



Prosperity through Partnership:

LABOUR'S INDUSTRIAL STRATEGY



Our new industrial strategy has partnership at its core because partnership is how we ensure strong, secure growth and a fairer, greener future.

FOREWORD

Britain stands at the precipice of immense change. That change presents incredible opportunity. And the Labour Party stands ready to seize it.

For 12 years, the UK has underperformed economically. We lag behind on business investment and productivity, whilst we are forecast to have the worst economic growth of any G7 economy in 2023.

The choices made by successive Conservative governments have left British families uniquely exposed during the cost-of-living crisis. Their decisions have left our public services and our economy weaker and businesses reluctant to invest.

Our new Prime Minister has admitted the problem and tried to claim things will now change. But the truth is the Conservatives are offering more of the same. Stripped bare public services, reliance on too few sectors and reliance on deregulation.

These policies haven't delivered growth for the last 12 years and there is no reason to believe they will now.

The Labour Party's central mission is to deliver growth that makes all parts of our country better off. Growth that every family and business will benefit from.

We also know that economic strength needs partnership. State and market. Business and worker. Bringing together the everyday economy and the technological frontier to transform challenge into opportunities.

Our new industrial strategy has partnership at its core because partnership is how we ensure strong, secure growth and a fairer, greener future.

A hallmark of this Conservative government has been to act in the heat of the moment and lurch from crisis to crisis. We know business can't operate like that. A Labour government will provide a clear

and consistent policy framework that businesses can trust and prosper within.

Our industrial strategy has four central missions: delivering clean power by 2030, caring for the future, harnessing data for the public good and building a resilient economy.

Take the climate emergency. Economic growth is not in tension with net zero targets. It's a mistake to see them as distinct. Tackling them together will create wealth.

With Labour, Britain can become a global leader in producing electric cars, in engineering nuclear technologies, in developing hydrogen.

Labour's clear driving mission for economic growth is fuelled by a suite of future facing, costed, practical policies. These policies will support your ambitions, inspire creativity, devolve money and power to where it's needed, and secure prosperity for every part of the country.

Working in partnership with business, civil society and trade unions Labour will grab hold of the national prosperity Britain is capable of. For a fairer, greener future.



Jonathan Reynolds
Shadow Secretary of State for
Business and Industrial Strategy



**Another decade of
stagnant economic
performance is not
inevitable.**



EXECUTIVE SUMMARY

Britain faces great change and uncertainty; the world feels at once smaller and yet more unknown. Great global challenges and new technological advances continue to expand what we think possible. Yet one constant remains: the capacity of our people to meet that change and prosper. Britain is a country full of talented people and businesses, with ingenuity and ideas in every town and city. We have key economic strengths such as our world-class universities, a thriving life sciences sector, advanced manufacturing clusters, creative industries and many more. But we cannot meet these vast changes alone as individuals or businesses. It requires a national focus. A national effort. One that has been sorely lacking.

Despite our enormous potential, the UK is set to have the lowest growth in the G7 in 2023, having suffered years of low investment relative to our neighbours. The UK's productivity level remains stubbornly below our peers. As a result, workers have seen no growth in real pay since 2010, leaving families exposed to the current cost of living crisis. A country like Britain should not be looking at a future of low growth and poor productivity.

The defining mission of the next Labour government will be to restore growth. This is the only way to sustainably drive improvements in people's wages and living standards, to revitalise public services, and to re-energise communities. Another decade of stagnant economic performance is not inevitable. Where successive governments have wrung their hands at supposedly immovable market forces and allowed Britain to fall behind its peers, Labour will take a strategic approach to the economy, investing for our long term needs and forging a partnership with businesses and trade unions around the UK to tackle key challenges and seize the opportunities of the future.

Workers have seen no growth in real pay since 2010, leaving families exposed to the current cost of living crisis.

The strategy outlined in this document is a key part of how Labour will get our economy growing again. This document is a starting point for further conversations with business, from which more detailed policy plans will be developed. It builds on conversations Labour has had with businesses and trade unions from across the country and across the economy. Over the coming months we want to continue to develop it in that spirit of partnership. Labour understands that businesses are concerned about more than their bottom line. They have a vital role to play in building a fair, prosperous, vibrant society as well as a growing economy. Through this partnership across business, civil society and trade unions we can improve the resilience of our economy and place Britain on the economic footing our people deserve.

A modern industrial strategy requires building a partnership between the public and private sectors to meet the immense challenges we face.

The development of coronavirus vaccines provides a useful example of how industrial policy can work, with the state playing a crucial role in partnership with the private sector to achieve a specific goal - not least through long-term investment in the life sciences sector across the past two decades as well as short-term co-ordination.

A 'mission-based' strategy of this kind should take a cross-sectoral approach, one that recognises that the different sectors of the economy are inextricably interlinked. A successful strategy will depend on policy consistency, so that businesses and individuals can make long-term decisions and investments. Such consistency has been absent over the past decade, with the 2017 Industrial Strategy jettisoned only two years later.

Labour will provide policy consistency by placing an Industrial Strategy Council on a statutory footing.

This would help end the farce of long-term plans that do not survive the political cycle and make it difficult for businesses to take decisions about their future direction. It would instead offer the certainty needed to increase investment in British business, people, and places.

Our industrial strategy has four missions: delivering clean power by 2030, harnessing data for the public good, caring for the future, and building a more resilient economy.

These missions are the strategic priorities for our industrial policy and setting them out provides a clear signal and organising framework for business. The missions will be crucial to mobilising private sector investment to meet the challenges they contain.

