



GROWTH BUDGET



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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

The world is facing a triple crisis.

Internationally, peace is at risk. The balance of power that kept disintegration at bay is weakening. A more U.S.-centred administration in Washington is making it difficult for its allies and will require that these allies play a bigger role in defence.

There is a battle over AI and operating systems where the future of technology is being debated, with different systems of regulatory control under discussion. The consequences of the decisions made will affect the future of mankind.

And the aftermath of the financial crisis and the Covid pandemic has left many countries in debt, creating pressures on global financial markets and, prospectively, inflation. These pressures could overflow at any time.

The UK is especially at risk to these pressures. As a long term U.S. ally, it needs to invest more to pay for its own defence. As a beneficiary of being outside the EU, it is still taking advantage of the U.S.-based system for tech regulation, but this is at risk from an EU 'reset' which could do serious damage to the UK's tech sector which is currently leading what growth we do have. The proposed first instalment of the EU 'reset' – dynamic alignment with the EU's Sanitary and Phytosanitary (SPS) regime – presents serious challenges for the UK economy as The Growth Commission has previously reported¹. Expansion of the EU's regulatory zone to include the UK would cause significant losses both to the UK and to its non-EU trading partners.

Meanwhile, having let its public finances get out of control, the UK is more at risk than most other countries if it fails to control spending.

Newspaper headlines suggest that at his first Budget on 28th October 2026 the new Chancellor, John Healey, will have to raise taxes or cut spending – but this is a false choice.

If tax rises were the answer, we would surely have solved our problems with the tax rises of 2022, 2023, 2024 and 2025. But they have failed. Why? Although there are some taxes that can raise revenue with limited damage to growth, the various governments of the past four years have raised those taxes that do most damage to economic growth and as a result have failed to solve the problem. The only way out is to bring spending under control.

The cost of growth opportunities missed

Imagine if every woman, man and child in the country had an additional £3,000 a year to spend.

The Growth Commission has prepared a *Growth Budget* in advance of every Budget delivered since our launch in July 2023.

We estimate that had our policies been implemented at each of those Budgets rather than those that actually were introduced, UK GDP per capita in 2027 would be 7.2% higher, which translates to an additional £3,185 (at 2026 levels of incomes and prices) for every woman, man and child in the country.

¹ <https://www.growth-commission.com/2026/02/24/growth-commission-urges-ministers-to-junk-e-u-alignment-plan-that-could-cost-15-billion/>

This extra production would at least in theory have been available to be spent, either on personal consumption or on improved services or on investment for the future. Failure to adopt pro-growth policies has cost us this bonus.

Moreover, the benefits of higher growth policies keep building up over the years. **By 2044 the benefits of higher growth from the pro-growth policies we recommended would have built up to a boost to GDP per capita of 26.6%, which would translate to a boost to production of £11,933 for each person in the country².**

UK economic growth since our inception has been consistently stagnant, averaging just over 1% per annum – and a disproportionate amount of that growth (between one quarter and one third) has been concentrated in the tech sector. The success of the tech sector is undoubtedly a good thing, but it would be even better if, backed by a range of pro-growth policies, other sectors were also performing well and hence increasing their tech spend.

Many sectors are underperforming. Production in agriculture and construction has fallen over the past year; and in manufacturing is essentially flat, having risen by only 0.2% in the past two years. Output in pubs and restaurants is running below its level of two years ago; while over the last four years, output in financial services, long the powerhouse of the economy, has dropped by 8.6%.

Rich taxpayers are migrating out of the country, further widening the fiscal black hole. Meanwhile, welfare spending is out of control and inefficiency and overpay is leading to further budget overruns in central government while local government spending has been kept down.

In this *Growth Budget* we set out what the new Chancellor needs to do to start undoing the messes created by his predecessors and to restore growth to the economy. But we start by assessing some of the things that the Chancellor should *not* do.

What the Chancellor should avoid doing

There has been much public discussion of various possible tax rises that the Chancellor might introduce, including higher Capital Gains Tax (CGT), wealth taxes, a higher mansion tax and exit taxes on those leaving the UK's tax jurisdiction.

All of these have serious drawbacks and most would actually reduce the government's revenue eventually. One of the reasons why the public finances are in their current state is due to badly designed tax increases of a similar nature introduced in past Budgets which have backfired.

The measures we propose

We have put forward 22 recommendations to restore the UK economy to growth. Five of these concern public spending and include cutting welfare, headcount and pay in the public sector and replacing the pensions triple lock with simple indexation; nine are proposed tax changes and include abolition of Inheritance Tax (IHT), corporate tax on retained earnings, stamp duty on property transactions and Capital Gains Tax on entrepreneurial investment.

The other eight are supply side and regulatory measures. The supply side measures concern planning, energy regulation and 'smart net zero', the labour market and the EU 'reset', where any such change should not damage the UK's interests. These are spelt out in detail later in the report.

² 26.6% = original estimate of 23.4% minus 1.5% credit for policies which we recommended that have been enacted plus 4.7% for the cost of policies which have made things worse – mainly from the October 2024 Budget in addition to the EU 'reset' and Employment Rights Act

Impact on growth

We estimate that our proposals would boost GDP growth on average over the next twenty years from a sluggish rate of not much more than 1% per annum to around 3% per annum.

We estimate that there would be an immediate boost to growth if all these measures were introduced before April 2027, boosting GDP in 2027-28 by 1.8%. The impact would be even greater in 2028-29 when GDP would be boosted by a further 2.2%, leaving GDP 4.0% higher than in the base case.

By 2031-32 a further 4.7 percentage points of growth would be added; by 2036-37 an additional 8.3 percentage points and by 2046-47 an additional 20.6 percentage points, leading to a total boost to GDP in 2046-47 of 37.6%.

The effect on the economy would be transformative, turning an economy currently expected to slide down the world economic league table into one that would be moving up. By 2040 the UK would be the fourth largest economy in the world, overtaking Japan in 2028 or 2029 and Germany in the mid-2030s.

At today's prices and incomes this additional GDP per capita would boost living standards for every person in the country by £780 as soon as the next financial year; by £1,780 as soon as 2028-29; by £3,840 by 2031-32; by £7,520 by 2036-37; and by £16,630 by 2046-47.

Impact on equality

The easiest way of making income outcomes equal is for all high earners either to leave the country or to reduce their earnings to those of the lower paid. But that is not the type of equality that is desirable – it would remove incentives and growth which would move elsewhere.

What our measures would do would be to boost living standards for all except those whose sole income is welfare benefits.

We estimate that gains in living standards for the bottom 20% of income earners would be particularly substantial, since not only would they gain in post-tax income, but their cost of living would be reduced through cheaper rents and cheaper food from our supply side policies in these areas.

Impact on revenues

The savings on public spending from our programme should cover the first round costs of the tax cuts by 2031-32. In fact we estimate that the savings should exceed the costs by £24 billion.

On top of this, there will be the gains from the tax revenues raised as a result of the additional economic growth that we forecast.

By the mid-2040s these should be significant – of the order of £500 billion a year.

We have consistently argued that this money should be split three ways: the deficit should be run down and ultimately the UK's debt should be reduced; there will be a need for public spending on defence and on infrastructure; and in the longer term, our tax reform programme would envisage a further reduction in personal taxes towards a flat tax of 20%.

But our approach is not to spend money from either savings or growth until the revenues have been generated. So we do not set out a programme to use these gains at this stage.

What not to do

It's a rule of governing that if you need to raise taxes, you should do so when you have to, rather than leave substantial amounts of economic activity in abeyance while businesses wait to see whether your tax rises will destroy their economic calculations. You should never threaten tax rises.

Having made a mess last year, it is surprising that the new iteration of the Government has managed to repeat last year's mistake of talking about tax rises without implementing them.

Of the ideas floated, most of the tax changes put forward do not make sense. Indeed, one of the reasons that we are in the current mess is the loss of revenue from the behavioural consequences of tax rises already announced in past Budgets. If tax rises could solve the UK fiscal problem, why is it that previous tax rises have failed so spectacularly?

Below are our estimates of the impact of tax policies that have been mooted which we estimate would damage the economy.

Higher Capital Gains Tax

It has been suggested that the rates of Capital Gains Tax be brought into line with those for Income Tax³. This is a superficially attractive proposal that ignores the fact that capital gains generally accrue over a number of years, so taxing them when they occur at the high rates typical of a progressive tax system would create unfairness. Moreover, capital gains are made on investments and raising taxes on such gains would inhibit investment, particularly in entrepreneurial activities.

It is too early to evaluate the long-run effects of the rises in Capital Gains Tax and the Business Asset Disposal Relief rate announced in the Autumn 2024 Budget; but the short term impact is clear. To anticipate the new higher rates of tax, potential taxpayers made transactions. The number paying tax in 2024-25 (mainly at the earlier pre-increase rate) rose by 45% and receipts from the tax rose by 82% to £24.2 billion. People sold their businesses to avoid the tax increase.

It is likely that receipts in future years will be depressed by this effect. Indeed the OBR's monthly assessment of the public finances already points out that receipts of 'other taxes' – which includes those from CGT – are running a hefty £3.5 billion below forecast in 2026-27.

The Treasury's own assessment of the impact of a significant rise in both the main rate and the higher rates of CGT are shown in Table 1. This shows that while small rises might raise a small amount of revenue, larger rises of even 5% and especially 10% would lose revenue.

