THE
GROWTH
COMMISSION

Spring Statement Briefing

Proposals for the UK Chancellor of the Exchequer's urgent consideration

24th March 2025

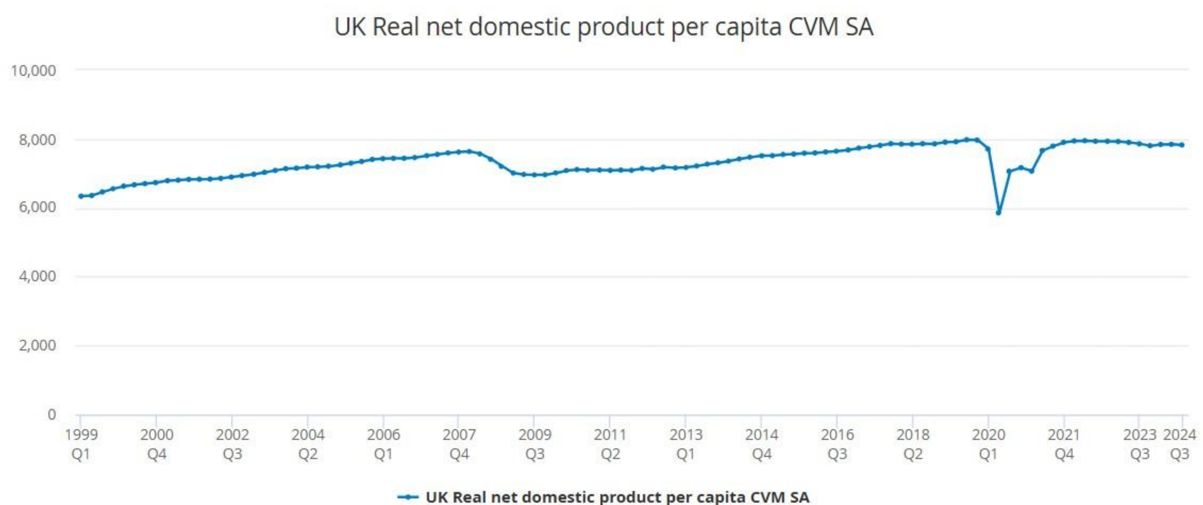
Introduction

Chancellor Rachel Reeves presents her Spring Statement on 26th March 2025 against a background of interconnected economic crises for the UK economy.

There is a growth crisis: Since June of last year, the data we have suggests GDP has decreased by 0.1%; and over the same period growth in GDP per capita has been negative[1]. And the story could get worse: most of the impacts of the October 2024 Budget - which the Growth Commission estimated[2] could do real damage to GDP growth, reducing GDP by 2030-31 by 3.4% - have not yet actually come into force. We note that as of the most recent data for January 2025, GDP per capita (and GDP for that matter) continue to be negative.

The below graph shows UK GDP per capita over the course of this century thus far.

Figure 1 UK GDP per capita since 1999 (Source: ONS)



There is a fiscal crisis. In the four months of new data since the Office for Budget Responsibility (OBR) issued its last forecast on 30th October 2024, the combination of revenue shortfalls and spending overruns has amounted to £12.8 billion[3], an annual rate of £38.4 billion. The scale of the fiscal crisis is exacerbated by the need to raise defence spending as the U.S. appears to be withdrawing from defending Europe.

And there is an export crisis. Since the recent three monthly peak in the three months to December 2022, UK export volumes, which had grown at an annual rate of 5.3% in the previous ten years (which covered both Brexit and Covid), have fallen by 4.6% and

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[1] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/december2024
[2] https://www.growth-commission.com/2024/10/30/growth-commission-response-to-the-autumn-2024-budget/
[3] https://obr.uk/docs/dlm_uploads/PSF-January-commentary.pdf

seem to be on a continuing falling trend[4]. A relatively small open economy like the UK depends on its trade and the recent weakness of exports is a serious problem. It should be noted that given that Brexit had already been fully implemented before December 2022, it is unlikely that the subsequent weakness in UK exports can be attributed to it.

Figure 2 Over the past two years the UK has faced an export crisis, with volumes falling by nearly 5% (Source: ONS)

But at the same time, following the Starmer/Trump meeting on 27th February, it is clear that the UK faces one of the most consequential economic challenges for many years – how to simultaneously manage the U.S. tariffs and likely deal offer to avoid them, with the EU reset negotiations. There is a landing zone where the UK can maximise its regulatory performance, doing a deal with the U.S. as well as improving the relationship with the EU so that the negative impacts of leaving the EU (disruptions from customs processes and potential tariffs on non-originating goods) can be minimised.