We believe these have the potential to spur innovations that will spill over into other parts of our economy and drive growth and productivity, wages, and living standards. Rising to meet the challenges of the climate crisis offers an opportunity to ensure the jobs of the future are in Britain, as well as an opportunity to bring down energy costs. Harnessing the power of data can revitalise our public services and ensure innovation benefits our wider society not just large corporations.

Our third mission, caring for the future, recognises the vital role the everyday economy has, not just in our economy but in our daily lives. It is where many people work, where we spend much of our money and where we entrust the care of our loved ones to other people. Finally, Britain has acutely felt the dangers of being overexposed to international events. Building our national resilience to future shocks, such as food supply and access to core technologies, ensures that while we look outward to the world, we also ensure our safety and security.

Labour will take a strategic approach to the economy, investing for our long term needs and forging a partnership with businesses around the UK to tackle key challenges

The state must play a different role in different parts of the economy – we differentiate between our sovereign capabilities, global champions, future successes, and the everyday economy.

Labour is clear that all businesses and all sectors make a vital contribution to our economy. This strategy identifies the core pillars of our diverse economy. Our modern Industrial Strategy will strengthen each of those pillars to drive growth and build a more resilient economy. However, we are clear that industrial strategy must make choices: we cannot look to target all businesses in the four pillars with our industrial policy, even if we aim to create a policy environment in which all business can thrive.



1. WHAT SHOULD AN INDUSTRIAL STRATEGY LOOK LIKE?

In the past, industrial strategy has often been seen as describing a set of policies by which government targets pre-selected high-value-added sectors, using a range of subsidies and investments to drive their growth. There are many examples of the success of such approaches, for example in South Korea, where industrial strategy was used to create internationally competitive high-tech sectors.¹

However, while industrial policy has returned to the policy mainstream in many advanced countries after, at least rhetorically, a number of decades in the political wilderness, there is an emerging consensus that modern industrial strategies must have a different emphasis.² They must focus more on 'establishing a sustained collaboration between the public and private sectors'³ to meet societal goals, or missions. This approach is not about top-down planning by the state, but instead "about providing a direction for growth, increasing business expectations about future growth areas and catalysing activity that otherwise would not happen".⁴ The approach is also not simply about correcting market failures. Instead, it involves the state working with the private sector, shaping and creating markets and setting strategic direction.

Such 'mission-based' strategies take a cross-sectoral approach, one that moves beyond a focus purely on manufacturing and instead recognises that the different sectors of the economy are connected. Examples of this can be seen in Germany's 'Industry 4.0' plan, and Biden's 'Build Back Better' programme to create millions of jobs in green energy.⁵

At the same time, there is a recognition that industrial strategy involves choices about which parts of the economy to support – as the now-defunct Industrial Strategy Council (ISC) argued, "all good strategies require prioritisation".⁶ An industrial strategy cannot target the whole economy and it must be complemented by a robust

set of 'horizontal' policies and institutions to support growth – things like strong public infrastructure and world-leading education – that set the general conditions for all businesses across the economy to thrive.

The return of industrial strategy reflects the search for answers to unprecedented societal challenges and unprecedented economic stagnation.

The return of industrial strategy reflects the search for answers to unprecedented societal challenges and unprecedented economic stagnation. The UK has suffered a slowdown in growth, meaning real wages and living standards have stagnated. We face a rapidly accelerating climate emergency, have just overhauled ties with our largest trading bloc and stand on the precipice of a new technological revolution. In this context, an economic strategy where the state 'gets out of the way' is unviable.

Labour revived industrial strategy in the UK in the 2000s. The 'New industry, New jobs' paper introduced a plan to strategically steer industry towards higher-value activities, including support for key sectors like the automotive sector.⁷ That approach and the formation of the Automotive Council put the U.K. on a path to become a net exporter of cars in the last decade. Labour's early intervention in renewable energy technologies

supported large-scale, renewable electricity generation and led to the expansion of wind generated power. And Labour's cultivation of the life sciences sector was crucial in ensuring it is now one of our leading industries (see below).

The challenges and opportunities ahead of us make it essential that Labour reverse this inconsistency and pursue a serious and strategic approach.

In the past decade, however, successive governments have taken inconsistent views about the need for an industrial strategy, resulting in substantial policy uncertainty. Under the coalition government, Vince Cable continued some of the work New Labour had put in motion, but this was jettisoned after the 2015 election. In 2017, Theresa May's government published an industrial strategy and established an Industrial Strategy Council. But since 2019, there has been little serious attempt at industrial strategy, and the 2017 Industrial Strategy was set aside and the Council disbanded.⁸

The challenges and opportunities ahead of us make it essential that Labour reverses this inconsistency and pursues a serious and strategic approach.

How does industrial strategy work?

The 'how' of industrial strategy is best brought out by an example of where it has worked successfully. In one of its last acts, the Industrial Strategy Council published a report on a recent industrial policy success – the drive for coronavirus vaccines.⁹ It made clear that industrial policy was crucial to the success of the program, and that "the absence of government involvement at any stage of the process" would have severely delayed the vaccine.

In 2021, the ISC set out a detailed analysis of exactly how industrial policy contributed to the delivery of the vaccine. This analysis provides both a useful example of what a successful industrial policy looks

like in practice, and also thus a set of lessons for future policy.