³ See for example <https://inews.co.uk/news/politics/capital-gains-tax-frontrunner-hike-budget-4771287?srsId=AU7gw4XNnxxdhoSEVSr-wOP8i-4Wag0HNfvqxDcc4G4tiuLpOHHMu2Pm>

Table 1 HM Treasury Ready Reckoner for Capital Gains Tax (current estimates in £million)⁴

	2026-27	2027-28	2028-29
Increase Business Asset Disposal Relief rate by 1 percentage point	10	135	180
Increase Business Asset Disposal Relief rate by 5 percentage points	40	635	840
Increase lower Capital Gains Tax rate by 1 percentage point	-5	10	5
Increase lower Capital Gains Tax rate by 5 percentage points	-40	20	-10
Increase lower Capital Gains Tax rate by 10 percentage points	-130	-55	-135
Increase higher Capital Gains Tax rate by 1 percentage point	-15	80	-30
Increase higher Capital Gains Tax rate by 5 percentage points	-170	-235	-870
Increase higher Capital Gains Tax rate by 10 percentage points	-540	-2,060	-3,565
Increase Annual Exempt Amount by £500 for individuals and £250 for trusts	0	-35	-30

Wealth taxes

Some supporters of the current Government have argued that the Chancellor should raise a wealth tax in the Budget⁵.

These proposals run in the face of the evidence from other countries where the trend is to repeal such taxes on wealth.

As the Tax Foundation has explained⁶, wealth taxes are a tax on investment and entrepreneurship and encourage migration. Of the twelve countries that had wealth taxes in 1996, eight have now abolished them in the face of high collection costs and damage to the economy.

A higher mansion tax

Others have suggested that the mansion tax announced in the November 2025 Budget and due to come into place in April 2028 should be extended, with the lower limit for eligibility reduced from £2 million to £1.5 million⁷.

While the UK's system of taxing property needs reform – the Tax Foundation finds that a badly designed and excessively high system of property taxes is a burden on the UK's tax competitiveness⁸ – a higher mansion tax imposed without abolishing other taxes would make the system more distortionary. It would reduce property values (hence affecting yields); create distortions to the property market around the levels at which the tax comes in; be expensive to administer; and make properties more difficult to sell.

Exit taxes

There has been some discussion⁹ that the government might levy an exit tax on people leaving the UK (although the Department for Business, Innovation, Science and Trade has reportedly indicated that this is not now under consideration).

⁴ <https://www.gov.uk/government/statistics/direct-effects-of-illustrative-tax-changes>

⁵ <https://www.telegraph.co.uk/money/tax/what-wealth-tax-how-work-uk/>

⁶ <https://taxfoundation.org/research/all/eu/wealth-tax-impact/>

⁷ <https://www.cityam.com/labour-mansion-tax-raid-to-hit-homes-worth-1-5m/>

⁸ <https://taxfoundation.org/location/united-kingdom/>

⁹ <https://www.standard.co.uk/business/chris-rokos-uk-tax-billionaires-exit-greece-b1297459.html>

Any discussion about exit taxes tends to encourage those who are uncertain about whether to leave the country to do so before the tax gets imposed. Exit taxes, although they would have an impact on the number of people leaving the UK, also discourage new people from coming into the UK, while those who leave in advance to avoid the tax tend to take their wealth with them so that the country loses the income from this wealth.

While a number of countries impose such an exit tax on unrealised capital gains, relatively few of them are countries with the traditional levels of inward and outward migration of the UK.

EU ‘reset’

While not technically a Budget matter, since a summit to discuss this is planned to take place in the near future, it is worth restating that any such deal needs to be to the UK’s advantage. This is discussed in the regulatory section of this report.

Conclusion

We estimate that all of the measures that have been mooted would cost the UK both growth and revenues.

Table 2 Impact of mooted tax changes

	Static Revenue	GDP loss					Revenue loss from lost growth
	(£bn)	2027-28	2028-29	2029-30	2036-37	2046-47	2046-47 (£bn)
CGT merge with income tax	18	0.2	0.9	1.6	3.1	4.2	62.8
Wealth tax at 2% on wealth over £100 million	10	0.1	0.2	0.3	0.9	1.9	40.5
Mansion tax	0.8	0.0	0.0	0.0	0.0	0.1	2.1
Exit tax	2	0.0	0.0	0.0	0.0	0.1	4
Total	30.8	0.3	1.1	1.9	4	6.3	109.4

We estimate that the measures combined would raise a maximum of £31 billion in revenue if behaviour did not change; but this would put 6.3% of GDP at risk, which would reduce tax revenues by £109.4 billion.

If they are implemented, not only would they fail to plug the fiscal black hole but they guarantee, as previous tax rises have done, that the Chancellor would have to come back in future Budgets to try yet again to fill the hole.

While there are tax increases that would do relatively less damage to growth and would raise revenue, our preferred approach is to bring public spending under control. This is the sure way of dealing with an exposed budget while protecting the economy.

Spending and the fiscal black hole

Although world GDP growth is roughly where it was predicted to be at the beginning of the year, the war in the Middle East has upset most economic calculations.

Higher energy prices have slowed growth momentum, added to inflation and boosted interest rates – and rising deficits worldwide (but especially in the U.S.) have made government borrowing more expensive. It is uncertain at this stage whether the strains on the world economy will spill over into a fully-fledged market crisis in both bond and equity markets; but the authorities need to follow cautious policies given this uncertainty.

In addition, the UK's own budgetary position has weakened: partly as a result of a lack of fiscal control and partly as a result of discretionary announcements associated with the recent change in Prime Minister.

The latest OBR assessment of the budgetary position shows an £8.1 billion overrun in borrowing in the five months of 2026-27 for which we have data at the time of writing, as compared with the forecasts made before the beginning of the financial year. The overrun was only partly caused by higher interest rates; it was mostly as a result of a shortfall in 'other taxes' – which are mainly taxes like Capital Gains Tax and Stamp Duty Land Tax which have been raised in previous years – and continued overspending.

Why is government borrowing continuing to overshoot?

Public sector staffing, pay and pensions

The government headcount continues to grow, mainly in central government. When the ONS started its current data series in 1999, for every seven local government employees there were six employed in central government. The latest data count for June 2026 shows that for every seven local government employees there are now more than fourteen working in central government.

It is true that there have been reclassifications – in particular the growth of academy schools has moved teachers and other school staff from local to central government in this classification. But even adjusting for this, central government headcount has risen by 42% since 1999 while local government headcount has remained flat – and most other relevant adjustments have actually increased the burdens imposed on local government and reduced those on central government.

The fact that local government headcounts have been restrained is evidence that it is possible to keep public spending under control. Meanwhile the central government headcount has continued to grow. Since its low point in 2016, there are now one third more civil servants. While some are claimed to have been necessary because of Brexit (although the UK has more trade negotiators than even the U.S. so that excuse should not be used too much), the fastest growth has been in the Department for Culture, Media and Sport – which can hardly blame Brexit for its growth – with an increase since 2010 of 280% according to the Institute for Government¹⁰.

¹⁰ <https://www.instituteforgovernment.org.uk/explainer/civil-service-staff-numbers>

