Policy Exchange

Future of the Left

The Politics of Production: A new realist political economy for Britain

Future of the Left Think Pieces 1

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Future of the Left at Policy Exchange

Britain finds itself outside the protective umbrella of Empire and EU and politically and militarily vulnerable. At home managerial and judicial forms of government, the steady attrition of the British state, high levels of immigration, and falling living standards, have led to widespread voter disaffection and a renewed and disruptive intensity of anti-elite, democratic politics.

There can be no durable national security, nor economic growth that rebuilds the national economy, without also reducing social disaffection, restoring popular trust in our democratic institutions, and winning much broader popular consent for a Labour government.

To achieve this means not simply devising good policy but confronting the existential collapse of the intellectual life of the left, its cultural impoverishment, and its detachment from large parts of the country.

The Future of the Left was set up in August 2024 at Policy Exchange to develop a politics capable of recognising and fully responding to the new political era in order to undertake the internal rebuilding of the nation.

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Death by consumption

Why has the economy stagnated? Why have living standards collapsed? Why does nothing work? This essay suggests a simple answer: we consumed too much in the past and are now experiencing a crippling hangover. Decades of binging on goods from overseas using money borrowed from abroad has warped our economy to such an extent that we do not produce enough to maintain our standard of living.

Retail politics, a phrase that sums up a belief that the job of politicians is to help people to consume at the expense of everything else, has killed the British economy. It is a failed political economy, introduced in the late 1970s to put the British people into a political coma while our assets were broken up, our infrastructure run down and our future sold off.

A conspiracy of silence has seen our leaders avoid confronting the British public with the hard truth that previous generations took for granted. The world does not owe us a living. If we want to consume more, we have to produce more.

Ultimately, everything we want has to be made at home or gained from trading with the rest of the world, trade that needs to be paid for.

If we fail to do this, we face higher inflation, higher rents, higher asset prices making homes unaffordable, shipping our national wealth overseas and a lack of control over our economic future. The political consequences are equally clear: division, instability and decline.

To bring back prosperity, we need to invest in our own domestic productive capacity to produce more of the goods that we need and to export more of those things the rest of the world wants.

This means hard choices: consuming fewer goods and services and holding down spending on public services (a form of collective consumption), whilst saving more to invest in our ability to produce more in the future and return our economy to balance.

We need to stop talking about growth, growth, growth, and start thinking about how we can produce, produce, produce.

A short-term focus on marginal increases in living standards, sucking up resources that could be invested elsewhere, is further impoverishing the country, not helping it.

The centrepiece of the Budget in November 2025 was an attack on the cost of living, through measures worth at best a couple of hundred pounds to the average household. Despite this, they cost billions and will make little impact on the lives of most people.

This may seem like a contradiction. How can focusing on growth or living standards make us poorer?

The easiest way to get GDP growth is to boost consumption (either via public or private spending) even if this means borrowing more, as government, business or household, to pay for it. Obsessing about growth in the next few years means privileging those things that perpetuate our current economic imbalances. The 'British disease' is to use tax cuts or welfare increases to put cash in our pockets that is either inflated away or sent overseas, leaving us no better off in the long term. Although politicians claim record levels of capital investment are coming in the year ahead, nothing is really changing. According to the OBR, at the start of this Parliament government capital investment was 3.2% of GDP, by the end of this Parliament it will be 3.3% of GDP.

To drive this, we are selling off to overseas investors the very things we need to control, in order to boost our productive capacity, our businesses, our utilities, our land and our homes. Each wave of sell offs leaves us with lower levels of future income, fewer resources to invest, and less control over of our future, making us progressively weaker. **This is the failure of the politics of consumption**.

We need a new economic realism – a politics of production.

The political economy of production is about increasing the output of physical goods and services, particularly export-earning activities, and backing businesses and workers who drive our economy forward, with all the power the state can muster. It is a realist political vision that judges success on the ability of our country to produce what we need at home and to earn market share overseas, rather than trying to bribe voters with retail offers.

The politics of production is about looking at the fundamental facts, not focusing on abstract models or theory. This is not revolutionary. Everything in this essay would be familiar to British politicians and economists only a few decades ago.

Talking about overconsumption will come as a shock to many, particularly when we have over 350,000 people without homes and 6m people in very deep poverty, including many millions in work (or even multiple jobs) struggling to make ends meet. New polling has found that many households are cutting back on the things that they used to spend on.

The sad truth is that you can still have deep poverty and excessive consumption. The figures are quite clear on this. Since 2010/11 median equivalised disposable household income has fallen for the bottom 10%, but it has risen for all other deciles. By contrast, total real household disposable income for the economy has grown by 1.7% per year. Some of this is due to higher levels of migration but it is also because distribution of increases has not been even.

Frustratingly for voters, much of this over consumption was in the past. Effectively, we are paying for our past mistakes. However, just because previous leaders made these mistakes does not mean that we can avoid the consequences of their choices.

Until we confront our *real* economic and financial position, there can be no growth. There can only be debt, poverty and insecurity.

The good news is that as we will show in this essay, Britain has got itself out of difficult situations before. But we did so through making painful sacrifices. It was a British economic miracle, not a failure as has been wrongly characterised.

This essay is not for the faint hearted.

We offer no silver bullets. Yes, we need to bring our consumption and productive capacity back into alignment. It is the only viable long-term strategy for prosperity. However, it will not be easy to shift an inward facing, debt-fuelled, consumption-based economy, towards an outward facing, investment-driven, export earning economy. Crucially, we cannot just export services, we need to export goods too. To make this transition, we will need to rebuild the social covenant that sustains patient investment as we did after the Second World War. People will not make sacrifices unless they feel that this is part of a legitimate political transition. This is why we need a new political economy and strong political leadership.

We believe that that this agenda can be politically popular. While the messages contained in this essay are hard, they have much political and electoral potential. Indeed, it is far more than the 'politics of consumption' because it offers citizens a real stake in the economy as valued producers, not consuming supplicants. It offers a serious project that people can get behind, not just vacuous statements.

We believe that this agenda can rebuild faith in politics, in our nations and regions that have been abandoned, and amongst working class voters in particular who have been ignored, and who have given up hope for a future in which we control our own destiny.

We hope that this will be the start of a new consensus, a new realist political economy that can start to get the country back on its feet.

We must put our faith in the British people, to tell them the truth, and have the confidence that they will support a genuine effort at national renewal.

We have done it before, we can do it again.

How the politics of consumption left us weaker and divided

The consumption boom...

The British economy's problems date back to the start of the 1980s.

Until we understand what happened then, we can never move forward and develop the right policies to get our economy back on track.

The Eighties is the period when the politics of consumption was used to undermine the balance of the British economy and set up a chain of events that led us to collapsing living standards and financial insecurity.

Trade union militancy fatally undermined the British social contract. This contract promised consistent but fairly shared living standard increases (both geographically and socially) sustained through higher capital investment to meet domestic demand and fund exports alongside universal public services. Trade unions placed demands on the economy for protection and increasing living standards that simply could not be met in the short-term. The mistake of the Labour and Conservative governments of the 1960s and 1970s to try to expand public services too quickly, diverting capital and manpower from industry, meant that when the oil price shock and final collapse of the Bretton Woods system took place, we were too vulnerable. In 1979 a Conservative Government under Margaret Thatcher was elected.

