



THE  
**GROWTH**  
COMMISSION

# **2026 Spring Statement Briefing**

**Policies to sustain the cyclical recovery**

**26th February 2026**

## 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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## Introduction

HM Treasury set the scene for the Spring Statement as follows:

*‘The Chancellor of the Exchequer Rachel Reeves has asked the Office for Budget Responsibility to prepare an economic and fiscal forecast for publication on 3 March 2026.*

*‘As set out at the Budget, the Spring forecast will not make an assessment of the government’s performance against the fiscal mandate and will instead provide an interim update on the economy and public finances.*

*‘The government will respond to the March forecast through a statement to Parliament, in line with the government’s commitment to deliver one major fiscal event a year at the Budget.’<sup>1</sup>*

This submission updates the Growth Commission’s *Growth Budget 2025*<sup>2</sup> which we released before last November’s Budget and sets out the Commission’s views on how best to help sustain what appears to be an incipient cyclical recovery.

## Summary

We welcome the improved economic prospects; but the cyclical recovery is likely to prove fragile unless it is supported, not hindered, by policy.

With AI and other technological changes likely to revolutionise business, the UK will be badly placed to take advantage of such changes unless we:

- reduce overspending in central government
- reform our labour markets
- make housing more available
- make energy cheaper and more abundant
- make education more likely to be transformed into marketable skills
- reform the tax system so that it limits the penalties paid for success and encourages the young and talented to stay in the UK
- commit to avoiding anti-growth own goals in the regulatory sphere

All major economic changes have positive and negative effects. Unless our policies are adjusted to assist growth, we risk facing the negative effects as the economy transforms without the corresponding benefits.

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<sup>1</sup> <https://www.gov.uk/government/news/chancellor-announces-date-of-spring-forecast>

<sup>2</sup> <https://www.growth-commission.com/wp-content/uploads/2025/11/GROWTH-BUDGET-2025.pdf>

## The updated economic forecast

Some of the historic data for growth for 2025 is slightly weaker than had been expected at the time of the November Budget.

But since then most indicators have suggested that a recovery is beginning. In particular retail sales in January recovered sharply, by 1.7% in a month, reaching their pre-Covid levels for the first time in six years. Real incomes are rising while the accumulated savings from the Covid era and beyond provide a cushion to support spending. As consumer spending is about 70% of UK GDP, a recovery in consumer spending provides momentum for a rise in GDP.

We would not normally place too much faith in the implications of a single month's figures, but both consumer and industrial surveys also report an improving mood. Moreover, recent borrowing figures suggest that the fiscal deficit for 2025/26 will come in below the November OBR forecast.

On the other hand, it is clear that the incipient recovery is fragile:

**Employment and unemployment are not sharing in the recovery yet.** The UK now has higher youth unemployment than the EU for the first time since records began in 2000. Although these are lagging indicators, surveys indicate weak hiring intentions. We discuss the impact of policy on employment further below.

**Much of the growth is based on the tech sector.** The so-called 'Flat White Economy', with 25% of Index of Service turnover, has accounted for 60% of the Index of Services turnover growth in 2025<sup>3</sup>. This sector has been boosted by Brexit, which in the UK has been kept beyond the reach of the EU's Digital Services Act, its Digital Markets Act and its AI Act. The Government's EU 'reset' places the UK's most dynamic sector at risk. Moreover, excessive labour market regulation and expensive (and possibly unavailable) energy both risk holding back the expansion of AI and limiting the upsides of AI while ensuring that the downsides are maximised.

There are a number of other factors to consider:

- There are political risks: the Government's political unpopularity places it in hock to backbenchers whose commitment to fiscal probity is questionable.
- Policy variations internationally are at best unsettling and could impinge disproportionately on the UK which has a high ratio of exports to GDP.
- The mood in business remains subdued. Although business investment had a good start to 2025, as the year went on growth subsided.