Figure 1 Central and Local Government headcount since 1999

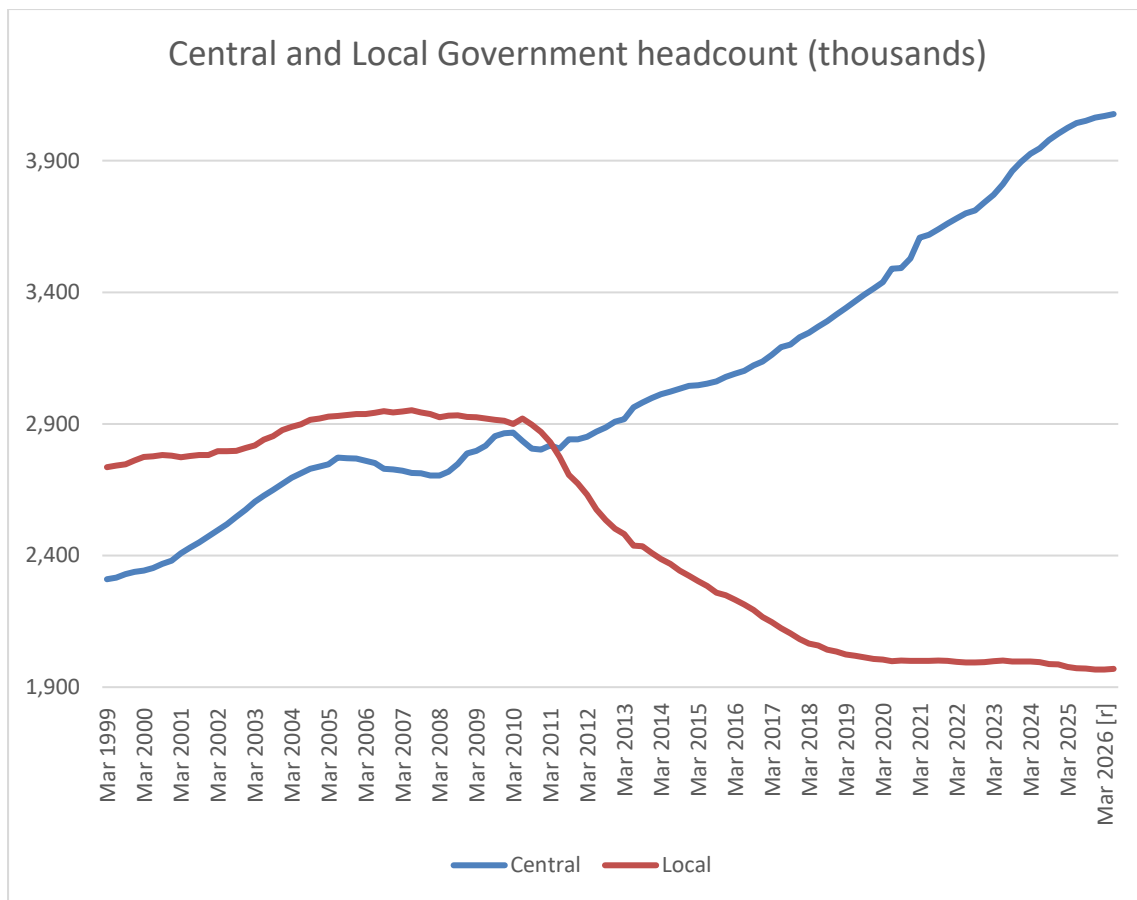
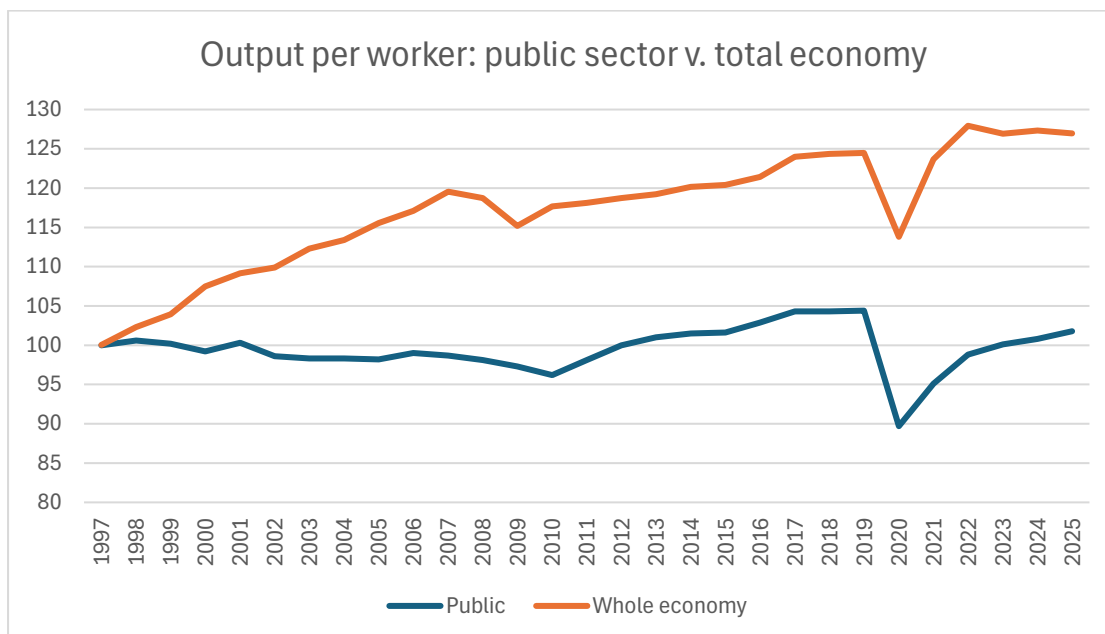


Figure 2 Productivity in the public sector versus the economy as a whole (Source: ONS)



The latest datasets continue to show that the public sector is underperforming relative to the private sector for productivity, with public sector productivity seemingly unchanged since when the data series started in 1997.

Meanwhile the emergence of AI tools means that the types of administrative activity typical in many parts of the public sector can easily be automated, giving scope for substantial rises in productivity.

Recommendation 1: Central government headcount growth needs to be stopped and reversed with a 20% headcount reduction targeted for 2036-37.

The cost of government is also out of control. The latest data shows pay rising more than twice as fast in the public sector at 6.3% than in the private sector (2.9%). The annual rate of public sector pay has been rising faster than in the private sector since the year to February 2025, which makes the standard excuse of ‘timing effects’ clearly invalid.

The 2024 data shows that even then, hourly pay in the public sector was 10.0% higher than in the private sector¹¹. We calculate that pay movements since 2024 have widened this gap to 17.7%.

Recommendation 2: Public sector pay needs to be frozen for at least two years to restore its traditional relativity with the private sector. If trade union action makes this difficult, the government needs to consider how to stop public sector unions disrupting the economy.

In addition, the cost of government is inflated by the cost of pensions. The government spent £56 billion on public sector pensions in 2025-26. While it is hoped that the net cost of pensions to the public purse should diminish, this partly reflects both the enlarged public sector headcount and the relatively high levels of pay in the public sector.

Recommendation 3: Public sector pensions should be put on a similar basis to those in the private sector.

Welfare savings

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

There are some demographic factors that contribute to this but the main driving forces have been dramatic increases in children assessed as subject to needing support for Special Educational Needs and Disabilities (SEND) and adult claims for sickness benefits partly resulting from this.

SEND support

To quote from the Institute for Fiscal Studies (IFS)¹², there has been a large increase in numbers of children receiving SEND 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

¹¹ <https://careermetrics.co.uk/blog/public-vs-private-sector-pay/>

¹² IFS Green Budget 2025 <https://ifs.org.uk/collections/ifs-green-budget-2025>

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.'

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 does note, however:

'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 highlights that many of the claims 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... 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 – and this figure 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

According to the Department for Work and Pensions (DWP), total UK welfare spending was £314.9 billion in 2024-25, representing 10.7% of UK GDP¹³. It is forecast to rise to £333.7 billion in 2025-26 (10.9% of GDP) and to £408.6 billion in 2030-31 (11.2% of GDP)¹⁴.

Welfare spending amounted to 24.4% of government spending in 2024-25, with this anticipated to increase to 25.4% in 2030-31.

Spending on health-related benefits in today's prices rose from £38 billion in 2019-20 to £57 billion in 2024-25 and is forecast to reach £63 billion by 2028-29¹⁵. 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 – the latest data continues to show a welfare spending overrun).

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 instructions on how to do so proactively being shared on social media.

Second, as with support for 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 many 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 2026-27 levels in real terms. Being realistic, most of the savings from this will be longer term. But the cap would reduce the budget for 2030-31 by £54 billion.

Recommendation 4: Reform the welfare system in the way set out above.
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¹³ <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2026>

¹⁴ <https://lordslibrary.parliament.uk/welfare-reforms-and-youth-unemployment/#fn-2>

¹⁵ <https://ifs.org.uk/publications/health-related-benefit-claims-post-pandemic-uk-trends-and-global-context>

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 library¹⁶ suggests that abolishing the triple lock could lead to a saving of £9.8 billion by 2028-29 compared with indexation to average earnings.

Since the triple lock would have to be replaced by some form of indexation, we have been cautious about our estimate of the savings from this.

Recommendation 5: Replace the Pensions Triple Lock with a simple system of indexation to average earnings.

Total savings

We have added up the savings from the different factors. These are shown in Table 3 below. By 2030-31 they total £169 billion. The biggest change from our calculations last year is the benefit from bringing pay in the public sector back into line with that in the private sector. This is because of the large public sector pay increases in the past two years.

Table 3 Proposed total public sector savings by 2030-31

Total public sector savings by 2030-31	
From additional efficiency including AI	£60 billion
From public sector pay and pensions	£40 billion
From sickness benefits	£54 billion
From special needs support	£5 billion
From abolishing the pensions triple lock	£10 billion
Total savings	£169 billion

¹⁶ <https://researchbriefings.files.parliament.uk/documents/CBP-7812/CBP-7812.pdf>

Taxation

We recommend against tax rises to attempt to fill the black hole. If the Chancellor feels he has to do this, it is imperative that he focuses on those tax rises that would least damage the economy.

Meanwhile the Chancellor should review all taxes carefully to understand whether they generate the tax receipts that have been expected. We expect this to show that some of the UK's taxes are beyond the 'Laffer point'.

Table 4 Illustrative Laffer coefficients from Growth Commission models

Illustrative Laffer coefficients from Growth Commission models (20 year impact)

	Laffer Coefficient %
Flat rate of tax at 20%	27%
Reintroduce Non Dom status	130%
Abolish employees' NI phased in	34%
Abolish Stamp duty	101%
Abolish CT on retained earnings	141%
Abolish CGT for long term entrepreneurial investment	254%
Abolish IHT	241%

We have used Growth Commission models to estimate 'Laffer coefficients' for various UK taxes.

Our modelling looks at the ex ante (before behavioural changes) revenue that might be raised which becomes the denominator, and compares with (as numerator) the revenue losses from economic behavioural changes over twenty years. In general, any policy with a coefficient of over one (or 100%) does not make sense. We recommend that taxes which ultimately lose revenues should be abolished, as set out below.

'Non-Doms'

Our analysis shows that reintroducing non-dom status or an equivalent would do more than any other tax cut to generate early revenue. Obviously it would take time for international investors to have confidence in the UK government after the tax changes in recent years; but a change that incentivised non-doms would bring benefits within three years at most.

