

Question 1- What are the particular economic problems facing the nascent UK Labour government in implementing its intended program? Outline some steps it should take in facing these.

Following the 2024 UK election, Faisal Islam, the BBC News Economics Editor, remarked: "Labour's remarkable landslide provides a one-off opportunity to reboot and transform the British economy. Prime Minister Keir Starmer and Chancellor Rachel Reeves appear to have won a "mandate for growth" (2024). After fourteen years under the Conservatives, the historic election ushered in a new Labour government led by Keir Starmer. The Starmer government has come to power on the back of promises to rejuvenate the economy, end perceived corruption and address the deep-rooted issues facing the UK. After a decade of stagnating growth and sluggish productivity, the public has placed its hopes in Labour's ability to restore confidence and prosperity. Given Labour's sizeable majority in Parliament, it will have more authority than any contemporary government to pass economic reform. Additionally, its core voter base is not in areas most likely to disagree with much-needed new infrastructure and housing reforms. However, the scale of the challenge quickly became apparent as the government's initial review of public finances revealed a daunting £22 billion hole (Johnson, 2024). This fiscal shortfall poses a significant hurdle to Keir Starmer's and Chancellor Rachel Reeves's promised agenda, and the new government must now balance its policy objectives with the need to restore fiscal discipline. The government sees sustained economic growth as the only route to raising prosperity and the living standards of working people. It is the primary mission. Labour notes in its manifesto that this means being pro-business and pro-worker as it aims to characterise itself as the party of wealth creation. This essay will examine the primary economic challenges to achieving sustained economic growth and outline key strategies for overcoming them. Firstly, I will analyse Labour's plans for growth and innovation, followed by Labour's pledges for green technology.

Labour's steps for growth

Labour's plans for growth involve seeking involvement from industry, trade unions, and civil society in their growth plans for a more robust and diversified economy in all parts of the country. It seeks to strategically use public investment to unlock private sector investment, create jobs, and provide a return for taxpayers. For instance, Rachel Reeves has been seen taking meetings and hosting conferences with large banks and VC funds to drum up investor confidence and reassure market leaders on the potential of the UK economy

Challenges

Labour's plan to use public investment to leverage private-sector funding comes at a time when the UK's public debt has surpassed 100% of GDP (ONS, 2024), and the government faces the £22 billion shortfall in its finances. With the government aiming to invest £7.3 billion in the National Wealth Fund, balancing this with existing debt obligations could strain fiscal resources. Higher public debt often leads to higher interest rates on new borrowing, as investors demand a risk premium for lending to highly indebted governments. This increased cost of borrowing could

exacerbate fiscal pressures, making it more expensive for the government to finance its investments and services.

Moreover, there is a risk of entering a debt spiral, where rising debt leads to higher interest payments, which in turn requires even more borrowing to meet existing obligations. This can create a vicious cycle, where the government's fiscal flexibility is further constrained by the need to service growing debt, potentially crowding out other essential spending and investments. In such a scenario, the anticipated benefits of the National Wealth Fund and other growth initiatives could be undermined by the escalating costs of maintaining and servicing high levels of debt. Ensuring that the investment strategy is sustainable and that borrowing remains manageable is crucial to avoid this scenario and protect the country's long-term fiscal health.

Furthermore, investors have also complained about bureaucracy and poor policy as a critical barrier to growth. The BBC reported after the election that "Some key investors say they cannot wait another year for ponderous reviews of planning or energy policy, for example. For example, tens of billions in renewable investment are held up in planning disputes and a decade-long wait for a connection to the National Grid." (Islam, 2024).

A key challenge to this open-door and big-tent policy, where the government seeks involvement from parties with a conflict of interest, is avoiding regulatory capture. Regulatory capture occurs when regulatory agencies become dominated by the interests they are supposed to regulate, often leading to policies that benefit specific industries or corporations at the expense of the public interest. As Labour seeks to involve industry, trade unions, and civil society in its growth plans, there is a risk that powerful interest groups might exert undue influence on the regulatory framework. Even pre-election, Labour appointed a panel of 10 City Grandees as "independent advisers" (O'Connor, 2023) to set out policy priorities that would boost economic growth and make working people better off.