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<sup>3</sup> For more detail see: <https://www.linkedin.com/pulse/starmer-might-well-have-chosen-worst-possible-time-get-mcwilliams-zywhe/?trackingId=FvLxF9lCt8k3%2BUqajrvuxg%3D%3D>

- High energy prices and lack of capacity hold back not only the manufacturing sector but also increasingly the AI sector through the constraints on data centres.
- The combination of anti-landlord legislation, the government’s failure to deal with the key difficulties from planning and the post-Grenfell Tower safety requirements have caused a collapse in housing starts. In London they have fallen lower than at any point in the twentieth century *to their lowest level since the 1890s*.
- It appears that a new wave of emigration is underway, although the new data only goes back to 2020 and so historical comparisons are difficult. To some extent this reflects the more general increase in international mobility; but to the extent that those leaving are higher earners – probably taking their wealth with them – or those with higher skills, they create a loss of productive potential to the economy.

## Policy prescriptions

With growth fragile and susceptible to technological and international pressures, it is important to make the underlying driving forces more supportive of long-term growth.

We set out our views in our *Growth Budget 2025*<sup>4</sup>. We particularly wish at this juncture to emphasise and update our proposals in seven particular areas.

### 1. Central government spending should be brought under control and its cost reduced

Recent governments have had a good record (possibly too good) in restraining public spending at a local level. But, on the other hand, they have continued to spend incontinently at central government level.

In 1999 for every ten local government employees, there were only eight employed in central government. By 2025 this had risen to 21 (see Figure 1 below).

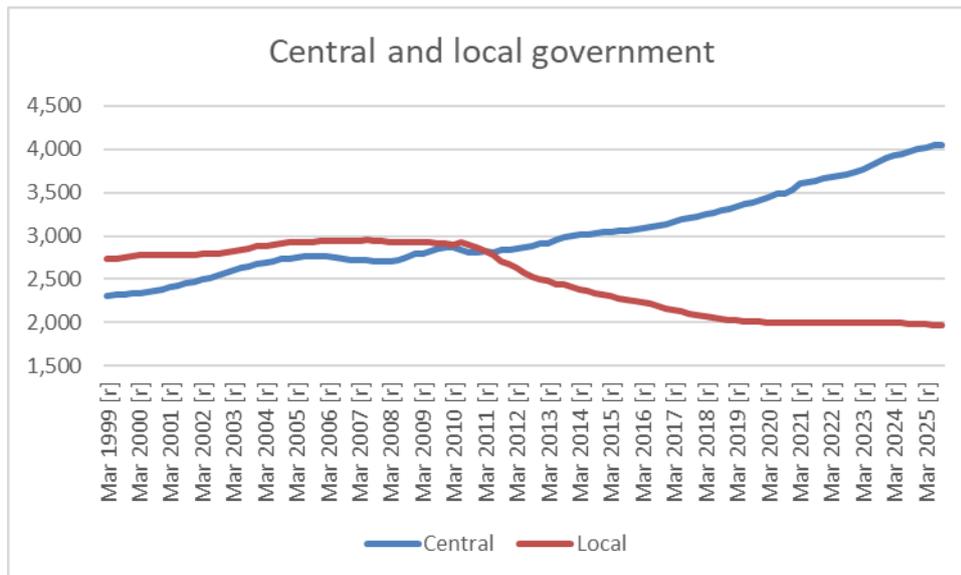
Central government has certainly become more complex. Whether this justifies the scale of the increase in staff is much less obvious. Brexit might have been a driver, but whether it can justify the growth of 116% in the number of policy civil servants since mid-2016 as noted by the Institute for Government<sup>5</sup> is at best arguable. This is particularly so because the departments that have grown fastest have been those such as DCMS which were least affected by Brexit.

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<sup>4</sup> Op. cit.

<sup>5</sup> <https://www.instituteforgovernment.org.uk/explainer/civil-service-staff-numbers>

Figure 1 How trends in employment in central government and local government compare<sup>6</sup>



With public sector numbers needing to be squeezed, it would be easy to restrain costs. Pay growth in the public sector remains excessive – 7.2% in the year to Q4 2025 compared with 3.4% in the private sector. This is on top of generous benefits such as pensions.