Reducing trade union militancy did not require a change to the fundamental economic model. It simply required trade union reform and new leadership. However, for ideological reasons, the new government chose to rip up the post-war British economy. This required a decade-long period of government and a stable political base. Margaret Thatcher and her supporters used the politics of consumption, promising higher private consumption to a broad enough section of voters, to offset economic instability and reductions in public investment. It was a prescription for private opulence for many, private austerity for some, and public squalor for all.

At first, this consumption was paid for through cutting public investment and the tax revenue generated from North Sea Oil, the latter was worth 2.7% of GDP in 1985 or £69bn per year in today's money. During Thatcher's first Parliament, private consumption, goods and services consumed at a household level and not provided by the state, grew by 5% in real terms. In comparison, real GDP grew at half this rate.[1]

1

In that first Parliament, capital investment was £54bn lower than it would have been if levels in 1979 had been maintained.

However, the politics of consumption was insatiable, and the instability unleashed through transitioning towards a more globalised economic model, particularly high unemployment and industry closures, required a higher dose of private consumption for the rest of the economy to act as a soothing balm. Things had to look like they were getting better, even if the fundamentals were getting worse and deindustrialisation was scarring large parts of the country.

Private consumption in the second Thatcher Parliament increased by over 4.6% a year, compared to the economy that was growing at 3.7% a year. This was its strongest pace of growth, but one that was built on sand. The first full year of the second Parliament, 1984, was the beginning of persistent current account deficits that have been a feature of our economy ever since. The gap between how much we earn from overseas versus what we import from overseas in that year was worth around £70bn in today's prices. At the same time, the government wanted to attract foreign investors to make up for the diminished domestic investment. It also wanted foreign investment for ideological reasons, to discipline domestic workers and business owners who were still attached to the post-war consensus. The government was essentially trying to run the economy on double speed with higher consumption and higher investment without really paying for it.

The fact that investment and consumption was being paid for without asking for any sacrifices or compromises by the public is why the period is remembered so fondly. Like borrowing for a once in a lifetime holiday, the trip is remembered fondly but the monthly repayments are not appreciated.

Importantly, the international funding we needed did not come for free. Property, government debt, nationalised utilities and profitable businesses, all went to buyers from other countries. The debt had an obvious cost, but the assets we sold only slowly started to generate a cost, beyond the painful restructuring and job losses that were a hallmark of the time. By 1987, we were already sucking in £70bn a year from overseas investors and financial institutions in the form of debt and asset sales, a level that was sustained throughout the rest of Thatcher's time in office. Privatisation of the UK's nationalised businesses was not only an ideological choice, it was a financial necessity. Privatisation and running down public investment were essential to get public consent for a socially destructive system.

The asset bubble…

The other consequence of higher foreign purchases of UK assets was that prices for British citizens were driven up. In many cases the value of those assets went up far above what the British public could afford. House prices started to become decoupled from earnings during the 1980s and 1990s, with house prices increasing from around four times average earnings to over six times average earnings. The price to earnings ratio of the FTSE100 tripled from the late 1970s to the early 1990s. Wages struggled to keep up as they were still tied to what businesses in Britain could afford to pay, rather than their inflated value, and profits were not rising anywhere near as fast as price of assets.

Our trade imbalance and record borrowing necessitated significantly higher interest rates to maintain financial stability. This further exacerbated the decline of our productive industries. Physical production is often capital intensive, but capital was being made more expensive and the returns required to attract finance were beyond what was financially sustainable for industry. This meant that investment in physical capital diminished and industries were run down, leaving them ill-equipped to deal with rising competition from Asia. Consequently, more investment went into service-based industries and intellectual property that have lower capital intensity. However, this did not fundamentally close the gap, as the more workers that went into higher earning service industries, the more goods from overseas they consumed, the greater was the demand for imports and the greater the trade deficit requiring more asset sales. This problem of service-based growth had been anticipated by post-war economic planners and rejected in favour of a more balanced model.

In 1992, in what became known as Black Wednesday, Britain was forced to withdraw the pound sterling from the European Exchange Rate Mechanism. The financial crash that followed temporarily took the wind out of asset values and depressed consumption as households and businesses fell into negative equity, but even then, the UK continued to run significant trade deficits.

Black Wednesday was another road not taken. We could have realised the unsustainability of our present course, slowed down, boosted savings, rebuilt our industrial base, invested in export earning industries and rebuilt our national balance sheet. Instead, we chose to double down on our previous strategy, selling our assets, boosting domestic asset values and wait for another miracle like North Sea Oil to come along to pay for them.

Arguably, the politics of consumption was so firmly embedded that we were never going to change course. So, as we recovered from the recession of the early 1990s, private consumption continued to grow faster than the rate of economic growth. The New Labour government added kindling to the economic pyre by rapidly increasing consumption on public services through record investments in health and education. Understandable as the desire to invest in public services was, given the under investment of the 1980s and 1990s, it should have been paid for through increased domestic saving via higher levels of taxation. New Labour ducked the hard choices, bar a direct increase of National Insurance Contributions that only covered a fraction of wider spending increases. Some of this public investment could have paid off if workers ended up going into productive or export-earning sectors, but Labour was committed to the same economic model as the previous government and much of the workforce went into domestic consumption-based industries, particularly in public services.

Whether it was borrowing to pay for imports, borrowing for government spending or borrowing to buy our own assets, we were increasingly reliant on global finance. From 1998 to 2010, net borrowing from overseas increased by £916bn. Asset prices had to rise rapidly to make the UK an attractive place to invest and keep foreign money flowing in to avoid crippling inflation. House prices increased by nearly 150% during this period – three times the rate of economic growth. In the 1970s, the value of UK companies as a percentage of GDP had been around 30-40%, now they were 120-130% of GDP. Over the same period, profits as a share of the economy had hardly grown at all and much of what growth there came from an unsustainable boom in financial services. Paper wealth had to increase otherwise the entire economic model would collapse, even if that made things increasingly unaffordable for the rest of the country.

The Great Financial Crisis was both unpredictable and predictable. The exact timing was unpredictable, but anyone with a cursory reading of history knew that a bust was inevitable at some point. Politically, it was essential to say that "boom and bust" had been eliminated to avoid confronting unsustainable levels of consumption tax and savings.

Figure 1 – Total investment income 1997-2018

Source: ONS, Pink Book 2025

The Great Financial Crisis fundamentally weakened the British economy in a way that politicians have failed to grasp ever since. As Figure 1 shows, in the ten years before the financial crash (1997 – 2007), invisible earnings on investment had brought in £56bn into the UK economy. Between 2008-2018, these invisible earnings flipped into reverse, and we saw £240bn flow out of the UK. Our dependence on investment income to sustain our standard of living, something that we had taken for granted for over a hundred years, had flicked into reverse. A combination of huge levels of borrowing and lower rates of return on our investments has seen income from the private sector, particularly financial institutions, collapse. In the ten years ahead of the crash, private institutions and households generated over £100bn in income from overseas. In the ten years after, they generated only £13bn. Since 2010, the average net income generated overseas has fallen to around £5bn a year, this is half the rate ahead of the financial crisis.

North Sea Oil and the City of London, two financial forces that covered up our economic weaknesses, are gone. Yet our politicians and economic establishment are in denial because to discuss it would be to admit forty years of failure. It would also require sacrifices more painful than anything discussed in public so far.

The financial hangover…

In the wake of the financial crisis, politicians thought that they could utilise the same playbook as before, stoking asset prices through low interest rates to keep foreign capital flowing into the country and quantitative easing. This capital would be used to fund consumption in the hope that the music would keep playing as it did before the financial crisis. To create financial room for this consumption, austerity would, as in the 1980s, be imposed on the public sector.

