: <https://www.ippr.org/research/publications/prosperity-and-justice>

26 Oltermann, P. 2021. Olaf Scholz: 'Merit in society must not be limited to top-earners'. *The Guardian*. Available from: <https://www.theguardian.com/world/2021/sep/08/olaf-scholz-merit-society-not-be-limited-top-earners-germany-election>

04.

A New Business Model for Britain

Modern Supply Side

Over the course of the past three years, my colleagues and I have been in contact with economists, policymakers and politicians in the United States, Australia, Canada and Germany. There, centre-left governments are showing that there is an alternative to low growth and widening inequality. They are proving that we can escape our current cycle of crisis upon crisis.

In academic circles, the idea they have embraced is often called “productivism”.²⁷ Janet Yellen, the US Treasury Secretary, has called it “modern supply side economics”. It involves the state taking on a more strategic role to expand a nation’s productive capacity: its ability to make, do and sell more. It necessitates a new focus on improving the resilience of an economy to external shocks. And it places the government in partnership with the private sector, with the state creating the foundations on which a dynamic market can build. It means using the power of government to do what only government can do, while allowing business to do what it does best: innovating, competing and generating wealth.

Doing so demands that the government identifies the industries that are vital to its national interests and which need public backing. It also means ensuring that the whole nation, both its places and its people, can contribute.

In the United States, this has taken the form of the Biden Administration’s 2022 Inflation Reduction Act, which has committed \$500bn over ten years to boosting America’s clean energy industries. This legislation combines subsidies, grants and loan guarantees to encourage businesses to invest in key sectors like green energy and digital technology. The support the government has provided is designed to incentivise employers to create well-paid jobs and provide training and apprenticeships that extend opportunities widely. The objective is to decarbonise America’s economy, to re-industrialise and to create jobs now and in the future. The Inflation Reduction Act is a ‘jobs transition’ and it is working. Just seven months after the programme was launched, clean energy companies had announced over 100,000 new jobs in the US, with private sector investment totalling \$89.5bn.²⁸

Elsewhere, other nations are following suit. In Australia, the government’s Powering Australia plan will generate 600,000 jobs across the country, spur \$76bn of investment and cut energy bills by \$275 a year by 2025, as well as cutting the nation’s emissions by 43% by 2030.²⁹ Germany’s new Climate and Transformation Fund, meanwhile, has now committed €180bn to the country’s “biggest industrial modernisation in more than a century”³⁰ The EU is now developing its own response to the Biden Administration’s initiative.

Britain, meanwhile, is nowhere to be seen. A global race is on and we are not even at the starting line.

27 Rodrik, D. 2022. The New Productivism Paradigm?. Project Syndicate. Available from: <https://www.project-syndicate.org/commentary/new-productivism-economic-policy-paradigm-by-dani-rodrik-2022-07?barrier=accesspaylog>

28 Murphy, L. 2023. Winning the global green race: Lessons for the UK from the US’ Inflation Reduction Act. Institute for Public Policy Research. Available from: <https://www.ippr.org/files/2023-03/winning-the-global-green-race-mar23.pdf>

29 Australian Government Department of Industry, Science, Energy and Resources. 2022. Australia’s Nationally Determined Contribution: Communication 2022. Available from: <https://unfccc.int/sites/default/files/NDC/2022-06/Australias%20NDC%20June%202022%20Update%20%283%29.pdf>

30 Bundesregierung. 2022. Climate and Transformation Special Fund: 170 billion euros for energy supplies and climate protection. Available from: <https://www.bundesregierung.de/breg-en/news/climate-and-transformation-fund-2066034#:~:text=Over%20170%20billion%20euros%20up,well%20as%20promoting%20climate%20protection>

Better Britain

A modern British supply side approach must be distinctively British. The challenges that we face are our own. Low productivity growth, obstructive planning restrictions and regional inequality may be true of a number of countries, but they are particularly true of ours. In no other major economy is the system of government more centralised than our own. The short-termism, dismal levels of private and public sector investment and poor basic and technical skills are also particularly acute here. The obstacles that this Conservative government has erected to trade due to our unnecessarily difficult relations with the European Union, are unique to Britain.

But the same goes for our strengths. We lead the world in sectors like life sciences, professional services and the creative economy. We are well placed to thrive in new industries, like clean energy and AI.

