



GROWTH BUDGET



November 2025

The Growth Commission

The Growth Commission is a non-partisan group of international economists analysing public policy and regulatory proposals and how they will affect GDP per capita growth in the medium-to long-term.

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1. Introduction

Chancellor of the Exchequer Rachel Reeves is drinking in the Last Chance Saloon if she wants to rekindle a growing economy before the Government has to face the electorate by 2029.

Governments with a big majority normally use their first Budget to take difficult decisions that in the longer term will benefit the economy.

Instead, Rachel Reeves' first Budget added to the in-built public spending overruns with discretionary decisions to spend more; imposed capital taxes that were widely predicted¹ to damage the UK's economic prospects and have indeed since done so; and imposed tax changes that instead of increasing revenues did such damage to the economy that they made the Chancellor's so-called funding 'black hole' even bigger.

This is why she is now set to come back for more.

The coming Budget on 26th November 2025 is the Chancellor's last chance to make meaningful changes that will lead to a significantly growing economy before the next general election.

Given the starting position, the Chancellor is bound to be initially unpopular, whatever she does. At least, if she follows our advice, she would generate a growing economy and create increasing numbers of jobs by the time of the next election. Given the uncertainties of politics, that might even be enough for her party to win the election – who knows?

We estimate that by 2029, if our policies are followed, GDP per capita will be 4.3% higher than it otherwise would have been, creating a genuine rise in living standards, which otherwise is likely to be close to flatlining. (Projections by Cebr² show GDP per capita at Purchasing Power Parity growing by only 0.8% per annum to 2030 and even this growth is at risk.)

We believe that there is plenty of upside potential for the economy if the Government stops following the wrong policies: the additional growth to 2029 is just a taster of the further growth that could be unlocked. By 2046 GDP per capita could be as much as 18.5% higher than otherwise simply as a result of the policies we propose for this Budget alone, while for previous editions of our *Growth Budget* we have put forward longer lists of policies that we estimate would boost GDP per capita by as much as 28% over 20 years.

Because our proposals would reduce borrowing dramatically, they will create scope for future *Growth Budgets*.

¹ Especially by the Growth Commission – see <https://www.growth-commission.com/2024/10/30/growth-commission-response-to-the-autumn-2024-budget/>

² See Annex 2 of *Prosperity Through Growth: Boosting Living Standards in an Age of Autocracy and AI*, Arthur B. Laffer, Matthew Elliott, Michael Hintze and Douglas McWilliams, Biteback (2025). The book points out that even the modest growth assumed in the Cebr calculations is at risk if large numbers of successful businessmen and entrepreneurs leave the UK in response to its relatively declining status.

Summary of key proposals

One of Ms Reeves' predecessors, Denis Healey, is associated with the phrase 'when you are in a hole, the first thing to do is to stop digging'. In that spirit, the first thing the Chancellor has to do this year is to undo the digging she did in her Budget a year ago by reversing the most damaging of the tax increases announced in October 2024.

Fair taxes

We specifically propose that the changes to non-dom taxation, Capital Gains Tax and Inheritance Tax made in the October 2024 Budget all need to be reversed. In addition, stamp duty on both share trading and on property sales should be abolished. Finally, with such a hangover of negative factors affecting investment in building from planning to restrictions on landlords to taxation, now is the time to bring in tax incentives to encourage investment in new buildings of all kinds, including residential.

Reduce government overspending

As part of returning the economy to rude health, the rise of 991,000 in central government employees in the past 10 years also needs to be reversed. This is an increase of one third – yet there is no evidence of a commensurate improvement in output to match this huge increase in employee numbers. Over the last 20 years local government employment has been cut by 32.9% – one of the reasons why those taking control of local authorities for the first time this year have had so much difficulty finding savings (although there are still economies that can be made). As recently as 2012 there were roughly equal numbers of employees in central and local government; the latest data shows roughly twice as many working in central government today.

The Government appears to be considering improvements in the schemes that have seen massive increases in spending on welfare and Special Educational Needs and Disabilities (SEND), but they are having difficulties in getting their plans through Parliament. The growth in SEND activity in schools is one of the two main driving forces behind the growth in claims for sickness benefits. The Government needs to control all forms of welfare spending by budgeting, by reintroducing in-person interviews, by creating paths back to work and health and by creating incentives to control spending.

We also propose linking old age pensions only to average earnings, thus ending the triple lock.

Total managed expenditure by the government after the last Budget was planned to be £1,471 billion in 2028-29; a year earlier it had been planned to be £1,362 billion. The overrun is £110 billion according to data from the March 2024 and March 2025 OBR Economic and Fiscal Outlook.³

In total our proposals would cut government spending by £105 billion per annum by 2030.

Reduce the deficit before taxes

About half the savings we have identified should be used for deficit reduction; the rest for cutting taxes.

Reversing the capital tax rises from last year's Budget and abolishing stamp duty will actually *increase* revenue in the 2030s; but restoring sensible rates of National Insurance and Income

³ The difference is calculated directly from the unrounded data in the underlying OBR spreadsheets.

Tax will net have to be paid for from the gains from the supply side policy and from spending cuts – so we do not propose them for this Budget.

Remove damaging regulations that impede growth

Because of the need for urgent action, we have scaled down our list of proposals for the supply side to four policies:

- Replace the costly (and not environmentally-friendly) Net Zero programme with ‘Smart Net Zero’ where all actions are carefully cost-justified. If this is not done urgently then we expect about half the major UK manufacturing companies to shut down or move to other jurisdictions;
- Sort out the mix of planning, tax, over-aggressive safety measures and anti-landlord and double tax burdens on rental properties that have led to London housebuilding starts falling to less than one quarter of the average for the current century. The current rate of housing starts in London is the lowest since the 1890s. Planning also needs to be improved by setting up special planning zones where the presumption is that proposals will be approved and by dramatically streamlining the system for infrastructure planning permission.
- Scrap the Employment Rights Bill. It is clear that not only will this damage the economy and specifically the labour market, but that those who will be worst affected will be the poorest, the most disabled, the youngest and those least able to work. It is tragic that a Labour Government is putting forward a Bill that does so much harm to those least able to bear it.
- We propose returning the minimum wage to 60% of the median wage by freezing it until the appropriate ratio – which is in line with international targets set by the EU and the trade union advisory committee to the OECD – is achieved. Most academic studies suggest that until minimum wages reach 60% of median wages, the disadvantages are offset by advantages – but beyond that level the disadvantages grow sharply.

2. The economic outlook

The UK economy

The UK economy is growing sluggishly with GDP per capita officially estimated to be up 0.8% in Q3 2025 compared with a year ago⁴ and GDP estimated to be up 1.3% in the same quarter.

Underneath the surface the growth is very uneven. Government spending is rising strongly (up 1.9% in Q3 in real terms, although since this has to be paid for through higher taxes, the net contribution to GDP will be much lower and possibly negative) and the information and communications sector⁵ is up 4.1% in real terms in the same quarter.

Information and communications (and the associated information-using sectors that make up the so-called 'Flat White Economy') are dragging the economy forward with relatively little support from the rest of the economy.

It is clear that the UK economy in the 2020s has transformed itself radically. Various trends have emerged post-Covid and following the war in Ukraine:

- Willingness to work has diminished. The economic impact of this has varied: well-managed sectors have sustained their productivity, but the least well-managed have seen severe productivity declines.
- The labour force also appears to have declined with more people of all ages preferring to live on benefits.
- High energy prices have more than decimated the manufacturing sector.
- The IT economy has emerged as by far the largest sector in the UK. Definitions and measurements vary, but it is realistic to argue that it accounts for nearly double the share of GDP of the manufacturing sector.
- Exports of manufactured goods have collapsed while those of services have burgeoned.

Looking forward, with AI and a wide range of other enhanced technologies, it is likely that up to half of all jobs that exist currently will either cease to exist or will be radically transformed by 2030.

It is not realistic to attempt to prevent the job destruction from technology. There is a choice, however, about whether we embrace the concomitant job creation. To achieve this, we need strong incentives so that the growing sectors can attract labour from the declining sectors and flexible labour markets so that this can be achieved. Our policies of removing obstacles and reducing tax disincentives are designed to achieve this. Our policies to get people off welfare emphasise the need to help those on welfare develop appropriate skills for the new jobs that will become available.

⁴ As population growth has been faster than that assumed when the ONS made these estimates, it is possible that this number will be revised down.

⁵ Technically the 'Flat White Economy' which mainly comprises information and communication sectors with some information based sectors. For a precise definition see notes at <https://cebr.com/blogs/the-flat-white-economy-is-about-to-go-flat-the-uks-tech-economy-powered-through-the-pandemic-but-looks-likely-to-fall-back-relative-to-that-in-other-countries-in-the-coming-years/>

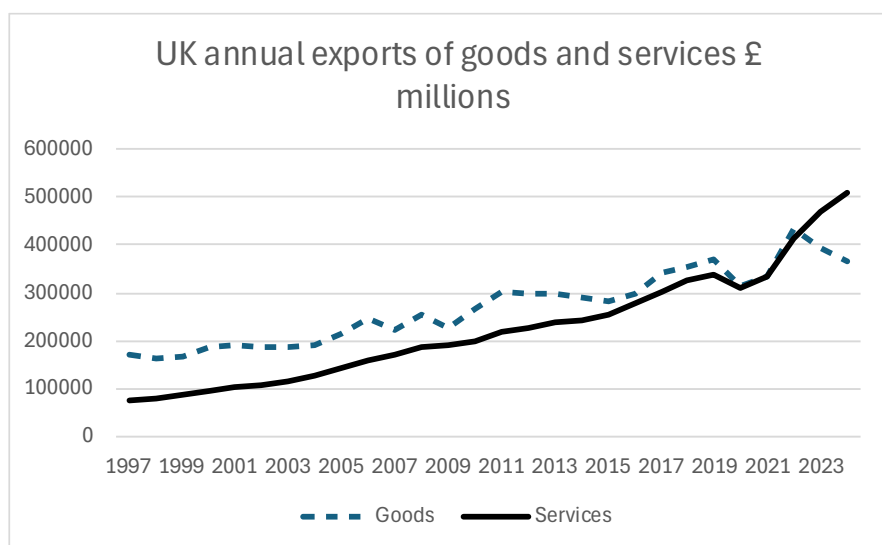
The international economy

The world economy has been transformed by the election in the United States of President Trump. His tariffs will change the shape of international trade. It is plausible to argue (as has The Growth Commission) that the tariffs might eventually lead to a superior international division of trade with fewer non-tariff barriers: at present it is unclear how the negotiations will pan out.

The UK has, as a result of Brexit, negotiated a relatively favourable tariff regime with the United States. But since the UK has become largely a service-based economy with exports heavily biased towards services, it is less affected by these tariffs anyway. The change towards reliance on exported services transforms the UK's international trading position and the country's trading relationships.

*'Most trade agreements focus on goods while fewer concentrate on the service sector. Yet, [as Figure 1 shows], services now account for the bulk of UK exports. The latest data (on 29 July 2025) shows that they comprise 59.2 per cent of total exports of goods and services for the twelve months to May 2025 compared with 40.8 per cent for exports of goods^[1]. Moreover, since exports of goods tend to have a much higher import content, this is especially the case when the value added generated by these exports is measured and the share is even higher. Assuming the ratios for import contents are as they were in 2022 when the most recent input–output tables were produced, the value added generated by exports of services in the twelve months to May 2025 was 68.6 per cent of the total value added generated by exports of goods and services, while that of goods was 31.4 per cent.'*⁶

Figure 1



Separately, most of the major world economies are heavily in debt. This also conditions our proposals since we expect that the bond markets will penalise any country that i) is slow growing (and so can't generate the revenues to get out of debt); ii) appears to have political difficulties in cutting public expenditure; and iii) displays little sign of getting its public finances under control. Currently the UK qualifies on all three counts and so is at risk. Our proposals in this *Growth Budget* are designed to deal with all three of the problems.

