Rachel Reeves' annual Mais lecture on 19th March 2024

To look back over past Mais Lectures is not just to survey the thoughts of the key figures in British economic policymaking over four and a half decades. It is to trace the shifting contours of conventional economic thought. To grasp how crises have forced its re-evaluation. To appreciate how the challenges confronting policymakers have changed over time – and how, in important respects, they have stayed the same.

When the governor of the Bank of England, Gordon Richardson, delivered the very first Mais Lecture in February 1978 describing a 'historical juncture when the conventional methods of economic policy are being tested' he spoke in the context of a Britain plagued by high inflation, rising unemployment, dysfunctional industrial relations, and recurrent balance of payments crises. A Britain wracked by a sense of perpetual crisis and decline.

What I want to argue today is that, as in the 1970s, we are in a moment of flux; in which old certainties about economic management have been found wanting, the economic mainstream is adapting, but a new political consensus has yet to cohere. Once again, we have found ourselves in a moment of political turbulence and recurrent crises with the burden falling on the shoulders of working people – with at its root, a failure to deliver the supply side reform needed to equip Britain to compete in a fast changing world.

I suggest that the answer today is an economic approach which recognises how our world has changed. Building growth on strong and secure foundations, with active government guided by three imperatives:

First, guaranteeing stability. Second, stimulating investment through partnership with business. And third, reform to unlock the contribution of working people and the untapped potential throughout our economy.

The challenges we face now are perhaps even more acute than those which Richardson described half a century ago. The central challenge is our growth performance. Last month, the Office for National Statistics confirmed that the UK entered recession at the end of last year.

But this is just the latest chapter in a longer story of economic decline. Since 2010, Britain's GDP performance has hovered in the bottom third among the 38 OECD countries. To put into perspective, if the UK economy had grown at the OECD average over the past decade, it would be £140bn larger today, equivalent to £5,000 per household, an additional £50 billion in tax revenues.

What we are facing today is decline of a materially different sort to that which preoccupied British policymakers in the past. In the 1960s and 1970s, governments grappled with questions of productivity, investment and how to pay Britain's way in the world, in a context of economic convergence, in which British decline was relative – a result not of British failure but the catch-up success of other Western European economies. Today, as the historian Adam Tooze suggests, we are in a moment of deconvergence, trailing and falling further behind our counterparts.

This has had serious consequences for living standards, with real household disposable income set to be lower at the end of this Parliament than it was at its beginning. Today, the average British family is ten percent worse off than their French counterparts and a full twenty percent worse off than their German counterparts.

At root, productivity remains the key medium-term determinant of wages. It is the collapse in our productivity growth which explains our wage stagnation.

What is demanded is a fundamental course correction. The stakes have rarely been higher. Not only for the living standards of working people; not only for Britain's competitiveness in a fast-changing world – though both are at stake. But also for the health of our democracy.

As Joan Robinson understood when she wrote sixty years ago, economics is not just about quantitative models and abstract theory – it is about values, rooted in political, philosophical and moral questions, about human nature and the good society. Robinson's thinking finds powerful echoes today, in Mark Carney's warning that economic policymaking has become detached from values broader than those of competition and efficiency – even while competitiveness and efficiency deteriorate, and in the Australian Treasurer Jim Chalmers' call for a values-based capitalism.

The political economist Karl Polanyi who came to Britain from Austria as fascism rose in the 1930s wrote of the tendency of market economies that become disembedded from their societies to undermine the conditions for growth and provoke powerful political counter-movements of both left and right. Polanyi's insights remain prescient.

Because when mainstream politics cannot offer the answers to our predicament; when vast swathes of Britain are written out of our national story; when hope for the future is allowed to wither, and decline becomes a self-fulfilling prophecy; then we know the result. We see it all across the world: the rise of populists who offer not answers but recriminations.

My argument today is this: a new model of economic management is needed. Because a model based on the pursuit of narrow-based, narrowly-shared growth – with ever-diminishing returns – cannot produce adequate returns in growth and living standards, and nor can it command democratic consent.

I want to make this argument in three parts. First, to place our economic challenges in context. Second, to outline the contours of an alternative approach – an approach that builds growth on strong and secure foundations; the only viable strategy for growth in today's world. And third, to set out the pillars of that approach.

There is no single cause for our present plight.

Jonathan Haskel has demonstrated how our productivity slowdown in the 2010s was driven by a slowdown in total factor productivity. And when we compare ourselves to our faster-growing competitors, it is clear that we have been underperforming across all the factors of growth.