The aim is not to try and lead in every field, but instead to make the most of the immense potential and strengths we have, to strengthen our economy where it is in our interests to do so, and to collaborate and partner with others where that is preferable. Labour's 'modern supply side' approach in Britain will not seek to turn us into a British version of the United States or Germany. Instead, we must become a better version of Britain, setting a distinctive course that is decisively our own. In the final section of this paper, I set out how we will do so.



05.

Labour's Plan for a Stronger Economy

A Mission for Growth

The defining mission of the next Labour government will be to secure the highest sustained growth in the G7, with good jobs and productivity growth in every part of the country.

To meet that mission, Labour will pursue its own modern supply side agenda. We will create the conditions in which existing industries are strengthened and new ones are built. We will forge a new partnership with the private sector to ensure that firms can invest, grow and create decent, well-paid work in the process. We will ensure that the benefits of this are felt in every part of our country. We will equip British workers with the skills they need to thrive and remove the barriers that stop them from contributing today. All told, we will make Britain's economy stronger and more resilient to the shocks that an uncertain world will invariably throw at us. We will, in short, rebuild Britain's ability to make, do and sell in Britain.

At the heart of this are the five shifts that Labour will deliver in government:

1.

Instead of chaos and last-minute fixes, **Labour will provide certainty and stability.**

2.

Instead of blinkered short-termism, **Labour will seize opportunities in the industries of tomorrow.**

3.

Instead of ever widening inequalities, **Labour will ensure that every part of our country contributes to Britain's success.**

4.

Instead of wasting the potential of Britain's working people, **Labour will ensure working people have the opportunities, security and skills they need to thrive.**

5.

Instead of being buffeted by global shocks and raising barriers to trade, **Labour will build a resilient, trading economy.**

These shifts will guide my reform agenda at the Treasury. They each draw on the successful example of centre-left governments across the world. And they each address the challenges and opportunities that are particular to the British economy.

1. Certainty and Stability

The underpinning feature of any successful economy is that investment, both public and private, is high. For that to be true, there must be a firm foundation of certainty and stability, in our politics, in our institutions, and in our economic policy. Economic research has been clear on this: faced with instability and uncertainty, firms delay making irreversible investment decisions and are cautious with the investments they do make. As a result, the cost of capital rises, meaning fewer investments are profitable, further discouraging further investment.³¹ The less we invest, meanwhile, the more we erode our ability to make, do and sell more here in Britain.

Unfortunately, the only certain thing in British politics of late has been its uncertainty. The chaos of 2022, with three Prime Ministers and four Chancellors in a matter of months, may have been unparalleled, but it speaks to a wider truth. In the past thirteen years, seven different growth plans have come and gone, with industrial strategies launched and dumped along the way. New policy agendas, which demand time and commitment, have been announced and abandoned on a whim. Our tax rates have lurched up, down and up again. Time after time, legislation has been promised to address the most pressing new economic questions, only to be delayed for years. The Digital Markets Unit, for instance, has been on the back burner for five years. The Energy Bill has been shelved for an unlucky seven. Unforgettably, last autumn a Conservative Prime Minister and her Chancellor attacked and undermined the Treasury, Office for Budget Responsibility and the Bank of England – and in doing so undermined the very framework that gives our economy its stability.

Economic stability depends on strong institutions, able to withstand the pressures of political short-termism. When the last Labour government granted the Bank of England operational independence, it made a decisive and lasting contribution to the stability of a country once plagued by short-termist economic policymaking.

³¹ For example, this mechanism has been set out in the real options literature e.g. Dixit, A. K. and Pindyck, R. S. 1994. *Investment under Uncertainty*. Princeton University Press. The economists Bloom, Bond and Van Reenen have shown the 'cautionary effects' of higher uncertainty upon individual firms in reducing investment at the aggregate level, and Keynes too understood that it is instability and uncertainty above all which suffocate economic potential (Bloom, N., Bond, S. and Van Reenen, J. 2007. *Uncertainty and Investment Dynamics*. *The Review of Economic Studies*. 74 (2), pp. 391-415.)



