

What economists think of Labour's economic policy

*In the run up to the general election, Labour lack a “grand theory” of economics and have several blind spots, argues a group of economists reviewing the party's economic policy. Yet, the same economists find a significant economic agenda in Labour's more pragmatic and less ideological approach to the economy, including a more activist role for the state, writes **Neil Lee**.*

The UK will soon have an election and, if the polls are right, Labour will take power for the first time since 1997. There are many similarities between now and then. As in 1997, the Conservative party look tired, voters fret about public services, and political scandals are in the news. But one thing is very different. In 1997, Labour inherited a strong economy, but things are less rosy now. GDP growth is weak and [productivity](#) has flatlined.

Labour's first mission in government will be to grow the economy. But, while in 1997 they had a clear vision for growth, their economic strategy is not so clear now. In an essay collection published by the [Social Market Foundation](#), a cross-party think-tank, we asked a group of leading economists to try and work it out. We asked our contributors to work out, given their announcements, what Labour's economic worldview is, to assess what the evidence says about their plans, and to suggest improvements based on economics. The results are informative both about Labour's plans and the state of economics.

Labour's policy agenda has nothing as clearly defined as the endogenous growth theory, so important in the '90s.

Labour has no grand theory of economics

Our contributors find little evidence of a grand theory of growth driving Labour's plans. The 1997 manifesto focused on increasing the trend rate of growth and was inspired, in part, by engagement with academic economics. Gordon Brown, the Chancellor, was teased for his use of academic theory, but there was a clear link between modern

economics and his policy agenda. Instead, today's Labour party is focused on buzzwords ([securonomics](#), productivism) and some limited engagement with the [Modern Supply Side Economics](#), a nascent theoretical approach influencing the Biden administration which focuses on labour supply, human capital, R&D, infrastructure, and net zero. Labour's policy agenda has nothing as clearly defined as [the endogenous growth theory](#), so important in the '90s. This might reflect the state of modern academic economics, which is increasingly focused on applied microeconomics. It might be that the big debates about growth theory have been won. But it might also be politics: after the failures of Brexit and Corbyn, both ideological rather pragmatic approaches, Labour's focus is on small scale, narrow and technocratic policy rather than grand claims.

Our contributors find a significant economic agenda in Labour's speeches and policy documents, but with is a focus on pragmatism, not ideology.

Labour's pragmatic (and activist) policy approach

Yet a lack of grand theory does not mean that Labour have no plans. Our contributors find a significant economic agenda in Labour's speeches and policy documents, but with is a focus on pragmatism, not ideology. Underpinning Labour's thinking is a focus on stability. Since 2010, the UK economy has been battered by shocks. Some, such as the pandemic and Ukraine war, were outside government control. But others – such as Brexit, Austerity, and the Truss “mini budget” – were the result of political decisions. So Labour's first route to growth is reassurance. This approach is clearest in our chapters on industrial strategy and innovation policy.

But there are also some areas of activism. This is clearest in net-zero and industrial strategy. The energy transition is a core part of this and, driven by concerns about climate change and the energy shocks which followed Russia's invasion of Ukraine. As Anna Valero argues in our collection, there is no route to long-term growth which doesn't tackle these challenges. But there are political problems in getting there quickly, as Labour found when forced to downgrade their [pledged spending](#). Instead, a successful approach will have to be more gradual, combining spending with institutional reforms and a focus on the barriers to investment.

There is also emphasis on workers' rights and the “[New Deal for Working People](#)” (as opposed to the “old” new deal). 25 years on since the [minimum wage](#) was introduced,

the free-market view that labour market regulations inevitably cost jobs has been replaced with a more nuanced approach. Labour clearly believe that they can push this further and by improving worker motivation, encouraging companies to invest in training and new technology, they can increase productivity.

There are definite moves towards a more activist state, and some policies are radical (but not always, as our contributors argue, radical enough).

Labour's blind spots

But our contributors are also concerned that Labour's view of growth neglects some crucial areas. In 1997, the mantra was "education, education, education" – but this seems less of a focus now. Politically difficult issues of migration and international trade are, post-Brexit, largely downplayed. Our authors also raise a host of challenges of implementation, feasibility, and the scale of investments. Writing about the planning system, Paul Cheshire argues that Labour are proposing "the most radical set of reforms" since the planning system was established, but that these are not radical enough to address the problems which the UK faces.

If our collection says a lot about British politics, it also reflects changes in the discipline of economics. There has been a greater focus on causal identification and less on "grand theory". Meanwhile, endogenous growth remains canonical and newer approaches, such as Modern Monetary Theory, are unconvincing. But the pragmatic approaches pushed forward by Labour, with their focus on greater intervention, are supported by a growing body of work in industrial policy and regional economics which suggests that the state still has a big role to play.

Overall, we find no evidence of a grand theory of growth in Labour's plans. Instead, we find evidence of a pragmatic incrementalism where there is agreement on some of the core problems the UK has faced – including a lack of investment, political uncertainty, and major problems in the planning system. There are definite moves towards a more activist state, and some policies are radical (but not always, as our contributors argue, radical enough). This is partly driven by political pragmatism and partly by shifts in the economics profession: the only credible new theory, Modern Supply Side Economics, remains nascent. The upheavals experienced by the UK over the past decade mean that growth is more important than ever. We had better hope that Labour's policy, and the

economics supporting it, is enough.

All articles posted on this blog give the views of the author(s), and not the position of LSE British Politics and Policy, nor of the London School of Economics and Political Science.

Image credit: [Martin Suker](#) on Shutterstock