^[1] <https://www.gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version#export-statistics>

⁶ *Prosperity Through Growth*, op. cit.

3. Sound money

One of the easiest ways to break an economy is to debauch its currency. This will generally hit those who have saved while giving an unexpected subsidy to those who have overborrowed.

It is not only our intuition that suggests that inflation is bad for growth. Economists have studied the subject empirically to check this intuitive conclusion and discovered that the facts support the theory.

A comprehensive survey article by the National Bureau of Economic Research⁷ reached three important conclusions:

- i) higher inflation *never* boosts growth in the longer term;
- ii) lower inflation generally leads to higher growth; and
- iii) the boost to growth from reducing inflation generally increases, the lower the starting rate of inflation.

*‘As the examples of post-WWI Germany, Zimbabwe, Venezuela and Argentina show, high inflation is associated with value destruction and ultimately lower GDP’.*⁸

It is not fully clear whether the existing UK monetary policy institutions can work; but in this case we are proposing a range of reforms. If the reforms to the existing institutions fail, we will have to propose more fundamental changes to the institutions.

We propose to reform:

- Appointments to the Monetary Policy Committee (MPC) of the Bank of England;
- Support for the MPC; and
- The Office for Budget Responsibility (OBR)

The Monetary Policy Committee

As Figure 2 shows, UK consumer price inflation has burst out of its target 1%-3% band not once but twice in as short a period as the first half of 2020s.

The first episode was associated with the impact of post-Covid supply shortages (themselves heavily correlated with the U.S. monetary policy explosion during the first months of Covid) and the Ukraine war. In the sense that other countries were also in a similar position, some excuses can be made for the MPC, but the UK inflation peak was slightly higher (11.1% as compared to 10.6% in the eurozone and 9.1% in the U.S.).

The second episode is less easy to excuse. The latest figure for UK inflation is 3.8%; this compares with inflation in the eurozone of 2.1% and in the U.S. of 3.0%, in the latter case even after the imposition of substantial tariffs.

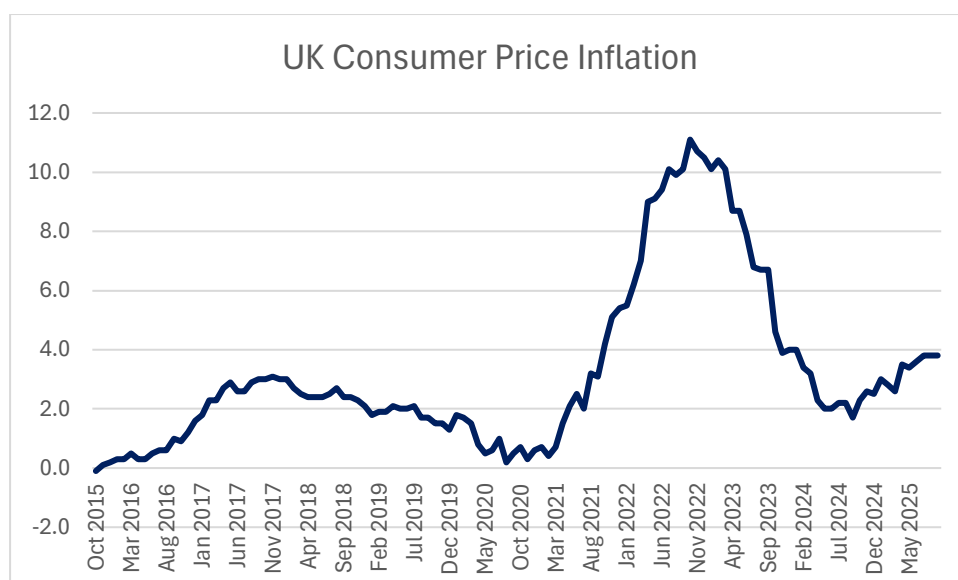
Ex post the MPC has explained the rises as due to government-imposed tax and wage rises pushing up labour costs especially. As these were mainly announced in October 2024, it is amazing that their impact on price rises had not been foreseen. MPC decisions to cut interest

⁷ ‘Does Inflation Harm Economic Growth: Evidence for the OECD’, Javier Andres and Ignacio Hernando, NBER Working Paper 60 (1997)

⁸ NBER, op. cit.

rates on four separate occasions since the October 2024 Budget do suggest a Committee that fails fully to understand what is happening to the UK economy.

Figure 2



Even now, with inflation still running at nearly twice its target rate, there are still members of the MPC persistently voting to cut rates further.

Appointments to the Monetary Policy Committee

There appears to have been some attention paid to the need for diversity of gender and background amongst appointments to the MPC. We welcome this.

But there does not appear to have been an equivalent attempt to ensure that diversity of views about the economy and specifically the forces driving inflation are represented on the MPC.

There has never been a monetarist appointed to the Committee. This is unlikely to be a random result.

The MPC's astonishing failure to foresee inflation – not once but twice within five years when outside observers did predict rising inflation – suggests a degree of groupthink on the Committee, which is dangerous.

The Bank of England

Although a significant part of its day job is to prevent inflation, the Bank of England seems remarkably preoccupied with what might appear to outside observers to be peripheral concerns.

For example, a recent study showed that between 2001 and 2022 there had been 375 speeches by senior officials or documents prepared by the Bank of England referring to climate change⁹. The Bank has a whole department focusing on the subject.

Meanwhile the Bank spends roughly £100 million on research. This is nearly as much as the entire spend by the Economic and Social Research Council on the whole of the social sciences

⁹ [‘Climate policy at the Bank of England: the possibilities and limits of green central banking’](#), Monica DiLeo, *Climate Policy*, Volume 23, Issue 6 (2023)

(£125 million). There seems little evidence that much of this is spent on trying to find out why the Bank is doing so badly at preventing inflation.

The Bernanke Review into the forecasting performance of the Bank drew attention to:

‘The most serious problems we found in our review are the deficiencies of the Bank’s forecasting infrastructure – the tools the staff uses to produce the quarterly forecast and supporting analyses. Some key software is out of date and lacks important functionality. With the staff fully engaged in the production of the current forecast, particularly during periods of extraordinary volatility, insufficient resources have been devoted to ensuring that the software and models underlying the forecast are adequately maintained (updated, stress tested, and periodically re-estimated). In particular, the baseline economic model, known as COMPASS, has significant shortcomings. These deficiencies in the framework, together with a variety of makeshift fixes over the years, have resulted in a complicated and unwieldy system that limits the capacity of the staff to undertake some useful analyses, including producing alternative forecast scenarios, using information gleaned from forecast errors to improve model specifications and forecasting methods, and considering alternative modelling frameworks’.

Given that the Bank consumes roughly half of all the research resources for economics in the UK, these failures are culpable – and hard to explain except in the context of a cosy groupthink world inhabited by Treasury and Bank of England economists, a few favoured academics and journalists. Challenge is not favoured in such groups. A recent speech by the chief economist showed a somewhat patronising attitude towards people who think about the economy in a different way.¹⁰

Our key proposal is that there be a legislative requirement for the Bank to recruit to the MPC representatives of different trains of economic thought about how to keep inflation low. This requirement for diversity of view needs to be given priority over any other kind of diversity; the requirement needs to be monitored by the House of Commons Treasury Select Committee; and the requirement should also influence the Bank’s research programme and its staff appointments.

The Office for Budget Responsibility

The other weak link in the UK system is the OBR. Our complaint about the OBR is different from those of many others. A conventional complaint about the OBR is that it restricts the government’s ability to stimulate the economy and enforces austerity.¹¹

If anything, we feel that it has not been restrictive enough, when most critical commentators complain about (generally) government spending being constrained by OBR limits. Without the OBR, the likely constraints on government policy would in all likelihood be even greater.

The problems with the OBR partly reflect its mandate, partly its forecasting process for understanding the impact of policy changes such as tax rises or cuts and partly its personnel.

The mandate of the OBR requires it to forecast a cyclically adjusted budget deficit, which implicitly assumes a theory that the economy will revert to trend. This in turn encourages an ‘output gap’ methodology.

¹⁰ See <https://www.bankofengland.co.uk/speech/2022/june/huw-pill-speech-at-the-walter-eucken-institute>

¹¹ See for example ‘The OBR and the unintended economic consequences of Mr Osborne’, Nick O’Donovan, *British Politics* (2025) 20:24–32

While it is true that the slack in the economy is worth understanding, it is probably best not to make it completely central to an institution's thinking. Certainly any implicit assumption of automatic reversal to some historic trend has been shown consistently to be a false assumption.

A second major weakness in the OBR's mandate is that much of its forecasting for the impact of tax changes is carried out by HMRC. HMRC lacks the economics firepower to do this in a serious way and tends to produce forecasts for tax changes that are light on any understanding of induced behavioural change.

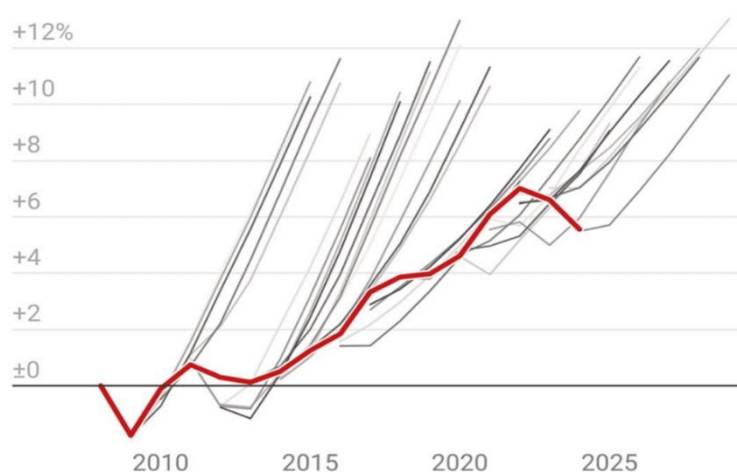
Unusually, there is evidence from the High Court about this. Various aggrieved petitioners (including Heathrow Airport) took HMRC to court over what appeared to the plaintiffs to be palpable errors in the government's estimates of the impact on the economy of the decision to abandon VAT relief on tourists.¹² The reports of the case claim that HMRC's economic assessment was considered 'reasonable, given the circumstances of the time'. What these reports miss was that in evidence it became clear that HMRC had made a series of what were called 'schoolboy errors'. The HMRC evidence was revised a number of times in attempts to correct these errors. While few would disagree with the judges' finding that tax policy should be made by the government and not by judges, the evidence given in the case showed how weak the HMRC analysis was on behavioural aspects of tax changes.

For major policy issues where the OBR itself looks at the impact of policy changes (e.g. the impact of immigration), while we might dispute some of the elasticities that it applies, we generally approve of the process followed.

Figure 3

OBR's optimism on productivity

Forecasts for productivity growth relative to 2008 – and
how it has actually grown



Using YoY forecasts/estimates for productivity growth chained to 2008 and the latest outturn in the year preceding the forecast period

Chart: The Spectator (CYqmD) • Source: OBR historical forecasts database Mar '25 / Spectator

¹² Heathrow Airport Ltd & Ors v Her Majesty's Treasury & Commissioners for HM Revenue & Customs

The fact of the OBR's failure to understand the impact of policy change on the economy is best illustrated by Figure 3 above from *The Spectator* which shows a spectacular inability to understand the evolution of productivity in the UK. We think this is because it has not adequately understood the damaging effects of a range of past tax and regulatory policies that have damaged productivity growth in the UK.

We propose that (like the MPC) the OBR should be overseen by a body that reflects better the wide range of views about the economy in the UK; it should be forced to pay more attention to different views; and it should be encouraged to recruit its staff from a wider range of institutions. This should be enshrined in legislation.