Except this time, it hasn't worked. Private consumption has grown by 20% since 2010, slower than the rate of economic growth and a new 'Thatcherism' has never materialised.

Why? A combination of a debt overhang, the slowdown in the global service trade, particularly in financial services and the social cost of consumption and a lack of both public and private capital investment.

Despite the way that it is reported in the media, Foreign Direct Investment is not a grant but giving away our future income. Debt must be repaid, future profits from firms that have been sold transfer income overseas. Slowly over time the share of our future income that we are promising away is growing largely and larger. Between 2009 and 2024, £468bn left the UK to go overseas in the form of rents, debt interest, dividends and share buybacks. This is equivalent to handing over money worth the entire economic output of Tyneside overseas every year. In the next few years, we are on track to be hand over the equivalent of Glasgow, our seventh largest city, every year. This £30bn a year (on average) is less money for households to consume, less to spend on public services or whatever else we would like to do with it. This is only going to increase in the years ahead.

A third of our national debt is now owned by overseas institutions, which means that £25bn was paid out in debt interest on long-term central government debt in 2024, compared with £11bn in 1997 (2024 prices). This is only going to increase further as inflation and gilt yields increase. Over a third (38%) of the total value (by turnover) of our non-financial businesses are owned overseas, up from 36% in 2017.

In our most productive sectors such as manufacturing, over half of our businesses are foreign owned. In growing sectors, such as professional services or creative industries, foreign ownership rates are growing faster than the rest of the private sector. This is unsurprising. Overseas investors are most likely to buy those assets that have the greatest value. The total stock of business share capital and reserves owned by overseas investors has increased by £500 billion in the last four years. The more they buy, the more of our future income we have promised away, the more we are reliant on foreign debt. Even more worryingly, we are selling our most productive and profitable businesses, leaving us with ownership of only the least attractive propositions. As with our privatised utilities, once the bones have been picked clean, it will be British savings and taxpayers that will have to pick up the pieces.

Around £73bn has been paid to overseas owners of UK property in rent since 1987 – equivalent to building several hundred thousand homes. Research by estate agents Benham and Reeves found that there are now 208,021 homes with an overseas correspondence address or owned by an overseas company. The total value of these homes is not clear, but taking average property prices as a guide price, it is likely to be upwards of £80bn. And this is not simply about London. As attractive assets in London become scarce, investors are moving to the North West and West Midlands. Manchester and Salford are equivalent to London boroughs in terms of foreign ownership. Commercial property is also in high demand. Over 50% of offices in the City of London are now owned by foreign investors. Oxford Street, the capital's iconic shopping district, is dominated by overseas capital. The build-to-rent boom, exploiting the unaffordability of our housing, is increasingly driven by money from global institutional investors who are looking forward to extracting billions from British renters. These figures are all likely to be underestimates of foreign ownership due to well-known problems with tracking property ownership in the UK.

The cost of consumption...

Our trade and investment imbalances have driven our cost of living crisis through stubbornly high inflation. Inflation can be your friend, if you are borrowing money in your own currency. Mildly inflating away your debts, as the UK did successfully after the war, is a sensible strategy to avoid crushing future investment and growth. However, when you are dependent on overseas investment, inflating your debts becomes challenging as overseas investors demand higher interest rates to protect the value of their investment in their own currency (particularly dollars or euros), draining money out of your economy and further reducing your ability to pay in the future.

People have tended to blame quantitative easing, which has certainly played a part, for higher inflation but our persistent trade deficits and addiction to borrowing from overseas have been even more important. In simple terms, there is an excess in pounds in the global market compared to the real demand for them (i.e. for purchasing goods and services we sell overseas). This is fuelling depreciation, as pounds are less valuable to the rest of the world, which in turn fuels inflation and reduces the cost to overseas investors of buying British assets, further keeping the cycle going.

Since the Euro was introduced, the pound has dropped 20% in comparison with it. It has dropped by a similar rate against the US Dollar. The only period where this changed is when the UK sucked in huge quantities of money from the rest of the world into our, in hindsight, doomed financial institutions during the early and mid-2000s. **When too many of our essentials are imported from overseas, the diminution of our productive capacity, combined with our desire to maintain growth in private consumption, is inevitably fuelling inflation and driving our cost of living crisis.**

Moreover, as asset prices seek to keep pace with inflation, higher inflation is making buying a home or taking a loan even more expensive. This is fuelling discontent, particularly amongst the young.

We have reached the limits of the politics of consumption.

Households are now paying for the policy decisions made several generations ago, but we cannot jump into a time machine and ask for our money back. Debt has been issued; assets have been sold and companies broken up. Our productive capacity needs to be rebuilt but this can only be done through painful sacrifices at home through increased saving either privately (through investment funds, bank accounts and pensions) or publicly (through taxes that are then funnelled back into the economy through taking shares in firms, rebuilding infrastructure and increasing energy capacity).

We need a new politics of production. This is a political economy that focuses on boosting the productive capacity of the UK, orientated towards earning exports overseas, reducing dependence on overseas debt and reclaiming ownership of our future.

The uneven rewards of consumption

So far, we have focused on the economic consequences of the politics of consumption, but the political consequences of the politics of consumption are increasingly obvious.

Those parts of our nation, the North and Midlands, Scotland, Wales and Northern Ireland that used to be built around production for both UK and export markets have been in decline for decades, creating generational unemployment, social decline and political alienation.

The areas with the highest portion of their economies made up of production and construction are overwhelmingly concentrated in the North and Midlands: Derbyshire, Westmorland and Furness, Cheshire, Lincolnshire, Barnsley, Dudley, Lancaster, and North Yorkshire.

The politics of consumption has rewarded the larger cities and wealthier areas that consume the most. They benefit from and retain most of the gains from consumption because our increasingly service-based economy favour agglomeration and proximity to wealth. The digitisation of our economy has somewhat replaced this as new logistics and warehousing is being created in the periphery to meet the demand of the centre. Working from home has also spread jobs further across the country, although many of those jobs are themselves living on borrowed time. However, these cannot compensate for weaker economic foundations.

The moral consequences of this shift cannot be overestimated. In a nation defined by what you consume rather than what you produce, prestige has flown away from proud communities that built this country.

The costs of consumption have manifested themselves in higher social costs, particularly higher welfare expenditure. Ironically, this has ended up costing tens of billions of pounds more than if we had continued to subsidise and invest in the industries and people as we did after the war. Our estimate is that the cost of abandoning productive industries has already reached over £170bn since 1980 and will likely cost tens of billions more every year for the foreseeable future.

The consequences of a broken economic model have started to make themselves felt in politics.

Politicians may seek to ignore the economic failure of the past forty years, but people living in these places can see the consequences. Scotland has politically diverged from the rest of the country and is now in permanent opposition to the Westminster parties, regularly voting for a nationalist party as a protest against the failures of Westminster. Wales seems likely to follow course. The 'Red Wall' seems destined to join this opposition without a change of course. Within a few years, a fifth of contestable seats in the House of Commons (Northern Ireland excluded as a unique political and economic case) will have drifted away from the rest of the country. As economic decline continues, more and more constituencies will drift towards them creating huge levels of political instability making it even harder to chart a course forward.

The elite may have forgotten about these places, but they will continue to return MPs in every election.