The Laffer coefficient for non-dom taxation is 130% on our models, meaning that ultimately the loss from the current tax exceeds the gain. More importantly, this is one of the relatively few taxes where the Laffer coefficient exceeds 100% in fewer than five years.

Recommendation 6: Reintroduce non-dom status with rules to limit abuse.
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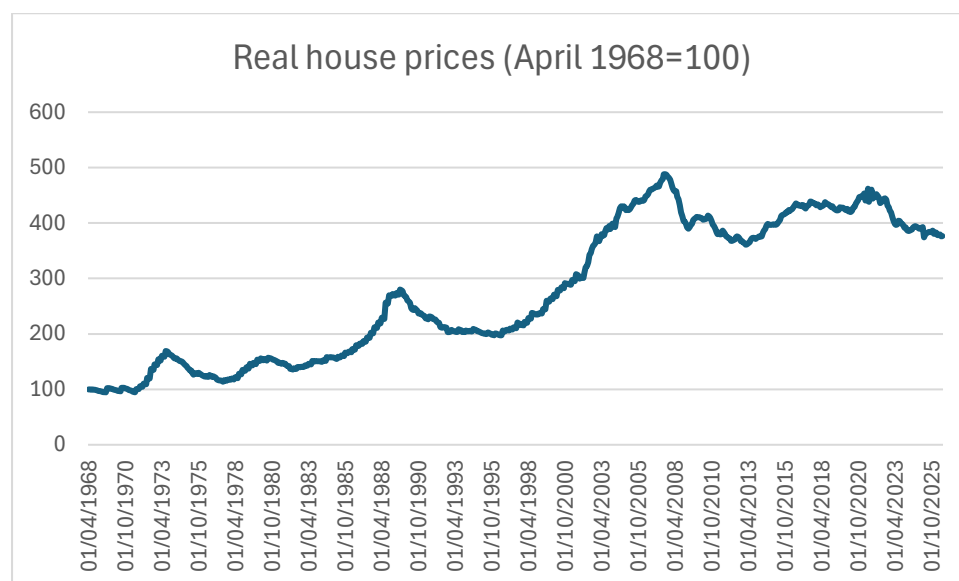
Stamp duty

Stamp duty in the UK is levied at rates of up to 12% on primary properties and 17% on secondary properties.

As a capital levy, these rates are very high. They reflect a past era when property price gains were large and often considered to be windfalls.

They are entirely out of place in a world where the property market is in the doldrums and sellers often have to take a loss in real terms on their sale. In real terms, average UK house prices are 12.8% lower than ten years ago and 23% lower than at their peak in 2008. As Figure 3 shows, real house prices have been falling recently, partly as a result of stamp duty.

Figure 3 Real House Prices (ONS series deflated by RPI)



The Laffer coefficient for property stamp duty is 101%, implying that eventually the abolition of the tax will pay for itself. In addition, the side effects of the tax are damaging: house moves are depressed, people are living where they don't want to, movement in the labour force is held back and construction starts are plumbing historically low levels.

In addition, now that the government has introduced a mansion tax, the case for keeping stamp duty on property transactions no longer exists.

We therefore support its abolition, although it would probably be best to phase the tax out fairly slowly to prevent introducing excessive volatility into the market.

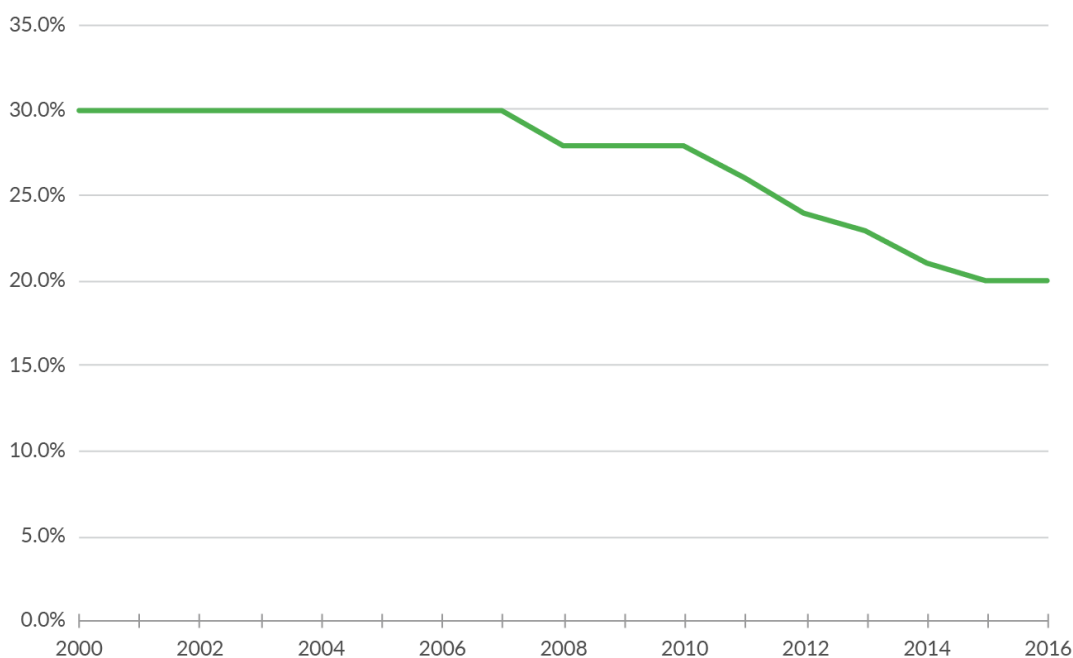
Recommendation 7: Since there now is a mansion tax, stamp duty should be phased out on residential property.

Corporate tax

Most analysis shows that reducing corporate tax provides fairly rapid economic benefits. Our proposal this year is to phase out Corporation Tax on retained earnings. The UK cut its corporate tax rate between 2000 and 2016 (see Figure 4 below).

Figure 4 Corporate income tax rate 2000-2016

UK Corporate Income Tax Rate, 2000-2016



Source: Oxford University Centre for Business Taxation Tax Database

TAX FOUNDATION

@TaxFoundation

According to the Tax Foundation¹⁷:

'While the corporate rate fell, corporate tax revenues did not. Per data from Her Majesty's Revenue & Customs (UK's Treasury Department), corporate tax revenues in the United Kingdom have hovered between a little more than 3 percent of GDP and 2.4 percent of GDP. The most notable period is between 2008 and 2016. After an initial decline in revenue in 2008, revenues were relatively constant at around 2.5 percent of GDP, climbing to 2.7 percent of GDP in 2016.'

We estimate that the growth benefits from a lower rate of corporate tax on retained earnings would offset the initial costs after about five years based on past UK experience.

The international situation for corporate taxes has been changed by the reduction in the U.S. federal rate of tax, which has set a new standard for comparison.

Our proposal would bring the UK corporate tax system into line with that in Estonia, long assessed as the world's gold standard for tax.

Recommendation 8: Phase out corporate tax on retained earnings.

¹⁷ <https://taxfoundation.org/blog/can-learn-uks-corporate-tax-cuts/>

Capital Gains Tax

We have already warned that raising the rate of Capital Gains Tax would lose revenue and pointed out that even HM Treasury, which is normally cautious about assessing behavioural effects to tax changes, has also come to the same conclusion.

So if raising the tax rate will cost money, why not instead cut the rate?

For different types of investments different considerations apply. An Adam Smith Institute study¹⁸ points out:

‘Many studies have highlighted the positive outcomes resulting from the reduction or removal of capital gains tax. For example, a Bank of England study found that, after they gained access to capital that did not attract CGT, the equity cost of capital for AIM companies decreased, capital expenditure increased by 43 percent above the pre-reform period and total pay increased by 8 percent.¹⁹ Similarly, a Korean study found that the firms that experienced a large reduction in CGT rates increased investment by 34.2 percent within five years from the time of the reform.²⁰’

Evidence from Australia²¹ and the UK²² points to higher Capital Gains Tax revenues from lower rates. But these higher revenues can only be generated from higher GDP, which is the result of the increased entrepreneurship, innovation and investment that is encouraged.

Capital gains are not ordinary income. The current price of a share of stock, a bond, a piece of real property or plant or equipment, is the discounted present value of what the asset is expected to earn after tax in the future. If expectations of future earnings rise, so will the current price of the asset, creating a potential capital gain if the asset is sold. The price may rise as retained after-tax earnings are reinvested, or if the asset’s earnings prospects improve with the invention of a new product or better technology, the discovery of a new resource such as oil or mineral deposits, reductions in tax rates or tariffs or a reduction in harmful regulations.

Those higher expected future earnings will be taxed if and when they come to pass. To tax the anticipatory change in the asset price effectively taxes the increase in future earnings twice. If the expected increases in the earnings do not materialise, a capital gains tax will have taxed income that never occurred.

The tax greatly increases the risk of saving and investment, discourages capital formation and reduces labour productivity and wages. The ultimate economic burden of the tax falls mainly on labour.