Again, the Treasury Select Committee is probably the best body to oversee this.

We are conscious that pressure to change personnel and approaches may fail, in which case the very existence of the OBR comes into question.

4. Supply side policy

The Growth Commission's objective is to support measures that will lead to increased GDP per capita. In general, this means limited (but not non-existent) government; low taxes; sound money, limited (but again not non-existent) regulation; and free trade.¹³

The exact policies implied by this will depend on the extent to which existing policies distort markets and damage growth.

Our priority this year is to cut back public spending and rein back the worst of the regulations that are damaging growth.

We also propose immediately scrapping the capital taxes introduced in the last Budget that have done so much damage to the UK's growth potential; cutting stamp duties which are widely perceived as damaging the economy; introducing new tax allowances for building; and cutting other taxes in the coming years as fiscal scope becomes available.

On regulation our priorities are to amend or scrap the various rules and regulations that inhibit building of all kinds and to replace Net Zero rules with carefully costed 'Smart Net Zero' rules.

The construction regulation changes, combined with our proposed new tax allowances for building, should rekindle construction activity.

The Smart Net Zero rules which we propose should allow a cut in both industrial and domestic energy prices that have done so much damage to the UK's manufacturing sector.

The initial effects will be to save some of the businesses that would otherwise have shut down; and hopefully, in time, new businesses will be generated.

¹³ These are presented as the 'North Star' to which a government's compass should be set in *Prosperity Through Growth*, op. cit.

5. Government spending

Total managed expenditure by the government after the last Budget was planned to be £1,471 billion in 2028-29; a year earlier it had been planned to be £1,362 billion. The overrun is £110 billion according to the March 2024 and March 2025 OBR Economic and Fiscal Outlook.¹⁴ This follows extensive ongoing spending overruns in previous years (see previous *Growth Budgets*¹⁵).

Planned government spending needs to be cut by £105 billion by 2030. There are five areas for reduced spending:

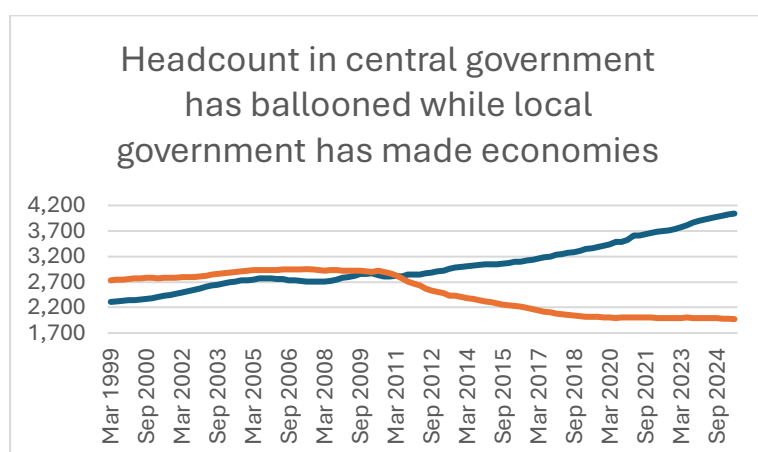
- The massive expansion of central government staff needs to be halted immediately and then reversed
- Public sector pay and pensions need to be brought more closely into line with those in the private sector
- Welfare spending needs to be budgeted and controlled with careful attention to those risking becoming dependent on benefits
- SEND spending has ballooned and now appears disproportional to what the country can afford
- The growth in spending on old age pensions needs to be curtailed by linking the State Pension to average earnings (thus ending the so-called triple lock) and raising the pension age in line with life expectancy

Staffing in local and central government

In June 2016 the number of civil servants was 384,230. By June 2025 this had ballooned to 516,950¹⁶ - a rise of 36%. Over the same period, 'policy staff' numbers exploded by as much as 116%¹⁷ mainly claiming Brexit as an excuse. The total number employed in central government rose from 3,050,000 to 4,041,000 in the decade between June 2015 and June 2025.

Over roughly the same period (March 2015 to March 2025), local government staff numbers fell from 2,284,000 to 1,973,000, a decrease of 13.6%. Over a 20-year period, the number of staff in local government has fallen by 32.9%. Figure 4 shows the different performances of headcount in central government (blue line) and local government (yellow line).

Figure 4



¹⁴ The difference is calculated directly from the unrounded data in the underlying spreadsheet

¹⁵ See for example <https://www.growth-commission.com/2024/10/22/the-autumn-2024-growth-budget/>

¹⁶ Numbers are Full Time Equivalents. Source: Institute for Government at <https://www.instituteforgovernment.org.uk/explainer/civil-service-staff-numbers>

¹⁷ Institute for Government, op. cit.

The obvious question, given these disparate trends, is whether central government has been taking back activities formerly conducted by local government.

This largely has not been the case. Indeed there is a sharp contrast between the changes in alleged powers set out below and the funding.

Because of various bespoke devolution deals and the emergence of metro mayors, in many cases the role of local government has actually been expanded while funding has been sharply reduced:

Budget cuts: The Institute for Fiscal Studies has estimated that central government grants to local authorities have been cut by 49.1% in real terms between 2010 and 2018.¹⁸

Focus on statutory services: Councils have prioritised mandatory, or statutory, services such as adult social care and homelessness support, leading to disproportionate cuts in discretionary, or non-statutory, services like libraries, parks, youth centres and arts development.

So local authorities have had enhanced responsibilities while facing reduced central government subventions.

‘This is because more and more of councils’ budgets are being spent on mandatory services to support vulnerable people, including social care for adults and children, educational support for children with special educational needs and disabilities, and support to address homelessness, including temporary accommodation for unhoused people.’¹⁹

The extent to which local authorities have cut headcount shows that this is possible in government; indeed even we might argue that in certain cases the headcount reductions for local authorities might have been pushed too far.

Meanwhile, the rise in central government staff has been attributed to Brexit. Yet it is hard to attribute a rise of more than 19,000 policy staff to Brexit when the entire total number of staff for the U.S. Trade Representative is 248.²⁰

Much of the staff growth has been in areas where spending is highly discretionary. DCMS (the so-called ‘Ministry for Fun’) has seen its staff numbers grow by 270% since 2010 according to the Institute for Government²¹ while the Cabinet Office has seen its numbers grow by 130%.

Statistics on productivity in government are necessarily subject to measurement issues. And yet the scale of difference in productivity performance between the public and private sectors is unlikely to be simply a function of measurement error.

The comparison between the public sector and the whole economy (which itself would have been dragged down by the public sector’s contribution) is shown in Figure 5. This shows almost non-existent growth in public sector productivity between 1997 and 2024 while that in the whole economy grew by 60%.

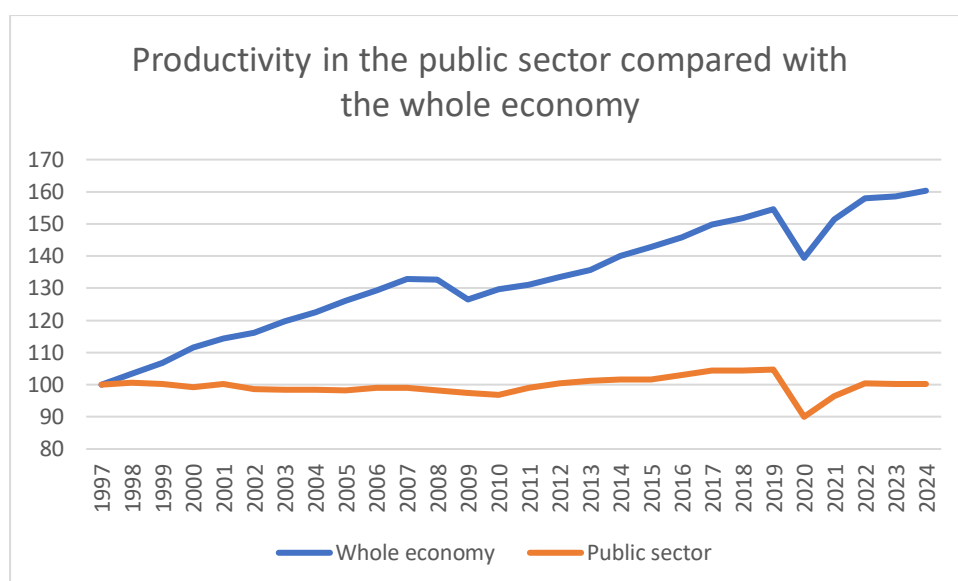
¹⁸ <https://ifs.org.uk/publications/reforming-local-government-funding-england-issues-and-options>

¹⁹ *The Funding and Sustainability of Local Government Finance*, House of Commons Local Government Select Committee <https://committees.parliament.uk/publications/48962/documents/257107/default/> Paragraph 25

²⁰ <https://usafacts.org/explainers/what-does-the-us-government-do/subagency/office-of-the-united-states-trade-representative/>

²¹ Institute for Government, op. cit.

Figure 5



As the author Matt Ridley tweeted about this chart:

*'It is truly one of the great wonders of the world that in the UK, government employees failed to improve their own productivity AT ALL during the period when the internet, the mobile phone, email, e-commerce etc etc were becoming ever more efficient. Staggering achievement.'*²²

Given the success in reducing local government headcount by squeezing budgets and the extraordinarily weak level of productivity in central government, one suspects that an equivalent squeeze in central government departmental budgets could have an equivalent impact.

Moreover, it is highly likely that over the coming years there will be increasing AI tools that can boost productivity in the public sector. The Tony Blair Institute (TBI) has argued (in this case looking at local authorities which have already faced budgetary squeezes):

*'To understand the potential, TBI partnered with one local government to map the tasks that were performed by its staff to our unique database of 19,000 tasks ranked according to the potential impact of AI. The analysis showed that using AI could automate or improve at least 26 per cent of tasks – or one million hours of work per year – which is equivalent to a productivity gain of £30 million per year.'*²³

This was translated into a likely £8 billion annual saving in local authorities alone.

Scaling from this and allowing for the likely lower productivity starting point in central government, it would appear that there should be productivity gains of around £50 billion relatively easily available for the whole public sector.

This is not very different from the conclusion of the Tony Blair Institute review which estimates £40 billion a year AI savings in central government²⁴ though over a slightly longer period.

²² <https://x.com/mattwridley/status/1983092111126712360>

²³ <https://institute.global/insights/politics-and-governance/governing-in-the-age-of-ai-reimagining-local-government>

²⁴ <https://institute.global/insights/economic-prosperity/investing-in-britains-future-ten-priorities-for-the-spending-review>

Total savings from a reduced central government headcount should also attempt to recoup some of the additional cost of low productivity in the past – a target annual rise in productivity of 2% would not be unreasonable. Over four years this should lead to a saving of nearly £20 billion.

Public sector pay and pensions

Given the lack of productivity growth in the public sector, attention has focused on public sector pay which has grown roughly in line with the private sector and is currently rising faster (in the most recent month for which data is available, September, public sector pay is up 8.9% compared with 4.3% for the private sector, according to the ONS²⁵).

In the private sector, pay increases normally reflect higher productivity; in the public sector they are generally automatic.

Meanwhile the cost of public sector pension payments is also rising sharply – from £45 billion in 2022-23 to a forecast £59 billion in 2026-27.

Currently average public sector pay is 7% higher than in the private sector. There is a case, given the weakness of productivity and the generous pensions, for making economies. We have budgeted £10 billion for this over 10 years.

Welfare savings

Spending on welfare has risen sharply under both the previous government and this present government.

There are some demographic factors that contribute to this but the main driving forces have been dramatic increases in the number of children assessed as requiring support for special needs and in adult claims for sickness benefits.