Previous budgetary recommendations from The Growth Commission have focused on measures that will best boost GDP per capita in 20 years' time.

At this time we believe that the scale of the crises is so great that priority has to be given to those measures that will rekindle growth and yield the best bang per buck over a much shorter term horizon – four to five years. Fortunately the Growth Commission models can help here and we have used those to cherry pick such measures.

This report prioritises these measures and at the same time quantifies the comparative benefits of a trade deal with the U.S. and one with the EU.

In the text below we set out:

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[4] https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradegoodsandservicespublicationtables

1) Proposals for public spending, taking account of the need for much higher defence spending;
2) Proposals for tax;
3) Regulatory proposals; and
4) A comparison of the impacts of a U.S. trade deal with closer trade integration with the EU.

Public spending

Public spending faces a series of new or enhanced pressures from an ageing population and a need to increase defence spending.

At the same time, as The Growth Commission has been at the forefront of pointing out, public sector productivity has been falling, a point now emphasised by the Prime Minister, Sir Keir Starmer. In his speech on his Plan for Change at Pinewood Studios on 5th December 2024, he cited Office for National Statistics figures when referring to productivity in the public sector being 2.6% lower than the previous year, and 8.5% lower than just before the pandemic[5].

We reiterate the Growth Commission's proposals to reverse the public sector productivity fall since the pre-Covid period and return the sector to rising productivity.

We support the government's efforts here to eliminate certain arm's length bodies such as the Payment Systems Regulator. Many of these so-called arm's length bodies are independent from the voters and their elected representatives, but not at all independent from those they seek to regulate. As the government is finding out, they often work to preserve the status quo. We note that the U.S. experience shows that where there is a political will, quite dramatic and hitherto seemingly impossible actions can actually be taken quite fast. The Overton window on what is achievable in this area has clearly shifted.

Meanwhile welfare spending is leading to budgetary overruns while at the same time reducing the labour supply. Welfare reform, though difficult both technically and politically, is necessary and produces a win-win result of lower borrowing and higher GDP growth. We support the government's efforts to reduce the welfare bill. We have noted in previous Growth Commission reports the areas to focus on, in particular the need to understand the recent rise in the number of claimants of disability benefits and reverse it if possible, including tightening any relaxation in eligibility for sickness-related benefits that may have occurred post-Covid. We also reiterate our finding from the Japanese experience that a rising pension age can make a significant positive contribution to the economy and that it would be right to look at hastening the pace at which the retirement age is set to rise.

[5] https://www.gov.uk/government/speeches/pm-speech-on-plan-for-change-5-december-2024

Taxation

This year, because of the immediate growth crisis, we have prioritised those tax reforms that will generate the biggest results over a five-year period.

Because the UK is a relatively small economy with less than 1% of the world's population and 3.1% of world GDP and the fact that it takes time to generate behavioural change in a domestic economy, early gains from policy changes tend to reflect those policies that can affect international inflows and outflows of talent, skills and investment.

Currently the UK is facing a major net outflow of 'millionaires' with a reported 10,800 lost in 2024 alone[6], each of whom represents an annual loss to the Exchequer of at least £393,957 in tax revenue according to the Adam Smith Institute[7]. This gives a staggering loss of tax of £4.3 billion a year for one year's migration, but if it were to continue at the same pace for the rest of the life of the current government, the annual loss would build up to about £18-23 billion.

Stopping this and indeed turning it round would transform tax revenues. Survey evidence suggests that tax is the motivation for the bulk of the exodus[8] so tax changes to encourage talented and wealthy people to work and invest in the UK would be likely to have a disproportionately beneficial impact.

The two most pressing reforms here are to income tax and to the treatment of the so-called non-doms.

Our three priorities for income tax remain: redressing the costs of the frozen tax allowances and to unfreeze these allowances; removing the economically damaging 60%-70% rate of tax on those earning more than £100,000 as their tax allowances are phased out; and ending the high marginal rates of combined tax and benefit withdrawal in middle income ranges for families with children. On non-doms, we remain unpersuaded of the case for abolishing non-dom status which we have previously calculated would lead to a loss of revenue of at least £5 billion.