It is also no longer possible to bribe the rest of the country with increased private consumption to turn their eyes away from the social cost of the current system. The economic slowdown combined with the need for higher public taxation to meet the costs of social failure has made the whole political system unsustainable. We have reached the financial limits of what the UK can do to stoke consumption.

We must consign the politics of consumption to the dustbin of history.

In doing so, we would do well to learn from the last time that Britain got itself out of a horrendous financial mess, the years after the Second World War.

Learning from the British Miracle

It may seem odd to go back to 1945, but the sacrifices that were made, and the economic transformation achieved are similar to what we need to see today.

One of the most productive economies in the world was built, along with a modern welfare system. As one of our leading economic historians, David Edgerton, has noted in *The Rise and Fall of the British Nation*, this period was a time of "quite exceptional and extraordinary strength of British production…with total dominance in the home markets and an exceptional short-term dominance in exports, not just in the Commonwealth." And the Labour government did it all with one hand tied behind its back: grappling with enormous levels of debt.

Understanding the country's financial position then, is critical to understanding the British Miracle. It has been fashionable since the 1980s to criticise Britain as 'sclerotic' after the war. The truth is that the government was trying to grapple with huge debts and create a cohesive society in recognition of the sacrifices made during the war. Not only was this achieved, but it managed to create the highest sustained increase in living standards in our history.

Some of this can be attributed to wider factors such as the opening up of trade in the Western Hemisphere under US leadership and the technological dynamism of America that allowed for catch up growth. However, those potential tailwinds still had to be utilised and the sails trimmed to maximise their impact.

Firstly, we need to set the scene. It is certainly true that all of Europe was in debt to the US after the Second World War, but not all allies were treated the same.

France and Germany saw significantly higher levels of debt forgiveness post-war than the United Kingdom. We were seen by the Americans as being strong enough to repay our debts, a view that we actively encouraged for reasons of prestige.

This ignored the fact that we had to shoulder the cost of the war for a longer period of time than any other allied combatant. Far larger proportions of our workforce were mobilised for war, and a far greater level of our productive capacity was put to the war effort. Only twenty years earlier, we had to shoulder the bulk of the material, financial and economic responsibilities for the Great War, resulting in debt that still needed to be paid off. In trying to maintain prestige and a moral obligation to repay our Commonwealth Allies, we significantly hampered our efforts to rebuild our economy.

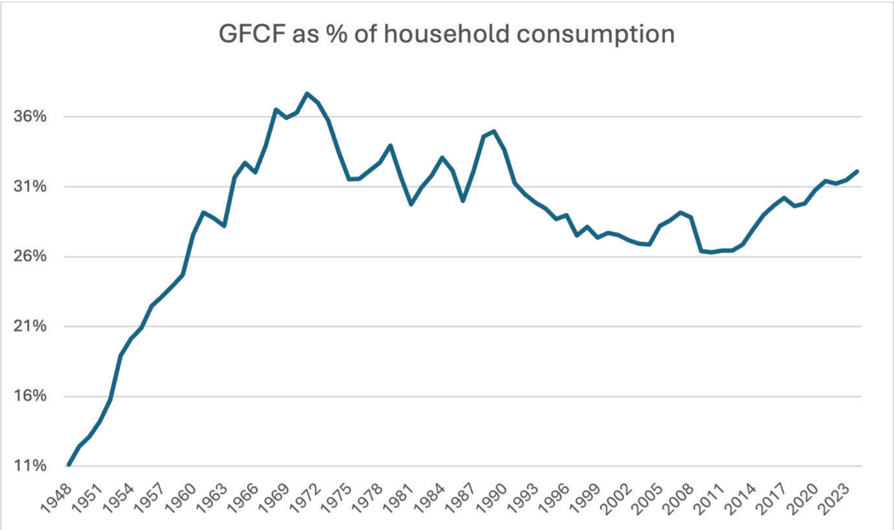
As Martin Daunton notes in his book, *The Economic Government of the World* 1933-2023 (2025), the post-war financial situation for Britain was precarious. Whilst countries such as Germany, France and Italy had huge amounts of war damage, they were also relatively debt free. Britain had both huge war damage, and huge war debts. In 1950, West German public debt was 19.3% of GDP, in Italy 31%, and France 38%. In Britain however, public debt was 197% of GDP. As a consequence, Daunton notes that, "West Germany had capacity for public investment", and "a lower cost of borrowing and less inflation" than Britain. The same could be said for all the major European and North American economies in comparison to the UK. Lower public debt also gave more scope for private debt (borrowing by companies), as foreign governments did not have to compete with private business for finance, which further fuelled their economic advantages.

The British public looked to Europe and the United States with envious eyes, but politicians knew that we were in an incredibly challenging position.

There was only one way to meet this challenge. It was necessary to grow our productive capacity, increase our exports overseas and keep Britain at the technological frontier so that we could earn enough to grow our living standards and pay off our debts.

As Figure 2 below shows, Britain dramatically increased investment in relation to consumption during the post-war years and kept investing and prioritising production right through to the early 1970s, when the oil shock and US monetary instability put pressure on the British economy. The households saving ratio steadily increased from 1-2% in 1948 to closer to 8-9% in the early 1970s.

Figure 2 – Gross Fixed Capital Formation as percentage of household consumption since 1948



Source: ONS & Authors' Analysis

Through sustained investment, the UK was able to move from running a negative balance of payments (importing more than we exported) to running a positive balance of just over £1bn in 1971 (£16.9bn in today's prices). We earned our way out of our financial crisis.

Looking at Figure 2, you may think that we have learnt the right lessons and have been recovering in recent years. However, in absolute terms, annual capital investment has only increased 40% since 2010, this compares to over 263% in the period 1948-1961. The recent figures are flattered by the fact that private consumption has only grown 20% since 2010, compared to double that rate (40%) during the 'austere' 1940s and 1950s. Moreover, in the post-war period we sought to generate most of our investment through domestic savings and public investment (via taxation) rather than depending on overseas investment. The *quality* not just the quantity of investment has significantly changed. We are now having to foot the bill for decades of under investment.

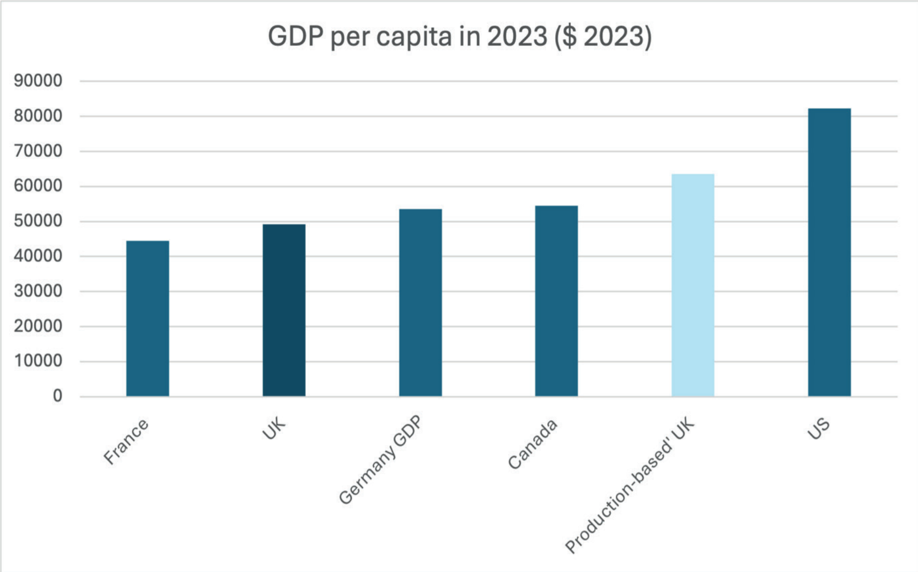
Crucially, the sclerotic post-war politics of production produced the same level of material improvement for most people as the 'dynamic' economy of today. Between 1948 and 1979, real consumption increased by 90% per capita. Between 1979 and 2010, real consumption increased by 92% per capita. Even on a more favourable measure, real private consumption (excluding public services and collective public investment), both roughly doubled.