Special needs

To quote from the Institute for Fiscal Studies (IFS),²⁶ there has been a massive increase in numbers of children receiving special needs support. The IFS points out that:

‘...numbers in receipt of CDLA and EHCPs have increased significantly over time. Between 2010 and 2025, the share of pupils under 16 in England with an EHCP rose from 2.8% to 5.2% and the share of children under 16 receiving CDLA has more than doubled from 2.8% to 7.2%.

‘Among 4- to 15-year-olds (a more comparable group to pupils), the share with CDLA is even higher at 8.9% in 2025. The trends for each follow slightly different patterns, with the increase in CDLA claimants starting earlier and increasing more gradually over the entire period since 2010, while the increase in pupils with EHCPs has mostly occurred since 2018; however, both have seen steep increases over the past few years.

‘The number of CDLA claimants with the highest level of care needs has increased particularly sharply since around 2020. Finally, the share of pupils with SEN support but not an EHCP has fluctuated more dramatically since 2010 but has seen a consistent increase over the last decade from 11.6% of pupils in 2016 to 14.0% in 2025’.

²⁵

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletin/s/averageweeklyearningsingreatbritain/october2025>

²⁶ [IFS Green Budget 2025](#)

To quote the IFS again:

'For both CDLA and EHCPs, a large portion of the increase in caseload is made up of increased cases relating to autism and to ADHD (attention deficit hyperactivity disorder). The increase in EHCPs has been almost exclusively driven by increases in autism, social and emotional and mental health needs (which include ADHD), and speech, language and communication needs.'

The IFS also comments that:

'Although there is evidence that the nature of the support systems for disabilities affects how many people seek diagnoses (Ranjan and Breunig, 2025), there are clearly also broader-based reasons behind the rise in reported neurodevelopmental conditions and disabilities among English children that apply globally, beyond any changes to systems and incentives that have taken place in England.'

The IFS also notes that many of the claimants for sickness benefits as adults follow on from special needs claims as children:

'First, children receiving CDLA often move on to adult disability benefits. When a child who receives CDLA turns 16, they are invited to apply for personal independence payment (PIP), the primary benefit for adults with health conditions or disabilities. More people are claiming disability benefits at all ages from 0 to 64 now than they were five or ten years ago.'

Breaking down by age:

'In percentage terms, we have seen fastest growth in claims since 2019 for under-16s (+66%) and 16- to 40-year-olds (+70%) and slower growth for over-40s (+36%). Part of the increase in disability benefit claims amongst young adults is due to more children moving from CDLA to PIP at age 16. Currently rising child disability benefit claims imply further rises in disability benefit claims amongst young adults.'

The IFS sets out various options for reforming the system to save money.

First, it argues that the assessment system needs to be reviewed. There seems to be evidence that the severity of disability for those getting benefits has diminished over time.

Second, it argues that levels of support could be reduced, given that the average level of disability is lower.

Third, it argues that the cost could be reduced, for example by focusing more on support for special needs pupils in mainstream schools rather than in purpose-built special schools.

There is also an argument that spending on this should be budgeted. There currently is no connection between the decision to spend on special needs and the funding of it – the Treasury is just expected to send a cheque.

The current level of spending associated with special needs is about £20 billion. This is forecast to keep rising. At a minimum there is a case for tightening assessments and linking assessments to the cost of support through budgeting. Being realistic, though, the main financial gains from this are less in limiting the growth in spending in this area and more from limiting the pass through to adult benefits.

Adult benefits

Spending on welfare has grown from £261.5 billion in 2022-23 to an estimated £326.1 billion this year (2025-26) – and it is projected to rise further to £373.4 billion by 2029-30. Spending on

health-related benefits in today's prices rose from £38 billion in 2019-20 to £57 billion in 2024-25. Driving this increase is an increase in claimants, mainly for mental health and behavioural disorders.

There appear to be four weaknesses in the system that have caused the costs to climb so rapidly (and indeed without intervention these causes may mean that the costs will climb further).

First, assessment is often not made face-to-face and there is no incentive for the assessor to refuse a claim – indeed most of the incentives are for an assessor to accept a claim, which is easier and takes less time. It is widely believed that potential claimants can game the system fairly easily with instruction on how to do so proactively being shared on social media.

Second, as with special needs, there is no budget. An assessment is made and if the claim is accepted, the bill is simply sent to the Treasury.

Third, there is a large gap between being accepted and not – in reality there are degrees of sickness but the system does not distinguish between such degrees.

Finally, there is little attempt made to try to get people off benefits by providing pathways back to work.

Since prolonged absence from the workplace is a contributory factor in most mental illnesses, the system is almost certainly exacerbating the problems it is trying to solve.

Ultimately we suspect that the only way to cap the rising cost of welfare is to set a budget limit. We propose freezing the budget at 2025-26 levels in real terms.

Being realistic, most of the savings from this will be longer term, but the cap would reduce the budget for 2029-30 by £20.6 billion.

Pensions for the elderly

We repeat our previous submission that the triple lock for pensions be replaced by a single lock linking pensions to average earnings and that the pension age be raised to 67 in 2026 and to 68 in 2044 provided that increases in longevity continue.

Research for the House of Commons Library²⁷ suggests that abolishing the triple lock could lead to a saving of £9.8 billion by 2028-29 compared with indexation to average earnings.

Defence and infrastructure spending

We are conscious of the potential need to raise spending on both defence and infrastructure.

We have deliberately not included increases in such spending for this Budget. This reflects two factors: first, the latest Budget already incorporates short-term rises in both budgets; and second, we believe that with targets for spending on both likely to be set as a particular percentage of GDP, the immediate priority is to raise the denominator.

Without rising GDP, even existing budgets are likely to come under pressure. But our planned budget is likely to allow scope for raising spending in specific areas in future budgets.

²⁷ <https://researchbriefings.files.parliament.uk/documents/CBP-7812/CBP-7812.pdf>

Total savings

We have added up the savings from the different factors covered above. These are shown in Table 1. By 2029-30 they total £105 billion.

Table 1

Total public sector savings by 2029-30 (£ billion)	
From AI	40
From additional efficiency	20
From public sector pay and pensions	10
From sickness benefits	20
From special needs support	5
From abolishing the triple lock	10
Total savings	105

6. Fair Taxation

The UK's taxes are a disincentive to enterprise. We have a range of recommendations to fix this.

Ideally half the £105 billion of spending cuts we propose should be used to finance tax cuts; but this year we are focusing only on those taxes that actually lose money in the relatively short term and on the need to incentivise building.

The four taxes that lose money relatively quickly and that therefore can be abolished or reformed at minimum cost are:

- Inheritance Tax
- Stamp duty
- Capital Gains Tax
- Non-dom taxation

Inheritance Tax

One of the taxes that most damages the economy is Inheritance Tax (IHT). Many other countries – and particularly those which are potential targets for emigrating Brits – have abolished it.

In the medium term all our modelling indicates that abolition of IHT raises GDP and raises more revenue than the tax would raise. We have modelled the impact of abolition on GDP and on net tax raised. Within eight years abolition causes more tax in total to be paid than would be lost from keeping the tax.

Meanwhile we estimate that the positive effect on GDP builds up to 1.4% after 20 years. This is because of a myriad of effects: people who might otherwise leave the UK opt to stay; entrepreneurs who might not otherwise come to the UK choose to come; older people keep working longer; and people save and invest rather than spend.

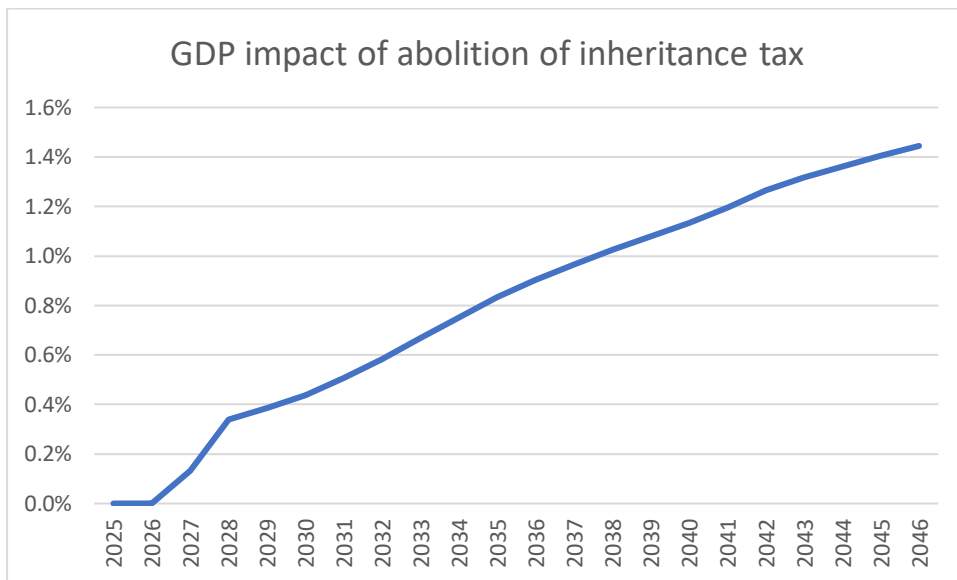
Many countries have abolished IHT in recent years:

- **Austria:** Abolished its inheritance and gift tax in 2008.
- **Brunei:** Repealed its taxes in 2013.
- **Canada:** Does not have a federal or provincial inheritance tax. However, assets are deemed to have been sold at fair market value upon death, and any increase in value (capital gain) is taxable.
- **Estonia:** Has never had an inheritance or estate tax.
- **Hong Kong:** Repealed its estate duty in 2006.
- **Latvia:** Has never levied an inheritance or estate tax.
- **Liechtenstein:** Repealed its taxes in 2011.
- **Macau:** Has no inheritance, estate or gift tax.
- **Malta:** Has no inheritance or gift tax, though stamp duty applies on certain assets.
- **Mexico:** Generally does not impose an inheritance tax, though local stamp taxes or other fees may apply on inherited real estate.
- **New Zealand:** Abolished inheritance and estate taxes in 1992.
- **Norway:** Abolished its inheritance tax in 2014.

- **Portugal:** Abolished its traditional inheritance tax in 2004. A 10% stamp duty (*Imposto do Selo*) is charged on gifts and inheritances of Portuguese assets, but direct family members (spouses, children and parents) are exempt.
- **Singapore:** Abolished its inheritance tax (estate duty) in 2008.
- **Slovakia:** Eliminated its inheritance tax in 2004.
- **Sweden:** Abolished inheritance and gift taxes in 2005.
- **United Arab Emirates:** Does not have an inheritance tax.

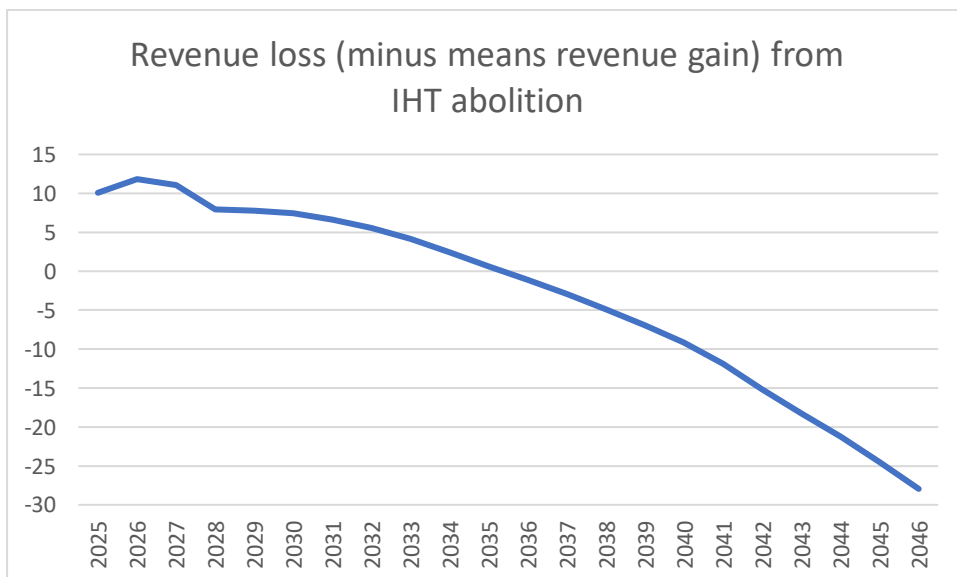
This is not to say that abolition is initially cost-free. The impact on GDP from abolition is shown in Figure 6 below.