Labour's Fiscal Rules

Stability rests upon robust institutions and on strong rules. Two years ago, I set out the fiscal rules which will guide the next Labour government and from which we will not deviate. I declared then that debt will fall as a share of GDP and that day-to-day spending must be sustainably funded. Everything Labour does in government will be in keeping with those rules. Every line in our manifesto will be fully costed and fully funded. The past year erased all doubt: it is Labour that is the party of economic responsibility and sound finances.

Industrial strategy that lasts

A return to active industrial strategy is fundamental to a modern supply side approach. If Britain is to rebuild its productive capacity, we must forge a new and deeper partnership between the public and private sector.

The success of any serious industrial strategy depends on the assurance that it is indeed a real strategy. That means that it must have the authority, durability and political will to last. Guided by the Shadow Business Secretary, Jonathan Reynolds, a modern industrial strategy will be at the heart of the next Labour government's approach. This strategy is based on partnership, not top-down diktat. And it is focused on strengthening the everyday economy as well as the high-tech frontier. It will be clear on the role that an active Labour government will play, alongside the partnership that we will build with a free and vibrant open market.

Crucially, Labour will revive the Industrial Strategy Council – disbanded by this Conservative government – to oversee this work. This group will draw together employers, trade unions and universities. And it won't just be reinstated, it will be placed on a statutory footing, creating plans that survive the political cycle and allow businesses to take long-term decisions about their future direction.

Fair and efficient taxes

Britain's economy needs businesses that are willing, able and encouraged to invest for the long-term. I am now reviewing how our business tax system can create greater certainty for businesses, including through a roadmap for business taxation which lasts longer than a single parliament. Our long-term underperformance on capital investment, which has so dramatically eroded our productive capacity, needs long term measures that incentivise investment.

Our tax system must provide certainty and stability, but it must also be fair. Today, our business rates penalise high street businesses to the advantage of online giants. The former comprise 15% of our economy and yet pay over a third of the UK's business rates bill. Labour will redress this imbalance, replacing our outdated system of business taxation with one fit for the 21st century: one which supports entrepreneurship, rewards businesses that move into empty premises and incentivises investment.

2. Seizing New Opportunities

Amidst the uncertainty of the age of insecurity in which we live, new opportunities are opening up. The second shift in Britain's economy that will take place under a Labour government is one that ensures we are able to seize those opportunities.

Crucial to achieving that will be an active state, working as a strategic partner to business in pursuit of new opportunities. As progressive governments across the world show the power of this partnership, we face a simple choice: to adapt and compete, or to watch on as our peers and our competitors race ahead.

Investing in Britain's future

Nowhere is the gap between Britain's government and the new economic common sense clearer than in the case of climate transition. From our climate and geography, to our universities and scientists, Britain has significant advantages. But in a global race for the jobs and industries of the future, Britain is barely at the start line.

That is why the centrepiece of Labour's economic programme is our Green Prosperity Plan, developed with the Shadow Climate Secretary Ed Miliband. This plan will catalyse the investment required to equip Britain's workers to make and do more. As other countries race ahead with strategic investment in the industries of the future, Britain risks losing the race.

The Green Prosperity Plan will see the state make public investments in industries that are vital to Britain's future success, paving the way for significant further private investment. To make sure this delivers for British workers, as well as British businesses, policies that encourage investment will include minimum standards to ensure that well-paid and secure jobs are created as a result.

This too will rely on new national institutions. Of the ten countries leading the world in the clean energy transition, Britain alone has no public energy generation company. Great British Energy, a new public energy company, will be a national champion in clean power generation. We will harness Britain's sun, sea and wind to create high-paying jobs, cut energy bills and reduce our reliance on an imported supply of energy. And all this will be possible because our strong fiscal rules will allow us to credibly and sustainably borrow to invest where necessary.

In the last British energy boom, North Sea oil boosted British industry and tax revenues in the short-term. However, Britain squandered the opportunity to use those revenues to lay the foundations for the future. Labour will not make the same mistake with the fruits of the clean energy boom. Our fiscal rules will prevent such a squandering from happening again by taking into account public sector assets as well as public sector debt. A new National Wealth Fund will invest in building Britain's new and growing industries, in partnership with business, while ensuring that the British public benefits from the return on those investments.