The development of the Covid-19 vaccine in fact depended on a series of policy interventions, at various different stages:

- ➊ Targeted long-term investment in life sciences by successive governments was a crucial building block of the UK's strength and expertise in that sector, beginning with the establishment of the Biosciences Innovation and Growth Team by the then Labour government in 2002.
- ➋ When the pandemic began, demand-side support through strategic procurement and advance purchase commitments helped to create a stable market which de-risked investment into a highly uncertain vaccine.
- ➌ The convening power of the state was used to coordinate across the various actors involved in getting a vaccine to market - working with the independent National Institute for Health Research to build clinical trial capacity, co-ordinating with the Medical and Healthcare products Regulatory Agency on regulation, and with NHS England on deployment.
- ➍ The Council also noted the efforts of the "public, private and voluntary sectors" in "co-creating and co-delivering industrial policy". This highlights the benefit of 'mission-oriented' industrial policy, where clear goals have been set that allow both state and non-state actors to operate with certainty.

This analysis points to a broader set of lessons: the value of clear mission-oriented targets, of an active state, of a deep partnership between this state and business, and of long-term, targeted support for key strengths and capabilities.¹⁰



2. INDUSTRIAL STRATEGY COUNCIL

The long-term support highlighted in the ISC's analysis of vaccine development has, however, been notable by its absence in most other areas. UK industrial strategy has, in recent years, been defined by its short-termism and vulnerability to political changes in the government. The 2017 Industrial Strategy did not even survive a change of leadership within the same party before being abandoned without warning or consultation. Businesses across the economy have told us that what they need from the government is long-term consistency and clarity. An inconsistent and unstable policy environment makes it very difficult for businesses to take long-term investment decisions. It's likely this constant churn can explain some of the UK's historic and international underperformance on business investment.

Labour will provide the certainty and clarity that businesses need to succeed and will do so by embedding our strategy to ensure it can survive beyond an electoral cycle.

Labour will establish an Industrial Strategy Council (ISC), placing it on a statutory footing like the Committee on Climate Change (CCC) and Office for Budget Responsibility (OBR) to strengthen its role. It will report to Parliament as well as government.

The Council would be a full-time expert body, supported by an advisory board of leading figures in business, the trade union movement and academia, drawn from across sectors and across the regions and nations. It will work with devolved governments and institutions to ensure a whole UK approach that prioritises regional and local growth.

The Council's primary remit will be to assess the effectiveness of the government's industrial strategy. It would be tasked with regularly reporting on policy implementation and progress towards the

government's industrial strategy missions. In order to provide this scrutiny, it will also have a role to play in working with government to develop and agree a set of target indicators for each of the government's industrial strategy missions.

By providing credible independent analyses of the UK's economic challenges, the ISC will help to ground and shape policymaking and industrial policy beyond the government that founded it. The success of institutions like the CCC and the OBR shows that credible and trusted economic policy institutions can survive changes in government and provide a useful anchor for business. It will also draw on examples of international best practice, such as Australia's Productivity Commission.

Labour is confident that we can build a level of consensus among political leaders around our industrial strategy, with missions that focus on broad, society-wide challenges like clean energy production and our nation's health.

This consensus will never be absolute and there needs to be scope for governments to enact the mandate they have been given. But, over the past decade, the churn and, latterly, complete absence of a strategy has impeded British business and its ability to compete to its full potential on the global stage.

We want to practice what we preach - so we would build on the elements of past strategies that have been popular and effective. That's why we would keep policies such as Catapults, Challenge Funds, Local Skills Improvement Plans and Made Smarter that have been successful.

3.

LABOUR'S MISSION-BASED INDUSTRIAL STRATEGY

Labour's industrial strategy seeks to build on the lessons outlined in Section 1 and the wider research agenda that has reignited interest in industrial policy.

Labour will introduce a mission-based industrial strategy, defining clear, long-term missions that will guide our industrial and economic policies. We will seek to avoid the pitfalls of the past by 'picking challenges' rather than 'picking winners' and leaving space for different firms, sectors and technologies to innovate and compete to tackle these problems. Within each mission we will take an active role in catalysing investment, breaking down barriers, and acting in partnership with the private sector.

Our four missions, outlined below, are:

🕒 **delivering clean power by 2030**

🕒 **harnessing data for public good**

🕒 **caring for the future**

🕒 **building a resilient economy**

These missions speak to our most pressing societal challenges. There is also a clear case for intervention in relation to all four missions, with evidence of a broad role for government and of specific market failures.

These missions have also been chosen because of their potential to generate significant economic 'spillovers.' This means the investments, innovations and capacities needed to achieve our missions will generate benefits, or 'spillovers', to the wider economy, helping the UK break out of its current cycle of low investment, low innovation and low growth.

Previous government-backed missions have generated spillovers, helping tackle other challenges

and benefitting the wider economy: transformative general-purpose technologies such as the internet and GPS came about as spillovers from other missions.¹¹ And new innovations sparked by the coronavirus vaccine hold the potential to transform treatment of other diseases like dementia.

Our missions will provide a clear signal and organising framework for business and set the overall direction for our policy interventions. We will outline how these broad challenges can be turned into concrete, measurable and actionable targets to guide the public and private sectors.

DELIVERING CLEAN POWER BY 2030

Labour's first mission will be to deliver a fossil fuel free electricity system by 2030. This will save UK households £93 billion over the rest of this decade, and will make the UK a net exporter of clean power to the rest of the world. This is a clear, measurable and concrete target, that is ambitious but achievable. The underlying justification for this mission is the looming threat of climate change but, as noted above, it holds the promise of significant economic spillovers.

There are already a number of detailed analyses that show the UK has potential to create new clusters of international comparative advantage in the green economy. A recent LSE and Resolution Foundation report found a number of high value green industries which are "relatively close to the UK's existing capabilities" including renewable energy and environmental monitoring equipment.¹²

In addition, many of these new clusters are outside London and the Greater Southeast, suggesting this mission will help tackle stubborn interregional inequalities. For example, as part of this mission, Labour plans to expand offshore wind capacity by

injecting investment into ports such as Forth and Tay, Humber, and North East Scotland.