Figure 6



The net tax take from abolition is shown in Figure 7 below. Ultimately abolition is likely to provide a tax benefit of £30 billion, but this does not emerge immediately. Note, however, that these estimates are based on the government's own estimates of revenue from the tax which are probably on the high side.

Figure 7



Stamp duty

Stamp duty on shares

A detailed study by the Centre for Policy Studies and Oxera²⁸ came to the following conclusion about abolition of stamp duty on share transactions:

'A permanent increase in GDP of between 0.2% and 0.7% may be expected. The government's annual tax-take may increase by £2.1bn–£6.8bn (as a result of an increase in GDP), minus a £3.8bn reduction in the annual tax-take due to the loss of stamp duty receipts.'

Our own initial analysis suggests that these numbers may be overly cautious, but we have used the Oxera numbers for our calculations.

Stamp Duty Land Tax

The OBR expects the amount raised from property transaction taxes, of which Stamp Duty Land Tax (SDLT) is the main contributor, to rise from £15.6 billion this year (2025-26) to £29.5 billion by 2029-30. This rise looks highly improbable given the depressed state of the property market and seems to be based on wildly optimistic assumptions of movements in prices and transaction volumes.

SDLT is widely accepted as one of the most damaging taxes:

- It reduces housing market activity and transaction volumes
- It reduces labour mobility
- It contributes to house price volatility
- It creates regional inequality: since SDLT is a progressive tax linked to property value, it disproportionately affects areas with high house prices, such as London and the South East

An analysis by Cebr of the potential impact of making the Covid-era SDLT holiday that existed from July 2020 to March 2021 permanent concluded:²⁹

'This report presents a comprehensive analysis of the fiscal impacts of making the current stamp duty holiday permanent, drawing from a wealth of academic literature and government data. The key findings are:

- *Extending the stamp duty holiday would be close to fiscally neutral, with the new tax revenues generated by higher consumption and housing market activity compensating for between 78% and 86% of the original loss of stamp duty income.*
- *Holding property prices and transaction numbers constant, extending the stamp duty holiday would lead to a £4.0 billion decline in revenues from Stamp Duty Land Tax (SDLT), Land and Buildings Transactions Tax (LBTT) and Land Transactions Tax (LTT).*
- *However, our analysis shows that the reduction in the rate of stamp duty would lead to 37,000 additional property transactions taking place each year, generating £266 million in revenues annually.*

²⁸ [Stamp duty on shares: analysis of its economic impact and the benefits of its abolition](#), prepared for the Centre for Policy Studies, 26 February 2024

²⁹ <https://cebr.com/reports/the-fiscal-impact-of-a-permanent-stamp-duty-holiday-for-kensington-mortgages/>

- *If the stamp duty holiday were to be made permanent, HMRC's derived elasticities suggest that future UK house prices would be on average 1.7% higher than they otherwise would have been. These higher property values would have a positive effect on SDLT, LBTT and LTT receipts, leading to £256 billion in additional revenues each year.*
- *Our analysis further shows that the 1.7% increase in house prices would lead to an estimated 0.26% increase in household consumption. This additional economic activity would generate estimated tax revenues of £2.2 billion per year.*
- *Making the stamp duty holiday permanent would reduce UK households' collective stamp duty burden by £3.4 billion each year. In our lower-bound estimate, we assume that this will stimulate £1.0 billion of consumption, generating £384 million in tax revenues each year. In our upper-bound estimate, aggregate consumption rises by £2.0 billion per year, leading to a £735 million increase in tax revenues.'*

For a tax that the economics profession almost unanimously claims to be especially harmful, it is somewhat surprising to see so little quantified analysis of the impact of abolition other than that by Cebr.

It is likely that the profile of economic impacts is more likely to be an initial impact as blocked transactions come to the market, followed by a lull, then a gradual build-up of positive economic impacts as the benefits to the labour market and the right sizing of the property market work their way through the economy; however, we have prepared our costings using the Cebr assessment that the net effects are 20%-30% of the impact of the gross effects over 20 years.

Capital Gains Tax

The current system of Capital Gains Tax following the 2024 Autumn Budget is that those paying the tax pay:

- 24% on gains from residential property
- 32% on gains from 'carried interest'³⁰ if you manage an investment fund
- 24% on gains from other chargeable assets

Business Asset Disposal Relief means Capital Gains Tax is payable at:

- 14% on all gains on qualifying assets disposed of from 6th April 2025
- 10% on all gains on qualifying assets disposed of on or before 5th April 2025

Last year's Budget raised most rates of Capital Gains Tax by four percentage points.

Rates are proposed to rise by a further four percentage points in April 2026.

Our modelling suggests that the combination will reduce GDP by 1.5% after 10 years.

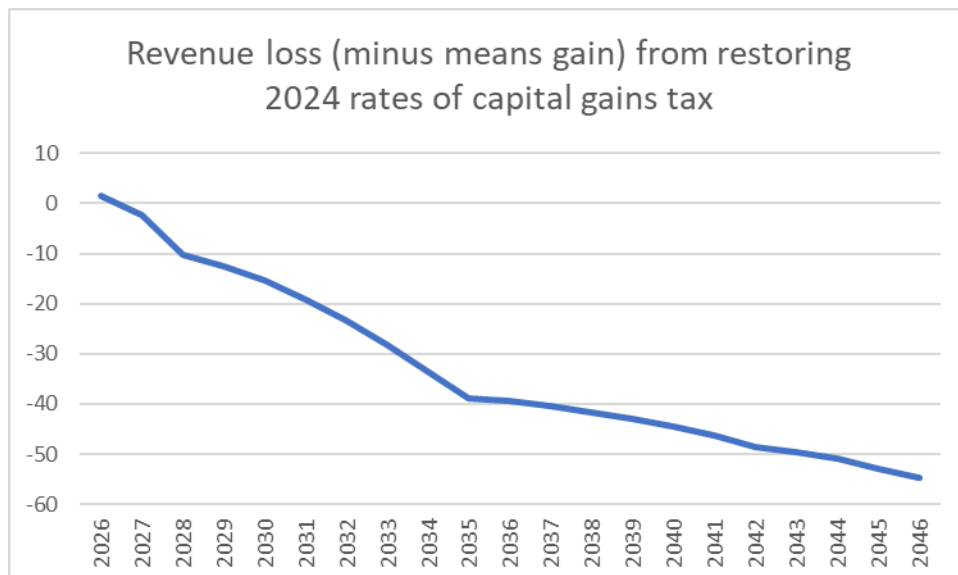
Because Capital Gains Tax strikes hard at the main gain to entrepreneurs from investment, in the longer term it does proportionately more damage to growth than virtually any other tax.

Our calculations suggest that restoring Capital Gains Tax to its pre-2024 position would provide an almost immediate revenue gain that builds up to more than a £50 billion annual gain over 20 years, as shown in Figure 8 below.

³⁰ See <https://www.gov.uk/hmrc-internal-manuals/investment-funds/ifm36510>

There is also an interesting option, put forward by Ryan Howsam with calculations by Cebr, for allowing a low rate of Capital Gains Tax in return for an up-front fee. Cebr estimates that this could eventually bring in up to £99 billion a year after 25 years. This might be an alternative potential reform with similar results to our proposal.³¹

Figure 8



Non-dom taxation

The UK had a successful taxation regime for non-doms (those deemed to be resident but not domiciled in the UK) prior to 2024 which enabled talented people from abroad to work in the UK while paying tax on what they earned in the UK, but not on other earnings.

This raised substantial tax revenue and boosted GDP considerably.

But the politics of envy caused the basis of taxation to be changed. The following changes were announced in the two budgets in 2024.

Spring Budget 2024 changes

The Conservative Government in March 2024 announced a phased approach to end the ‘remittance basis’ of taxation for non-doms and replace it with a new regime based on residency:

Four-year foreign income and gains (FIG) regime: New arrivals would not pay UK tax on foreign income and gains (FIG) during their first four years of UK residency, as long as they had been non-resident for at least the previous 10 years.

Transitional rules for existing non-doms: A two-year transition period was proposed for existing non-doms, allowing them to bring foreign wealth into the UK at a reduced tax rate.

Move to residence-based IHT: The plan included moving to a residence-based system for Inheritance Tax, with a 10-year residency test for worldwide assets.

³¹ See <https://ryanhowsam.com/cebr-report/> for details and costings

Autumn Budget 2024 changes

The Labour Government, after winning the July 2024 election, announced its final set of reforms in the Autumn Budget 2024, altering aspects of the previous government's plan.

Immediate abolition of the remittance basis: The new rules eliminated the remittance basis for all non-doms from 6th April 2025, rather than phasing it out.

Revised four-year FIG regime: New arrivals meeting the 10-year non-residency requirement can still benefit from the four-year FIG regime. However, longer-term residents who were previously taxed on the remittance basis now pay UK tax on their worldwide income and gains.

Extended and revised transitional relief

Temporary Repatriation Facility (TRF): The transitional period for remitting pre-April 2025 foreign income and gains was extended from two to three years. A discounted tax rate of 12% applies for the first two years (2025-26 and 2026-27) and 15% for the final year (2027-28).

Capital Gains Tax (CGT) rebasing: Individuals who claimed the remittance basis between 2017-18 and 2024-25 can elect to rebase the value of personally held foreign assets to their 5th April 2017 market value for CGT purposes.

Inheritance tax changes

Trusts: Protections for offshore trusts, which allowed non-doms to hold foreign assets outside the UK Inheritance Tax net, were removed for those who do not qualify for the four-year FIG regime.

Residence test: The new regime applies a 10-out-of-20-year residence test to determine liability for Inheritance Tax on worldwide assets.

Overseas Workday Relief (OWR): The OWR was also reformed and is now available for four years, aligned with the new FIG regime. It is also subject to an income cap.

The results of these changes have proved dramatic and disastrous. It is estimated that a quarter of the non-doms affected by the tax have already left the country; and it is likely that most of the remainder will eventually do so.

From the changes in the 2024 Spring Budget, the government estimated a potential gain of approximately £3 billion a year once the system had settled down and transitional arrangements worked through.

From the changes in the 2024 Autumn Budget, the government estimated a potential gain of £6 billion, again once transitional arrangements had been worked through.

Both numbers are illusory.