Weak investment, with Britain alone among the G7 in having investment levels below 20 percent of GDP. Low levels of basic skills, gaps in technical and vocational education, and comparatively poor management capability. Vast regional disparities, with all of England's biggest cities outside London having productivity levels below the national average. And, particularly since the pandemic, a significant weakness in labour supply, with 700,000 more people economically inactive.

We have an accumulation of problems.

First, there are long-standing weaknesses, which generations of politicians have struggled to address. It is not enough simply to point to these failings. We must confront their underlying institutional, cultural and political causes.

Second, there are the products of political and policy choices made over the last fourteen years, and of the instability that has accompanied them. Like the stop-go cycle of capital investment – the new 'British disease' – in which short-term instability inhibits investment and drives up infrastructure costs, resulting in fewer, and smaller, new capital projects. And a rushed and ill-conceived Brexit deal that has brought further disruption, with the Resolution Foundation estimating that new trade barriers are equivalent to a 13 and 21 percent increase in tariffs for our manufacturing and service sectors respectively, and the OBR finding that long-run GDP is expected to be 4 percent lower as a result of the government's Brexit deal.

And third, those structural vulnerabilities, and that political instability, have been exposed and exacerbated by our move from the great moderation into an age of insecurity, marked first by stalling growth, stagnant living standards and political turbulence and increasingly by global shocks, escalating geopolitical tensions, and the challenges of climate change and the net zero transition.

Let me put this in some perspective. In 1984, Nigel Lawson's Mais Lecture offered one of the clearest expositions of the economic thought which underlay what he called 'the British experiment'. His central contention was that the proper roles of macro and microeconomic policy were the exact reverse of the post-war accepted wisdom. That the primary role of macroeconomic policy was not, as it had once been, the maintenance of full employment but the control of inflation. Responsibility for growth and employment then, in Lawson's formulation, was the responsibility of microeconomic policy.

The reality is: Lawson failed to follow the logic of his own analysis, stoking an inflationary boom at the end of that decade, which was followed by a deep recession in the early 1990s.

But today it is evident that Lawson was wrong not only in application but in theory. First, because his microeconomic reforms were hitched to an inadequate view of the appropriate policy levers, assuming that the state had little role in shaping a market economy and that the people and places that matter to a country's success are few in number.

The outcome was an unprecedented surge in inequality between places and people which endures today. The decline or disappearance of whole industries, leaving enduring social and economic costs and hollowing out our industrial strength. And – crucially – diminishing returns for growth and productivity.

But today, we can see the shortcomings in Lawson's analysis on the other side of the equation too. Because in a world that has been repeatedly shaken by supply-side shocks, it is inadequate to see the fight against inflation as a matter for macroeconomic policy alone. Our resilience in the face of shocks brings microeconomic policy – in questions of energy security, our domestic productive capacity and the strength of our supply chains – to the fore in the fight against inflation.

For a decade, the last Labour government offered stable politics alongside a stable economic environment. In New Labour's analysis, growth required on the one hand macroeconomic stability, a on the other supply side policies to enhance human capital and spur innovation. What followed was a decade of sustained economic growth, stability, and rising household incomes. Average household disposable income rose by 40 percent. Two million children and three million pensioners were lifted from poverty. Public services were revitalised.

But the analysis on which it built was too narrow. Stability was a necessary, but not a sufficient condition to generate private sector investment. An underregulated financial sector could generate immense wealth but posed profound structural risks too. And globalisation and new technologies could widen as well as diminish inequality, disempower people as much as liberate them, displace as well as create good work.

Economic security was extended through a new minimum wage and tax credits, but our labour market remained characterised by too much insecurity. Despite sustained efforts to address our key weaknesses on productivity and regional inequality, they persisted, and so too did the festering gap between large parts of the country and Westminster politics. Most of all, the 'great moderation' could not last. And as the global financial crisis unfolded, these weaknesses were exposed.

Since 2010, economic policymaking has been characterised by two major failings. First, austerity, then instability. Austerity: the decision, in the context of historically low interest rates and slack in the economy, to sharply tighten fiscal policy. Not only did it do severe damage to our social fabric and to our public services, but at a time when government could borrow and invest more cheaply than at almost any previous point, the failure to do so was an act of historic negligence. Not just wrong in the short-term, macroeconomic sense, but also a failure to grasp a unique opportunity to undertake much-needed investment in our productive capacity. Investment was suffocated. Our supply-side weaknesses – in terms of both human and physical capital – were exacerbated.

The so-called 'mini budget' – with its programme of unfunded tax cuts, amidst a concerted attempt to undermine our independent economic institutions – dramatically changed the fiscal circumstances in which we must operate. In October 2021, the Bank of England base rate was 0.1 percent. In little over two years, that has risen to 5.25 percent. In October 2021, the OBR forecast that net debt interest would cost £29 billion this year. They now expect that cost to be £82 billion.