The U.S. Tax Reform Act of 1986 raised the tax on capital gains to help pay for tax rate reductions on ordinary income. The amount of gains that taxpayers took by selling assets collapsed, resulting in less capital gains revenue than before the increase in the rate. Budget forecasters

¹⁸ <https://www.adamsmith.org/research/qns3z5vd5jhs0nrvgvbwI5kdhacguh>

¹⁹ Alex Kontoghiorghe, “Do personal taxes affect investment decisions and stock returns?”, Bank of England, Staff Working Paper No. 988, May 2024, <https://www.bankofengland.co.uk/working-paper/2022/do-personal-taxes-affect-investment-decisions-and-stock-returns>

²⁰ Terry Moon, “Capital Gains Taxes and Real Corporate Investment: Evidence from Korea”, American Economic Review, 112(8), August 2022, <https://www.aeaweb.org/articles?id=10.1257/aer.20201272>

²¹ John Freebairn, “Indexation and Australian capital gains taxation”, Fraser Institute, 2021

²² Adam Smith Institute, “Estimated revenue losses from Capital Gains Taxes increases”, <https://www.adamsmith.org/research/estimated-revenue-losses-from-cgt-increases>

claimed that the drop in revenue would only last two or three years. They were wrong. Revenue fell below 1985 levels for nine years and fell as a share of GDP for a full ten years, until the capital gains rate was reduced to prior levels in 1996.

We recommend the removal of Capital Gains Tax from entrepreneurial investments that are held for four years or more. We are conscious that such removal needs to be combined with safeguards to limit avoidance.

Because of its highly geared impact on investment and entrepreneurship, this tax has the highest 'Laffer Index' – after twenty years the revenue gains from abolition are more than twice those from keeping the tax in place.

Recommendation 9: Remove Capital Gains Tax on long-term entrepreneurial investment.
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Inheritance Tax

We have shown in past Growth Budgets how Inheritance Tax damages the economy. It has a major effect on migration decisions; it severely affects the incentive to work for older people for whom work is often largely voluntary; and those who migrate to avoid Inheritance Tax normally take a high proportion of their wealth with them.

The UK not only has a relatively high rate of IHT, but also imposes the tax at a low level of inheritance.

In recent years many countries have abolished IHT including:

- **Australia:** Abolished federal estate duty in 1979.
- **Austria:** Abolished inheritance tax in 2008.
- **Canada:** Eliminated its federal estate/inheritance tax (though capital gains tax may apply at death).
- **Czech Republic:** Abolished inheritance tax in 2014.
- **Hong Kong:** Abolished estate duty in 2006.
- **New Zealand:** Abolished estate duty in 1992.
- **Norway:** Abolished inheritance tax in 2014.
- **Singapore:** Abolished estate duty in 2008.
- **Slovakia:** Abolished inheritance tax in 2004.
- **Sweden:** Abolished inheritance tax in 2005

Importantly, many of these countries compete with the UK for the residence of retirees.

Inheritance Tax has a very high 'Laffer Index' of over 2, implying that after twenty years the revenues from the GDP gain from abolition are more than twice those lost from the tax.

Recommendation 10: Abolish Inheritance Tax

Personal Income Tax

Because of the priority of other tax reductions which do not pay for themselves immediately, cuts in the main rates of Income Tax will need to wait until the economic position is stronger.

But there are some tax anomalies that could be eliminated at little or no cost (and almost certainly delivering early revenues gains).

The most important of these concern the phasing out of benefits and allowances for those with annual incomes of over £100,000.

Since this measure was introduced in 2009, the real value of the £100,000 has virtually halved to £51,223. When it was introduced, it mainly affected the highly paid. But its real value has fallen from 5.9 times average earnings to just 2.5 times average earnings today.

As a result it affects many more people. Moreover, various benefits are linked to this level so the loss is not just the loss of the personal tax allowance.

People are cutting hours, refusing promotions and sometimes giving up work because of the high effective marginal tax rates imposed.

It is vital that these high marginal rates are abolished. We do not have a tax model that can fully model the impact, but it would be very surprising if the economy and ultimately tax revenue did not benefit from abolishing these damaging marginal tax rates.

Recommendation 11: Abolish the high marginal tax rates from phasing out personal allowances for salaries over £100,000

Student Loans

The system for the repayment of student loans in the UK is onerous and damages the economy. It is also confusing, as Table 5 shows.

Table 5 Student Loan repayment thresholds

Plan type	Yearly income threshold	Monthly income threshold	Weekly income threshold
Plan 1	£26,900	£2,241	£517
Plan 2	£29,385	£2,448	£565
Plan 4	£33,795	£2,816	£649
Plan 5	£25,000	£2,083	£480
Postgraduate Loan	£21,000	£1,750	£403

You'll repay either:

- 9% of your income over the threshold if you're on Plan 1, 2, 4 or 5
- 6% of your income over the threshold if you're on a Postgraduate Loan plan

Only 27% of loans are expected to be repaid in full²³.

²³ <https://www.confused.com/student/student-finance-facts>

The government's own estimate of the extent to which it is likely to have to subsidise the current cohort of loans is given below²⁴ – and it is clear that non-repayment is rising:

'Of the loan outlay issued in the 2025-26 financial year, the government is forecast to subsidise (with comparisons to last year's publication):

- 39% of Plan 2 full-time higher education loan outlay (32% in 2024-25)
- 35% of Plan 2 part-time higher education loan outlay (31% in 2024-25)
- 33% of Plan 5 full-time higher education loan outlay (29% in 2024-25)
- 35% of Plan 5 part-time higher education loan outlay (28% in 2024-25)
- 39% of Plan 5 Advanced Learner Loan outlay (32% in 2024-25)
- 0% of Master's loan outlay (0% in 2024-25)
- 47% of Doctoral loan outlay (23% in 2024-25)'

One likely consequence of student loan repayments is that because they can be avoided by entering what may be agreeable but non-remunerative jobs, many graduates avoid entering career paths. To quote John Burn-Murdoch, data editor of the *Financial Times*²⁵:

'Britain's university graduates are having a rough time of it. In 1999, the average graduate salary was 80% more than their non-graduate counterpart; in the latest data this was down to just 45%, and that's before factoring in student loans. Adding insult to injury, the government has worsened the terms of the loans to ensure repayments don't wither in line with salaries.

'But there's one problem: none of the above has happened in most other developed countries.

'In the US, college graduates today earn 92% more than non-graduates, up from 80% in 1996, even as the share of people with a degree has climbed from 27% to 40%. Graduate earnings premiums have also held up or increased in the face of expanded enrolment everywhere from Canada to France, Spain and the Netherlands.'

The decline in the graduate earnings premium may reflect other factors, but it is highly likely that the graduated level of loan repayments is an important factor given normal elasticities.

Recommendation 12: The system of student loan repayments should be revised so that the advantage of not starting a career no longer exists.

Consumption taxes

Given the tightness of the financial position, we do not recommend any change in most consumption taxes.

However, there are two taxes where the economic damage from high taxes is such that some changes should be made.

²⁴ <https://explore-education-statistics.service.gov.uk/find-statistics/student-loan-forecasts-for-england/2025-26>

²⁵ <https://www.instagram.com/p/DVBA1EmFnvC/>

The first is the VAT charged on tourists. No other major economy does this and studies have consistently shown that the Treasury would make a net gain from the abolition of the tax. This would reflect increased tourism and increased spending.

Reintroducing VAT-free shopping for international visitors in the UK 'could boost the economy by £11.5 billion and deliver a £2.6 billion net gain to the Treasury,' according to a September 2026 study by the Centre for Economics and Business Research (Cebr)²⁶.

Recommendation 13: VAT-free shopping for tourists should be reintroduced.

It is proposed that fuel duties be raised in January 2027 and again in March 2027. This is slightly odd given the already elevated level of fuel prices and the increasing evidence that high fuel costs damage the economy.

Recommendation 14: We recommend that Fuel Duty rates should continue to be frozen.

²⁶ <https://holba.london/content/images/Cebr-report-for-Heart-of-London-Business-Alliance.pdf>

Supply side policies and better regulation

While the *Growth Budget* focuses mainly on tax and spending matters, it is clear that better regulation is also necessary to return the UK to a strong growth path.

Here we focus on planning, the labour market, energy and the implications of a potential EU ‘reset’.

Planning reform

We have previously set out proposals for proper planning reform, by which we mean repeal of the Town and Country Planning Act, moving to a zonal planning system where trusted developers have facilitations and where the burden of proof for planning applications is reversed for trusted developers (i.e. you are allowed to build unless there is a compelling reason not to).

The Growth Commission’s *2025 Growth Budget*²⁷ identified substantial potential gains from such planning reform. Our ACMD modelling found that planning and housing reforms that reduce the cost and time required to register property could increase GDP per capita by between 0.2% and 0.4% through improvements in the Property Rights pillar.

Improvements in the Regulatory Quality sub-component of the Domestic Competition pillar could generate a further increase in GDP per capita of up to 0.3% to 0.4%, although we have noted that factors beyond planning and housing policy alone affect this sub-component.

These estimates capture only specific channels, and we concluded that the overall gains from planning reform are likely to be materially larger because of the unusually severe constraints imposed by the UK planning system.

Separate Growth Commission analysis²⁸ estimated that the crowding-out effects associated with high housing costs amount to approximately 1.9% of GDP, while earlier McKinsey analysis cited by the Commission²⁹ attributed much of the UK productivity gap with the United States in retail and hospitality to inefficiencies and a lack of competition caused by the planning system, implying a productivity loss in those sectors alone of approximately 3% of GDP. These estimates should not be treated as additive, but they demonstrate the scale of the growth opportunity from comprehensive planning reform.