This is how we will take the moral test of the climate crisis, and turn it into an opportunity - for new jobs, for lower bills, and for economic growth. In the process, we will achieve our mission to make Britain the world's first clean energy superpower by 2030, cutting bills for businesses and households and creating good jobs for millions.

Dynamic markets

Our partnership between the public and private sector includes a commitment to dynamic and competitive markets. Competition is an engine of productivity, a driver of quality in goods and services, and a check against unaccountable concentrations of market power. Dynamic markets are critical to innovation, to growth and to opportunity too.

In some areas, Britain's markets are not open and competitive enough. As the Competition and Markets Authority has shown, there has been a 'marked increase' in concentration among the largest firms across a range of industries since the 2008 financial crisis.³²

Britain's start-ups already contribute £1tn to our economy and employ more than 3.2 million people. But they face high hurdles, particularly in accessing finance. Too often, companies that started life here in Britain are choosing to list overseas. Britain's defined benefit pension funds have £2 trillion worth of assets under management, but today more Canadian pensioners benefit from British start-ups than UK savers do. In direct contrast, France's Tibi scheme has secured more than €18bn of investment for new and growing businesses by using the convening power of government to bring institutional investors together with venture capital.

Labour's start-up review, led by Lord Jim O'Neill, sets out a plan to make Britain the best place to start and grow a business. This includes transforming the British Business Bank to ensure it has the remit, independence and aspiration it needs to succeed. The review also recommends using its support to foster clusters around groups of universities to drive growth and investment across the whole of the UK.

Alongside the provision of capital, we must also recognise that investment decisions are a function of corporate governance structures. There has long been a recognition that our corporate governance structures are an obstacle to investment and long-term planning. As the Chief Executive of BlackRock has admitted, pressure to keep share prices high means corporate leaders are 'underinvesting in innovation, skilled workforces or essential capital expenditures necessary to sustain long-term growth'.³³ These are not straightforward problems to solve. But one of the aspects that we must look at is a growing distance between the incentives between shareholders and management.

Making it easier to build

Few of our economic ambitions - on growth, on jobs, on climate and on housing - can be achieved if we do not make it easier to build in Britain. Today, our planning system is a dead hand on the tiller of Britain's ambition. Housebuilding, infrastructure and business investment all grind to a halt when they come into contact with vested interests and opaque bureaucracies. This constrains the supply of housing and commercial space. It stops areas from developing. And it has a social impact, condemning many to unaffordable, poor quality and insecure housing.

It is also holding Britain back from seizing the opportunities of tomorrow. To give just one example, it currently takes up to 13 years to develop a new offshore wind farm, with four of those years spent fighting our antiquated planning system. Since 2017, not a single offshore wind farm has been approved by the Planning Inspectorate. If Britain is to rebuild its industrial might, we must stop red tape from standing in the way of new industries and new jobs.

The next Labour government will reform our planning system. We will make sure net zero is embedded throughout the system, cutting restrictions for onshore wind, in line with other infrastructure. We will impose new targets to get planning decisions on renewables down from years to months, ensuring decisions no longer languish on a minister's desk and that local authorities are encouraged to identify land for development. And we will ensure that the local communities who host infrastructure always feel the benefit of doing so.

32 Competition and Markets Authority. 2022. The State of UK Competition Report April 2022. Available from: <https://www.gov.uk/government/publications/state-of-uk-competition-report-2022/the-state-of-uk-competition-report-april-2022>

33 Quoted at <https://www.businessinsider.com/larry-fink-letter-to-ceos-2015-4?r=US&IR=T>

3. Everyone, Everywhere

If Britain is to thrive, every part of our country must do so. Addressing Britain's regional inequality is not just a moral imperative, it is an economic one. We must once again be one society and one economy, and no longer a two-track Britain where some speed ahead and others are left behind. If Britain is to lead the world in the industries of tomorrow, every part of the nation must contribute and benefit. To attempt to do so while over-reliant on one corner of the country is to enter the fight with one hand tied behind our back. Just as we have rejected 'trickle down', we must reject 'trickle out' economics too.

Taking Back Control of our economy

Britain has one of the most centralised systems of government in the world and some of the highest levels of geographic inequality. That is not a coincidence. Too often, decisions are taken in Westminster with little reference to the facts on the ground in the towns and cities they are applied to.