These changed circumstances explain the decision that Keir Starmer, the Shadow Cabinet and myself recently reached over the scale of government spending attached to Labour's Green Prosperity Plan, to strike the necessary balance between the imperatives of the energy transition and the real economic constraints we face.

Honestly, I don't want to make this a party political speech any more than you want me to, but nor would it be right or honest to downplay the impact of the upheavals of recent years. Five Prime Ministers. Seven Chancellors. Twelve plans for growth. Institutions undermined. Decisions ducked and deferred. That political instability has fuelled economic instability and deterred investment.

That brings us to our own historical juncture: On top of a decade of weak growth and stagnant living standards, the coexistence of stagnation and inflation; significant pressure on government borrowing; caused by, and exacerbating the urgent need for, overdue supply-side reform. An economy lacking resilience in the face of shocks, with public services at breaking point, and one in three working-age families having less than £1,000 in savings to fall back on.

It is not only the failings of the past however, but the uncertainties of the future, which necessitate a new approach. Let me explain.

In 2000, I graduated from university and began my career at the Bank of England. The Cold War had ended a decade earlier. The 'great moderation' was underway. We appeared to be entering a moment of unprecedented economic expansion and geopolitical stability, underpinned by the promise of ever-closer global economic integration.

Today, the world looks very different. Gordon Brown called the 2008 financial crisis 'the first crisis of globalisation'. We can now see that the financial crisis marked a more fundamental shift: the onset of a new age of insecurity.

There are myriad causes and symptoms of this age of insecurity but let me stress three in particular.

First, shifting geopolitical dynamics, as we move from a post-Cold War, unipolar world, to one of unbalanced multipolarity, where China looms large on the world stage and Russia is asserting itself more than it has in three decades. War in Ukraine and the Middle East threatens to spill across borders. The impact of Houthi missile attacks in the Red Sea shows how, inescapably, questions of defence and security are entangled with economic ones.

Second, rapid technological change. Generative AI has the potential to bring about revolutionary improvements in the way we live, but also the threat of profound disruption to labour markets and the distribution of income, wealth and opportunity between people and countries.

And third, the climate crisis. The energy transition presents great opportunities – improved resilience, lower energy costs, jobs and growth from new technologies – for those swift to grasp them. But even in the best-case scenario, we know the world will face dramatically intensified competition for food, energy and water, affecting trade patterns and displacing populations. We have already seen shortages on our supermarket shelves as a result of droughts, storms and rising temperatures. More will follow. We know too – as the Office for Budget Responsibility has argued – that the future costs of failure to address the climate crisis will far outweigh the cost of action today.

As disruptions have multiplied, and governments around the world have taken steps to strengthen their own self-sufficiency it has become evident that globalisation, as we once knew it, is dead. That is not to say we live in a less interconnected world, as each crisis sends tremors along supply chains that span continents. Nor to pretend that the laws of economics have gone into reverse; or to deny the role of free trade in lifting billions of people from abject poverty. But it is to say that, in a more dangerous world, we must be clear-eyed about where trade-offs exist, and strategic about the directions in which we choose to deepen our economic relationships.

We can no longer indulge complacency. A growth model reliant on geopolitical stability is a growth model resting on increasingly shallow foundations.

The task then is to build for growth on strong foundations – broad-based, inclusive, resilient, and anchored in the realities of a fast-changing world.

Let me be unambiguous: there is no viable growth strategy today which does not rest upon resilience for our national economy and security for working people. No trade-off between a more secure and resilient Britain, and a more dynamic Britain.

The onset of this age of insecurity has returned to the fore issues commonly ignored in a world of floating exchange rates, but which would be very familiar to politicians of earlier generations. Questions of how Britain can pay its way in the world; of our productive capacity; of how to drive innovation and diffusion throughout our economy; of the regional distribution of work and opportunity; of how to mobilise investment, develop skills and tackle inefficiencies to modernise a sclerotic economy; and of energy security.

Indeed, in recent years, we have paid the price for neglecting our energy security – with households and businesses left acutely exposed to a terms of trade shock, and its inflationary consequences.

In a changing world, Britain has been behind the curve.

We have seen the cost of neglecting the delicate balance between flexibility and security; between the allure of just-in-time production and the demand for resilience; and of turning a blind eye to where things are made and who they are owned by.

The philosopher Bernard Williams wrote of the ‘first political question’ – ‘the securing of order, protection, safety, trust, and the conditions of cooperation.’ The ‘first’ political question, ‘because solving it is the condition of solving, indeed posing, any others.’ That question pertains not just to the size of our military or the strengths of our borders, but to economics too.

