

What Labour's new industrial strategy needs to succeed

*In the King's Speech, Labour committed to establishing a new industrial strategy, with the aim to help specific industries contribute to economic growth and the green transition. But in order for such a strategy to succeed, argues **Stephanie Rickard**, the Government has to be a guarantor of stability and at the same time prevent businesses from rent-seeking behaviours.*

Governments around the world, including the [United States](#), are developing industrial strategies in response to global economic shocks and geopolitical challenges, such as trade tensions, environmental pressures, and growing technological competition. The UK under Boris Johnson and Rishi Sunak had been an outlier in lacking such a strategy, but Labour has pledged to introduce a new industrial strategy in their election manifesto, and the [King's Speech](#) included a commitment to establish an Industrial Strategy Council. If the emerging industrial strategy is to succeed in growing the British economy and promoting a green energy transition, the Government must ensure, through creating the conditions for stability and transparency, that it doesn't fall prey to rent-seekers.

What is industrial policy, and what can it do for the UK's economy?

Industrial policy refers to deliberate government actions aimed at promoting the development and growth of specific industries or sectors that are considered strategically important. Essentially, the government intervenes to support certain businesses. Government support can take various forms, including providing financial assistance ([subsidies](#)), offering tax breaks, or purchasing goods and services from businesses for government use. Such support programs use taxpayers' money to help certain industries thrive.

Labour's new industrial strategy with its four [central missions](#) broadly aims at achieving two main goals: economic growth and a green energy transition. Both are commendable objectives and while industrial policy alone is unlikely to ensure success in these goals, it can help.

Even the most well-intentioned industrial strategy can fail without important safeguards in place.

Will it work?

Industrial policies can help businesses develop new technologies and grow the economy, but [the devil is in the details](#). Even the most well-intentioned industrial strategy can fail without important safeguards in place. For example, some firms may focus more on obtaining benefits from industrial policies than on becoming more efficient or providing real value. Any successful industrial strategy must therefore guard against such “rent-seeking” behaviour to ensure it benefits the country’s economy.

What can a Labour government do to minimize the risk of industrial policy “capture” by rent-seeking firms? I’ve previously offered [three suggestions](#). One especially important feature is transparency.

Transparency can help policymakers resist lobbying by businesses who are simply seeking rents.

Transparency

The government must be transparent about its industrial policy. When citizens and businesses have access to information about industrial policies, they can evaluate them. This scrutiny acts as a safeguard against potential mismanagement or inefficiencies, ensuring the government is held accountable for its decisions, such as subsidy allocations. Knowing that subsidies are subject to public scrutiny encourages policymakers to design and implement fiscally responsible policies that efficiently address societal needs. Transparency can help policymakers resist lobbying by businesses who are simply seeking rents.

The UK’s Subsidy Control Act 2022 requires public authorities to disclose details of the subsidies they award by uploading them to a national database. This requirement is an important and valuable feature of the subsidy control regime. The new government can and should enhance these reporting obligations. More accurate and complete information is needed to ensure oversight and deter inefficient subsidies. Comprehensive subsidy information will enable independent evaluations of the

government's industrial strategy, helping to assess whether the policies provide value for money and advance the government's goals of economic growth and a green energy transition.

To convince businesses to change their current practices, invest in new technologies, or restructure their labour forces, firms must believe that government support will not be withdrawn unexpectedly.

Stability

A second crucial feature of any successful industrial strategy is policy stability. Businesses need to know that financial assistance from the government won't be withdrawn unexpectedly. Such assurance is particularly important to induce changes that businesses wouldn't make without government support. This is precisely when industrial policy is most likely to be deployed. Governments turn to industrial policy when they want to achieve some outcome that has not emerged from market forces alone. To convince businesses to change their current practices, invest in new technologies, or restructure their labour forces, firms must believe that government support will not be withdrawn unexpectedly.

After a decade of stop-start industrial strategy, many British businesses are leary of promised government support. The new government must work to ensure that their industrial strategy is different. This does not mean the government should write a blank cheque. On the contrary, government support should be [time-limited](#). Setting time limits on government assistance motivates firms to become productive and self-sufficient before the end of the subsidy program.

Businesses must be convinced that support will not be withdrawn before the pre-specified time limit. Labour has taken an important first step towards policy stability by pledging to establish an [Industrial Strategy Council](#), which was included in the King's Speech. The success of the Industrial Strategy Council in minimizing short-term policy making will play a key role in determining whether Labour's industrial strategy succeeds in achieving greater economic growth and a just transition to a green economy.

But of course, even the strongest institutions cannot provide the necessary fiscal capacity to fund an ambitious industrial strategy. The government must decide how much

money to devote to industrial policy, keeping in mind the risks of rent-seeking while at the same time working to ensure value for money.

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: [PanuShot](#) on Shutterstock