This influence can be seen in Rachel Reeves's remarks: "She said: "I really hope that when you do read it, or if you read the section on the economy, that you will see your fingerprints all over it [...] Because the ideas that we have set out in that manifesto on how to grow the economy are based on so many of the conversations I have had with businesses and investors over the last three years" (Morrison, 2024). This could result in regulations favouring certain businesses or sectors, potentially skewing the benefits of public investment and undermining the effectiveness of the National Wealth Fund and other initiatives.

A challenge Labour faces is managing the tension between pro-business and pro-worker policies. For example, while offering tax breaks or easing regulations may encourage business investment, these moves could clash with efforts to strengthen workers' rights or raise wages. On the other hand, increasing the minimum wage or tightening labour protections might be viewed by businesses as added costs, potentially discouraging investment and job creation. Navigating these competing priorities will complicate Labour's efforts to implement a balanced and effective growth strategy.

Next steps

To prevent regulatory capture, Labour should establish robust mechanisms for accountability and making decision-making processes transparent. In addition, the risk of undue influence from these groups can be mitigated by ensuring that there are clear, enforceable guidelines for interactions between policymakers and interest groups.

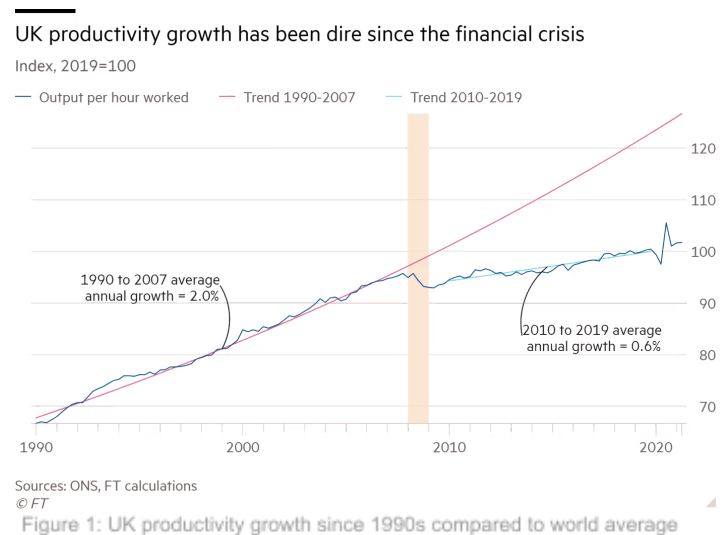
Labour should seek to balance the needs of businesses and workers by creating frameworks that integrate both pro-business and pro-worker measures, ensuring that policies are mutually reinforcing rather than conflicting. For example, policies that support businesses could be paired with measures that enhance worker benefits, such as tax incentives for companies that invest in employee development.

Labour's plans for innovation

Labour aims to boost growth and productivity by fostering innovation across the UK, making it the best place to start and grow a business by improving access to finance. The party plans to support the development of the AI sector, remove barriers to data centres, and create a National Data Library for data-driven public services. Labour will provide long-term funding for R&D institutions. A new Regulatory Innovation Office (RIO) will update regulations for emerging technologies and ensure safe AI development.

Challenges

A key issue Labour faces is addressing the UK's persistent productivity problem, which has significant implications for economic growth and global competitiveness. According to research by Reenen & Yang (2023), British workers are 13% less productive than their French counterparts and 14% less productive than workers in Germany. Low productivity weakens the UK's ability to compete in international markets and limits wage growth and living standards domestically. Without substantial productivity improvements, Labour's ambitions for sustained economic growth and higher wages could be challenging, especially in a global economy where countries increasingly compete based on innovation and efficiency. Since the 2008 financial crisis, the UK has struggled with stagnant productivity, as shown in Figure 1 (Strauss, 2021), mainly due to weak business investment. Investment is crucial for boosting productivity, as it equips workers with better tools, technology, and training to increase output per hour. However, uncertainty surrounding major policy decisions like Brexit has created hesitancy among firms to make long-term investments, particularly in manufacturing sectors reliant on cross-border trade.



As AI technologies advance, the potential for widespread job automation poses a significant societal challenge. Labour's ambitions to foster AI innovation will inevitably lead to automation in various sectors, potentially displacing millions of workers. The U.K.'s Department for Education estimates that 10-30% of jobs could be automated with AI (2023). The displacement effect is a critical concern for policymakers, as it could exacerbate inequality and worsen regional economic imbalances.

Next steps

To combat these issues, Labour should establish a national retraining initiative that targets sectors vulnerable to automation and AI disruption. By providing opportunities for workers in affected industries to reskill, Labour could address the AI skills drought and mitigate job displacement concerns.