Now, you might ask: doesn’t ‘economic security’ imply a denial of ‘risk’, the motor of innovation and entrepreneurship? So let me say this. Without the promise of stability, how can business invest with confidence? Without security, how can we ask an entrepreneur to take the plunge and start a new business? Without a safety net to fall back on, how can we expect an ordinary person to retrain, take a new job or change career?

When change increasingly appears disruptive and the future darkly uncertain, there is a natural urge to recoil from change and seek shelter from the future altogether. Securonomics is about providing the platform from which to take risks; not to retreat from an uncertain future, but to embrace change and the opportunities it brings with clarity of purpose and stability of direction. To know that people can stand and fall on their own merits, not on the basis of events far beyond their control.

But what does it mean to translate that idea into political and economic reality?

It means embracing the insights of an emergent economic consensus. The Harvard political economist Dani Rodrik speaks of a new ‘productivist paradigm’. The US Treasury Secretary Janet Yellen has branded the Biden administration’s agenda ‘modern supply side economics’. Across the world, related ideas appear under different banners. I use the term ‘securonomics’.

Governments and policymakers are recognising that it is no longer enough, if it ever was, for the state to simply get out of the way, to leave markets to their own devices and correct the occasional negative externality. Recognising that the security and prosperity of working people is integral to the strength, dynamism and legitimacy of a market economy. And recognising too the dangers of what Rodrik terms ‘hyperglobalisation’ – because to pursue ever closer global economic integration as an end in itself, not as a means to domestic prosperity, is economically naive and politically reckless.

I know there will be those – perhaps some of them are even in this room – who worry that this argument is to embrace protectionism and to retreat from the world. So let me be exact. The truth is, in recent years, we have become at once too open – too exposed to global disruption – but also too closed to global trade. Queues at our ports, empty shelves, soaring prices, and red tape holding our exporters back.

Trade increases competition, aids the diffusion of technologies, and it allows for gains from specialisation and comparative advantage. That basic reality hasn't changed. This is not a question of retreating into fortress Britain – indeed, success will rest on forming new bilateral and multilateral partnerships, and forging a closer relationship with our neighbours in the European Union. We want to make it easier to export and import. But we must strike the appropriate balance between openness to global trade and resilience at home, acknowledging the centrality of trade to our prosperity, our competitiveness, and our supply of consumer goods but appreciating that there must be red lines – things for which we should not rely on states whose interests conflict with our own.

This is not only a matter of expanding our domestic productive capacity, but of forging stronger and more diverse supply chains for critical technologies. As other countries build up their own homegrown industries and forge new strategic partnerships, to prevaricate – to cling to old dogmas – is to fall behind.

There is a political reality to this too. With populists and protectionists the world over offering false solutions to vast and complex problems then the only defence of an open society and a trading economy is an approach which tackles the grievances on which they prey at root.

A new Washington consensus is taking shape. I believe it is in our interest to embrace that consensus. But today Britain is little more than a spectator.

Our ability to embrace that consensus will depend on an active state. There are those who warn that to embrace the active state is to return to the big state: to the top-down, Whitehall-knows-best government of the past. So again – let me be precise about what I mean.

The reality is we are already stumbling blindfolded into an era of a bigger state, the unavoidable corollary of sticking plaster politics. The inevitable response when disruption hits an economy with depleted resilience, inadequately prepared for shocks, its public services overstretched, its government unprepared. Securonomics advances not the big state but the smart and strategic state.

And to those who assume that industrial strategy amounts only to the state picking winners and propping up uncompetitive industries, let me explain. This is to misunderstand what a modern industrial strategy looks like. It is not the crude model of the state directing industrial development and correcting externalities as seen from the centre, but instead an approach that recognises the informational and capacity constraints of government, working in genuine partnership with business to identify the barriers and opportunities they face. Working together to form an assessment of the industries which will be critical in determining our future – across our broad based services strengths and our manufacturing specialisms, and being strategic about our real choices and our limits. Accepting that a country the size of Britain cannot excel at everything. Acknowledging those sectors in which we enjoy – or have the potential to enjoy – comparative advantage and can compete in a global marketplace; those sectors where strategic concerns might shape our approach; and those sectors where we must rely on others.

There are no easy answers, no quick fixes, no short cuts here. What is demanded is a decade of national renewal, shaping the institutional architecture of the British economy in the direction of mission-led government. And the most central mission of all: to restore the economic growth essential to meeting all Labour's ambitions in government.