Over time the UK should also bring its corporation tax rate into line with the proposed U.S. tax rate of 21%. A competitive capital gains tax regime and removing inheritance tax would also generate relatively early positive impacts on the economy.

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[6] https://www.telegraph.co.uk/news/2025/01/18/one-millionaire-leaves-britain-every-45-minutes-labour/
[7] https://www.adamsmith.org/press-releases/tax-loss-from-millionaires-leaving-the-uk-last-year-equivalent-to-over-half-a-million-average-taxpayers
[8] https://www.henleyglobal.com/publications/henley-private-wealth-migration-report-2024/londons-wealth-exodus

The UK now has one of the least generous capital recovery systems among developed nations, placing it at a competitive disadvantage as a site for manufacturing, mining, oil and gas exploration, agriculture and other business activity involving depreciable real capital. In the short term, increasing capital recovery allowances to more completely reflect the full cost of plant, equipment and structures would quickly increase investment, productivity, wages and GDP, leading to an eventual gain in revenue after a temporary dip.

Another means of raising revenue would be to abolish the so-called 'tourist tax', the requirement for tourists to the UK to pay VAT on their purchases. A detailed study concluded that UK GDP was reduced by £10.7 billion and UK tax receipts by £2.3 billion through the imposition of this tax in 2023[9] – a study since updated to estimate that the boost to GDP of ending VAT on tourists' shopping in the UK would in fact be £11.1 billion and the net boost to tax receipts £2.5 billion[10].

Regulatory proposals

Our regulatory proposals reflect our oft-stated view that untold and unseen damage is caused by economically harmful regulation.

Our priorities here are:

1) Planning reform
2) Energy and smart green measures
3) Labour market reform
4) Other regulatory reforms including tech regulation that would be consequent on a U.S. trade deal

We propose the following measures in particular:

1. Repeal the 2008 Climate Change Act. Much of the reason for the UK's astronomical energy costs - now the most expensive in the world - can be attributed to the effects of this piece of legislation. There are many ways in which we can tackle climate change – but this law has had devastating consequences, and it is no coincidence that since its passage, GDP per capita in the UK has stagnated and not picked up after the Great Financial Crisis, as it has done in other countries.

[9] https://cebr.com/blogs/removal-of-tax-free-shopping-costing-10-7bn-in-lost-gdp-and-deterring-two-million-tourists-a-year-report-concludes/
[10] https://uk.finance.yahoo.com/news/tourist-tax-puts-off-two-000100710.html

2. Do not apply a Carbon Border Adjustment Mechanism (CBAM), which would require a tariff to be placed on a specific set of goods that are said to be carbon-intensive in their manufacturing process in the Iron and Steel, Cement, Fertilisers, Aluminium, Electricity and Hydrogen sectors. We note that the member states of the EU themselves are revisiting CBAM as its growth-killing impacts start to be understood. The Growth Commission has already evaluated the likely impact of the UK following the EU CBAM in *The Impact of Carbon Leakage Mechanisms on Growth*[11].

3. Scrap the establishment of Great British Railways and Great British Energy. Both of these structures risk crowding out private sector investment which will be crucial in the transport and energy sectors. In the former case, the government could ensure on-rail competition in line with recommendations made by the Competition and Markets Authority (CMA) in a 2016 report[12], none of which have been adopted. In the energy sector, it could improve regulatory competition, again along the lines of CMA recommendations from another 2016 report[13].

4. Repeal the Town and Country Planning Act. Emergency planning approvals involving zonal planning and the conversion of statutory consultees in advisory-only roles; provide for trusted developers and ensure much more stringent requirements prior to judicial review. We commend some of the provisions in the government's Planning and Infrastructure Bill. In particular, these touch on some of our recommendations, but it skirts some of the big reforms that are necessary. By excluding areas like heritage and the environment from the list of statutory consultees to be removed, this bill will miss the major historic impediments to planning.

5. Abandon the Employment Rights Bill. This is the area for which we reserve our gravest concerns. Our economic models show that labour market flexibility is a significant part of the potential GDP per capita gains possible from regulatory improvements. For example, of the 11.2% GDP per capita gain possible from a 1-point improvement in our Domestic Competition pillar, fully 2.8% is due to labour market flexibility. At a time when we should be improving the flexibility in our labour market, this bill will make it less flexible and the minimum wage (at more than two thirds of median income) will take household incomes in the opposite direction to which they need to go. As we have noted elsewhere, that which makes it difficult to fire people, crucially, also makes it difficult to hire people. This is particularly true for small businesses.