The economics consultancy Cebr estimated that³²:

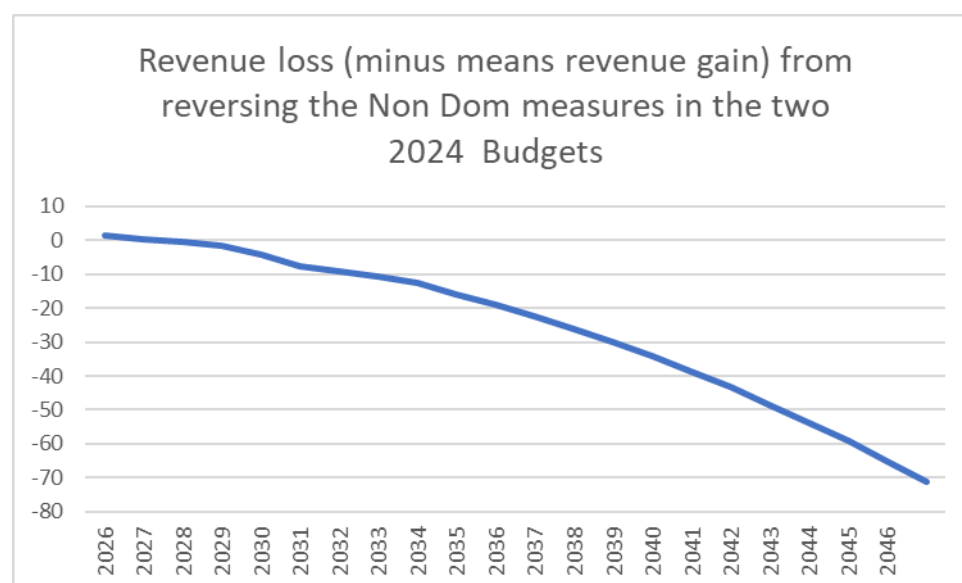
‘Under our central scenario (25% emigration), the following macroeconomic impacts are estimated:

³² <https://cebr.com/reports/new-report-shows-non-dom-changes-will-halve-chancellors-fiscal-headroom-if-25-of-those-affected-leave/>

- Output will be 0.04% (£1.1 billion) lower relative to the OBR's baseline, by the end of the current parliament. Cumulatively, economic activity is £3.9 billion lower over the parliament.
- Total tax receipts will be £4.6 billion lower than forecast by the OBR in the final year of the forecast, more than halving the headroom available to the Chancellor. Receipts are a cumulative £17.0 billion lower under the current parliament.
- We estimate there will be 3,200 fewer private sector jobs than the OBR's forecast by 2029.
- Consumption is set to be £1.1 billion lower than the OBR's forecast in the final year of the forecast. The cumulative figure is £3.8 billion.
- Business investment is estimated to be £0.03 billion lower in each year of the forecast relative to that of the OBR, giving cumulative losses of £0.2 billion.'

Using the Cebr methodology and stretching it further ahead, we estimate that abolishing these measures will boost GDP in 20 years by 2.3% and boost tax revenues by an annual amount building up to £65 billion over 20 years (see Figure 9).

Figure 9



Tax allowances on structures

One area where the UK is definitely behind the rest of the world is on tax allowances on structures.

Currently the UK allows for expenditure on non-residential structures to be written off for tax purposes at a rate of 3% for 33 1/3 years.

This makes no allowance for inflation or for the cost of money, although the cost of borrowing is of course tax relieved separately.

There is no relief on residential structures.

The Tax Foundation's analysis³³ of the UK's position on tax expensing buildings places the UK in the lower part of the OECD league, as show in Table 2.

Table 2

Country	Buildings Rank	Buildings Allowance
Estonia	1	1
Latvia	1	1
Lithuania	3	0.827
Mexico	4	0.63
Canada	5	0.625
Iceland	6	0.602
Italy	7	0.577
Switzerland	8	0.555
France	9	0.548
Korea	9	0.548
Slovakia	9	0.548
Belgium	9	0.548
Portugal	9	0.548
Czech Republic	14	0.543
Finland	15	0.519
Luxembourg	16	0.479
Sweden	16	0.479
Australia	16	0.479
Ireland	16	0.479
Greece	16	0.479
Israel	21	0.479
Turkey	22	0.431
United Kingdom	23	0.391
Slovenia	23	0.391
Denmark	23	0.391
Germany	23	0.391
Spain	23	0.391
Norway	28	0.374
United States	29	0.35
Austria	30	0.338
Netherlands	30	0.338
Poland	30	0.338
Chile	30	0.338
Colombia	34	0.306
Japan	35	0.279
Costa Rica	35	0.279
Hungary	35	0.279
New Zealand	38	0
OECD Average		0.476

The UK is estimated to allow 39% tax recovery on expenditure on buildings, well below the OECD average of 47.6%.

Ultimately, we would like to move corporate tax to being charged only on distributed earnings. In the absence of such treatment we propose:

- 1) Faster writing down at 6% for investment in buildings; and
- 2) Extension to residential structures

³³ <https://taxfoundation.org/data/all/global/capital-allowances-cost-recovery-2025/>

There is strong evidence that allowing companies fully to offset capital expenditures for tax increases both capital expenditure and growth.

The Tax Foundation found:

‘Any cost recovery system that does not allow the full write-off of an investment—full expensing—in the year the investment is made denies recovery of a part of that investment, inflates the taxable income, and increases the taxes paid by businesses.’³⁴ Lower capital allowances increase the cost of capital, which leads to slower investment and a reduction of the capital stock, reducing productivity, employment, and wages³⁵.

‘Prior research has found evidence that investment is sensitive to changes in the cost of capital. In a literature review, economists Kevin Hassett and R. Glenn Hubbard found “a consensus has emerged [among economists] that investment demand is sensitive to taxation.” In other words, as a result of either longer asset lives or a higher corporate income tax rate, the demand for capital decreases and levels of investment decline, reducing the growth in the capital stock’³⁶. A 2023 study finds that investment is also sensitive to inflation. In a scenario with a corporate tax rate of 22 percent, a depreciation rate of 25 percent, and an inflation rate of 2 percent, a one-percentage-point increase in inflation reduces the optimal investment level by 0.42 percent.’³⁷ A reduction in the capital stock leads to lower wages for workers and slower economic growth³⁸.

‘In recent years, more empirical results on such investment effects have emerged. A 2017 study by economists Eric Zwick and James Mahon shows that bonus depreciation implemented in the United States raised investment in eligible capital relative to ineligible capital by 10.4 percent between 2001 and 2004 and by 16.9 percent between 2008 and 2010. In addition, their findings showed that small firms are dramatically more sensitive to the policy change than large firms’³⁹.

‘A study conducted by economists Giorgia Maffini, Jing Xing, and Michael P. Devereux estimates the effect of accelerated depreciation allowances the UK introduced in 2004. Their results show that “the investment rate of qualifying companies increased 2.1-2.5 percentage points relative to those that did not qualify.”⁴⁰ Economists Yongzheng Liu and Jie Mao found that China’s switch from a production-based VAT to a consumption-based VAT—meaning there is now an investment tax credit—also had a positive effect on investment’⁴¹.

³⁴ Another—although slightly more complicated—way to achieve full cost recovery is a neutral cost recovery system. Under that system, write-offs are spread over time, but the deferred amounts are increased each year at a market interest rate to preserve a net present value equal to expensing. See Stephen J. Entin, [The Neutral Cost Recovery System: A Pro-Growth Solution for Capital Cost Recovery](#).

³⁵ Stephen J. Entin, [The Tax Treatment of Capital Assets and Its Effect on Growth: Expensing, Depreciation, and the Concept of Cost Recovery in the Tax System](#)

³⁶ Kevin A. Hassett and R. Glenn Hubbard, [‘Tax Policy and Business Investment’](#), *Handbook of Public Economics* 3 (2002)

³⁷ Sebastian Beer, Mark Griffiths and Alexander Klemm, [‘Tax Distortions from Inflation: What are they and How to Deal with them?’](#), *IMF Working Papers* 23:18 (January 2023)

³⁸ Stephen J. Entin, [The Tax Treatment of Capital Assets and Its Effect on Growth: Expensing, Depreciation, and the Concept of Cost Recovery in the Tax System](#)

³⁹ Eric Zwick and James Mahon, [‘Tax Policy and Heterogeneous Investment Behavior’](#), *American Economic Review* 107:1 (January 2017): 217–248

⁴⁰ Giorgia Maffini, Jing Xing and Michael P. Devereux, [‘The Impact of Investment Incentives: Evidence from UK Corporation Tax Returns’](#), *American Economic Journal: Economic Policy* 11:3 (August 2019): 361-89

⁴¹ Yongzheng Liu and Jie Mao, [‘How Do Tax Incentives Affect Investment and Productivity? Firm-Level Evidence from China’](#), *American Economic Journal: Economic Policy* 11:3 (August 2019): 261-91

In 2022-23, the latest year for which data is available, 18,640 companies claimed capital allowances for buildings, on qualifying expenditure of £8,245 million. A rise of 3% in the rate at which these buildings could be written off would have a deadweight cost of £245 million. More likely, a higher writing off rate would encourage both more spending and more claims so the number would grow, but associated revenues from other taxes on the expanded GDP, with higher individual and business incomes and consumption spending, would also be higher.

Since total investment in non-residential buildings and structures in the UK in the most recent financial year was £176 billion, it seems clear that uptake of capital allowances on buildings in the UK is below what is theoretically possible. Meanwhile equivalent investment in residential buildings and structures was £107 billion.⁴²

The maximum total annual deadweight cost of expensing at 6% for all structures would be 3% of £176 billion + 6% of £107 billion = £11.7 billion. But if uptake is on the scale of that for current capital allowances on buildings, the cost will be much lower at £540 million only. Our instinct is that the cost would be closer to the higher figure.

Impact on GDP

The Tax Foundation in 2019⁴³ estimated that full expensing for all structures in the U.S. would boost long term GDP by 2.8%; the capital stock by 7.0%; wages by 2.4% and employment by 0.4%. Bearing in mind that the existing starting point in the UK is different and that we are proposing 6% depreciation rather than complete full expensing, it would be sensible to assume a lower impact. We have very provisionally assumed a GDP boost of 1.9%⁴⁴ with the other impacts scaled.

The higher GDP would generate increases in wages, profits and consumption, leading to additional revenue from taxes on income, employment and profits and from higher VAT receipts.

We estimate a tax cost break-even point of five years, with peak net costs of about £8 billion in years two and three and net revenue yields of £20-£30 billion after year 10.

Total impact of tax changes

We have estimated the total potential impact on GDP of our proposed measures.

As we stated earlier, we have prioritised measures with an early impact. Taking all our proposed tax measures together, they are predicted to add 3.9% to GDP by 2030; 6% by 2035 and over 7% in the longer term.

⁴² Both figures from ONS gross fixed capital formation database at <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/grossfixedcapitalformationbysectorandasset>

⁴³ <https://taxfoundation.org/blog/full-immediate-expensing/>

⁴⁴ Scaled from the Tax Foundation's calculation for the U.S. using BEA and ONS data for capex on structures

7. Getting the right balance for regulation

As with our tax proposals, we have prioritised proposals for improving regulation that can have an early effect. These are in three areas:

- ‘Smart Net Zero’;
- Planning deregulation; and
- Labour market deregulation – including bringing the minimum wage as a proportion of the median wage into line with international practice

‘Smart Net Zero’

Smart Net Zero means:

- 1) Repealing the Climate Change Act;
- 2) Repealing most environmental legislation; and
- 3) Ensuring all decisions relating to climate change have to be balanced against the economic consequences using realistic carbon cost estimates.

Currently climate change targets are uncoded; and many are counterproductive.

It cannot be environmentally-friendly to put up the cost of energy to a point where production moves to more carbon-emitting environments.

It cannot be environmentally-friendly to legislate to force vehicles to use more carbon-intensive forms of propulsion that happen to be the flavour of the month for noisy protestors.

It cannot be environmentally-friendly to use imported fossil fuels rather than carefully regulated, domestically produced fuels.

Smart Net Zero means costing every environmental action carefully and only imposing those where economic costs are outweighed by environmental benefits and repealing past legislation that fails this test.

Energy prices

One of the consequences of the UK’s confused energy price system and ideological pursuit of Net Zero is excessive energy prices. These have made manufacturing in the UK uneconomic; much of what remains is likely to shut down or decamp unless our prices become competitive.

Currently, according to the government itself, very large electricity users pay 126% above the EU 14 norm (Table 3) while domestic electricity users pay 76% above the IEA median (Table 4); and industrial gas users pay 7.8% above the EU14 average.