In parallel, Labour should allocate resources towards expanding STEM education at the secondary and tertiary levels. This includes enhancing the curriculum to integrate AI and other emerging technologies to encourage more students to pursue these fields. Scholarships, incentives, and broader access to high-quality education would encourage more students to pursue these fields, helping to prevent further exacerbation of the UK's skills gap. Strengthening the connection between education and industry will also ensure that students learn skills directly aligned with market needs, thus accelerating the AI sector's growth and improving the sector's international competitiveness. The UK could present itself to investors as the most AI-educated workforce in the world.

To address the lack of investment, Labour must promote stability and create incentives for businesses to invest in capital, technology, and workforce development. By fostering a more predictable economic environment and offering targeted support, such as tax breaks for companies that invest in productivity-enhancing technologies, Labour can help mitigate the negative impact of uncertainty and spur long-term investment.

Labour's aims for green energy

Labour aims to make Britain a clean energy superpower and channel £28 billion annually into green investments throughout the next decade. This will fund clean energy infrastructure, home insulation programs, and the development of green technologies. The program aims to create millions of green jobs, particularly in regions with historical industrial decline.

Challenges

One of the challenges facing the UK Labour government in implementing its green technology program is the inability to match the scale and flexibility of subsidies offered by the United States through the Inflation Reduction Act (IRA). With its \$369 billion investment in clean energy (Crownhart, 2024), the IRA has set a global benchmark for climate investment. Unlike many UK initiatives, the IRA's subsidies are more open-ended because fixed budgets or limited time frames do not cap them. This allows companies to access funds as long as they meet specific criteria, enabling faster and more flexible deployment of capital. Additionally, the IRA offers

production-based tax credits, which are automatically extended if specific clean energy targets are not met, ensuring continuous support for green technologies. This level of financial certainty and adaptability makes the US a highly attractive destination for global investors, positioning it as a leader in the race for clean energy development. By comparison, the UK's green investments may be constrained by stricter budgetary limits and slower bureaucratic processes, potentially hindering its ability to attract the same level of private-sector investment.

In contrast, the UK, constrained by its public finances, cannot offer subsidies on the same scale. The Labour government will struggle to match the IRA's vast financial commitments, creating a risk that crucial investments, particularly in sectors like renewable energy and electric vehicle manufacturing, could be diverted to the US. This challenge is compounded by the fact that the EU has responded to the IRA with its own set of policies, including the Net Zero Industry Act and the Critical Raw Minerals Act, further intensifying the competition for green investments.

Next steps

Unlike the US and the EU, which have imposed hefty tariffs and protectionist policies against Chinese EVs, the UK has taken a more open approach, refraining from instituting trade barriers. This more welcoming stance could give the UK an advantage by allowing it to tap into the affordability and innovation of Chinese EV and green energy industries.

By allowing cheaper Chinese EVs and other green technologies into the UK market, the Labour government could accelerate the transformation to renewable energy, helping to meet decarbonization goals at a lower cost to consumers. The influx of affordable EVs could also stimulate competition within the domestic EV market, driving innovation and reducing costs for UK manufacturers over time.

At the same time, Labour should strategically support the domestic industry by focusing subsidies on building critical EV infrastructure, like a comprehensive charging network and next-generation battery technology. This balanced approach—welcoming Chinese imports while fostering local production—can give the UK a competitive edge, making it an attractive destination for green investment and technology innovation without relying solely on subsidies.

In conclusion, the key steps should include strategic investments in growth-enhancing sectors, effective management of public debt, and addressing the skills gap that hinders productivity and innovation. Through a coordinated and balanced approach, the UK can navigate these challenges and work toward a more stable and prosperous economic future. As the Chancellor remarked herself post-election: "We've got to break out of a doom loop of low growth, high taxes and poor public services." (Islam, 2024). Avenues to breaking out of this familiar cycle exist however they are likely to be fraught with political unpopularity, slow results and vulnerable to global economic conditions. It is evident this government must act with decisiveness and a long term vision that will not worsen the existing public debt. Senior Labour leadership believe their message of political and economic stability after years of chaos and mismanagement has won them the election. Their ability to deliver on this message remains to be seen. Thankfully, the

Labour manifesto set out a clear mission but not a detailed transformative plan giving the government more flexibility in their political and economic choices.

Word Count: 2,287

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