The government has also acknowledged the potential for net zero investments to create economic spillovers, with the Treasury acknowledging:

“The investment required to decarbonise the UK economy could help to improve the UK’s relatively low investment levels and increase productivity... a step change in investment and the creation of new markets can catalyse innovation and lead to productivity growth.”¹³

There is also a clear case for state intervention given that many of these markets and technologies are only just emerging, with high short-term costs and uncertain longer-term payoffs. This makes them a risky prospect for private investment alone to support at the scale and speed required. The thicket of intertwining economic and regulatory issues also requires the coordinating and convening power of government, as with the vaccine rollout.

In areas like offshore wind where there is a developed market, there is a case for intervention to capture more of the economic value. Researchers have noted the “missed opportunity” to create new economic capabilities in offshore wind, as a lack of “joined-up thinking” in government meant practical barriers - such as unsuitable port infrastructure - went unaddressed.¹⁴

A push towards clean power can create good, well-paid jobs across the country, whether through hydrogen projects in places like Liverpool, offshore wind hubs in Welsh and Northern Irish ports, or carbon capture and storage in and around Middlesbrough. It can mean more work for plumbers, electricians, fitters and mechanics, paying good wages right across the country.

Labour has already begun to outline how we’d achieve our clean power mission, via our step-change in climate investment. In the power sector, this includes a long-term commitment of government funding for efforts to rapidly scale up the deployment of renewable technologies - including onshore wind, offshore wind, solar, hydrogen, nuclear (including small modular reactors) and tidal.

In the words of Tony Danker, Director-General of the CBI, this will be “catalytic” public investment that sends a clear signal to the private sector and gives businesses the confidence and certainty to invest billions more.¹⁵ There is ample evidence that

investment in clean energy can play that role, with analyses finding high multipliers for clean energy investment.^{16 17} As above, we will also look to ensure this investment seeds the creation of new economic capabilities, taking an active role in shaping domestic supply chains and markets.

HARNESSING DATA FOR PUBLIC GOOD

Our second mission will be to harness data for the public good, using new capabilities in data analysis and artificial intelligence to deliver better public services and improve people’s quality of life. Data-based technologies are already transforming our economy. For example, AI is already being used to prevent fraud, enable search engines, and develop vaccines and medicines.

If we actively shape these technologies for the public good, they have the potential to greatly increase productivity, deliver better public services and improve quality of life for all. Without shaping them, there are risks of accident, misuse and structural risks such as the entrenchment of inequalities. To build public trust, ensuring AI is developed and used safely and responsibly will be crucial.

The data transformation has potential for significant economic spillovers, benefiting businesses across the economy, whether in Britain’s world-leading business services sector, or the design and manufacturing of new products. PwC UK have suggested that UK GDP could be up to 10.3% higher in 2030 as a result of artificial intelligence.¹⁸

The UK is well positioned to benefit from transformative AI, and to lead the world on efforts to ensure AI is aligned with the public interest. In 2020, the UK received more private investment into its AI companies than any other countries except China and the USA.¹⁹ Deep Mind is the most renowned of around 1,300 AI companies in London alone. And, thanks to our unified healthcare system, we have a large potential comparative advantage over other countries when it comes to ‘big data’ analytics of healthcare data.

Crucially, we are also a world leader in AI ethics and safety research. Not only are our academic researchers and software engineers solving existing problems – such as protecting privacy, developing cybersecurity and safeguarding children. But they are also looking ahead to future risks, like the potential for opaque AI systems to diverge from our intended objectives. Investment in this research

is vital for nurturing a healthy AI sector that serves the public interest.

Although this mission is currently broader in scope than our clean power mission, we will task the new ISC with developing clear, concrete and measurable goals, consulting closely with business, unions and experts.

Again, this mission relies on a partnership between business and government. Government can lead the way by looking at how data can be used to drive better outcomes for public services. And data provides huge opportunities for businesses to offer new services for consumers.

Labour's first mission will be a completely clean power sector by 2030, with 100% of our energy generated from renewable or nuclear sources.

There is also a clear case for intervention in markets, as data fits the textbook definition of a public good with potential for societal value far beyond its private value.

Many novel and promising uses of data are at a very early stage of development, implying a crucial role for the state and regulators in de-risking and nurturing these opportunities, while providing predictable and secure regulatory frameworks. Labour's pro-innovation regulatory regime would ensure the UK's data ecosystem is secure and trusted, providing certainty to businesses and delivering better outcomes for consumers.

We cannot benefit from the full potential of this new resource while a disproportionate amount of data is held by a small number of firms. The tendency towards concentration within some data markets and digital business models requires a robust and agile competition and regulatory regime. This would help level the playing field for smaller firms, creating more competitive markets and enabling new services.

A Labour government would consider where we can go further to make datasets open to businesses, researchers and citizens, learning from the success of initiatives such as Open Banking. For example, better, more open data on jobs could help to understand where skills shortages are, allowing jobseekers, training providers and government to better fill these gaps. With an international focus, Labour would work to increase the open, secure international flow of data. We would maintain Britain's data adequacy status with the EU, which helps UK companies to do business in Europe

To make the most of the benefits of data, Labour would support the UK's wider digital economy by ensuring firms, workers and research groups have access to the talent, skills and compute that they need to contribute. Alongside this, Labour would work to improve access to finance for digital firms, something our Start-Up Review is looking at. And Labour would continue to support digital research & development, boosted by our aim for 3% of GDP to be invested in R&D.