Table 3 – Cost of industrial electricity for very intensive users in 2024 pence per kwh⁴⁵

Finland	5.2
Sweden	5.3
France	6.6
Spain	7.2
Portugal	8.3
Denmark	8.9
Belgium	9.5
Greece	10.7
Austria	11.4
Italy	11.9
Germany	12.0
Netherlands	15.6
Ireland	16.4
UK	22.9

Table 4 - Domestic electricity prices in 2024 pence per kwh⁴⁶

USA	5.3
Norway	7.1
Canada	7.4
Finland	8.1
Sweden	8.8
Turkey	10.1
Korea	11.0
New Zealand	11.6
Denmark	12.2
Portugal	12.4
Japan	13.2
Spain	13.3
Luxembourg	15.1
Greece	15.2
France	16.3
Belgium	18.1
Austria	18.2
Hungary	18.3
Netherlands	19.7
Slovakia	19.7
Poland	20.0
Czech Republic	20.6
Germany	21.0
Italy	23.5
Switzerland	24.4
Ireland	24.8
United Kingdom	26.6

⁴⁵ Source: Department for Energy Security and Net Zero (sourced from IEA data)

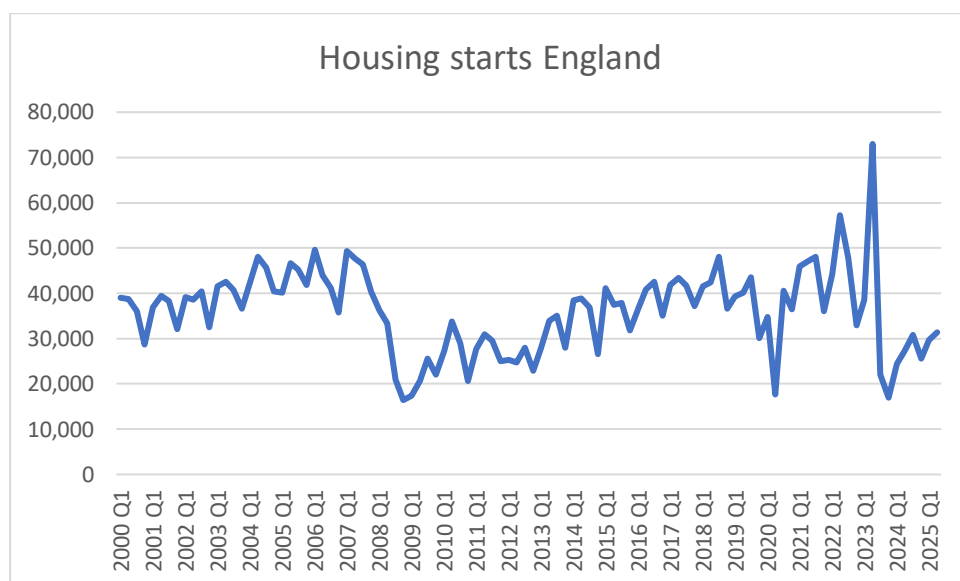
⁴⁶ Source: Department for Energy Security and Net Zero (sourced from IEA data)

Our proposed changes to environmental policy will bring energy prices down and enable the survival of many businesses that would otherwise shut down or leave the UK. We have made a cautious estimate that GDP would be boosted by 3.1% by 2046 by these proposals.

Planning

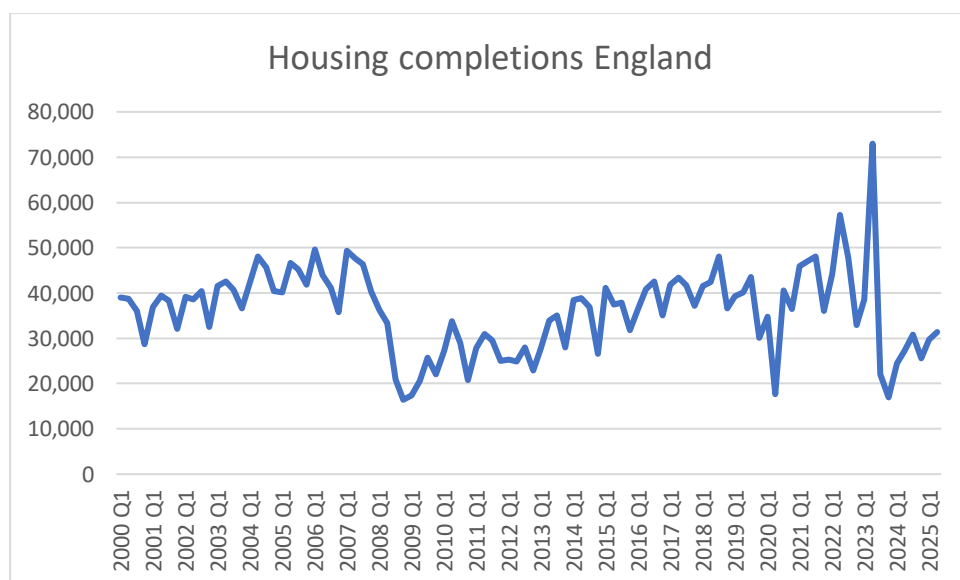
The Government has talked about planning reform and indeed introduced a Planning and Infrastructure Bill. Sadly its other policies are largely operating against development and as a result national levels of housing starts remain close to their post-Covid/Ukraine war depressed levels – see Figure 10 and Figure 11 below.

Figure 10



UK planning regulation has dramatically increased in complexity in recent decades. Combined with population increases, the result has been an increased shortage of houses, as a result of which house prices have remained very strong even after a sharp rise in interest rates.

Figure 11



There are three areas where the country's planning rules especially damage the economy:

- They lead to an artificial shortage of housing, exacerbated by net migration;
- They impede commercial developments; and
- They make new infrastructure very hard to build, leading to backlogs in many areas, especially transport and energy.

Applying our micro model to planning, we find that planning improvements will lead to improvements on the competition pillar which translate to the following GDP per capita gains:

Planning and housing policies to reduce the cost and time to register property could result in an improvement in the Property Rights Index. This could in turn lead to an increase in GDP per capita of 0.2% to 0.4%.⁴⁷

Similarly, the Domestic Competition Index could increase through an improvement in the 'Regulatory Quality' sub-component, which is based on the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Improvement in these sub-scores could lead to increases in GDP per capita of up to 0.3%-0.4%.⁴⁸

But we estimate that the overall gains from improving planning are rather larger than implied by these calculations because of the peculiarly large blockages in the UK imposed by the planning process.

Housing

Studies in different countries show significant crowding out impacts from high house prices, damaging the growth of the rest of the economy.⁴⁹ We have made estimates of this, showing the considerable impact of 1.9% of GDP.

The economist Liam Halligan, in his book *Home Truths*⁵⁰ and in his evidence to the House of Commons Housing, Communities and Local Government Committee, has recommended additional measures to support housing including the charging of penal rates of Council Tax on land with planning permissions which have not been built on and a 50-50 rule for sharing the value of property uplift from planning permissions between the local authority and the developer⁵¹.

Retail and Hospitality

The McKinsey study commissioned by Gordon Brown attributed the bulk of the 40%-50% of the productivity differential in the hospitality and retail sectors in the UK compared with the U.S. to

⁴⁷ This represents the GDP per capita increase from an improvement in the sub-score to the same level as the best performing country.

⁴⁸ Same as above. It should be noted however that many factors other than housing and planning policies also impact regulatory quality.

⁴⁹ *How Real Estate Booms Hurt Small Firms: Evidence on Investment Substitution*, Harald Hau and Difei Ouyang (May 2, 2018). Swiss Finance Institute Research Paper No. 18-38, available at SSRN: <https://ssrn.com/abstract=3174761> or <http://dx.doi.org/10.2139/ssrn.3174761>

⁵⁰ *Home Truths: The UK's chronic housing shortage - how it happened, why it matters and the way to solve it*, Liam Halligan, Biteback (2019)

⁵¹ <https://committees.parliament.uk/writtenevidence/2743/pdf/>

the inefficiencies and lack of competition caused by the planning system.⁵² This implies a loss of productivity in these sectors alone equal to about 3% of GDP.

Other sectors

In general we recommend the adoption of an Australian-style zoning system for planning with the presumption that planning applications should be successful, provided that they are in line with zoning.

Infrastructure

A recent analysis by Sam Dumitriu points out that⁵³ ‘at a cost of £676m per mile, British projects are 2 times more expensive than projects in Italy or France, 3 times more expensive than Germany, and a whopping 6 times more expensive than Spain’.

The bulk of this difference in costs reflects the UK’s planning system. It has been reported that⁵⁴ ‘The planning documentation for the Lower Thames Crossing, a proposed tunnel under the Thames connecting Kent and Essex, runs to 360,000 pages, and the application process alone has cost £297 million. That is more than twice as much as it cost in Norway to actually build the longest road tunnel in the world.’

Recommendations

We recommend speedier resolution of planning issues. This can be accomplished by a range of policy tools.

First we advocate the concept of a trusted developer for whom expedited planning is possible. Second, where a planning application is in line with the zonal planning system, we advocate an expedited review where if a decision is not made within weeks, planning permission is deemed to have been granted.

The UK currently has a discretionary, regulatory approach to planning as opposed to a zoning approach. There have been some suggestions of the UK moving to a hybrid approach involving elements of zoning and discretion, as per an MHCLG paper in 2020⁵⁵.

The UK could also apply concepts like outline planning permission for known and trusted entities. The MHCLG paper does envisage automatic outline planning processes, and suggests some ideas typically found in zonal approaches to planning. The MHCLG paper also advocates the greater reliance on technology and electronic submissions as opposed to the paper-based system still used in UK planning.

A one-stop shop for planning processes would also simplify the process. There does need to be a much simpler process for analysing the environmental impact and the specific role of statutory consultees.

At the moment, since statutory consultees have no growth duty and only a prudential concern, there is no incentive for them to move quickly or to consider economic effects in their submissions. There is also no incentive to input their views on a timely basis, and the reality is

⁵² McKinsey Global Institute, *Driving productivity and growth in the UK economy*, 1st October 1998 Report

⁵³ <https://www.samdumitriu.com/p/britains-infrastructure-is-too-expensive>

⁵⁴ <https://www.cityam.com/lower-thames-crossing-planning-application-becomes-uks-longest-ever-at-more-than-350000-pages-and-costing-almost-300m/>

⁵⁵ MHCLG (2020), [White Paper: Planning for the Future](#), Ministry of Housing, Communities & Local Government

that their comments very often come in at the latest possible stage, slowing the process down considerably.

Local councils are also deeply concerned about the possibility of judicial review and this creates a culture where it is easier to say no to development than to allow it. Once again, if courts were required to consider the economic growth impact of proposed development, this would shift the burden regarding planning processes and judicial review.

For large projects of national importance in particular, we recommend streamlined planning that will reduce planning delays by at least 75%.

Renters' rights

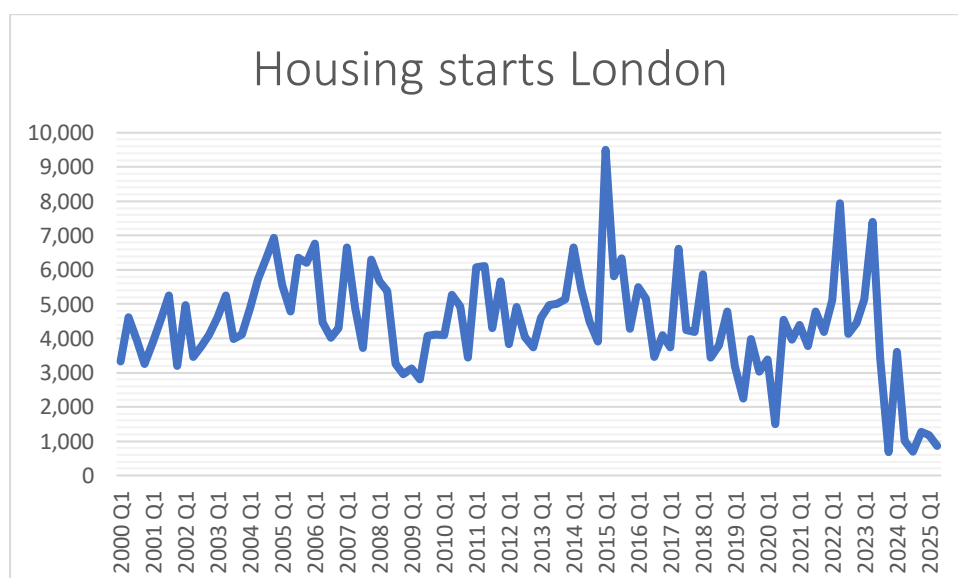
In recent years politicians have introduced various anti-landlord items of taxation and legislation, despite widespread examples around the world (as well as in the UK) showing that such policies reduce the supply of housing and especially the supply of rental housing. An active private rental market is essential for labour mobility and the damage done from recent legislation and increased taxation for the economy is considerable.