When I hear it questioned whether sustained growth of the sort that characterised our twentieth century history is achievable, even whether it is desirable – when people ask, why do we focus on economic growth? It is because I believe two things.

First, that it is through growth and only through growth that we can sustainably resource strong public services, raise living standards, and compete internationally. Growth, ultimately, is what generates higher living standards for households, raises incomes, lifts people out of poverty, and gives people more choices about how to lead a good life. And second, that the idea of a trade-off between the strong economy and the good society is a mirage that belongs in the 1980s.

I see Britain's potential wherever I go, in our fantastic creative industries, our world-leading professional and financial services, and in pioneering work in general purpose AI and other digital technologies, in life sciences, and renewable energy – happening right here in the UK. There is no one-size fits all approach – different sectors have different needs, and face different barriers. But if we can get the policy right, then the rewards are immense.

That must begin with getting the institutional framework right, and enshrining that core growth mission within our economic architecture.

In 1997, the last Labour government established the Treasury's Enterprise and Growth Unit, squarely focused on driving economic growth. It was a source of important policy ideas, including the reform of competition law and the creation of a longer-term science funding framework. However, as the Institute for Government noted last month, that Unit is underpowered, its influence diminished compared to twenty years ago. And crucially it is not involved in the management of fiscal events.

So we will build on that success, hard-wiring growth into budget and spending review processes, with a reformed and strengthened Enterprise and Growth Unit embedded in the existing fiscal event process.

I want to use the rest of this lecture to set out the three pillars of a strategy for broad-based and resilient growth. Growth that we can achieve. Growth that we must achieve.

First, stability – the most basic condition for economic security and international credibility.

Second, investment – fostered through partnership, between dynamic business and strategic government.

And third, reform – to mobilise all of Britain's resources in pursuit of shared prosperity.

So first, stability. If we want to see businesses invest, if we want to build economic growth on strong foundations, then it will rest on stability.

In a world of unparalleled complexity and uncertainty, it is institutions which can provide the stability of direction, coordination, and appropriate incentives for sustained economic success. For much of our history, the strength of our institutions has bestowed credibility in international markets and underpinned our economic success. Politicians who undermine those strengths are playing a dangerous game.

So let me begin with the Bank of England. The Bank's Monetary Policy Committee must continue to have complete independence in the pursuit of its primary objective of price stability. And, just so there is no doubt about this: a Labour government will retain the 2 percent inflation target, while the Financial Policy Committee will continue with its core objective of financial stability.

But monetary policy and financial regulation cannot stand still, in the face of new risks, not least those posed by climate change. The European Central Bank's Isabel Schnabel has set out the implications for monetary policy of climate change: in losses that could translate onto the balance sheets of financial institutions and reduce the flow of credit; in impacts on labour productivity and health-related inactivity, which could lower the equilibrium real rate of interest and constrain the space for conventional monetary policy; and through the impact of supply side shocks on prices. Given the onus to mobilise investment to achieve our energy transition, these challenges are especially acute.

Macroeconomic policy has an important role to play in our climate transition. Labour has already set out plans to require financial institutions and FTSE 100 Companies to publish their carbon footprints and adopt credible 1.5-degrees-aligned net zero plans, and to push ahead with a UK Green Taxonomy.

Tonight, I can say more. I disagree with the current Chancellor's decision to downgrade the emphasis put on climate change in the remits for both Bank committees. So the next Labour government will reverse these changes, at the first opportunity. Because there can be no durable plan for economic stability and no sustainable plan for economic growth, that is not also a serious plan for net zero.

Bank of England independence reflected an understanding that politics will always present the powerful temptation to pursue macroeconomic policies that may not be in the medium-to-long term national economic interest – and that without the ability to credibly pre-commit future policy choices, this creates an inflationary bias – as the Barro-Gordon model showed. Similar logic applies to the concept of deficit bias. Politicians may be tempted to put off necessary fiscal decisions, or ignore the long-term consequences of policy choices.

It remains true, as Gordon Brown understood, that, in a modern economy, 'the discretion necessary for effective economic policy is possible only within a framework that commands market credibility and public trust.' That is especially true if government is to be able to take urgent, discretionary action when crisis strikes.

So we will strengthen the Office for Budget Responsibility, with a new fiscal lock, guaranteeing in law that any government making significant and permanent tax and spending changes will be subject to an independent forecast from the OBR. And we will not waver from strong fiscal rules.

So let me be clear about the rules which will bind the next Labour government. That the current budget must move into balance, so that day-to-day costs are met by revenues. And that debt must be falling as a share of the economy by the fifth year of the forecast, creating the space to respond to future crises.

