



# Research Institute - Insight

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#UK

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#Politics

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#Industrial policy

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## What would Labour do? 1. Green industrial policy

A potential future Labour government would make green industrial policy a big part of its programme. While early ambition will be tempered by economic reality and execution risks are high, a Labour victory at the next general election would likely mean government investment in the sector increases.

### Key Takeaways

- The UK Labour Party has been consistently ahead in the polls for the last 18 months. Given the current economic and political environment, our base case is that it forms the next government.
- This is the first in a series of *Insights* considering what a potential Labour government would do, and what this would mean for the economy and markets.
- We start with Labour's approach to green industrial policy, where its policy platform is most developed. Influenced by the approach of the Democrats in the US, Labour's strategy seeks to leverage government investments and subsidies for decarbonisation and green energy to crowd-in wider private sector investment in domestic manufacturing.
- The Party has said it will spend £28 billion per year on green projects by the middle of the next parliamentary term. While this is likely to be revised down in time, it would still represent a huge increase in spending compared to the roughly £8 billion spent per year now.
- Labour's ambition comes with risks. Most notably, the breadth and speed with which it hopes to act will leave it vulnerable to driving funding towards inefficient or unviable emerging technologies. Without further amendments to its plans, Labour is unlikely to be able to deliver all its commitments on time.
- Nevertheless, opportunities for private sector investment in renewable energy and decarbonisation projects will likely increase alongside greater government investment.

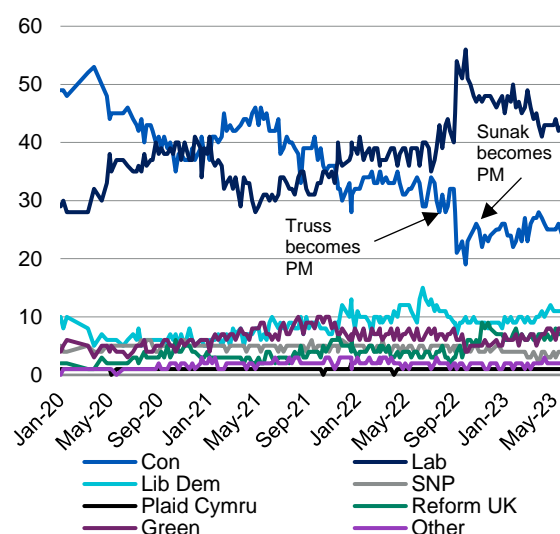
### Labour looks set to form the next government

Labour's lead in the polls has now been consistent for 18 months, making a Labour-led government our base case following the next election (see Figure 1).

As such we will assess the key policy priorities as set out by the party through a series of *Insights*, and explore what they mean for the economy and investors.

Given the importance of green industrial strategy to Labour's overall economic plan, we start our series from there.

**Figure 1: Changes in the Conservative leadership have failed to significantly alter voting intentions in the UK**



Source: Yougov, abrdn, July 2023



## An ambitious green industry plan has economic and political appeal to Labour

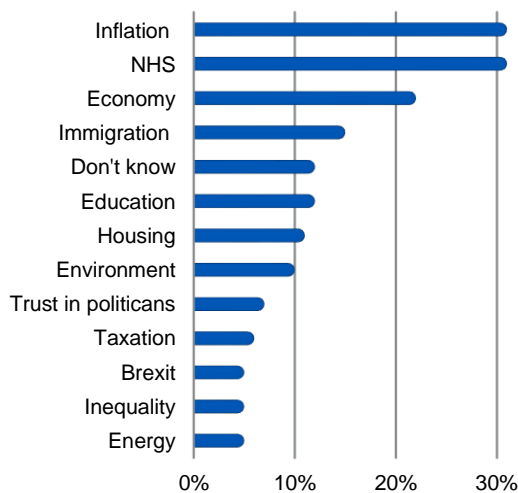
In June, the Labour Party launched its Green Prosperity Plan, setting out its investment plans for green industry should it enter government.

This is arguably the centrepiece of Labour's economic agenda, and its importance is reflected in the scale of the proposals, which currently make up the party's largest single funding commitment.

This is an attempt to address the priorities of two key parts of its voter base. First, by highlighting its commitment to meeting net-zero targets through investments in renewable projects, it aims to appeal to its core voters, for whom environmental issues are a priority. Second, by focusing on invigorating the UK's manufacturing base, it aims to draw back voters in industrial heartlands who had moved towards the Conservatives in recent elections.

Polls however show that the economy remains a significantly greater priority for voters than the environment (see Figure 2). As a result, Labour will continue to focus on portraying its green industrial policy as a 'jobs first' plan, with net-zero targets a secondary factor. This is not a new approach but is one the party believes will chime better with voters, particularly swing voters, at the next election.

**Figure 2: The economy is a far greater factor than the environment in determining people's vote**



Source: Ipsos, abrdrn, July 2023

### Scale will be tempered by economic reality

However, we think Labour is likely to compromise on the scale of its proposals to retain voters' trust in their ability to deliver on promises. This is because the key priority of the Shadow Treasury team is to avoid spooking the electorate.