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[11] https://www.growth-commission.com/2024/10/08/the-impact-of-carbon-leakage-mechanisms-on-growth/

[12] https://assets.publishing.service.gov.uk/media/56ddc41aed915d037600000d/Competition_in_passenger_rail_services_in_Great_Britain.pdf

[13] https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf

Comparison of a UK trade deal with the U.S. with an EU 'reset' involving dynamic alignment with EU regulations

The Trump administration is about to pose a very difficult question for its trading partners, including the UK. It is likely that the work ongoing now on unfair trade practices and reciprocal tariffs will lead to significant tariffication of those distortions for the U.S.'s major partners. Early indications are that some form of calibration will be applied. This is relatively easy to do in the tariff context (the U.S. has said it will apply the same tariff that the trading partner applies to it). It is more difficult to calibrate other types of distortion. However, with regard to the UK, the U.S. has already raised issues like the Digital Services Tax, VAT and the regulatory system which is a holdover from EU regulation which the U.S. has opposed for many decades. We have assumed for this exercise a significant tariff would be applied to the UK without some sort of deal.

Table 1 looks at the estimated impact of a U.S. trade deal for the UK. We have used our Anti-Competitive Market Distortions (ACMD) Model and some off-model estimates.

Table 1 Comparison of impact on UK GDP of two Scenarios as described in the text

Scenario 1: EU 'reset' involving dynamic alignment and a 25% U.S. tariff	
Cebr estimate[14]	-1.125%
NIESR estimate[15]	-3.75%
EU reset allowing certain SPS products to move into the EU[16]	+1.0%
Impact of Anti-Competitive EU regulation (includes CBAM)[17]	-6.6%
Total	**-6.725% to -9.35%**
Scenario 2	
EU reset using mutual recognition etc.	+0.5%
Trade benefits of U.S. deal[18]	+0.9%
Regulatory reforms from U.S. deal and from diverging from EU rules through pro-competitive regulation[19]	+6.5%
Total	**+7.9%**

[14] https://cebr.com/blogs/us-tariffs-would-reduce-gdp-by-0-9-but-trumps-presidency-provides-strategic-opportunities-for-uk/

[15] https://niesr.ac.uk/wp-content/uploads/2024/12/Implications-of-Higher-US-Tariffs-for-the-UK-Economy.pdf. Note that this paper shows an initial impact that is higher before the economy adjusts to the new tariffs.

[16] Note that dynamic alignment Sanitary and Phytosanitary (SPS) agreement only allows certain banned SPS goods to move into the EU; it does not affect the customs process; and the UK can ease the flow of SPS goods into GB through unilateral measures.

[17] Assumes a net 0.5 reduction in Domestic Competition pillar scores (scaled for GDP)

[18] Source: HM Treasury leak of Treasury estimates of impact

[19] This includes deviating from CBAM as well as other pro-competitive regulatory measures, and is based on our ACMD Model.

Scenario 1 looks at what might happen if there is no trade deal with the U.S. and tariffs are imposed. It compares different estimates from Cebr and NIESR for the impact. The Cebr estimate assumes a 20% tariff on the UK, so this is scaled up for a 25% tariff. The NIESR estimate assumes a 10% tariff and so it again is scaled up for a 25% tariff. It also assumes a dynamic alignment reset with the EU which would preclude a U.S. deal in our view, given that it would foreclose changing the regulations the U.S. is most concerned about.

Scenario 2 assumes a U.S. trade deal and no tariffs and therefore it 1) takes into account the benefits of avoiding CBAM (already calculated by The Growth Commission); 2) uses estimates which we believe have been made by HM Treasury for the trade benefits of the deal; and 3) takes into account regulatory reforms that might result from the U.S. trade deal, both those resulting from the deal directly and those from removing EU regulations that would be unlikely to be compatible with the U.S. trade deal. It also assumes some (albeit smaller than Scenario 1) benefits from mutual recognition agreements and other potential EU reset ideas.