I will also ask the OBR to report on the long-term impact of capital spending decisions. And as Chancellor I will report on wider measures of public sector assets and liabilities at fiscal events, showing how the health of the public balance sheet is bolstered by good investment decisions.

The UK has changed its fiscal rules more frequently than any other OECD economy, with the average lifespan of less than four years. That has contributed to instability and uncertainty. So I will end the practice of the Chancellor being able to scrap the rules at any time, with an escape clause that would only suspend the rules if the OBR declared the UK was in an economic crisis.

Let me be candid. We cannot continue with the short-termist approach that disregards the importance of public investment. But we also cannot ignore the pressing need to rebuild the UK's public finances, to increase our space to respond to future shocks. That is why our fiscal rules differ from the government's. Their borrowing rule, which targets the overall deficit rather than the current deficit, creates a clear incentive to cut investment that will have long-run benefits for short-term gains. I reject that approach, and that is why our borrowing rule targets day-to-day spending. We will prioritise investment within a framework that would get debt falling as a share of GDP over the medium term.

Business needs stability too in the tax system. And for too long our politics has militated against that. So the next Labour government is committed to a single autumn budget every year; to the publication of a roadmap for business taxation, covering the duration of the parliament, within its first six months; and capping corporation tax at its present rate of 25 percent – the lowest in the G7 – throughout the next parliament, to ensure that businesses can plan investment projects today, with the confidence of knowing how their returns will be taxed for the rest of this decade.

First, stability; second, investment. Investment, through partnership.

It is not within government's gift alone to reinvigorate our faltering levels of investment. The lifeblood of growth is business investment. Nevertheless, a strategic state has a crucial role to play.

Partnership for investment will be embodied in a new British Infrastructure Council, which I have established in shadow form with representatives from some of the biggest UK and global investment funds – and in a revived and strengthened Industrial Strategy Council, placed on a statutory footing.

A modern industrial policy must be strategic, and it must be selective. Selective, because we cannot do everything and nor should we pretend otherwise. The object rather is to work with business to identify those areas where Britain enjoys or has the potential to develop comparative advantage, but where there are market failures or other barriers that hold back investment. There is already a great deal of excellent work identifying Britain's potential comparative advantage in crucial sectors, like floating offshore wind and carbon capture and storage, such as that by Anna Valero and her colleagues at the LSE.

And strategic, because it must be founded on assessment of the wider ramifications of the prioritisation involved, and clear-eyed about where opportunity will lie in the global economy of the future.

Public investment is one important lever available to governments, with the potential to crowd in private investment. But it is only one lever, and it must be used judiciously. Contrary to siren voices on left and right alike, commitment to growth is not measured by the size of the deficit you are willing to run.

Public investment will be delivered through Labour's Green Prosperity Plan, driven by new institutions: a National Wealth Fund and Great British Energy. But unlocking private investment will also require institutional reform.

Take our pension funds. Although Defined Benefit pension funds necessarily have portfolios that are increasingly geared towards less risky investments, Defined Contribution funds are expected to grow to more than £1 trillion by the end of this decade. But, partly as a result of our fragmented DC landscape, these funds are less invested in productive assets than in many other countries. This means lower returns for British savers, who do not benefit from diversification into private markets, and less patient capital available for growing British firms and our infrastructure. Labour will actively drive forwards DC fund consolidation and will, in government, launch a review of the pension system, to ensure it is serving British savers and UK PLC.

Investment matters not just for what it can physically build, but for the ideas it can nurture. Innovation is a core part of our history. And still today, we consistently rank in the top five countries in the world on the Global Innovation Index, thanks in no small part to our universities, which, despite the immense challenges facing the sector, stand among the best in the world. And we are at the forefront of global innovation in sectors ranging from life sciences, to AI and tech, to net zero technologies.

But innovation must be nourished, with reliable sources of funding, and innovators supported, to translate brilliant ideas into commercial reality. So Labour will end the practice of one-to-three year funding cycles for key R&D institutions, giving them instead ten-year budgets to allow for meaningful partnerships with industry to keep the UK at the forefront of global innovation, and we will work with our universities to make sure spinouts can attract private capital as they seek to grow.

Of course, if we want to boost our national productivity – and wages with it – we should focus not only on those frontier firms, but on incremental gains driven by the diffusion of new technologies and best practice across the long tail of firms behind the productivity frontier. Because a strong economy cannot rely only on the contribution of the few firms at the leading edge.

Which brings me to my third and final pillar for growth: reform.