We can unlock the benefits of data only if there is public trust in these technologies. A Labour government will stand up for the democratic, privacy and security rights of UK citizens, including by the influencing of international standards. We would also ensure the UK is the best place in the world for safe and responsible AI, by building the world's most competent regulatory environment for AI, and supporting a thriving and effective AI assurance ecosystem.

CARING FOR THE FUTURE

Labour's third mission will be to ensure high-quality care for all those who need it, including our aging population.

In the long-run Labour will seek to build a National Care Service, but this is a long-term multi-Parliament project which must start with improving standards within the current system as well as the pay and conditions of those who work in it.

The core justification for this mission is our rapidly aging society and the need to drastically improve the quality of the care they receive. The number of UK residents older than 75 is set to increase by three million over the next two decades,²⁰ and the number aged over 85 set to almost double.²¹ This will increase demand in the care sector, alongside the work the sector does for others including children and those with disabilities.

Our care system, like our health system, provides the bedrock for national prosperity. If our care sector is struggling, other parts of our economy will begin to stutter and break down, as those who need care will be less able to live fulfilling independent lives and the demands on families and friends will mount.²²

Care is foundational for our economy and society. People understandably want reassurance that their families are well cared for before they take up a job offer, go for a promotion or take on more hours. This is especially important for women, who are more likely to be informal carers.²³

The systems that care for old, young and disabled people are thus a core part of our economic infrastructure. This contribution is, however, hard to capture via narrow economic metrics and the spillovers created by a high-quality care system are often missed in assessments of the nation's economic strength.

We cannot entirely insulate ourselves from global shocks, and the UK's economic strength will continue to be derived from its openness

The economic structures in sectors like social care exemplify these problems, with a drive for short-term value undermining its potential contribution to a dynamic and prosperous economy. This problem is clearest to care workers themselves, whose jobs are often characterised by low pay, insecurity and burnout.

Labour's industrial strategy will seek to harness our economic strengths to drive up standards and create long-term value in social care, boosting innovation, skills and job quality. Care under a Labour government will mean skilled carers paid fairly, equipped and able to provide better care, with a wider ecosystem that is resilient to growing needs.

Part of this will be setting standards for innovation in care, capitalising on the opportunities presented by our unified health system and world-leading research base. The UK can be a world leader on the use of such techniques in preventative healthcare and early diagnostics - for which there will be a large and growing market as the populations of advanced countries age.

The workforce will also be central to this mission, with a thriving care sector dependent on a skilled and motivated workforce. 1.5 million people currently work in the social care sector, with an expectation that another half a million will be needed by 2035.²⁴ Our New Deal for Working People outlined a number of proposals to boost job quality in the sector, including sector-wide Fair Pay Agreements, and we will look to build on these to improve provision of skills and training.²⁵

As an 'everyday economy' sector, jobs in social care are spread across the whole country with a high-quality care sector providing good jobs in all communities.

BUILDING A RESILIENT ECONOMY

Our fourth mission will be to strengthen the resilience of supply chains in key sectors.

The events of the past few years present a clear case for such a mission. The war in Ukraine has driven up energy prices, leaving the UK set to have the highest inflation in the G7 until 2024.²⁶ Supply chain disruptions caused by the pandemic affected the supply of critical goods, and have since exacerbated inflation.²⁷ External shocks such as these are likely to become more frequent as we move into a multi-polar and crisis-prone world.

A lack of resilience can impact the entire economy. Businesses can be forced to stop or divert production when key inputs are unavailable, in short supply or become much more expensive. This can leave governments paying more to fix a problem than it would have cost to prevent it. For many goods, increased resilience against supply chain disruptions can outweigh short-term efficiency losses from developing more resilient supply chains.

And it is often the most vulnerable who suffer the most from economic shocks. For example, if shortages result in price rises for essential goods like food and energy, lower income households, who spend a greater share of their household budget on essentials, will be affected the most.

Building more resilient supply chains also presents a growth opportunity. Not only can this help the UK economy respond when there are supply shortages, but it may help the economy respond quickly to capitalise on new opportunities.

There is already evidence that some firms are taking action to diversify or shorten their supply chains.^{28 29} But broader economic resilience is not something that individual economic actors can achieve on their own, and the strategic choices it entails need to be made by government. Of course, we cannot entirely insulate ourselves from global shocks, and the UK's economic strength will continue to be derived from its openness. But the UK must take a more strategic approach to the economy to be better prepared for these shocks.

In general, government has a greater role to play in responding to extreme risks: events that may have a low probability but a high impact.

In government, Labour will set up a supply chain taskforce to review potential supply chain needs across critical sectors, which may include defence, energy, construction, medicines and food. The taskforce will assess the vulnerability of critical supply chains to extreme risks and the potential requirements of responding to these shocks.

Different solutions will be required to address different problems. Sometimes solutions can be targeted at specific supply chains: intervening to ease particular pinch points, removing barriers to supply, enabling sufficient stockpiling/storage capacity and diversifying supply, especially to make sure we are not excessively dependent on hostile states. For example, we could have built the resilience of our energy system by accelerating the rollout of renewables, maintaining sufficient gas storage and reducing our reliance on imported gas.

We will work on this with international partners, aligning capacities in key sectors with our wider nexus of alliances and security relationships. We will also advance international standards to enable supply chain diversification. As part of our commitment to make Brexit work, we will look at whether there are practical fixes to our trading relations with allies like the EU that can improve resilience and diversity of supply.