Both central government numbers and costs need to be scaled back.

## 2. Revise employment rights to create a fair balance between employer and employee

With major technological changes such as AI shaking up the world of employment, it is even more important than in the past that the labour market has sufficient flexibility to absorb changing requirements.

These technological changes will create some job losses but are also likely to create potential job gains elsewhere. An inflexible labour market would leave the UK facing the job losses without the commensurate job gains.

Since November 2025’s *Growth Budget*, what was then the Employment Rights Bill has become law as the Employment Rights Act. The Growth Commission has used its Anti-Competitive Market Distortions Model to quantify the likely impact of the measures and made an estimate of the likely total hit to growth after incorporating late changes to the legislation. We have concluded that the total long-term hit to GDP will be £38 billion.<sup>7</sup>

<sup>6</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/datasets/publicsectoremploymentreferencetable>

<sup>7</sup> <https://www.growth-commission.com/2025/12/08/employment-rights-bill-now-calculated-as-causing-a-likely-38-billion-hit-to-the-economy/>

The legislation will not only hold back GDP growth but even more will hold back hiring. This will likely impact in particular more marginalised groups including young workers, minorities and disabled people.

Backing up the Growth Commission’s calculation, the latest hiring report from the Chartered Institute of Personnel and Development observes:

*‘Employer hiring intentions remain at the lowest level on record since we began collecting this measure in 2014, apart from during the first year of the pandemic.’<sup>8</sup>*

The report also backs up the Growth Commission estimate that the cost to the economy will be much larger than the government has assessed:

*‘Three-quarters of employers expect the Employment Rights Act (ERA) to increase their employment costs. Approximately two in five employers expect to hire fewer permanent workers due to the key ERA reforms. Over half of employers anticipate an increase in workplace conflict because of at least one of the key ERA changes being introduced’.<sup>9</sup>*

On top of the additional inflexibility as a result of the Employment Rights Act, rises in the minimum wage and in Employers’ National Insurance contributions have forced UK employment costs sharply upwards. This has also impeded hiring and especially that of younger, less-experienced workers.

### **3. Planning and housing regulation needs to be freed up to encourage developers to build and landlords to invest**

A constant theme of Growth Commission reports is the damage done by a range of policies affecting the housing market.

We focus here on three areas:

**1. The Government’s planning reforms have failed.** The reason for this is that the reforms assumed the main obstacle to development was so-called ‘Nimbies’ objecting at a local level to increased development in their area. Although these were a facet of resistance to development, the government’s own 3,000 pages of environmental legislation was a much bigger hurdle and failure to reform this has left the planning system still not fit for purpose. The Growth Commission continues to propose policy that planning rules be proportionate, economically based and subject to sunset clauses.

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<sup>8</sup> Bon, E. and Cockett, J. (2026) *Labour Market Outlook – winter 2025/26*, London: Chartered Institute of Personnel and Development.

<sup>9</sup> Ibid.

**2. Health and safety legislation also need to be proportionate.** It is likely that the post-Grenfell Tower reforms such as the requirement of two staircases for all new buildings of more than 18 metres (bizarrely measured from the bottom of the building rather than from the ground) will do sufficient economic damage to lead to more damage to health and premature deaths than the fire itself.

**3. Anti-landlord legislation and its threat has reduced the supply of rental properties.** Since December 2022 this has caused rents to rise by 22.8% at a time when weak housing demand meant that house prices had only risen by 2.7%.<sup>10</sup> Experience around the world, including recently in Scotland, has shown that anti-landlord legislation hits tenants most. The latest legislation prevents landlords from evicting tenants, making them only able to do so when they have a specific, legally valid reason, known as a ‘possession ground’; it bans fixed-term tenancies; it makes rent increases hard to achieve; it forbids bidding for tenancies; and it forces landlords to provide written agreements about terms. This destroys that part of the rental market that has always existed on informal terms.

To restore the housing supply, there needs to be reform of planning, health and safety and landlord and tenant legislation.