Reform of our planning system, our public services, our labour market, and our system of government, guided by the understanding that growth and competitiveness in the 2020s and beyond will rest on contribution: mobilising all our resources – the human potential found in every town and city – to break free from a vicious cycle in which inequality widens while growth stutters, towards a virtuous circle in which working people play their part in building prosperity and feel its benefits.

Let me start with our planning system – the single greatest obstacle to our economic success. Our planning system is a barrier to opportunity, a barrier to growth – and a barrier to homeownership too. Planning dysfunction means that land is costly and inefficiently utilised, making the cost of building infrastructure in the UK significantly higher than in most developed economies, meaning higher energy prices, poorer transport, and inadequate digital connectivity. And it prevents housing from being built where it is most needed – contributing to ever-higher prices and falling rates of home ownership, and constricting the growth of our most productive places.

We approach this under no illusions. Planning reform has become a byword for political timidity in the face of vested interests and a graveyard of economic ambition. It is time to put an end to prevarication and political short-termism on this question. There is no other choice. This Labour Party will put planning reform at the very centre of our economic and our political argument.

For infrastructure, the next Labour government will deliver a once-in-a-generation overhaul of the nationally significant infrastructure regime, updating all National Policy Statements within 6 months of coming into office, modernising the regime to reflect the types of infrastructure crucial in our changing economy, and cutting red tape by embedding principles of proportionality and standardisation.

And when it comes to housing, Labour will reintroduce mandatary local housing targets; recruit hundreds of new planners to tackle backlogs; and bring forward the next generation of New Towns.

A once-in-a-generation overhaul, to deliver the infrastructure and housing that is fundamental to our ambitions for homeownership, decarbonisation, and growth.

And to grow our economy, we cannot rely on just a few pockets of the country to drive growth and productivity. First, because we have seen the political consequences – and justified anger – when deep regional inequalities are allowed to open up, opportunity allowed to wither across swathes of the country, while Westminster politics looks away. And second because we know our productivity problem is a regional problem.

As Raj Chetty, John Van Reenen and their colleagues show, regional inequality robs us of potential inventors and innovators. The squandered potential of all our lost Einsteins and Marie Curies makes us all poorer.

One hundred and fifty years ago, the economist Mary Paley Marshall observed that the key to Britain's success in the industrial age lay in clusters, bringing together the skills, the infrastructure and Britain's natural geography to build strong, regionally-based industries. And these agglomeration economies, particularly those present in urban areas, have been shown by economists like Ed Glaeser to have hugely significant benefits for services firms too.

As our economy evolves, we need to do far more to unlock the benefits of agglomeration across Britain. That must mean not only investment, not only stability, but also fundamental reform of how we are governed.

Britain today has one of the most centralised political systems in the world – and some of the highest levels of geographic inequality too. That isn't a coincidence. OECD research has consistently shown that decentralisation is strongly correlated with better educational outcomes, higher investment, and stronger growth. As with a modern approach to industrial strategy which recognises the informational limits to government acting alone so too do we know that local and regional government often possesses better information about their local economies, and more developed capacity for working with local businesses and institutions. So the next Labour government will hand key economic powers to the regional and local leaders who know their needs, and their assets, best.

Let me give you one example – skills, one of our most persistent policy failures. As well as replacing the broken Apprenticeship Levy, with a new Growth and Skills Levy, the next Labour government will combine and devolve adult education budgets, with our skills effort overseen by a new national institution, Skills England.

But today, addressing the skills gap is a necessary, not a sufficient, requirement for economic success. There is now a wealth of evidence that greater in-work security, better pay, and more autonomy in the workplace have substantial economic benefits. IMF research has shown how enabling workers to better combine family life and work can broaden labour market participation. And there are strong statistical relationships between job satisfaction and workplace performance.
That is what I mean when I say that this is an economic agenda that is both pro-worker and pro-business; that to see that relationship as zero sum is to leave both the poorer. That understanding lies behind Labour's commitment to a genuine living wage, and to a New Deal for Working People.

The UK labour market is one of the most flexible among advanced economies, with hiring and firing relatively easy and a low floor of basic statutory rights. This can serve to reduce the risk of taking on new staff, the risk of poor matches, and allow firms to respond more easily to economic cycles. But flexibility is too often manifested as insecurity, corrosive of individuals' physical and mental health,

their ability to plan ahead, and the time they are able to spend with loved ones.
And the reality is that the one-sided flexibility we have now is not enough on its own to ensure labour markets have the dynamism needed to power growth. What is crucial is that over time workers move to higher productivity firms and higher productivity sectors – this is how workers get higher wages and the economy becomes more productive. Workers who move jobs typically see their pay rise by 4 percentage points more than those who do not. But at present, this is not happening enough – the proportion of workers switching job each quarter fell by 25 per cent between 2000 and 2019.
The status quo serves neither workers nor businesses. As the Resolution Foundation have argued, 'the missing ingredient is empowered workers, willing and able to take risks'. Labour's changes will address this, with flexibility that works both ways – giving workers the security to change jobs.