For that reason, Keir Starmer has committed Labour to "a change not just in who governs, but how we are governed." This is a democratic imperative and it is an economic one too. None of the ambitions of the next Labour government can be delivered solely by pulling a lever in Whitehall. Labour's Take Back Control Act will give English towns and cities the tools they need to develop credible, long-term growth plans. It will also establish clear frameworks for local leaders to request, negotiate and take on powers over economic policymaking.

Where certain policy levers will remain with central government, we will focus policy on encouraging economic development in every region. This will mean investing in key infrastructure, like HS2 and Northern Powerhouse Rail, and it will mean reforming the institutions that support innovation and growth, like the British Business Bank.

Taken as a whole, these changes will foster the development of self-sustaining economic ecosystems across the country, putting more areas on the path to higher growth, more jobs and brighter futures.

Green Prosperity

Greater devolution does not mean stepping away from the role that an active state can play, however. Alongside devolving economic powers, a Labour government will take an active and strategic role to encourage areas into a more virtuous circle. This will involve supporting the development of new industries in different parts of the country, catalysing private investment in capital and skills and thereby bringing good work to former industrial areas.

Investment from our National Wealth Fund will encourage further private sector investment, not only in new technologies but also in underinvested places. That means investment in good jobs and new industries in former industrial heartlands and our often neglected coastal communities. Offshore wind will drive investment in our ports, in places like the Humber, Southampton, East Anglia and Belfast. We will green our steel industry and secure its future in South Yorkshire, Wales and beyond. Carbon capture and electric battery factories will bring jobs, wealth and pride to the Midlands, North West and North East. As a result, the towns and cities that were the birthplace of the first industrial revolution will lead the clean industrial revolution too.

4. The Chance to Thrive

If Britain is to rebuild its industrial strength, we need a workforce that is ready and able to play its part. One of the most important insights of ‘modern supply side’ economics is to focus on the human factor. We can only rebuild our ability to make, do and sell in Britain if we make it easier for Britons to contribute to that effort.

Today, Britain’s workforce shows the scars of thirteen years of austerity. Our country is short of the skills we need to thrive in tomorrow’s world. Our public services are struggling, with the NHS being the most obvious example, forcing people out of work through chronic sickness and injury. Any investment made in building Britain’s physical infrastructure is nothing unless we invest in the human side of the equation too. A Labour approach will be pro-worker and pro-business, in the knowledge that each depends upon the success of the other.

A New Deal for Working People

The world of work is changing, demanding both new protections and new forms of flexibility for those in work. Our New Deal for Working People has set out how a Labour government will ensure that hard work pays for Britain’s workers. That means a genuine living wage, job security that ensures workers aren’t exploited and standards that guarantee a safe and fair workplace.

Stronger collective bargaining rights and institutions are key to tackling problems of inequality, insecurity and low pay. For that reason, Labour will update our inefficient and outdated industrial relations framework, giving trade unions greater freedom to organise, represent and negotiate on behalf of workers.

This isn’t just about fairness. It is about good economic sense. There is now a wealth of evidence showing that higher wages, greater job security and more empowerment leads to better motivated workers, reduced staff turnover, lower costs and higher productivity.³⁴ Higher wages can make a difference to firms’ investment decisions too, pushing economies onto a higher wage, higher productivity path.³⁵

Skills for tomorrow’s world

The opportunities that lie ahead of us will rely on the skills of every Briton. New clean energy technology will call on the talents of designers, engineers and scientists. New houses will call on the expertise of plumbers, joiners and electricians. The technological revolution will require coders, mathematicians and data scientists.

Today, we are falling a long way short of what is required. According to the government’s own Green Skills Taskforce, one in five jobs – over 6 million workers – will need significant new skills and training.³⁶ Yet in 2020, fewer people were receiving workplace training than twenty years ago. And just 13% of those who are out of work today are receiving training to help them tool up for a new trade.³⁷

The Apprenticeship Levy is not fit for purpose, with billions of pounds of investment wasted as a result. A Labour government will replace this scheme with a new Growth and Skills Levy. This will give employers greater flexibility to deliver the training they need while protecting existing apprenticeships. Alongside this, we will give more power to regional leaders to ensure the training provided in their area meets their local needs. They will work in coordination with a new expert body, Skills England, to make sure that across our nation we have the skills we need to thrive.