## 4. Energy costs need to be reduced to help the UK economy

A new report from the Centre for Policy Studies<sup>11</sup> goes into some detail about how market mechanisms could be reintroduced into the energy market both to ensure adequate capacity and reduce cost. It points out that UK industrial energy costs are around 90% higher than in competitor markets and domestic energy costs are about 20% higher. This imposes a competitive disadvantage.

With AI and data centres likely to require a 14% increase in capacity by 2030, there is a serious risk that progress will be held back by lack of capacity or excess cost.

The CPS report promotes a new policy paradigm based on abundance, markets and competition, arguing for:

- 1) The explicit goal should be energy abundance and enduring cheap prices for consumers
- 2) Markets will do a better job of picking the capacity mix than government – whether renewables, nuclear or new technologies

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<sup>10</sup>

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/february2026>

<sup>11</sup> *Power to the Markets* by Dillon Smith & Sean Ridley, Centre for Policy Studies, February 2026  
[https://cps.org.uk/wp-content/uploads/2026/02/CPS\\_POWER\\_TO\\_THE\\_MARKETS-1.pdf](https://cps.org.uk/wp-content/uploads/2026/02/CPS_POWER_TO_THE_MARKETS-1.pdf)

- 3) Subsidies should have sunsets: while novel technologies will require government support as they scale up, they should not be reliant on this over the longer term
- 4) All technologies should compete on a level playing field, bearing the same set of risks and costs – so that the cheapest ones win out
- 5) For mature technologies, risk should sit in the private sector, not be socialised via consumers
- 6) The domestic retail market should be driven by innovation and competition, not overbearing regulations and price controls
- 7) Further competition in our transmission and distribution networks should be encouraged alongside ever-sharper locational price signals
- 8) Government’s primary role should be in ensuring security of supply, not dictating the shape of the market. Get this right, and Britain can become a nation of cheap, abundant power. Get it wrong, and we will be locking in managed decline.

It is so important that the UK gets energy policy right and moves beyond the arguments about green and other energies. Environmental rules for energy need to be economically based, not ideologically based.

In this way the energy for a new era of economic development can become available. Without it energy is likely to be in short supply and expensive, holding back the whole economy.

## **5. The financing of Higher Education needs to be such that it does not discourage graduates from getting productive jobs**

There has been an interesting discussion following a report in the *Financial Times*<sup>12</sup> showing that, seemingly uniquely compared with other countries, the extent of the excess pay received by graduates in the UK – the so-called ‘graduate premium’ – has collapsed from 80% when the expansion of Higher Education started in 1997 to 45% in 2022, one of the lowest in the world. Interestingly this fall does not appear to apply for STEM subjects (Science, Technology, Engineering and Maths).

There is substantial speculation about the reasons for the UK’s unusual performance. Obviously one might expect that an increase in supply might eventually reduce the relative price, but the experience of other countries does not yet support this, although following the expansion of AI it might well do so in the future.

The Growth Commission argues that the biggest problems are twofold:

First, the system of financing Higher Education does not distinguish between less rigorous courses with low value in the jobs market – what some might coin ‘Mickey

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<sup>12</sup> <https://www.ft.com/content/649d3c64-b8e5-4979-9f0c-9aebd43642e2>

Mouse' courses – and those that actually yield economic benefits. That this might be relevant is supported by the fact that even in the UK the graduate premium still remains high for STEM subjects.

Second, the effects of these so-called 'Mickey Mouse' courses is compounded by the way in which student loans are repaid. If you earn up to an amount that currently varies between £25,000 and £32,745, you do not have to repay the loan at all; after that you repay 9% of your income over the threshold until the loan is repaid (with the government charging a usurious rate of interest). Combined with income tax and National Insurance, the effect is a substantial graduate tax on a scale that is bound to have disincentive effects as well as a loan system that falls far short of financing itself (and if disincentive effects were properly taken into account, the system of repaying loans might not be too far away from actually losing money).