Sometimes it may be necessary to respond to shocks by redirecting existing industrial capabilities to new purposes. This highlights the importance of maintaining a strong industrial base. For example, during the Covid-19 crisis, in response to surging demand, UK distilleries started making

hand sanitiser and a variety of businesses started producing PPE. And during the second world war, car manufacturers started contributing to aeroplanes and some cotton mills were converted into gas mask factories.

Labour will set up a supply chain taskforce to review needs across critical sectors

Where there is a clear case for intervention, we will use levers such as government investment, regulation and our plan to Buy, Make and Sell more in Britain to embed resilience across the economy.

This work will be supported by Labour's plans to embed resilience thinking in government. This would include creating a new Cabinet Subcommittee on National Resilience with formal responsibility for preparedness and resilience policy, conducting an urgent review of COBRA, and appointing a Minister for Resilience within the Cabinet Office to coordinate department-wide responses.

4. PILLARS OF A PROSPEROUS ECONOMY

To articulate the different approach the state would take in different parts of the economy, we use an approximate typology of four pillars:

◆ SOVEREIGN CAPABILITIES

◆ GLOBAL CHAMPIONS

◆ FUTURE SUCCESSES

◆ EVERYDAY ECONOMY

Although the UK economy is mainly service based, we have businesses excelling across sectors including manufacturing. A modern industrial strategy should reflect that, looking across all parts of our economy and our country in order to assess where support might be best targeted. While we want all businesses to have the opportunity to contribute to our missions, we recognise that industrial strategy cannot focus equally on every sector of the economy. Alongside a foundation of horizontal economic policies that will benefit businesses across the economy, we need to understand the different types of vertical interventions that will be required to achieve our missions.

Structuring the strategy around these pillars allows it to reflect the diversity of our economy and offer a clear signal to businesses in each pillar about the type of partnership they can expect from a Labour government.

This section introduces each pillar, pointing to existing Labour policies which demonstrate the nature of partnership we believe is required in each.

Businesses in each pillar will contribute to our four industrial strategy missions and the success of our missions will rely on policy tailored to these pillars.

As an example, global champions in life sciences are leveraging health data to come up with novel treatments, while businesses in 'everyday economy' sectors like social care will be deploying them to drive quality of care. As novel uses of data are discovered, there are opportunities to grow future successes. Meanwhile, all businesses that use data rely on secure and reliable digital infrastructure – our sovereign capabilities.

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SOVEREIGN CAPABILITIES

This pillar encompasses the critical infrastructure and industrial competencies that underpin the rest of our economy. Sovereign capabilities include the foundational sectors most relevant to national economic resilience in the face of future shocks. They also include certain defence and security supply chains and the services that enable critical infrastructure.

This includes the supply and manufacture of things like food and medical equipment, and also economic activity relating to other vital areas like payments systems, cloud networks and cybersecurity systems. Defence and strategic capability play a unique role in our economy, providing both high-skilled jobs and spillover innovation, as well as supporting Britain's position on the world stage.

Unlike other sectors, sovereign capabilities require a unique type of partnership with government, one that does whatever it takes to keep our country safe and secure. These sectors will clearly play a key role in our mission on economic resilience but many sovereign capabilities will also be important to our other missions. For instance, sectors like steel are heavily energy intensive and face steep barriers to decarbonisation. Our clean energy mission will therefore involve deep and active partnerships in this pillar.

Labour will look to future-proof key foundational sectors with active and intense partnerships that reflect the pressures they face. This will often require firm-level and sector-level interventions, with joint investment and deep public-private collaboration on specific projects, as exemplified by our plan for steel.

Our plan to buy, make and sell more in Britain is a commitment to use strategic procurement as part of any industrial strategy, including for sovereign capabilities like steel and energy generation.

We will also ensure that the economic and security benefits of British ownership are adequately reflected. We will look to ensure overarching regulatory structures support sovereign capabilities and resilience, starting with our commitment to strengthen the public interest test on takeovers to provide clear and credible principles for assessing takeovers.

LABOUR'S PLAN FOR GREEN STEEL

Steel is integral to a modern economy. We cannot deliver the infrastructure transformation we will need to deliver the green economy of the future without it. And in communities across country, from Port Talbot to Teesside, Flintshire to Scunthorpe, steel has created high-paying, productive jobs for generations.

As part of our step-change in green investment, Labour government would match-fund investment in a decade-long plan to drive innovation in the sector, including in hydrogen and electric arc furnace technology. This will be combined with our energy security plan to lower energy costs and drive long-term competitiveness.

GLOBAL CHAMPIONS

We have sectors in the British economy that are the envy of the world: fintech hubs growing in places like Leeds, the booming film industry in Belfast, video game production in Dundee, chemicals production in Middlesbrough, a world-renowned financial centre in London and professional and IT services thriving in London and across the country.

Our global champions are highly productive, export intensive and create thousands of well-paid jobs. They aren't just in our cities, but in our towns and our coasts too. They are part of supply chains that stretch across the country and across the world. The UK is the 2nd largest exporter of services in the world,³⁰ although our strengths don't fall neatly into categories, with the realities of the modern economy meaning 'intangible' knowledge intensive services like design and analytics often combine and complement sectors like manufacturing.

Labour's industrial strategy will create the conditions for our global champions to thrive and our door will always be open to their policy concerns. They clearly require a different partnership than that needed for our sovereign capabilities. Our global champions need a government which creates a stable environment that allows them to thrive and grow long into the future. This includes a realistic assessment of the modern British economy, with key capabilities in tradeable business, professional, creative and financial services.