³⁴ A good survey of this evidence can be found in Justin Wolfers and Jan Zilinsky, ‘Higher Wages for Low-income Workers Lead to Higher Productivity’, <https://www.piie.com/blogs/realtime-economic-issues-watch/higher-wages-low-income-workers-lead-higher-productivity#:~:text=Higher%20wages%20are%20associated%20with,between%20employers%20and%20labor%20groups>.

³⁵ The economist Karl Moene’s study of the Nordic economic model provides a clear example of this – for example, O. Moene, K. and Wallerstein, M., 2006. The Scandinavian Model and Economic Development. *Development Outreach* (8:1).

³⁶ UK Government Department for Business, Energy & Industrial Strategy, Green Jobs Taskforce Report (London: Department for Business, Energy & Industrial Strategy, 2021).

³⁷ Cominetti, N. et al. 2022. Train in Vain? Skills, tasks, and training in the UK labour market. Resolution Foundation. Available from: <https://economy2030.resolutionfoundation.org/wp-content/uploads/2022/12/Train-in-Vain.pdf>

Public services that help us grow

The next Labour government will invest in the people and infrastructure that make up our public services. Strong public services are an engine of growth. Good schools equip a future workforce with the skills to succeed, creating opportunity and driving our economic prosperity. Affordable childcare helps parents participate in the workplace. When people who need social care can live in comfort, their loved ones do not have to give up work to look after them. A functioning NHS keeps people healthy and able to contribute to Britain's economic success.

It is no coincidence that as NHS waiting lists have ballooned, the number of working-age people who can't work because of long-term sickness has risen by 500,000.³⁸ Labour is committed to abolishing the non-dom tax status to fund one of the largest expansions of the NHS workforce in its history. We will also end the crisis in mental healthcare provision, starting by guaranteeing treatment within a month of referral by recruiting thousands of new mental health professionals.³⁹

5. A Resilient Trading Economy

Resilience is at the heart of a modern supply side agenda. A nation that can make, do and sell more will be more resilient to global shocks. So will a nation that relies on the contribution of people from all over the country, rather than being over-exposed to a few industries in a few areas. An economy that provides certainty will have encouraged greater investment, which will make our economy stronger in the long-term. A nation that has embraced the new opportunities presented by tomorrow's industries, particularly in the energy sector, will be less buffeted by global events like an energy shock. A well-paid workforce will have greater economic security in periods of downturn. And a highly-skilled workforce will have the ability to thrive as new industries rise. Stronger public services will mean that difficult times are manageable and that our public services do not fall into the disrepair they are in today.

Ensuring resilience in today's world requires more than this, however. To a great degree, this depends on finding the right balance between openness to global trade and ensuring resilience at home. Today, the balance is not right. We are both too exposed to global disruption, as our soaring energy prices showed when Russia turned off the taps. But we are also too closed to global trade, illustrated by queues of lorries stretched out at our ports. Our allies in Europe, the United States and beyond are building new international partnerships that deliver fairer rewards for working people. Our government is, at best, a bystander. Often, it is actively worsening our position⁴⁰. A recent study showed that the government's flawed Brexit deal has reduced trade in goods by 7% of GDP, but the government has shown little appetite for making the crucial improvements to that deal that are needed.

Labour's approach will be guided by two objectives. Firstly, we must be open to trade with other countries, as Britain has always been. David Lammy, Labour's Shadow Foreign Secretary, has set out measures for a new multilateral approach which will deliver on Britain's national interest, the interests of working people, and our international obligations.⁴¹

38 Data available at Office for National Statistics. 2023. Economic inactivity by reason (seasonally adjusted). Available from: <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/datasets/economicinactivitybyreasonseasonallyadjustedinac01sa>

39 This will be funded by using some of the revenue raised through our commitment to end tax exemptions for private schools, as well as the revenue from our policy to scrap the carried interest tax loophole enjoyed by a small number of private equity fund managers.