A few years ago the economic consultancy Cebr coined the phrase 'lifestyle economy' to describe the economy where many (often graduates) opt out of having conventional careers yielding high pay for a life in the arts or sport, earning much less but with an agreeable lifestyle, writing, performing, painting or producing other forms of art.<sup>13</sup> Cebr concluded this had reduced GDP growth by around 0.4% per annum. The scale of the lifestyle economy in the UK may well make the country a more pleasant place but it does make a proportion of spending on education less productive, reduces GDP and of course ultimately reduces tax revenue.

The student loan system needs to be drastically reformed and the availability of courses paid for at taxpayers' expense curtailed. Indeed, the economic cost of loan repayments might even be so high that it would be cheaper to end them.

## **6. Taxes need to be made less complex and should encourage those who can contribute to the economy rather than driving them away**

We come now to taxes. Deregulation and savings in government spending will generate scope for lower taxes. And many taxes in the UK are now so high that they lead to lost, not higher, revenues.

The submission that we made in our *Growth Budget 2025* still stands, where we noted that there are four taxes that lose money relatively quickly which therefore could be abolished or reformed at minimum cost: Inheritance Tax, Stamp duty, Capital Gains Tax and 'non-dom' taxation.

Our proposals on tax can be summarised as follows:

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<sup>13</sup> <https://cebr.com/blogs/the-lifestyle-economy-great-for-employees-but-not-so-good-for-public-finances/>

- **Abolish Inheritance Tax**, which our modelling shows would, within eight years, raise GDP and raise more revenue than the tax would raise. A number of other countries (like Austria, Norway, Portugal and Sweden) have in recent years abolished their inheritance taxes whilst others (like Estonia, Latvia and the United Arab Emirates) have never had them.
- **Restore Capital Gains Tax to its pre-2024 level**, which would provide an almost immediate revenue gain that builds up to more than a £50 billion annual gain over 20 years.
- **Revert to the pre-2024 taxation regime for non-doms**, which we calculate would boost GDP in 20 years by 2.3% and boost tax revenues by an annual amount building up to £65 billion over 20 years.
- **Abolish stamp duty** on share transactions and property sales, which would boost GDP by 1.4% by 2031, by which point the lost revenues from abolition would largely have been replaced by those from growth.
- **Introduce tax incentives to encourage investment in new buildings** by raising the 3% tax allowance currently available on non-residential buildings to 6% and introducing a 6% allowance on residential buildings. We estimate that this will deliver an ultimate boost to GDP of 1.9% and that the initial annual gross cost will be offset by tax gains from higher GDP within four years.

## 7. Avoid anti-growth own goals in the regulatory sphere

Finally, we emphasise here the point made in a Growth Commission release earlier this very week<sup>14</sup>, namely that the Government should abandon plans in its proposed ‘reset’ of relations with the European Union to align the UK’s Sanitary and Phytosanitary (SPS) regulations with those emanating from Brussels.

We have calculated that such a move would likely cause a £15 billion hit to the UK economy and estimate that the EU’s existing SPS rules are already costing its 27 member states around €39 billion.

Handing back control of regulations to Brussels would prevent future gains from adopting pro-competitive regulation and significantly damage the UK’s external trade policy because much of that trade policy is dependent on a country’s domestic regulatory settings.

This is additional to the damage which might be done if the EU ‘reset’ makes the UK tech sector, which has prospered since Brexit, subject to EU regulations as pointed out above.

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<sup>14</sup> <https://www.growth-commission.com/2026/02/24/growth-commission-urges-ministers-to-junk-e-u-alignment-plan-that-could-cost-15-billion/>

## Conclusion

Although the Government's current political difficulties reflect different issues, its underlying problem is that the economy continues to grow only sluggishly.

There is an underlying cyclical recovery starting to appear, driven by consumer spending but supported by the tech part of the economy, which has continued growing throughout the post-Covid slowdown. This is enhanced by the prospects of AI and other technologies.

Yet this growth could be stymied by lack of labour market flexibility, by skills migrating abroad, by lack of or excessively expensive energy, by investors being driven away by excess tax or by planning laws holding back development.

Our proposals address these constraints to growth in the hope that the recovery can be sustained.