The main difference is that one approach left our country significantly stronger both in terms of our financial position and productive capacity, so much so that we have been able to go on a spending splurge for over forty years, and the other has driven us to the point of bankruptcy.

Critical to this was the growth in *production* (e.g. manufacturing, mining, energy etc.) which increased by 139% from 1948 to 1979 according to ONS's Index of Production. Annual growth was around 3.5% during this period, compared to less than 1% since. The growth in production has halved since 1979 whilst services has quadrupled. There is no reason for this. It is a myth to say that it is impossible to compete with overseas production and that the turn to service-based, consumption-based growth was inevitable. Britain faced fierce competition in the post-war period and the global market for trade in goods has increased four-fold since 1979 in dollar terms.

The markets are there and although British production was not perfect, there is no reason to believe that we could not have captured some of the rapid increase in global demand, just as we did in services. Figure 3 below shows what the impact of this could have been in practical terms, if the UK's productive base had grown the same pace as it did between 1948 and 1979. Over that period these sectors, particularly manufacturing, would be worth £700bn more than they are today, boosting per capita GDP by over £10,000 per person. Of course, this would never have been achieved in reality, but even if there had been only half or a third of the potential gains, the impact to the economy would have been substantial.

Figure 3 – Illustrative impact of increased production on GDP per capita



Source: UN & Authors' analysis

Regional inequality also significantly reduced during this time. In the North of England, the gap with the rest of the UK declined, as it did in Scotland, Wales and Northern Ireland. In the North of England, for example, regional GDP per capita narrowed from 86.6% of the national average in 1966-1973 to 92.6% in 1973-1979. Scotland went from 92% of the UK average in 1951 to 96% in 1979. All during a period where GDP per capita was growing strongly. It was not a perfect picture, as the relative decline of the Midlands over that period demonstrates, however in broad terms there was a narrowing of the gaps in consumption and distribution of public services which did not noticeably hamper the UK's productive capacity.

Finally, in terms of balance of trade, the post-war economy not only paid its way but trade *added* to economic growth rather than subtracted from it. In the years 1948 to 1979, the balance of payments added on average 1.5% to UK GDP. Between 1980 and 2011, this halved to 0.9%. Since 2010, the balance of trade has reduced our economy by around 1%. The difference between +1.5% and -1% is roughly £70bn. The Exchequer would be nearly £30bn better off if we ran trade surpluses as we used to, larger than the several fiscal 'black holes' we have encountered in recent years. These are the tangible differences between a politics of production and a politics of consumption.

Of course, politicians after the war were conscious of the need to support households and improve the cost of living. However, their belief was that living standards could only be increased through increasing *domestic* productive capacity. They did not try and stoke demand at home, as much as tried to maintain consent for investment through balancing long-term investment with increasing living standards. Public service improvements, supporting the City and financial services were important too, but only to the extent that they maintained the UK's overall productive capacity. They did not confuse the wood for the trees.

Production requires planning and investment over the long-term and broad political stability. For this reason, they were keen to ensure that all parts of society shared in the general improvement of the economy and all parts of the country were supported. We should not be surprised that moving to the politics of consumption politicians end up being concerned more with financiers in Boston than producers in Bradford.

The Locust Years

We have missed a number of opportunities in the recent past: the revenue of North Sea Oil which were worth over half a trillion pounds in tax revenue alone; the tens of billions in tax receipts from the temporary boom in financial services; and the post-financial crisis crash in interest rates. These all provided ample resources that could have been used to build a strong economy. Yet, they are the years that the locust hath eaten.

We have wasted decades searching for an economic free lunch. Tax cuts that pay for themselves, cost-free reductions in regulation, reliance on overseas capital, anything that avoids hard choices. We risk falling for new myths now.

The latest fad is that all our problems are due to planning and deregulation - a lack of will to grow.

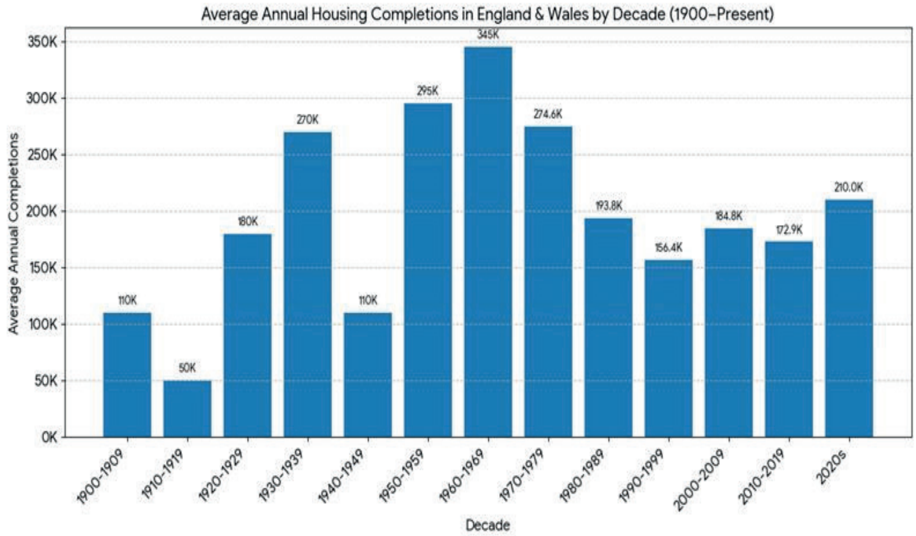
People say we do not build enough. This is true. But the cause is not simply that we have too much regulation.

Those policy influencers that advocate for the "planning theory of everything" ignore the obvious point that we many of the regulations they point to have been in place for years, yet only recently has growth stalled.

The Town and Country Planning Act was passed in 1948. Between 1948 and early 1970s we saw the huge growth in capital investment as can be seen from Figure 2 above. In the years up to the 1970s, we saw a rapid growth in investment, since then we have seen a steady reduction and then stagnation – bar a temporary uptick in the late 1980s caused by the Lawson Boom. Figure 4 shows housing completions since 1900 – which grew rapidly before falling due to the cuts in investment triggered by the oil price spike of the early 1970s.

Despite the popular myths about the post-war period, we are living with the motorways, the national grid, the new towns and so many other investments that were made during the much maligned period of 'post-war consensus'.