When considering planning reform, precisely what that reform looks like determines how much of these potential economic gains can be realised. As the UK economic situation deteriorates, greater reforms will be needed, and it was in our paper published prior to the then Chancellor’s 2025 Spring Statement³⁰ that we suggested the UK should repeal the Town and Country Planning Act and, rather than tinker at the edges, make wholesale reforms. It must at the very least deal with the propensity for judicial reviews to be used to block development, as well as radically

²⁷ <https://www.growth-commission.com/wp-content/uploads/2025/11/GROWTH-BUDGET-2025.pdf>

²⁸ https://www.growth-commission.com/wp-content/uploads/2024/10/FINAL-TEXT-GC_Autumn-Growth-Budget-2024.pdf

²⁹ Ibid.

³⁰ <https://www.growth-commission.com/wp-content/uploads/2025/03/2025-Growth-Commission-Spring-Statement-Briefing.pdf>

change the role of statutory consultees, making them at best advisory only. We have also recommended shifting the burden of proof so that trusted developers are able to assume planning consent unless it is withdrawn. These reforms should apply to the whole country, with no areas subject to exemptions.

Recommendation 15: We encourage the government to adopt The Growth Commission's proposals for wholesale reform of the planning system, including the repeal of the Town and Country Planning Act.

It is important also to take into account other factors damaging the property market, such as the Renters' Rights Act and the excessive health and safety burdens imposed following the Grenfell Tower disaster.

Since 2021, when renters' rights legislation first came under serious consideration, landlords have been withdrawing from the market, with hundreds of thousands of properties sold out of the rental sector.³¹

As a result, rents have risen by 34% when house prices have only risen by 17%.³²

Recommendation 16: The Renters' Rights Act should be repealed.

After the Grenfell Tower disaster, Health and Safety zealots pushed through legislative changes not backed up by the results of the investigation into the disaster.

The investigation showed the need for detailed changes; but it did not, for example, recommend statutory additional staircases (proven to be of dubious value). We have advocated regulatory promulgation principles where new regulations are tested against their effect on market competition, trade openness and property rights protection – the ACMD economic model's three pillars of economic growth³³. This is in line with the OECD Regulatory Toolkit, Competition Assessment³⁴ and Competition Neutrality³⁵ principles. Had this been applied properly in the UK, kneejerk reactions to prudential issues could be avoided and better regulation without adverse unintended consequences could be achieved.

As much of house building in London is for rent, the combination of the additional costs caused by this overreaction and the weakness of the demand for rental accommodation by landlords has caused housing starts in London to collapse. This has resulted both in hardship for potential renters and damage to the economy.

Recommendation 17: Repeal the excessive health and safety impositions introduced following the Grenfell Tower fire.

³¹ <https://propinvestuk.co.uk/why-uk-landlords-exiting-buy-to-let/>

³²

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/september2026>

³³ For more detail about the ACMD model, see Appendix 1 of the 2024 *Growth Budget* available at https://www.growth-commission.com/wp-content/uploads/2024/10/FINAL-TEXT-GC_Autumn-Growth-Budget-2024.pdf

³⁴ https://www.oecd.org/en/publications/competition-assessment-toolkit-principles-version-4-0-volume-i_5f9fa6ca-en.html

³⁵ https://www.oecd.org/en/publications/competitive-neutrality-toolkit_3247ba44-en.html

Labour market reform

We have previously recommended repeal of the Employment Rights Act 2025 and a move towards a more flexible labour market. Labour market flexibility is a significant driver of GDP per capita in our ACMD model as the labour freedom sub-pillar accounts for 25% of the Domestic Competition pillar.³⁶ The Growth Commission's *2025 Growth Budget*³⁷ estimated that optimising the UK's labour market flexibility score could increase GDP per capita by between 4.6% and 5.1%, while even improving UK performance to the level of Australia would increase GDP per capita by approximately 1.9%.

Since the Employment Rights Act was enacted, The Growth Commission has updated its modelling to reflect the final legislation and estimates that the Act will impose a long-term GDP cost of approximately £38 billion.³⁸

Recommendation 18: Repeal the Employment Rights Act.

We have also recommended moving the minimum wage closer to international norms. The *2025 Growth Budget* noted that the UK minimum wage was due to reach approximately 66% of median earnings in 2026, compared with an OECD average of approximately 54%, and proposed reducing the ratio to 60%. Our model estimates that this change would increase GDP per capita by just over 0.8% over twenty years.³⁹ These reforms should therefore be treated as complementary elements of a wider programme to restore labour market flexibility.

These concerns have also been raised in Parliament, including by Andrew Griffith MP, who argued during consideration of the 2026 minimum wage regulations that further increases could reduce employment opportunities for younger workers.⁴⁰

Recommendation 19: Freeze the minimum wage until it returns to 60% of the median wage.

Smart Net Zero

Energy reforms are also critical. Mike and Douglas McWilliams, writing for Civitas⁴¹, have recently shown the scale of the UK's energy cost disadvantage. In 2024, UK industrial electricity prices were approximately six times those in China, four times those in the U.S., twice those in France, and 70%–75% higher than those in Germany and Italy. These costs directly weaken the competitiveness of UK manufacturing and other energy-intensive activity.

We have therefore recommended repealing the Climate Change Act and the statutory Net Zero target, delinking the UK Emissions Trading Scheme from the EU system and repealing the Carbon Border Adjustment Mechanism. The Growth Commission's *2025 Growth Budget* separately modelled its 'Smart Net Zero' package, centred on repealing the Climate Change Act

³⁶ Shanker A. Singham, *International Trade, Regulation and the Global Economy: The Impact of Anti-Competitive Market Distortions* (Abingdon: Routledge, 2026), 42–44.

³⁷ <https://www.growth-commission.com/wp-content/uploads/2025/11/GROWTH-BUDGET-2025.pdf>

³⁸ <https://www.growth-commission.com/wp-content/uploads/2026/02/2026-Spring-Statement-Briefing.pdf>

³⁹ <https://www.growth-commission.com/wp-content/uploads/2025/11/GROWTH-BUDGET-2025.pdf>

⁴⁰ <https://hansard.parliament.uk/Commons/2026-03-02/debates/147e062b-3c5f-4e72-ac0b-5b795b0be975/DraftNationalMinimumWageAmendmentRegulations2026#contribution-FF98BEDC-355E-4630-8116-C475CAA3B71D>

⁴¹ <https://www.civitas.org.uk/content/files/EnergyPolicy1.pdf>

and subjecting environmental regulation to economic cost-benefit analysis, and estimated that these reforms would increase GDP by approximately 3.1% by 2046.⁴²

Recommendation 20: Repeal the Climate Change Act and stop aiming to beat the 2050 Net Zero target.

EU ‘reset’

The government is considering a ‘reset’ of the UK’s relationship with the European Union, although reports vary on the extent to which the EU is enthusiastic about such a move.

We have already specifically urged the government to abandon one aspect of the mooted ‘reset’ – proposals to align British Sanitary and Phytosanitary (SPS) regulations with those of the EU.

We calculate that such alignment would likely cause a £15 billion hit to the UK economy. Moreover, we also estimate that the EU’s existing SPS rules are already costing the 27 member states around €39 billion⁴³. As we have noted, alternatives exist such as mutual recognition and equivalence arrangements, as well as unilateral acceptance of EU standards (as we have done, for example, for medicines) to immediately ease frictions for imports of EU agrifood into the UK. These options actually improve the UK economy.

In considering the EU ‘reset’, there is the fundamental issue of the differences between the UK’s historic common law approach and the EU’s civil law, precautionary approach that has led to the regulatory tension between the two systems. This is more comprehensively explained in the Annex at the end of this document.

Any agreement between the UK and the EU needs to recognise and resolve that tension. Any such agreement must also recognise that the common law operating system is based on competition-on-the-merits regulation, where regulatory competition between countries is allowed (and encouraged because of its consumer welfare discovery process benefits) and that countries inter-operate on the basis of mutual recognition and equivalence.

This is the system that drove post-war economic growth and has historically been the one favoured by the UK, U.S. and their economic allies.

However, there are two other operating systems competing for the world’s overall economic architecture. One is the EU’s model which is based on precautionary regulation, based on a French civil law model which imposes a much higher burden of regulation on business and damages ordinary market competition at home. In order for such a system to survive, it must impose itself through regulatory harmonisation on other countries (which the EU’s regulatory system does via the Brussels effect – a concept that means that the imposition of higher regulatory burdens transmits through the entire global system as it is easiest to adopt by large multi-national companies).

The other system is China’s state-led economic model, replete with anti-competitive market distortions. Our modelling suggests that only the first system – which allows and encourages regulatory competition between countries – generates GDP per capita gains. The UK’s choices, as the world’s sixth biggest economy, matter not only to itself but to the wider world.

⁴² <https://www.growth-commission.com/wp-content/uploads/2025/11/GROWTH-BUDGET-2025.pdf>

⁴³ <https://www.growth-commission.com/2026/02/24/growth-commission-urges-ministers-to-junk-e-u-alignment-plan-that-could-cost-15-billion/>

Recommendation 21: Any EU ‘reset’ should not add to costs in the food and agricultural sector through aligning British Sanitary and Phytosanitary regulations with those of the EU and should not damage the UK’s ability to maintain both an independent trade policy and domestic regulatory autonomy.

It is also important that any such ‘reset’ does not damage the UK’s burgeoning tech economy.