SOVEREIGN CAPABILITIES

These firms can thrive from world-class economic infrastructure, such as broadband and digital infrastructure, a tax system that incentivises investment and growth, stable trading relationships with our largest markets and access to deep and varied pools of growth finance.

Clearly these firms will play a pivotal role in all our missions; whether it's financial services firms supporting innovative data-enabled business models or life science businesses finding new innovations and treatments to support our care sector.



GLOBAL CHAMPIONS

MAKING BREXIT WORK

Labour recognises the serious problems that businesses are facing. A Labour government would take a different approach, working together in the national interest rather than seeking to re-live former battles. We have set out our plan to make Brexit work, to deliver on the opportunities Britain has, sort out the poor deal the Conservatives signed and end the Brexit divisions once and for all.

- Sort out the Northern Ireland protocol by rebuilding trust and eliminating most border checks created by the Conservatives' deal
- Tear down unnecessary barriers to trade with a new veterinary agreement for agri-products between the UK and EU and by building on agreements already in place between the EU and other countries
- Protecting the futures of our universities and science sector by securing our future participation in Horizon Europe
- Support our global champions by agreeing mutual recognition of professional qualifications
- Back our cultural industries by pushing for a visa waiver for touring artists alongside negotiating an EU-wide cultural touring agreement, – including allowances for cabotage, carnets and custom rules.
- Keep Britain safe by seeking new security arrangements with the sharing of data, intelligence and best practice



FUTURE SUCCESSES



EVERYDAY ECONOMY

FUTURE SUCCESSES

Alongside our ambitions for existing global champions, we want to cultivate new clusters of highly productive, high-paying, export-intensive businesses that support well-paid jobs. The type of partnership required for this pillar may involve an active role for the state to lay the groundwork for innovation and exploration.

We believe efforts to achieve our missions will have spillovers enabling much of this innovation and exploration, exploiting areas of existing strength and comparative advantage to create new capabilities in industries tackling climate change or driving quality in care via preventative medicine. New businesses will also help ensure we unlock the benefits of data and harness its potential for the public good.

Labour believes the UK has huge potential for new green industries to rebalance our economy, with evidence of potential comparative advantage in communities across the UK.³¹ With our world-leading research base and universities, skilled workforce and deep capital markets, the UK is well placed to create new clusters of capabilities. However, the recent past shows this will not happen without an engaged partner in government.³²

Labour will take advantage of our excellent starting point so that the UK can lead the way in the next generation of future successes in areas such as advanced materials, bioengineering, quantum computing, cleantech, cyber security, carbon capture and robotics.

Making the most of comparative advantages in new areas of tradeable goods and services requires ambitious policy on research and development, investment incentives, access to finance, technological diffusion, procurement, access to public sector data and expertise and access to export markets.

There is evidence of significant gaps in the availability of growth finance for these ambitious firms, including a lack of scale-up finance,³³ significant regional gaps in the availability of equity finance³⁴ and failure to properly deploy deep pools of institutional capital.³⁵

Our universities are an enormous asset to our country and we want to look at how we can improve collaboration between universities, businesses and local economic institutions to help foster these regional clusters, with ongoing work on economic devolution central to this.

We also know the UK economy is less research intensive than other advanced economies, with R&D spending 30% below the OECD average and nearly half the rate of the US and Germany.³⁶ R&D spending is also heavily concentrated, with 54% of R&D investment happening in London and the Greater Southeast.³⁷

Labour has set the ambitious aim of getting our R&D spend from public and private sources to 3% of GDP, above the level of other advanced economies, ensuring we can create and commercialise new knowledge to grow our economy and achieve our ambitious goals.

Similarly, our step-change in investment in clean growth sets a clear long-term signal for business about the green economy in the UK, giving domestic and international businesses the confidence and certainty they need to strike out into new markets and trial new technologies and processes.

Trade policy is also crucial as we want these businesses to carve out new export markets. It is by competing with the best from around the world that these firms stay on top of their game, interacting with and absorbing the latest technologies and business practices.³⁸

Labour's practical fixes to our trading relationship with Europe are therefore once again crucial to this pillar, ensuring our future successes have access to large global markets to grow and scale.

LABOUR'S START-UP REVIEW

Labour recognises that, despite the UK's deep capital markets, it can be hard for many innovative scale-up and start-up firms to access growth capital. This is a particular problem outside London and the Greater South East, with stubborn inequalities in access to equity and debt finance and too many entrepreneurs relying on bank loans secured on their home.

That is why we have commissioned a Start-Up Review, chaired by Lord Jim O'Neill, working with leaders and experts to examine the current challenges for high-growth businesses in the UK. The review will be given a remit to present solutions especially around patient capital, the skills, structures and incentives presented to our universities to spin out new businesses, and around how we extend opportunities to a more diverse range of entrepreneurs.

EVERYDAY ECONOMY

The everyday economy consists of the sectors people interact with most in their daily lives and those that employ most people in the UK. They are fundamentally the parts of our economy that make our lives worth living, providing the leisure activities and experiences we enjoy, the backbone of local places and high streets, and catering for our family's needs.

Much of the everyday economy is in the non-market economy - delivered either entirely by the public sector or with the public sector as the major customer. Others are straightforward market-based sectors, like retail, hospitality and leisure.

Evidence suggests the UK's market-based everyday economy is less productive than our international peers, with these sectors not living up to their true potential.³⁹ The UK's weak labour market regulation and enforcement has contributed to this, creating incentives for some firms to operate inefficient, precarious workforces and compete by cutting costs rather than investing.⁴⁰

Labour has already set out our plans to strengthen regulation and modernise our labour market through our New Deal for Working People. We believe this will play an important role in boosting productivity and tackling low pay in the everyday economy, ensuring businesses that invest in technology and their workforce can't be undercut by those that drive down standards.

