

2024 GENERAL ELECTION BRIEF

Economic Strategy

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In recent years, it's not always been easy to pinpoint what the UK's overall economic strategy

Since 2017, an industrial strategy has come and gone, to be overtaken by events around the nature of the UK's departure from the EU and what that could mean for the UK's economic future; followed by the economic crises of Covid and the energy price spike caused by the Russian invasion of Ukraine.

So much of the last decade has been characterised by governments buffeted by events, responding to consecutive shocks and emergencies, rather than making the weather by setting out an overarching strategy for decision-making across government to achieve stated medium and long-term economic goals.

There is a general agreement amongst (nearly all) parties that what the UK economy needs is growth. If our growth levels were closer to those prior to 2007-08, some of the difficult trade-offs faced by the public sector would be eased. Providing the funding required for higher spending on public services while reducing debt as a share of national income would thus look much more achievable than it does at the moment.

Of course, just saying so [does not magically make it happen](#), and claims about economic growth can feel distant – but we're here to demystify them!

If we think about the components of the economy, we typically would expect it to grow in one of four ways:

- More people;
- More people engaging in employment;
- More people working more hours in employment; and,
- Increasing labour productivity (so, increasing what people output in an hour of work).

We are in an environment where both main parties are keen to bring down migration, with record high employment, and flatlining hours worked. Therefore, the only real route for increasing growth is to increase productivity.

The key objective of an economic strategy should be to identify how productivity growth will be increased. So as part of that strategy, the government will have to identify how it will want to intervene to influence the drivers of productivity, such as:

- Business investment in general and in research and development in particular;
- Increasing trading links with the world;
- Investment in skills;
- Improving the health and wellbeing of the workforce; and
- Investment in infrastructure (both physical and digital).

The role of industrial strategy

Economic strategy should be high-level and set out an overall direction for the whole economy: to ensure (ideally) that the whole of government, and even the wider economy, is working towards the same economic outcomes.

Industrial strategy, on the other hand, is more targeted. It traditionally focusses on specific industrial sectors within the economy, which the government identifies as either being current or potential future strengths, boosting its productivity, capacity and competitiveness. This can create productivity spillovers and therefore increase growth by shifting more focus to these sectors, as well as further supporting jobs around those industries. Industrial strategy is hard, long-run and often requires large amounts of spending upfront, including support for research and development, sector-specific training programs, and infrastructure improvements.

The UK Government's Industrial Strategy of 2017 – set out as part of the Brexit process – turned out to be fairly short-lived, but it set out the five foundations of productivity and organised policies around ideas, people, infrastructure, business environment and places. The broad nature of this perhaps make it feel more like an overarching economic strategy than a traditional industrial strategy.

An Industrial Strategy Council was also formed to oversee the strategy, which was also ultimately disbanded in 2021 after giving advice about vaccination development through Covid.

The Industrial Strategy was superseded by “Build Back Better: our plan for growth” in 2021, which had many of the hallmarks of an economic strategy policy paper, but the main memorable point which has persisted from this document (published under Boris Johnson) is the inclusion of “Levelling Up”, which we discuss below.

Labour presented their industrial strategy in September 2023, which focusses on the following “mission-based” sectors:

- Delivering clean power by 2030,
- Harnessing data for public good,
- Caring for the future; and,
- Building a resilient economy,

Again – broader than the traditional approach in industrial strategy, which Labour says reflects a “modern” industrial strategy. The focus on investment in the green economy has continued since this document was published, and throughout the election campaign to date, particularly the idea to set up GB Energy, which will be based in Scotland. They also propose putting an Industrial Strategy Council on a statutory footing.

Industrial strategy does not always achieve the stated aims of policymakers – a common criticism of such strategies is that governments are poor at “picking winners”. Often, though, the failures are because governments give these interventions too many outcomes to achieve, which means they do not achieve any of them. Other potential issues with industrial policies include the fact that they encourage protectionist tendencies, which can cause other issues like trade disputes; and the time lags between devising a strategy and it bearing fruit, which can be problematic in a political environment which encourages short-term thinking.

Levelling up

The most explicit expression of economic strategy since the pandemic by the current UK Government has been the Levelling Up programme. This has encompassed a number of initiatives designed to improve the economic prospects of “left behind” areas of the UK. This was designed in the main to represent UK replacements for EU funding such as EU Structural Funds.