The UK must be careful not to destroy the ‘flat white economy’⁴⁴ through tech regulation along EU lines. As a result of its precautionary and ex ante approach drawn from the civil law tradition⁴⁵, the EU has embraced ex ante regulation in the tech space, such as the Digital Markets Act and the Digital Services Act, and competition policy implementation and enforcement that penalises the big tech platforms simply because they are large.

If the UK were to adopt similar approaches, there is a risk we could damage one of the few sectors that has materially been contributing to economic growth.

Recent Growth Commission analysis shows this sector’s importance to the UK economy. On the narrow Standard Industrial Classification definition, the Information and Communication sector represented 6.1% of UK Gross Value Added (GVA) in 2023 but accounted for 26% of UK GVA growth in the year to Q1 2026. On the broader ‘Flat White Economy’ definition, the sector accounted for 35% of service-sector turnover growth over the same period, and The Growth Commission concluded that between one quarter and one third of UK GDP growth in the year to Q1 2026 came from the tech sector. The sector has also combined employment growth with annual productivity growth of approximately 3.8% between 2021 and 2024.⁴⁶ This makes the regulatory treatment of tech particularly important to the UK’s growth prospects.

The Growth Commission has separately warned that the UK’s relative freedom from the EU Digital Services Act, Digital Markets Act and AI Act has supported this sector, and that importing comparable regulatory approaches through the government’s EU ‘reset’ would place that advantage at risk.⁴⁷ In particular, the implementation of competition policy illustrates the difference between common- and civil-law concepts as outlined above.

Recommendation 22: The UK should stay out of the EU tech regulatory area which has done so much damage to the EU’s own tech economy.

⁴⁴ *The Flat White Economy*, Douglas McWilliams, Duckworths 2015

⁴⁵ This is discussed in the Annex

⁴⁶ <https://www.growth-commission.com/wp-content/uploads/2026/05/The-Tech-Sector-in-the-UK-economy.pdf>

⁴⁷ <https://www.growth-commission.com/wp-content/uploads/2026/02/2026-Spring-Statement-Briefing.pdf>

Conclusions

In this section we examine the effects of our proposals on growth, on equality and on revenues.

Impact of our proposals on growth

Table 6 Impact on growth of Growth Commission recommendations

Recommendation		Impact on GDP (%)				
		2027-28	2028-29	2031-32	2036-37	2046-47
1	20% central government headcount reduction	0.5	1	1.5	2.7	4.4
2	Freeze public sector pay	0.1	0.2	0.3	0.5	1.2
3	Public sector pensions	0	0	0.1	0.2	0.4
4	Welfare savings	0.1	0.2	0.3	0.6	1.6
5	Abolish triple lock	0	0	0	0	0.1
6	Reintroduce non-dom status	0.1	0.6	0.8	1.5	2.3
7	Abolish stamp duty on property transactions	0	0.1	0.3	0.4	0.9
8	Phase out corporate tax on retained earnings	0	0.1	0.6	1.1	2.6
9	Abolish CGT on long-term entrepreneurial investment	0.1	0.2	0.5	1	2.5
10	Abolish Inheritance Tax	0	0.1	0.3	0.5	1.4
11	Abolish high marginal rates of Income Tax over £100k	0.1	0.2	0.6	0.9	1.6
12	Restructure student loan repayments	0	0.1	0.8	1.1	3
13	Reintroduce VAT-free shopping for tourists	0.1	0.2	0.4	0.4	0.4
14	Freeze Fuel Duty	0	0	0	0.1	0.2
15	Wholesale reform of planning	0.1	0.4	0.7	2.8	6.4
16	Abolish Renters' Rights Act	0	0.1	0.2	0.4	1.2
17	Repeal excessive Health and Safety measures	0	0.1	0.1	0.3	1.3
18	Repeal Employment Rights Act	0.3	0.4	0.7	1.1	1.9
19	Freeze minimum wage	0.1	0.1	0.2	0.3	0.8
20	Smart Net Zero	0.2	0.4	0.6	0.8	2.2
21	EU 'reset' - no SPS	0.2	0.4	0.4	0.4	0.4
22	EU 'reset' - no tech alignment	0.26	0.52	0.78	2.6	5.2
Total		1.76	4.42	8.68	17	37.6

The impact on GDP growth is shown in Table 6 above.

We estimate that there would be an immediate boost to growth if all these measures were introduced before April 2027 which would boost GDP in 2027-28 by 1.8%. The impact would be even greater in 2028-29 when GDP would be boosted by a further 2.6%, leaving GDP 4.4% higher than in the base case.

By 2031-32 a further 4.3 percentage points of growth would be added; by 2036-37 an additional 8.3 percentage points and by 2046-47 an additional 20.6 percentage points, leading to a total boost to GDP in 2046-47 of 37.6%.

The effect on the economy would be transformative, turning an economy currently expected to slide down the world economic league table into one that would be moving up. By 2040 the UK would be the fourth largest economy in the world, overtaking Japan by 2030 and Germany in the mid-2030s.

At today's prices and incomes, this additional GDP per capita would boost the living standards for every person in the country by £780 as soon as the next financial year; by £1,780 as soon as 2028-29, by £3,840 by 2031-32, by £7,520 by 2036-37 and by £16,630 by 2046-47.

Impact of our proposals on equality and inequality

The UK's Gini coefficient has been falling but for a bad reason – there are fewer rich people in the country. With these reforms we estimate that the Gini coefficient might rise but for a good reason – that everyone is getting better off and entrepreneurs and investors will pour into the country.

Moreover, although those who only live on welfare would be worse off; we believe that these reforms will help many on welfare to get paying jobs that will make them better off and capable of leading better lives.

Amongst different cohorts, we estimate that those earning below average earnings will benefit most from these reforms. They will gain higher incomes and lower taxes; but most of all they will benefit from cheaper food and housing, especially renters.

Impact of our proposals on government revenues

The savings on public spending from our programme should cover the first round costs of the tax cuts by 2031-32. In fact we estimate that the savings should exceed the costs by £24 billion.

On top of this there will be the gains from the tax revenues raised as a result of the additional economic growth that we forecast.

By the mid-2040s these should be significant – of the order of £500 billion a year.

We have consistently argued that this money should be split three ways: the deficit should be run down and ultimately the UK's debt should be reduced; there will be a need for public spending on defence and on infrastructure; and in the longer term, our tax reform programme would envisage a further reduction in personal taxes towards a flat tax of 20%.

But our approach is not to spend money from either savings or growth until the revenues have been generated. So we do not set out a programme to use these gains at this stage.

Annex: A note on regulatory reform by Shanker Singham

The UK's regulatory reform sits within a broader global context of the battle for the world's operating system. Three systems are in conflict.

The first, hitherto adopted by 'the West', is based on competition on the merits as an organising principle.

The second is the one adopted by China and increasingly by its proxies. It is defined by significant market distortions, state intervention in the economy, State-Owned Enterprises and subsidies, as well as special privileges granted to certain favoured firms, almost always large incumbents.

The third is the EU's regulatory harmonisation model, in which access to the EU market is increasingly conditioned on accepting its regulatory system, itself characterised by market distortions and government interventions.

The first system will lead to an increase in economic growth, whereas the latter two suppress it. It is therefore in the UK's interests to adopt the first system, which has in fact been its historical legacy. We share the concern of U.S. Trade Representative Jamieson Greer that the UK has not taken full advantage of its Brexit freedoms and has not embraced a more liberal and competitive domestic legal and regulatory framework, instead choosing to tie itself to the EU's framework.

Before we can fully understand the impact on a country's legal and regulatory framework, we need to understand the role of legal system choice in economic growth.

Choice of Legal Systems and their impact: Excursus on Common law

Our ACMD model provides evidence that countries with common law legal systems are more innovative and dynamic. This evidence builds on the 1990s debate over whether common law systems foster more dynamism and innovation than civil law systems, a question first raised by the 'Legal Origins Theory', pioneered in the late-1990s by economists Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny (commonly known as the LLSV or 'Law and Finance' framework). The empirical evidence generally points to a structural advantage for common law in generating economic growth, primarily driven by how each system handles property rights, capital allocation and regulatory expansion.

Bottom-Up Adaptation vs. Top-Down Codification: Common law is inherently evolutionary. Because it relies on judicial precedent to resolve specific disputes, it adapts incrementally to novel technologies — from emerging innovative businesses to technology platforms — without waiting for the legislature to draft new statutes. This fosters an environment of 'permissionless innovation'. Civil law relies on comprehensive ex-ante codification. When new economic realities emerge, the rigid code often struggles to accommodate them until lawmakers formally amend the system, resulting in a regulatory lag that can stifle rapid technological deployment.

Property Rights and Capital Allocation: Evidence consistently shows that common law countries enforce private property rights and investor protections more robustly. This legal

bedrock of voluntary exchange fundamentally shapes capital allocation. Stronger investor protections typically lead to deeper equity markets and more aggressive venture capital ecosystems — the primary engines funding high-risk, high-reward innovation. Civil law systems have historically aligned more closely with bank-dominated financing and state-directed capital, which tend to be more risk-averse.

Regulatory Burdens and Market Distortions: Common law systems generally permit an action unless a specific harm is litigated ex post. Civil law frameworks often adopt a precautionary approach, using extensive administrative regulations to prevent harm before it occurs. Economic indices measuring regulatory impacts consistently show that civil law countries impose higher barriers to entry for new firms. These structural distortions often insulate incumbents and suppress the competitive churn necessary for dynamic growth.