I want to be clear here about Labour's plans, because I know that many in business will have questions.

We will guarantee basic rights from day one – protection from unfair dismissal, sick pay, and parental leave. But this will not prevent fair dismissal, and we will ensure that businesses can still operate probationary periods with processes for letting go of new hires.

We will ban exploitative zero hours contracts, by giving all workers the right to a contract that reflects the number of hours they regularly work, based on a twelve-week reference period. But these changes will not stop employers from offering overtime or meeting short-term demand, such as in the build-up to Christmas or seasonal work in agriculture or hospitality.

And on trade union legislation, we will reverse changes since 2010 that have done nothing to prevent the worst period of disruption since the 1980s, but instead have contributed to a conflictual, scorched-earth approach that has stood in the way of productive negotiation. These policies didn't exist under Blair and Brown when there were fewer strikes and less disruption. We will work with business as we deliver and implement these policies.

And an economy built on contribution of the many means recognising that we don't just need growth to fund strong public services. We need strong public services to support economic growth, including a serious plan to get the long-term sick – let down by ballooning NHS waiting lists, failing mental health support, an inflexible welfare state, and inadequate employment support – back to work. We will swiftly implement the plans we have already set out for an urgent resource injection into our public services: to cut NHS waiting lists, tackle the crisis in dentistry, transform mental health services, recruit and retain teachers, and provide breakfast clubs in every school.

And if we are to build an economy founded on contribution, we must also think more expansively about the work we value: Recognising that even the most dynamic of industries must rest on foundations provided not only by businesses at the frontier but what I call the 'everyday economy': of retail, care, transport, delivery, utilities, and more. High employment sectors but sectors too often characterised by insecurity and low pay. That means, again, that the concerns of industrial policy, in pursuit of resilience and broad-based growth, should not stop at the high-productivity frontier.

We know too that it is women who disproportionately work in our everyday economy, and women who have borne the brunt of the economic and social disruption of recent years. I want to champion women in our economy not only because it is the right thing to do. But also because if we fail to offer women the same opportunities as men, we fail to make use of their talents.

Numerous economists, including Peter Klenow and Oriana Bandiera, have shown that the misallocation of talent that occurs when women are out of the labour market, under-represented in certain professions or at certain levels, or discriminated against, can have significant implications for growth. Claudia Goldin, the first woman to win a Nobel Prize for Economics solo, has shown, the ways in which the labour market penalises mothers remains a crucial driver of unequal outcomes. And the Rose review of female entrepreneurship showed that if the UK were to achieve the same rates of female entrepreneurship and business ownership as our "best in class" peers, that could add £200bn to our GDP.

So an agenda to harness women's economic potential must mean an agenda for good work in our everyday economy, renewed efforts towards ending the gender pay gap once and for all, ensuring women can access the finance to start a business, and taking crucial steps towards a modern system of childcare.

We must be clear-sighted about the inheritance the next government – whoever may form it – will face. Debt at its highest rate in 60 years, with net debt interest payments of over £80 billion this year alone. NHS waiting lists at seven and a half million. Schools and hospitals crumbling. The first Parliament in history over which living standards have fallen.

No one election will wipe that inheritance away. We must face the world as it is not as we would have it be. I am under no illusions about the scale of the challenge, nor the stakes; the consequences, should we fail to learn the lessons of our recent past, are severe: for our place in the world, our living standards, our climate commitments, and faith in democratic politics.

But I remain an optimist about our ability to rise to the challenges we face, if we can bring together public and private sectors, in a national mission – directed at restoring strong economic growth across Britain. When we speak of a decade of national renewal, that is what we mean.

As we did at the end of the 1970s, we stand at an inflection point. And as in earlier decades, the solution lies in wide-ranging supply-side reform, to drive investment, remove the barriers constraining our productive capacity, and fashion a new economic settlement, drawing on evolutions in economic thought. A new chapter in Britain's economic history. And unlike the 1980s, growth in the years to come must be broad-based, inclusive, and resilient.

Growth achieved through stability, built on the strength of our institutions. Investment, through partnership between strategic government and enterprising business. And reform, of our planning system, our public services, our labour market, and our democracy.

In the face of a more unstable world, the task is not only to recognise the acute risks, but also to identify the huge opportunities. To reject managed decline, renew our common purpose, and rebuild growth on strong and secure foundations.