

## Throwing investment subsidies at big business will be a...

Published: January 13, 2026, 2:01 am

---

There are rumours that the government is planning tax cuts in the Autumn Statement, with the most commonly suggested (bar some token gestures aimed at the 'just managing') being a corporation tax cut, probably delivered through increased capital allowances provided to companies investing in the UK economy. These allowances, in effect, provide an up-front subsidy to companies buying capital equipment compared to the appropriate accounting treatment for that spend.

Given the government's philosophy, stated by Theresa May at the Lord Mayor's Banquet last week, that it is competitive business that will revive the UK, this makes political sense to her party. Unfortunately it makes no economic sense.

The simple fact is that, unlike governments (who can take social factors into account and who have no effective cost of capital when there is less than full employment), businesses only invest when they can predict a rate of return on the investment made that exceeds the cost of the capital used to fund it. This rate of return essentially depends on three things. The first is the likelihood of demand for the product the investment will help deliver. The second is the prevailing cost of capital (or the expected interest rate). The third is the uncertainty in these estimates. The more uncertainty there is, the greater the rate of return that is required to encourage investment. You can dress these variables up however you like: this is how it actually works.

And right now there are some massive uncertainties in economic life. Starting with the easy ones, Brexit, Trump and the far right (that has a loathing of unconventional monetary policy) create the likelihood of significant (in current terms) interest rate increases. That means that required rates of return used in investment forecasting will be increasing, significantly. Add in inflation uncertainty (which is related to real interest rate forecasting) and the risks have increased enormously. The result is that business will now demand much higher margins for safety: there is no other alternative course of action. And what that means is that right now, all other things being equal, the incentive to invest has fallen considerably.

But it's also not true that all other things are equal. The fact is that we face a world where a great many people have very little money. And they face likely increases in demand on their cash. Millions of people in the UK will see their benefits cut next year. There's also a good chance mortgage interest rates will rise. In addition we have no idea what Brexit uncertainty will mean for unemployment, and as importantly, the risk of unemployment. That risk has a big bearing on the savings rate: if you think you might face a rainy day you save for it, unless you're one of the people in the economy who already has so much they can already save, which means they do nothing for additional demand anyway. To summarise, consumer growth is going to be unreliable. Not impossible, but unreliable. That is also a significant disincentive to investment.

And then there is the biggest problem of all. Most investment is about innovation. It's about doing things better, or it's about making new things or its to meet new demands. In the UK meeting new demand has been about population growth. Brexit challenges that: it's pretty unlikely to be something most businesses will be relying on. In that case we're down to doing things better or making new things. And, right now I see remarkably little sign that there's a lot of innovation in the world. I've said it before, I know, but even a hint that the technological breakthrough that changes the way we work, play and share our world might exist seems remarkably absent from any news I see or hear. Bluntly, business seems incredibly bereft of ideas right now. It is why, as I argued in *The Courageous State*, they have spent so much time trying to capture the income streams of the state through privatisation, academisation, PFI, and so much more instead: the pickings have been easier for a generation of managers with little understanding of what real innovation, let alone entrepreneurial risk, means.

In other words, you can give more capital allowances if you want and take a political risk in doing so since these will only benefit large companies (small ones already enjoy generous reliefs, and rightly so in my opinion). But the reality is that the chance that this will deliver any significant new economic activity in the UK is very low indeed. This policy will instead give more tax reliefs to those who don't need them: big business is already sitting on enormous cash piles it has no idea what to do with. So we gain nothing but increased inequality as a result.

Direct interaction with business would work.

A targeted industrial policy to directly encourage the green technology businesses we need will be incredibly beneficial.

Spend more on university R&D and demand state stakes in the spin outs that happen to create value by all means: that would be money well spent.

But subsidising big business via capital allowances? That's like throwing money at a problem and hoping not all of it will be wasted when you already know most of it will be.

And that's likely to be the basis of the government's industrial policy, indicating they're as bereft of ideas as the businesses they will claim to be helping.