Figure 4 – House building ramped up until the late 1960s



Source: ONS & MCHLG

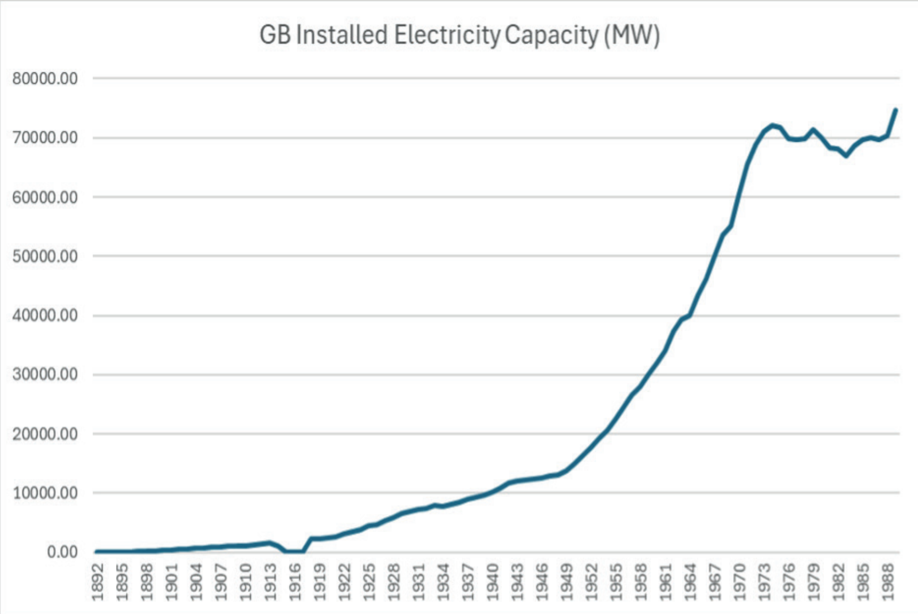
Take one area that is referenced in "Foundations" - an essay by Ben Southwood, Samuel Hughes and Sam Bowman, that is the *cri de cœur* for the policy wonks and politicians on the libertarian right – energy generation. Figures 5 and 6 show how electricity generation rapidly increased in the post-war period.

Electricity generation increased by 5% a year in the period from 1951 to 1979. Nuclear power generation increased 34-fold in that same period, with Britain leading the way in production of civilian nuclear power. Hydro-power generation increased three-fold. This was all during a period when they were 'badly run' by nationalised corporations.

Electricity generation expansion significantly slowed down in the 1980s and 1990s, with a decline continuing into the 2000s. Why? Margaret Thatcher may have been many things, but she was not a champion of red tape. The Environment Protection Act came into force in 1990, but this did not prevent a dash for gas the last real phase of major energy investment.

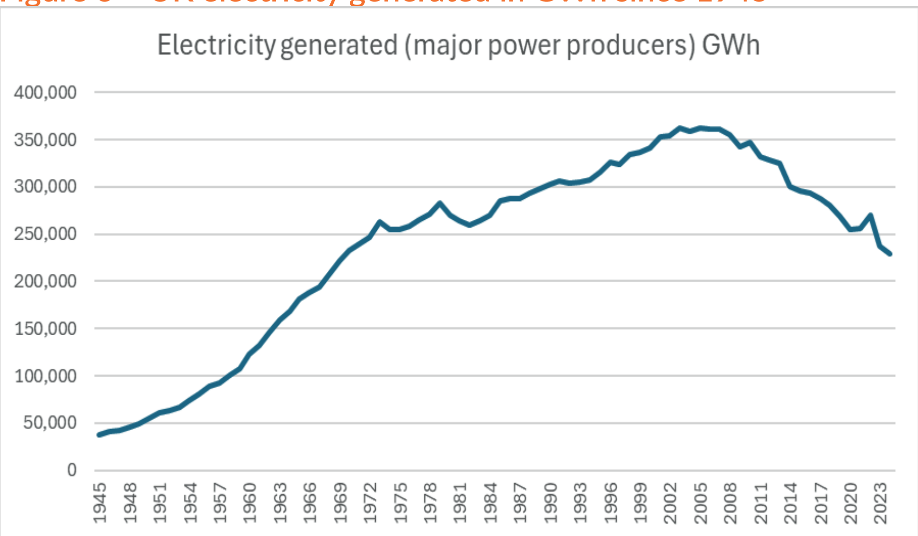
The fact speak of themselves. If we had continued our pre-1979 levels of growth in electricity generation, today we would have more than double the capacity we do now and bills would be significantly cheaper. Instead we restructured our energy system to raise money for consumption and have transferred huge amounts of cash out of the country.

Figure 5 – Great Britain electricity capacity installed (MW) 1892 - 1988



Source: DESNZ, Digest of UK Energy Statistics

Figure 6 – UK electricity generated in GWh since 1945



Source: DESNZ, Digest of UK Energy Statistics

Every person seriously interested in this debate knows why we are in the state we are today, and the cause is not solely planning or regulation.

Investment has been sidelined to pay out higher levels of dividends and keep bills artificially low. National Grid, for example, has paid out £28bn in dividends since privatisation. Distribution Network Operators, companies which own the last stage of delivery of electricity into homes and businesses, were privatised and have the second highest profit margins of any business in the UK. Household energy companies that interact with consumers may not be making much margin (hence the collapse of so many during the Ukraine energy shock) but the infrastructure providers and generators are. The UK government stopped investing in energy infrastructure because it assumed the private sector would meet demand. The government also hampered investment by trying to keep a downward pressure on bills to help households to keep spending and for political support. The politics of consumption in action.

This is why the answer from the OBR is sceptical of the impact of planning reform and deregulation.

We should reform the planning system. But the benefits will only come if we shift resources away from consumption towards investment and encourage domestic ownership of our businesses. The OBR knows that there is little attempt to do this, therefore, there is not likely to be much more productive building. In fact, despite the planning reforms we are still forecast to miss our housing targets.

The 'build, build, build' lobby may want to go back to the Victorians but this is not because they built more but because a low-tax and small state meets their ideological preferences. The irony is that we built more with Butskellism than we ever built with Gladstonianism. During the Victorian period, investment averaged about 7% of GDP, whereas in the 1960s and 1970s, it averaged close to 20% a year, nearly three times higher. The New Elizabethans, not the Victorians, should be our guides.

We cannot escape the hard learnt lessons of the post-war years.

If you want to raise living standards, you need to champion production and exports through long term investment, rather than rely on gimmicks.

A new politics of production

What does a politics of production mean today?

The first step is to recognise our problem.

Labour and Conservative politicians in the wake of the war understood the need to boost the productive capacity of the economy to be able to generate higher living standards. They were prepared to make sacrifices to achieve this and recognised that they personally may not benefit from the investments that they were making. They understood that the world was an uncertain place and that no one owed Britain a living. Every pound had to be earned, every export order had to be fought for, and every lever had to be pulled to deliver results.

We also need to understand the gravity of our present situation. Things are easier today for politicians than they were in the 1940s. Fixed exchange rates meant that things could not simply be allowed to drift. If the economy was out of balance, the impact would be swift, as could be seen in the IMF bailout. Our present group of politicians are like frogs being slowly boiled to death, unable to take decisive action because it seems unnecessary today, and anyway something better may turn up. This kind naïve optimism may be excusable in the first few years of problems emerging, but we are coming up to two decades since the Great Financial Crisis. Surely we must give up waiting for Godot.

A realist new political economy will be built on four pillars.

1. Reindustrialisation
2. Domestification of capital
3. Trade balance
4. Rebuilding post-industrial communities

Reindustrialisation

The current fashion is to claim that Britain is particularly good on services, and therefore, we should simply double down on services.