The Party will likely use the negative economic outlook to argue that their original plans are no longer viable, and announce cuts to its planned investment in green industrial projects in the run-up to the next election.

Labour has already done this once, scaling back its original pledge of spending £28 billion per year on green industrial projects from the start of the parliamentary term to doing so only from the middle of the term. And Shadow Chancellor Rachel Reeves will be comfortable doing so again, believing voters will appreciate realism over an over-optimistic policy platform.

This makes it more likely that Labour will turn to the private sector to make up the funding shortfall to enable it to meet its headline commitments.

### Labour's broad-brush approach currently aims to support all aspects of green industry

Labour's plan currently covers a wide array of decarbonisation, insulation, and green energy commitments. Narrowing this focus may be a way in which it can reduce the costs of its proposals, but Labour will continue to have a substantially broader approach to state intervention than the Conservatives.

This strategy carries risks, particularly in relation to the efficient allocation of capital to emerging green technologies. While the Conservatives have been accused of doing too little to support British competitiveness in these areas, Labour risk doing too much.

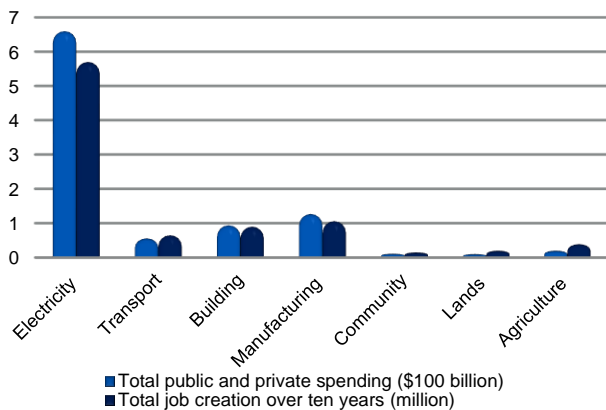
Currently, its key policy commitments are:

1. Establishing GB Energy, a publicly owned, clean energy-generation company, designed to co-invest in emerging energy technologies alongside the private sector;
2. Utilising a new National Wealth Fund to deliver clean energy and decarbonisation projects including £1.8 billion for port decarbonisation, £2 billion for battery infrastructure, £500m for green hydrogen projects and £1 billion for industrial decarbonisation;
3. Launching a warm homes plan aiming to upgrade insulation in 19m homes over a ten-year period.

Like the Democrats in the US, the key to Labour's strategy is to leverage decarbonisation and green energy generation as a way of reinvigorating domestic manufacturing and job creation. Labour will be hoping that its policy, like the US Inflation Reduction Act (IRA), will be able to stimulate private investment and job creation (see Figure 3).



**Figure 3: Investment and job creation estimates for the IRA show the potential of leveraging industrial policy to stimulate private investment**



Source: Political Economy Research Institute, abrdn, July 2023

### The delivery of such ambitious plans comes with clear execution risks

Labour has committed to establishing the building blocks of its Green Prosperity Plan within the first year of entering government. This includes setting up the National Wealth Fund, GB Energy and launching the planning reform and the warm homes plan.

This is a huge amount of work on its own without also considering all of Labour's other plans for its first year in office.

Successful delivery of its policy will depend on its ability to pass legislation quickly through Parliament (and hence the size, and indeed existence, of any Labour majority will matter) and ensuring inexperienced ministers are supported with a strong advisory team with the right commercial knowledge to ensure Starmer's vision of public-private partnerships can become a reality.

The timeframe for delivering such a comprehensive policy agenda is extremely ambitious, particularly for a party that has been away from government for so long. Only two members of the shadow cabinet have experience of running a government department, serving less than two years

before losing the 2010 General Election. The learning curve will be steep and the potential for timings to slip is high.

### Where will the money come from?

Details on how Labour will meet the cost of its Green Prosperity Plan is so far thin on the ground, particularly given its "non-negotiable" fiscal rule of ensuring debt as a percentage of GDP is falling by the end of the parliamentary term.

To achieve the economic credibility Labour is keen to have by the next election, it will need to flesh out the details of how the policy costs will be met, and soon.

Some options will be to increase windfall taxes on oil and gas revenues, as well as deliver some of the funding in the form of private sector commitments facilitated by the government, rather than direct government funding.

Shadow City Minister Tulip Siddiq has also said that Labour is developing plans to alter regulations for the covered bond market to include green infrastructure, with the aim of securing £10 billion a year for green investment projects.

### Competition from the US and Europe will complicate Labour's vision

Labour has been strongly influenced by 'Bidenomics' but would be implementing its own version of a more active industrial policy at least four years behind competitor markets. The 2022 US Inflation Reduction Act and the subsequent 2023 EU Green Deal Industrial Plan will be well established by the time Labour will be able to set its own policy in motion.

There are risks that years of avoiding interventionist industrial policy leave the UK in a position where the scale of private capital it needs to compete is utilised elsewhere, leaving its green industries unable to make up lost ground.

The Labour Party believes catching up is possible while the Conservatives believe the UK's green industries will remain competitive regardless. But the plans of both parties for green industries do not exist in a geopolitical vacuum, and will face challenges to gain the confidence of the private sector at the next election.

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