We propose the repeal of the related tax and legislative changes from the past 10 years.

Post-Grenfell Tower safety

New building in urban areas has also been affected by draconian legislation with the intention of improving safety after the tragic Grenfell Tower fire. The legislation is assessed by most experts as severely flawed. The Centre for Cities concludes that this legislation does little to improve safety but a lot to reduce the supply of housing (which itself creates a safety issue).⁵⁶ One of the consequences is the dramatic fall in urban housing starts illustrated by the data for London in Figure 12 below.

Figure 12



From 2000-2019 housing starts in London averaged 4,619 per quarter; in the past year (Q3 2024-Q2 2025) this has dropped to a quarterly average of 1,003. Developers largely attribute this to

⁵⁶ <https://www.centreforcities.org/reader/breaking-the-bottlenecks/dual-staircase-requirements/>

the onerous safety regulations post-Grenfell Tower and to legislation increasing taxes on and reducing protection on landlords.

We propose the repeal of the more onerous items of the post-Grenfell Tower legislation – particularly the two staircase rule for new developments and the new rules on fire safety inspections (at least until sufficient trained inspectors come into existence).

Labour market

A further area where the UK is a poor performer in the Growth Commission's ACMD model is in the area of labour market flexibility. The UK's 2019 score is 5.4 whereas the highest performer, Singapore, is 1.5 points above the UK (which is a significant difference). This is *before* the Employment Rights Bill (see below) comes into force which will further reduce the UK's score, bringing it into line with some of the worst performers in Europe.

Labour market flexibility is a particularly important element of the Domestic Competition pillar because it relates to the voluntary exchange of the provision of labour between a willing seller of that labour and a willing buyer. Lack of flexibility in these arrangements ties the hands of both buyer and seller in these cases.

Of course, labour protections to prevent abuse and exploitation are necessary, but the data suggests that the UK's comparatively poor scores in this area are holding back its economy, and the balance between labour protections and voluntary exchange in the provision of labour services is more restrictive in the UK than is optimal. Returning the UK to a better balance could unlock significant amounts of GDP per capita.

The policies holding back the UK's score in this part of the model are:

- Minimum wage
- Associational right
- Paid annual leave
- Notice period for redundancy dismissal
- Severance pay for redundancy dismissal
- Labour force participation rate
- Restrictions on overtime work
- Redundancy dismissal permitted by law

If the UK were to optimise⁵⁷ its score in labour market flexibility, it could expect an associated increase of 4.6%-5.1% in GDP per capita.

We assume that it will not be practical to implement all the policies that might bring the UK into line with Far Eastern economies, but even catching up with Australia would raise GDP per capita by 1.9%.

Impact of Reduction in Labour Market Flexibility for UK

But far from making the UK's labour market more flexible, the Government instead is introducing measures that will have the opposite effect.

⁵⁷ This represents the GDP per capita increase from an improvement in the sub-score to the same level as the best performing country. The lower end of the range is the result from a model which controls for both country and time fixed effects whereas the higher end of the range is given by the model with country fixed effects.

Table 3

Sub-pillar change (Labour flexibility)	Δ DC	Impact % on GDP (and GDP per capita)	£ per person (≈)	£bn GDP change (≈)	New GDP level (≈)
-0.5	-0.125	-1.4%	-£554	-£38.0bn	£2.673tn
-1.0	-0.250	-2.8%	-£1,108	-£75.9bn	£2.636tn
-2.0	-0.500	-5.6%	-£2,217	-£151.8bn	£2.559tn

The Growth Commission has analysed the impact of the Employment Rights Bill on the UK labour market (see Table 5 above) and concludes that GDP per capita will be between 1.4% and 2.8% lower as a result of the legislation if implemented within 10 years, leading to a loss of annual GDP of between £38 billion and £76 billion and a loss of GDP per person of between £554 a year and £1,108 a year.

The extent of the impact will depend on the extent to which proposed revisions, particularly to probation periods, are incorporated into the Bill. But even the lowest potential impact suggested by the model is a multiple of the £5 billion cost estimated by the Government.

The analysis uses the Growth Commission's Anti-Competitive Market Distortions Model to quantify the likely impact if the Bill is implemented. The Bill introduces a new statutory probation period, new rights for zero-hours workers, changes to Statutory Sick Pay, day one paternity and parental leave, changes to prevent the use of fire and rehire and new rights for workers to increase access to union recognition and representation.

The Bill is likely to move the UK into line with other European countries which typically have much higher rates of unemployment. Spain, the country whose labour laws will be most similar to those in the UK if the Bill is implemented, currently has an unemployment rate of 10.5%, double the UK's 5.0%. The higher unemployment rate is concentrated on young people and other new or marginal entrants to the labour force.

The model scores each country for labour market distortions and measures an impact on GDP based on that score.

With the UK trying to escape sluggish growth, this Bill will further harm the UK's economic prospects. It is a particularly bad time to hit the labour market which is still struggling with the recent sharp rise in the minimum wage and the rise in employers' National Insurance Contributions.

Minimum wage

The minimum wage was introduced at a rate of 46% of the median wage in 1999 and stayed below or around 50% until 2010.

What has changed since then is that the minimum wage has risen dramatically as a percentage of the median wage from the initial figure of 46%. Its proposed rate for 2026 of 66% of the median wage will be the highest in the advanced economies and well above the OECD average of 54%.

The case for a minimum wage is to prevent exploitation when employers have too much control in the labour market; the case against it is that it increases employers' cost base. In some circumstances this is unaffordable and jobs are destroyed – often those of the most marginal members of the labour force with physical or mental disabilities or new migrants. In other circumstances the costs are passed on and lead to higher inflation which requires higher unemployment to squeeze it out.

Where a minimum wage can have a positive effect is if it is paid for by higher productivity. But productivity performance in the UK has deteriorated since the minimum wage started rising sharply so there seems scant evidence of this potentially favourable outcome occurring.

The most comprehensive academic research on the impacts of a minimum wage, an international study in 2019, concludes:

*'Recent work helped identify how this impact may vary by the level of the minimum wage. **Across US states, the best evidence suggests that the employment effects are small up to around 59% of the median wage.***⁵⁸

The Growth Commission has two econometrically estimated models which we have used to analyse an issue like this. The micro model suggests that scrapping the minimum wage would add 1.36%-1.49% in GDP per capita. The macro model suggests that reducing the minimum wage from 66% of the median wage to 60% would in 20 years' time add just over 0.8% to GDP per capita. This is what we propose, which would leave the minimum wage in line with the 60% proposed for the EU and above the rate of 55%-60% proposed by the trade union advisory committee to the OECD.

Although the sharply rising minimum wage isn't the only factor keeping up wage inflation, it is almost certainly a contributor. The higher the rate of underlying wage inflation, the more unemployment will have to rise to bring price inflation under control.

⁵⁸ 'Impacts of minimum wages: Review of the International evidence' by Arindrajit Dube, University of Massachusetts Amherst, National Bureau of Economic Research, and IZA Institute of Labor Economics https://assets.publishing.service.gov.uk/media/5dc0312940f0b637a03ffa96/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf (author's bolding)

8. The effects of our measures

We have estimated the impact of the measures proposed for the forthcoming Budget. We calculate that taken together they would boost GDP by 18.5% and allow for tax cuts and other measures to boost growth in future Budgets. Importantly, they would add 4.3% to GDP in 2029, which is the latest year in which the next general election could be held.

Figure 13

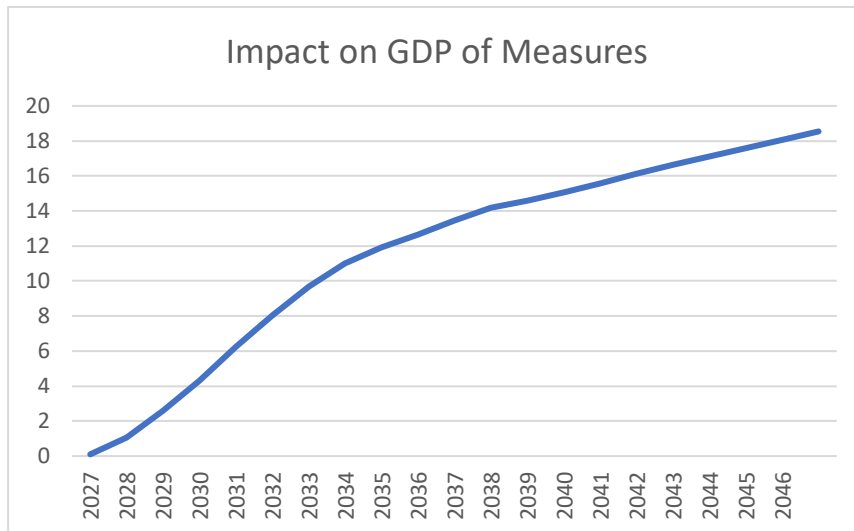
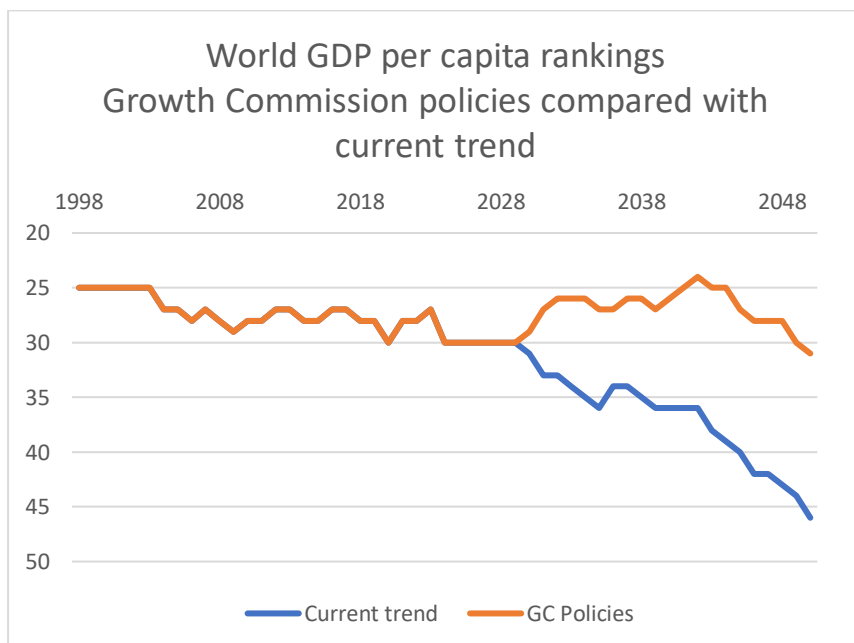


Figure 14



As Figure 14 shows, this would staunch the relative decline which is likely to pull the UK down the World Economic League Table in the coming years.

We estimate that these measures alone would leave the UK in 31st place in 2050 compared with 46th place on the present trend.



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