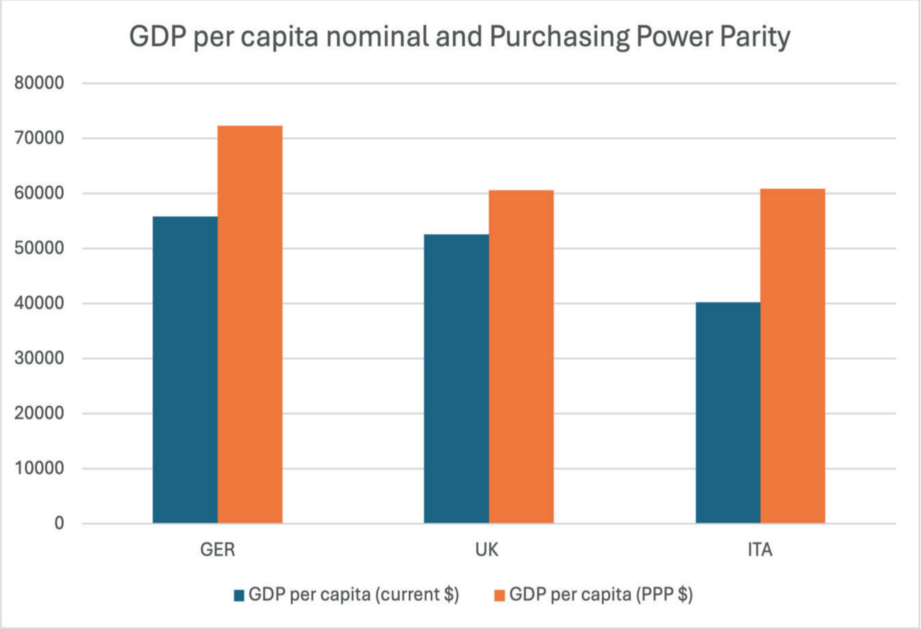
Those who hold this opinion seem to ignore over two centuries of manufacturing excellence. Britain's economic power has always been built on financial and industrial power, not one or the other. Both must support each other.

There is nothing forgone about productive decline.

Take Italy, a country which has regularly been attacked in Britain for its so-called economic backwardness. GDP per capita in purchasing power terms has now overtaken Britain according to the World Bank. Interestingly, since 2010, its share of manufacturing as a percentage of gross value added has actually increased. Germany, the other great historic industrial power of Europe, has seen manufacturing fall from its peak but still accounting for around a fifth of its economy. Both are helped by the fact that the Eurozone is running a balance of payments surplus (including in goods), rather than a deficit.

Purchasing power parity also demonstrates the importance of productive capacity in providing a decent standard of living. Greater productive capacity means that you can meet more of your own needs and maintaining production in your own currency makes your economy less prone to international shocks. As David Edgerton notes in *The Rise and Fall of the British Nation* (2018), one of the biggest changes in the British economy after the war was the pivoting to national production ahead of simply relying on imports.

Figure 7– GDP per capita in current $ and Purchasing Power Parity weighted $



Our high-value services are very import intensive, because the people that work in them demand high-value goods and services of their own, most of which we do not make in the UK. Service exports are dependent on a huge range of materials, from precision engineered equipment for R&D to banks of computers and screens manufactured overseas. At the human level, being a 'World HQ' may generate income and tax revenue, but the global economic elite cannot live without their expensive cars, expensive food and drink, and cutting-edge electronics – much of which is imported. This is why the gap between our exports and our imports never closes, despite our undoubted success in exporting services. Even our universities, which have become an unexpected export industry, are fuelling greater levels of consumption.

Relying purely on service exports to balance British trade is never going to work. This was clear even to economic thinkers in the mid-1970s. Internationally renowned economists Robert Bacon and Walter Eltis noted in their book *Britain's Economic Problems* (1976) that "the various private-sector service industries make a valuable contribution to the balance of payments, but this has never been sufficient, and it is never likely to be to finance the food and raw materials that Britain must buy from overseas." Neither Bacon or Eltis were particularly associated with the 'left' and were positively cited by both Thatcher and Healey. Moreover, as we have increasingly observed, the other jobs created to 'serve' the professionals working in these high-value service industries (delivery drivers, cleaners, security workers, baristas) are often not particularly high-value or rewarding for those that do them. The economy has become imbalanced internationally and domestically, the hour-glass jobs market is more like a yard-glass.

The government needs to prioritise the reindustrialisation of the economy, with a focus on boosting output of physical goods, not simply relying on nominal changes in value. We have considerable catch up to do to return to some form of economic balance and the government should set an ambitious target to boost the Index of Production by 5% per annum for the next decade, in total, this would boost manufacturing, electricity generation and construction by 63%.

Industrial investment will need to be given priority in economic institutions, such as the British Business Bank, as well in tax policy and through strategic investments into energy intensive industries that are foundational to production.

All this should be overseen by a new Board for National Production and a new President of the Board of Production appointed by the Prime Minister with responsibility for energy policy, industrial policy, agricultural policy (particularly food production), relevant science and technology (including R&D expenditure) and national infrastructure. It should have one clear central objective: boost the productive capacity of the country to reduce imports and expand exports.

The new Board would coordinate with strategically important businesses, oversee a new subsidy support programme for critical industries (including R&D, skill grants, finance) and develop supportive policy interventions. The Board would be an unashamed champion for exports and identifying opportunities for import substitution.

Domestification of capital

We urgently need to wean off the British economy's addiction to international finance. There will continue to be a role for international partnership, however the UK must do more to meet its own financial needs. Given the needs of private and public sectors, as referenced above, we need to be thinking of raising domestic savings by around £100bn, or 4-5% of GDP per annum.

We need a significant increase in minimum auto-enrolment contributions for pensions by employees and employers to 12% up from 8%, with pension funds being required to use put the additional contributions into equity stakes of the National Wealth Fund. These funds should put particular focus on energy infrastructure which can create a steady income stream to repay pensioners, helping to boost our productive capacity. Auto-enrolment should be steadily increased over the next decade, as close to a 15% minimum contribution as can be politically achieved with the focus on boosting employee contributions as much as possible rather than employer contributions.

Pensions, as our largest pool of savings, will need to be more heavily directed towards national investment. The Mansion House Compact will need to be replaced with a new National Investment Act, requiring pension funds to hold a minimum of 35% of their assets in British businesses, with a focus on key strategic industries such as energy production and utilities, adding a new duty for funds to support national investment priorities alongside traditional fiduciary duties.

We also need more liquid savings that can take risk. One way would be to create a new 'National Savings Fund' – a savings fund for every worker, based on an opt-out auto-enrolment system, with 2% of salaries pooled together into a significantly enlarged British Business Bank to provide new revenues for investment into export-oriented investments. This would aim to generate around £10-20bn for riskier investments directly into British firms. These savings would be locked for a period of three to five years, before being made available on a rolling basis, but with higher interest payments for those that retain their savings beyond the minimums. Alongside compulsory savings, we need to rebuild our savings culture, creating new 'popular' funds for savings towards care costs (Secure Retirement Trusts) and children (reviving Child Trust Funds) where there are strong emotional reasons for saving. These saving funds should have to take significant stakes into the National Wealth Fund to provide capital for infrastructure rebuilding in return for being preferential tax breaks.

All this will not be easy and many aspects of a programme of national saving will meet resistance from a culture that has got used to minimal contributions to national investment needs. It will also reduce discretionary spending for consumption, particularly impacting on retail and hospitality, sectors that are already facing considerable headwinds. However, trade-offs are necessary and we must accept the closure of takeaways and restaurants if we want to free up resources for productive investment.

Trade balance

The world does not owe us a living. It's an easy thing to say. David Cameron said as much in 2010, before leading a government that went one of one of the biggest consumption splurges in British peacetime history.