40 Sullivan, J. 2023. Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution. The White House. Available from: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>

41 Lammy, D. 2023. Britain Reconnected: A Foreign Policy for Security and Prosperity at Home. Fabian Society. Available from: <https://fabians.org.uk/wp-content/uploads/2023/03/David-Lammy-Britain-Reconnected-240323.pdf>

Secondly, we must be resilient, reducing our dependence on fragile international supply chains. Central to this is energy independence, a key thread in our Green Prosperity Plan. But we must go beyond this and take a more strategic approach to securing our supply chains. That includes the plan I first set out almost two years ago, to use all the powers of the government to buy, make and sell more in Britain. It also includes our commitment to convening a supply chain taskforce in government to identify our key supply chains and assess their vulnerabilities.

This marks a change from the wisdom of years gone by. The era of hyper-globalisation, where an international free market reigned and nation states stood back, is dead. Policymakers must accept that, as they have done in the United States, Australia, Germany and many others.⁴² Globalisation itself, however, is not over – it has simply changed. Resilience does not mean isolationism, but cooperation with allies who share our values and our priorities, whether that is reducing dependence on hostile nations, guaranteeing our access to the materials and technology our economy depends on, or investing in domestic jobs, industries and the climate transition.

Our relationship with Europe

The two objectives above require a pragmatic approach. Looking to Europe, it is clear that we need a new approach to trade with the EU that recognises the damage done by the Conservatives' bad Brexit deal, and which charts a course towards renewal and recovery. Our proximity to the European market is an opportunity, not something that is holding us back. For centuries, it has been a central principle of British strategy that we must maintain our connections to the continent. That principle remains as relevant today as it ever has been. For that reason, Labour will reconnect with Europe while remaining outside of the EU, the Single Market and the Customs Union. We will fix the Brexit deal, using the 2025 UK-EU Trade and Cooperation Agreement review as our opportunity to do so. In the process, we will reduce trading friction on food, agricultural, medical and veterinary goods, and strengthen mutual recognition of professional standards and qualifications, so vital to so many of our greatest exporting service sectors.

Our resilience starts at home, with a stronger economy, drawing on new economic strength across our country. However, with good trading relationships with our closest allies, we will only become more secure.

42

Rodrik, D. 2011. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York and London: W.W. Norton.



06.

Believing
in Britain

Should Labour win the next election, I will be unique in one way: I would be the very first woman to be Chancellor of the Exchequer. I would not take that honour lightly and I believe it comes with a responsibility: to deliver for women across Britain. It was women, after all, who bore the brunt of austerity. It is women who are still too frequently underpaid and undervalued in the world of work. And it is women who, despite some progress, are still too frequently excluded from economic policymaking, and are therefore overlooked by it.

But that is not the full scope of my ambition. I also want to be the Chancellor who sets our nation on a new course. I want to be the Chancellor who introduces a new business model for Britain.

The world has changed, but Britain has failed to do so. It is time, therefore, to cast aside some old ideas and old methods. We need fresh thinking, the power of conviction and a collective national effort. The lessons of centre-left governments across the world point us in that direction. Their success can be our success too.

We can be resilient at home and open to the world. We can have an active state and dynamic markets. We can draw on the contributions of all the people in every part of our country and not just rely on a privileged few. We do not have to continue on our current path, muddling on through another lost decade.

This is undoubtedly an ambitious project. It sets the stage not just for one term of a Labour government, but for a new way of governing. If we embrace it, I believe Britain can lead the world and that the future can be made here in Britain. We can lead in the industries of the future, like digital technology and green energy. We can become more resilient to the shocks that have too often buffeted our shores. We can create decent, well-paid jobs that set people up for life. We can remove the barriers that have kept too many from contributing to our success for too long.

I said at the beginning of this paper that, for me, economics is about values. My grandparents were forced to leave their home in South Wales because, despite their unbreakable determination, they could not make a living there. Their story might be almost a century old, but it is still true all over Britain today. Millions of people live in places where opportunity is limited, and where they must decide whether to get out of their town in order to get on in life.

The new business model for Britain that I have set out here seeks to change that. It will build an economy where everyone, wherever they live, can contribute to Britain's prosperity, and be rewarded for doing so. It will build an economy that works with you, not against you.

To deliver on that promise, our governments must do things differently. We need to abandon short-term and outdated thinking. We need to remove the barriers that stand before our collective effort. And we must forge a new partnership, with businesses and with the British people, in pursuit of a stronger and more resilient economy.

With Labour in power, we will.





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