This has included the Community Renewal Fund, the Levelling Up Fund, the Shared Prosperity Fund, and the creation of Special Economic Zones, such as freeports and Investment Zones.

The extent to which the projects funded or supported by these different initiatives have actually “levelled up” the UK is currently unknown. For example, a recent House of Commons Committee Report was fairly critical of the investments made through the Levelling Up Fund, essentially saying

that (i) the investments to date did not look particularly effective and (ii) that we were unlikely to actually know if they are having an impact on local economies due to the complete lack of evaluation.

Interestingly, when the Conservatives announced their National Service policy in the last week or so, the Home Secretary James Cleverly said it would be partially funded using £1.5 billion from the Shared Prosperity Fund, which obviously potentially changes significantly the purpose and potential impact of the fund. Subsequent proposals for some additional levelling up pots talked about were in the region of tens of millions of pounds – not nothing for the towns that get them, but unlikely to be enough to make any difference nationwide.

In advance of the local elections, Labour produced their own plan in this area, called “Power in Partnership: Labour’s plans to power up Britain” which focusses on local growth plans and local devolution in England in particular.

We should see more details from each of the parties on overall economic strategy, industrial policy, and dealing with regional economic inequalities when the manifestos are published.

Trade and relationship with the EU

Both main parties are, for obvious political reasons, not keen to talk about Brexit, as they sense that many voters are tired of the issue. The Conservatives don’t want to address the claims from some that Brexit is not what was promised (from both ends of the spectrum), and Labour doesn’t want to upset areas of England who voted for Brexit whom they want to encourage back into the fold.

But in an era where the UK has control over its independent trade policy, a key part of any economic strategy will be how to build trade links across the world to increase exports and the openness of the economy: which is generally correlated with higher levels of productivity. From an economic point of view, friction of any kind in trade reduces trade, which is why most economic models predict that the current agreement with the EU on trading arrangements generates poorer outcomes economically than if we were in the EU.

Labour have said they would be looking to improve relationships with the EU, without seeking access to the Single Market, by looking at specific issues like veterinary agreements and arrangements for touring musicians. The Liberal Democrats have said they would be advocating Single Market Access. The SNP have talked about Brexit more than any party, but with an eye to Scotland rejoining the EU as an independent country.

However, again, we will have to wait for the manifestos to see the specifics proposed on trade policy – if anything.

Economic strategy and devolution

“The economy” is a reserved issue, and the UK Government have control over many of the economic levers that governments traditionally pull to affect outcomes in the economy. For example, any

changes to the minimum wage, (most) in-work benefits, tax incentives for businesses, and investment in many types of national infrastructure are under the control of the UK Government.

However, many areas that recent and proposed policies get into have significant interactions with devolved powers.

Some long-term drivers of productivity are completely devolved. The health of the workforce and the skills of the population are within the responsibilities of the Scottish Government. Transport and related infrastructure are also mostly devolved. A key feature of certainly the Labour Economic Strategy, investment in the green economy, will involve a mixture of devolved and reserved powers.

This means that initiatives by the UK Government to advance these priorities across the UK will require significant joint working between the UK and Scottish Governments. There are examples of this in recent times, such as the City Deals Programme: but the experience of Levelling Up has been to bypass devolved government to allow the UK Government to directly fund local government.

Recognition and respect for the powers of different levels of devolution will need to be explicitly part of an economic strategy for the outcomes stated in it to be achieved.

Our next event

Fraser of Allander Institute General Election Webinar Special Guest - Professor Sir John Curtice

Friday 14 June 2024

09:30 - 10:45 (GMT) | Online

Join the [FAI](#) team to hear their latest analysis on the general election announcements and what they mean (or don't mean!) for Scotland. The various promises and claims made will be examined, and we'll discuss how these interact with the devolution settlement - if, indeed, the parties have made this clear!

The team will be joined by polling legend Professor Sir John Curtice, who will reflect on what the latest polls are telling us about the result, both for the UK and Scotland.

[Register here](#)

Registered attendees will be sent the join details for the webinar by email on the morning of 14 June 2024.

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