However, this experience does not make it any less true. A country which cannot balance its trade is doomed either to have its living standards steadily eroded through inflation or live in constant fear of financial collapse.

We must stop obsessing about the public finances and start worrying about the national finances. Governments can run deficits, but if they are running them to invest in the economy and boost production, then they can help strengthen the national finances, particularly if they are borrowing from their own citizens rather than from overseas. Likewise, government can run a surplus but if the wider economy is dependent on imports and infrastructure is creaking, then a government surplus will not make any difference. Government, households, private and public investment, only make sense when considered as a whole.

The OBR has shown the power of external analysis of policy makers, but it has not been a force for good because its remit has been too narrow. The OBR should continue to provide independent forecasts of the UK's fiscal policy but should be expanded into an **Office for Economic Responsibility.**

The new OER should be given the mandate to analyse **national financial resilience** not simply the public sector finances, under a reformed **Charter for Economic Responsibility.** The Chancellor should be required to provide an annual **National Economic Review**, expanding the Spring Statement to Parliament to provide a comprehensive the state of our economy, the state of our industries, our balance of payments, exports and imports, national financial resilience and private debt. The Budget would remain the central *fiscal* event. The OER would provide independent forecasts for the Review and the Chancellor should have to lay out the government's strategy for financial stability. In forcing politicians and media to respond to this information, we can move the economic debate beyond debating marginal tax changes that do not fundamentally alter the country's economic destiny.

Part of the Charter of Economic Responsibility should be a **Trade Deficit Trigger.** At their first economic review, the Chancellor should be required to lay out a five year pathway to reduce the UK's balance of payments deficit, with a 'trigger' if the deficit breaches a certain percentage of GDP or is deemed to have gone off course, based on additional forecasts during that period. It should be a fixed five year period, with no rolling forward forecasts to game the numbers. The Chancellor should then be required to give a statement to the House of Commons on the causes of the widening deficit and what corrective actions the UK Government will be taking to support rebalancing.

Ultimately, our balance of payments should be seen as a key economic metric, in the context of a growing national economy. Slower but balanced growth is better than faster but unbalanced growth.

Rebuilding post-industrial communities

The politics of production requires long term patient investment with strong political oversight to ensure the right outcome. We need a politics that can command the confidence again of people that live in our nations and regions, particularly post-industrial communities that have experienced the sharpest decline.

This means a return to a full set of regional investment programmes.

Between 2010 and 2024, the government spent on average around £2.4bn per year on structural funds to support economic growth and investment in the most disadvantaged areas - a big number on its own, but only 0.2-0.3% of annual public spending per year. Unsurprisingly, it had no impact. Even Regional Development Agencies under New Labour were not large enough to compensate for the levels of decline and squeeze on productive industries. The Local Growth Plans, proposed by this government, are worth only £200m a year. This is not a serious effort at rebalancing the economy.

By contrast, between 1990 and 2018, Germany spent around €2 trillion (2019 prices) on supporting the redevelopment of East Germany, with around €840bn going into financial equalisation to raise quality of public services, infrastructure investment and business support. These latter elements were the equivalent of €30bn (or £26bn) a year – over ten times the levels we achieved. Money isn't everything, but broadly speaking the economic gap between East and West Germany has closed and living standards in the East have significantly improved.

Unlike the New Labour government's approach to regional development, this cannot just focus on creating quick outcomes through creating solely public sector employment. It also cannot be purely distributional either, as we have tried to do since the 1980s. Firstly, distributional improvements (e.g. increased social security spending) are not sustainable without a broader uplift in economic performance. Secondly, they do nothing to address the dignity of the people living in these communities who want to be a productive part of our economic future.

Fortunately, many of the places that have been de-industrialised still have untapped capacity that can be utilised for re-industrialisation.

A new political economy will require focus on reviving post-industrial communities, with the state taking a much more activist role in rebuilding local economies and not just focusing on infrastructure development but actively attracting businesses to the most disadvantaged areas.

This will require not just economic development but also rebuilding social capital and social infrastructure, the bedrock of economic activity. We cannot expect businesses to locate and thrive in places with high levels of crime, low levels of qualifications, poor health outcomes and tired public infrastructure. This is not just about building light industry in places, but the social fabric of places that most need it. We need a fully funded **Industrial Communities Agency** (ICA) working with local authorities and devolved administrations, developing not simply economic assistance programmes but also rebuilding the social infrastructure and public services of these communities that must once again become critical to our economic development. The whole power of the central state, in partnership with other actors, needs to be brought to bear on this issue, we have seen from Scotland and Wales the perils of the centre simply pursuing 'devolve and forget'.

Politically, we need to reintegrate these places back into our political system, or we will see permanent political instability that will make productive development impossible to achieve. This will require compromises, as it did in the post-war period. There is a difference between productivity and efficiency. These places can and will be productive places for re-industrialisation, but they may not always be the most efficient use of resources in the short-term as there may be other candidates for locations that meet our pure economic needs. However, we cannot simply view this issue through the prism of economic development, we need to recognise that an inclusive political economy is the only thing that can sustain the broad-base of political support to enable the whole project of rebuilding this country to succeed.

Morally, the case is unarguable. These are communities that built this country, making huge sacrifices to do so. The economics, the politics and the ethics are as one.

There is no alternative

Ultimately, we have no choice but to abandon our current economic model.

Cost of living and retail politics is a dead end which will only worsen our current situation.

As we saw during the Truss premiership, financial confidence and support can rapidly diminish, leaving a government high and dry in a very short period of time.

As the UK's financial position worsens, investors will seek *higher* returns and more protection against financial risk. This will put unbearable costs of taxpayers and bill payers that will become politically unsustainable. We can already see this in the demands from the owners of Thames Water, seeking higher bills and demanding avoid paying fines, or Ørsted's demand for more subsidies for offshore wind to guarantee investors returns. Depending on the kindness of strangers is expensive and unpredictable.

Households and workers are paying higher prices, higher mortgages, higher rents and seeing their living standards squeezed, not to rebuild the country, but simply to keep the status quo. Sacrifice without reward is not a viable political economy.

Ultimately, everything outlined in this paper to rebuild this country requires a renewed patriotism and politics of sacrifice. However, just as the shifting political economy of the post-war period created a renewed sense of duty and patriotism, a well-managed transition can rebuild that patriotism, if it restores the productive capacity of all parts of the country and rebalances power between places, industries and classes.

Many of the features of this new political economy, from reindustrialisation to regional investment programmes are popular with the public.

The danger facing the country is that economic instability creates political instability that in turn creates further economic instability and a vicious cycle is created. An external debt trap and political collapse could be the result, lurching between extremes of both far left and far right.

We need to engineer a new mandate for economic reform.

Fortunately, the present economic context provides the perfect conditions for a new political economy to emerge. The number of losers under the present system is growing rapidly, and the winners are becoming increasingly frustrated as they win less than they did before.

Those that simply call for 'growth' do not understand our present situation. Their prescription is like asking a runner with a broken leg to simply run faster. Every effort to increase the pace is simply going to cause more pain and injury and we'll never reach the finish line.

We need a dose of hard-headed economic realism, starting with what has gone wrong, as we have set out in this essay.

This will be a hard message for the country to hear – but it needs to be said.

The core of the agenda is already there, all that is required is new leadership to take it forward.

References

1. Figures from ONS Blue Book 2025 unless otherwise stated