Our calculations assume a 0.5 increase in Domestic Competition pillar score (scaled up to GDP), if the UK is free to improve its regulatory system in line with U.S. demands, and a 0.5 reduction if it is tied to EU regulation. If you assume over a five-year period, we can expect a yearly contraction of GDP by as much as 1.9% per year, or under Scenario 2, an increase by 1.6% above trend. The contraction rate for GDP per capita will be greater, reflecting the population increase of approximately one million per year at the time of writing. Clearly immigration policies that reverse these increases will have a significant effect.

This impact of a trade deal with the U.S. – which could lead to around 9% GDP per capita gain over a ten-year period – needs to be compared with that of an alternative approach which would include aligning more to EU regulations to reverse some of the losses of Brexit. But in Scenario 1, dynamic alignment to EU regulations that are themselves negative will more than offset any gains from mitigating trade frictions. The anti-competitive harms are likely to far outweigh any gains because dynamic alignment does not change the customs requirements, and only allows some products to enter the EU that otherwise would not have been allowed – a limited benefit since the majority of the Sanitary and Phytosanitary (SPS) goods flow in the EU to GB direction.

The OBR has estimated the long-term impact of Brexit as reducing GDP by 4%[20], but we doubt this number. In effect it puts too high a premium on customs barrier contributions which can be mitigated in many ways through unilateral measures in the UK as noted in the excellent work of Lord Agnew's Trade Facilitation Commission (TFC). In other words, it is possible to lower some, though not all, of the 4% figure attributed to

[20] https://obr.uk/forecasts-in-depth/the-economy-forecast/brexit-analysis/

Brexit productivity losses by taking a series of steps which would not prevent a deal with the U.S. (and thus avoid U.S. tariffs).

It should be noted that the detailed LSE estimate which used actual data was that Brexit had only reduced exports by 1% of GDP in 2022[21]. Given that imports were also lower, the net impact on GDP from loss of specialisation will have been very much lower than this. So the 4% estimate should be treated as a 'top end' estimate which probably exaggerates the impact if the trade aspects of Brexit were to be reversed.

The potential gain from a U.S. trade deal looks to be more than twice the size of the top end estimate of the benefit of reversing the trade aspects of Brexit and likely to be very much more than this.

We should also note that there are many aspects of the EU 'reset' that do not implicate the UK's independent trade policy and regulatory autonomy which would substantially lower the Brexit impact. The Trade Facilitation Commission has made a number of recommendations that, taken together, could claw back a substantial amount of the losses from leaving the EU. Even if we assume a 4% loss of GDP due to Brexit, a reset that involved mutual recognition agreements and unilateral recognition for EU to GB imports of SPS goods (and perhaps others) would leave the only issues giving rise to GDP losses as customs and regulatory barriers for GB to EU and tariffs on non-originating goods. We have assumed conservatively that this would lower the Brexit loss by 0.5%, as opposed to clawing back 1% through dynamic alignment.

The UK is therefore advised to sign a comprehensive deal with the U.S. that allows these regulatory benefits to apply, and maximise the EU reset in ways that do not damage its regulatory autonomy and independent trade policy (as recommended for example by the TFC), and avoid (through the U.S. deal) any applicable U.S. tariffs post-April 2nd. The net benefit could be significant from these actions alone. And these are the short-term gains. Longer term gains include likely openness to sharing in the growth of fast-growing Asian markets; linking UK trade to the faster growing markets in the Americas rather than to the slower growing markets in the EU; increased openness to the tech economy; and increased openness to U.S. investment and innovation.

From our perspective this looks like a no brainer – achieving a good U.S. trade deal must become a UK priority. Clearly in view of the changing trade landscape, the UK is advised to maximise its trade negotiations around the world and conclude Free Trade Agreements with India and the GCC. India in particular represents one of the world's largest, growing markets. All of these trading partners will have similar concerns to the U.S. regarding dynamic alignment with EU regulations, as they have all raised SPS issues in particular with the EU in the World Trade Organisation.

[21] https://www.lse.ac.uk/News/Latest-news-from-LSE/2024/l-December-2024/brexit-reduced-goods-exports-by-27bn

Conclusion

This document sets out a range of policy actions to deal with the UK's urgent economic crises.

If they were implemented, our tested models indicate that they will restore growth, get the public finances back on track and help lead to an export recovery.

If they are not implemented, the risk is that the problems get worse and that similar measures will have to be implemented at a later stage, but from a worse starting point.