Labour's plans to reform business rates will breathe new life into the everyday economy on our high streets by taking excessive burden off small brick-and-mortar businesses.

The challenges in these sectors also require policies on technological diffusion, management practices and investment incentives. Some of these factors will benefit from spillovers from our missions, with investment and new business models in data and digital holding the potential to boost pay and productivity in sectors like retail.

The UK is comparatively poor at technological diffusion – ranked 38th in one analysis – meaning that good ideas and technological innovation are not spread to all parts of the economy.⁴¹ Similarly, there is evidence that we underperform when it comes to management practices, with UK SMEs less likely to adopt best practices than our international competitors.⁴²

Skills are also key for firms that typically provide labour intensive, face-to-face services. These firms rely on their human capital, and are likely to have been disproportionately hit by the 50% drop in Level 2 and 3 qualifications that are more common in these sectors.⁴³

Our care mission is intimately connected to parts of the everyday economy - especially social care. The care sector is projected to employ increasing numbers in the long term and central to ensuring dignity in aging is driving standards, pay and skills in the care sector. A strong, high quality care sector is also crucial to supporting families and removing barriers to employment, particularly among women.

REFORMING SKILLS

We are acutely aware of the skills shortages facing businesses across our pillars, with workers too often trapped in low-paid, routine work without a chance to progress. Labour's Council of Skills Advisors is looking at how the skills system can work better for workers and employers.

Transformation in skills and training will be essential to meeting the economic challenges we face and enabling people at every stage of their lives to learn, retrain and progress in work. Working with businesses and training providers Labour will reform the apprenticeships levy to enable young people and older workers gain skills, learn and retrain.

This will build on Labour's commitment to embed essential digital and life-skills across the school curriculum, developing teamwork, communication and problem-solving skills that are fundamental to employment. Labour will build a modern careers advice and work experience system; starting with recruiting over 1,000 careers advisors to ensure young people at school and college receive professional careers advice and a minimum guarantee of two-weeks work experience helping young people to leave education ready for work and for life.



Strong foundations for all businesses

These four pillars provide an approximate typology that will guide the kinds of levers we'll use to achieve our missions. Underlying this, we need an effective and consistent set of 'horizontal' policies that set the basic conditions for doing business.

These include things like skills, tax, corporate governance, devolution, procurement, and competition policy. Outlined below are some of the principles we have set out in these areas.

Business taxation

The tax system is not the only influence on businesses investment decisions, but it is an important factor.

Far more important than changes to the headline rate of corporation tax are targeted tax measures that support investment. When well-designed to ensure only genuine investment is covered, such measures can be a cost-effective way of stimulating investment.

Labour will replace Business Rates with a new system of business taxation that would better balance the burden between our high streets and the biggest online and digital firms, and would not penalise entrepreneurship and investment as the current system does.

Corporate Governance

We will also look at corporate governance rules to consider how long-termism can be embedded in the UK's regulatory structures, while ensuring the interests of all stakeholders are considered, including workers, communities and the environment. Part of that is about recognising the variety of progressive business models, such as co-operatives and social enterprises, that are thriving in our economy. Labour wants to work with

business leaders to create an environment where all types of businesses can flourish.

Devolution

Local economic institutions are an important part of the institutional environment within which businesses operate. Greater economic devolution will support the success of this industrial strategy, allowing local leaders to bring local knowledge to bear and tailor economic policy to support growth and drive forward our missions.

Labour has tasked Gordon Brown with developing proposals for meaningful economic devolution and we believe these proposals will play a crucial role in delivering this strategy.

Procurement

Public procurement can also be used as a strategic policy lever to support economic growth and contribute to our missions. Labour has set out plans to help British businesses win more government contracts, using stretching social, environmental and labour clauses in contract design to ensure British businesses are recognised for the high standards they meet.

Competition

Competitive markets are vital to long-term economic prosperity – driving innovation and promoting higher quality goods and services. But there are signs that competition has been weakening across the UK economy, with mark-ups rising from just over 20% in 2008 to around 35% in 2020.^{44 45}

Labour will therefore ensure our competition regime remains robust and fit for the modern economy. This includes developing a pro-competition regulatory regime that addresses the novel challenges posed in digital markets. But the CMA's research highlights how competition could operate more effectively across the whole economy, including the everyday economy.



PUTTING THIS INTO ACTION

This ambitious plan is only the first step in Labour's goal to embed a mission-led industrial strategy into the economic landscape of the UK, but it shows the scale of the challenges and opportunities that lie ahead for our country.

The UK can and must own the future. Our challenges are great, but they are matched by our ambition and talents as a nation.

The jobs of the future are being decided today. Labour wants those jobs, skills and economic growth to be in Britain but warm words are not enough.

Labour has outlined our missions: delivering clean power by 2030, caring for the future, harnessing data for the public good and building a resilient economy.

We will achieve those through adopting a different approach and policy levers across the four pillars of our economy: sovereign capabilities, global champions, future successes and the everyday economy.

Progress towards achieving these missions will be assessed by an independent statutory Industrial Strategy Council with an advisory board drawn from business and trade unions to ensure our economic future is not left to the whims of a political cycle.

As we head into a general election Labour will continue to outline the policy levers we will adopt to achieve these missions and we will continue to consult business and trade unions on the role a modern industrial strategy can have in their sector.

Achieving prosperity through partnership is the key economic goal of the next Labour government and we look forward to achieving it together.

*Labour has outlined
our missions:
delivering clean power
by 2030, caring for
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