Legal Origin Theory posits that a country's historical legal tradition fundamentally shapes its economic outcomes.

Empirical findings are grouped into two primary domains: how a legal system dictates corporate governance structures and how those structures aggregate to macroeconomic growth.

Corporate Governance Findings

- **Protection Against Expropriation:** Legal Origin Theory finds that common law systems provide significantly stronger legal protections for ‘outside investors’ (minority shareholders and creditors). Civil law systems offer weaker protections, leaving minority investors vulnerable to expropriation by ‘corporate insiders’ (managers and controlling blockholders).
- **Ownership Concentration:** Because outside investors in civil law jurisdictions lack robust legal recourse, they compensate by holding large, concentrated blocks of shares to monitor management. Consequently, common law countries are far more likely to feature firms with dispersed ownership (the classic Berle-Means corporation), while civil law countries are dominated by family-owned, state-owned or bank-controlled conglomerates.
- **The ‘Self-Dealing’ Barrier:** Common law courts, relying on fiduciary duties and equitable principles, are highly effective at penalising self-dealing by corporate directors ex post. Civil law courts generally require explicit statutory violations to act, making it easier for insiders to extract private benefits of control without violating the letter of the law.

Economic Growth and Capital Allocation Findings

Financial Market Depth: The theory demonstrates that stronger investor protection directly translates into broader, deeper and more liquid capital markets. Common law countries rely heavily on dynamic equity markets for corporate finance, whereas civil law countries rely on bank-centric financing, which tends to be more conservative and relationship-driven.

Resource Allocation: By making external equity financing cheaper and more accessible, common law systems efficiently route capital to new, innovative entrants. Conversely, civil law frameworks often trap capital within established conglomerates or state-directed networks, slowing the competitive churn necessary for rapid economic expansion.

State Intervention as a Market Distortion: Over time, Legal Origin Theory expanded its thesis from narrow corporate law to a broader ‘style of social control’. It found that common law seeks to resolve disputes privately via litigation and contracts, minimising the state's footprint. Civil law defaults to state intervention — using heavy administrative regulations, burdensome market entry requirements and state ownership of banks to solve perceived market failures.

While civil law countries have spent the last two decades aggressively amending their corporate statutes to mimic common law investor protections, recent empirical studies suggest that these top-down reforms often fail to replicate common law's dispersed ownership or capital market dynamism, indicating that the underlying judicial infrastructure is as important as the statutory rules themselves.

The Legal Origins Theory offers a clear structural explanation for why Anti-Competitive Market Distortions (ACMDs) are systematically more deeply embedded in civil law jurisdictions. The divergence stems directly from how each legal tradition views the state's baseline role in organising economic activity.

The State-Intervention Default: Civil law frameworks fundamentally rely on administrative control and ex-ante regulation. This reliance creates a fertile breeding ground for ACMDs. Because the state takes an active, top-down role in capital allocation — often through state-backed financing, industrial policy or heavy regulatory guidance — it inevitably introduces non-market interventions. These manifest as targeted subsidies, arbitrary regulatory barriers or preferential treatment for domestic incumbents. Common law systems, by defaulting to private contracting and ex-post dispute resolution, structurally limit the state's administrative footprint, thereby reducing the number of mechanisms available to inject distortions into the market.

Quantifying the Regulatory Drag: When tracking these disparities through frameworks like the ACMD Model, civil law jurisdictions consistently show higher structural friction. The rigid codification required by civil law means that adapting to new economic realities requires formal legislative or administrative action. This ‘regulatory lag’ acts as a powerful, implicit ACMD, protecting established family- or state-backed conglomerates from dynamic competition and artificially raising barriers to entry for foreign capital and new technologies.

Implications for Trade Architecture: Understanding these legal origins is critical for analysing international trade architecture and addressing structural imbalances. Identifying ACMDs often requires untangling dense webs of state-directed economic policies. Civil law systems frequently blur the line between sovereign policy and private market activity, making it easier for governments to obscure systemic market distortions behind routine administrative procedures.

Because common law relies on transparent, adversarial litigation to resolve economic friction, specific distortions are generally easier to isolate, quantify and challenge. In contrast, the systemic and heavily codified nature of ACMDs in state-directed civil law economies requires highly sophisticated trade modelling to accurately capture their drag on global voluntary exchange.

Application of Legal System Considerations in various countries

Legal Origin Theory identifies distinct legal families – English common law, French civil law, German civil law, socialist civil law and so on.

French civil law, on which EU law is based, is the most state-interventionist and precautionary of these families. Napoleon specifically wanted a law that allowed him to manipulate property rights without judicial interference.

German civil law allows for more judicial rule-making. Socialist civil law delivers state ownership and state-led solutions and is used by China, the former Soviet Union and its satellites. Russian law is itself also heavily influenced by the French civil law tradition.

One of the key differences between Western Europe and Central and Eastern Europe and the Baltics is the civil law family. While Western Europe is mostly French and German, with a preference for state activity, the newly transitioning countries adopted a strong injection of common law into their formerly socialist civil law. Many of the legal and economic advisors who helped these countries transition towards market economies were themselves from the UK or U.S., much as U.S. lawyers were heavily involved with the writing of the Japanese constitution post-World War II.

This institutional shift may help explain part of the stronger economic performance of the Baltic and Central and Eastern European countries. Ewen Stewart's Growth Commission analysis finds that the Visegrad countries, Slovenia and the Baltic states outperformed Old Europe by a factor of two to three in average GDP growth between 2005 and 2024, while generally exhibiting lower taxation, lower social spending and lower public debt.⁴⁸

Many countries embraced the common law despite it not being part of their tradition – such as the UAE and Singapore. Singapore is among the least distorted markets in the world, and the UAE is the only one of the top twenty least distorted markets that has lowered its overall level of distortion between 2010 and 2023 (the period of the ACMD model study).

The U.S., Australia, Canada and New Zealand are all high-growth, high-innovation countries that apply English common law. But the UK, which gave the world the English common law, moved from the dualist common law tradition to a monist one during its EU membership. As we have noted, there is a fundamental difference between a civil law system, which stipulates what you can do, and a common law system, which allows risk-taking provided it is not legislated against.

The latter promotes risk-taking, the key to innovation (especially 0-1 innovation as opposed to 1-n innovation), whereas the former is precautionary in its approach and bans things before they become potentially hazardous. It is not coincidental that the countries that have tended to apply a competition-on-the-merits approach, facilitating voluntary exchange, have been the common law countries. Even Japan adopts much of the common law tradition. Following World War II, the U.S. occupation fundamentally altered Japan's legal framework. While the Americans left the traditional property and civil codes largely intact, they aggressively injected common law principles into public and procedural law:

- Constitutional Rights: The 1947 Constitution introduced Anglo-American concepts of fundamental human rights, due process and equal protection.
- Judicial Review: Departing from traditional civil law, Japan adopted the American model, empowering the Supreme Court to strike down unconstitutional legislation.

⁴⁸ <https://www.growth-commission.com/wp-content/uploads/2025/09/HOW-TO-TRANSFORM-EUROPE-INTO-A-HIGH-GDP-GROWTH-CONTINENT.pdf>

- Criminal Procedure: The system shifted towards an American adversarial model, introducing cross-examination and strict protections for the accused.
- Corporate and Labour Law: U.S. administrators heavily influenced Japanese economic regulations, introducing American-style antitrust, securities and labour union laws.

Where the UK Legal System lies

Despite all this, UK law now heavily applies European regulation directly and is moving from a common law to a civil law system in precisely the economic areas where common law is such an advantage. It is moving towards the most restrictive of the civilian family – the French civil law that underpins European regulation. Much of the proposed regulatory reform requires a return to a common law, dualist legal tradition in the UK so that its legal system can better facilitate the free exchange of goods and services.

Economic Growth Implications of Regulatory Change

In this context, The Growth Commission has advised successive UK governments on what regulatory reform is needed to generate economic growth. We have noted that regulatory reform is a major driver of economic growth. Our ACMD models have shown that moving a country's domestic regulatory system towards the first model of competition on the merits has substantial potential to move the economic needle.

As we have pointed out, the gains from equivalent improvements across trade opening and property rights protection are not equally distributed. Indeed, a regulatory improvement of about 20% in the UK's case leads to an 8% long-run gain in GDP per capita, whereas trade leads to 6% and property rights protection about 6.9%. Hence, regulatory reform is where the most immediate gains can be accrued.

Challenges to Regulatory Reform

One of the most significant challenges is dynamic alignment, which the UK government is pursuing with the EU. Unlike other measures, once agreed, dynamic alignment will be very hard to reverse because it will be part of the Trade and Cooperation Agreement (TCA). Dropping dynamic alignment will mean losing the TCA and the access it provides to the EU. This would prompt UK companies to lobby the government not to do anything that would lose the TCA, making it very difficult for the government to repeal it.

As The Growth Commission has noted, SPS dynamic alignment would be very damaging to the UK economy. The Commission estimates that dynamic alignment with EU SPS rules would impose a net cost of approximately £15 billion, equivalent to 0.5% of GDP.⁴⁹ This estimate already takes account of the trade facilitation benefit associated with reducing UK-EU border friction. The remaining loss reflects the regulatory headroom that the UK would surrender by committing to follow a moving EU rulebook rather than retaining the ability to improve its own regulatory framework.

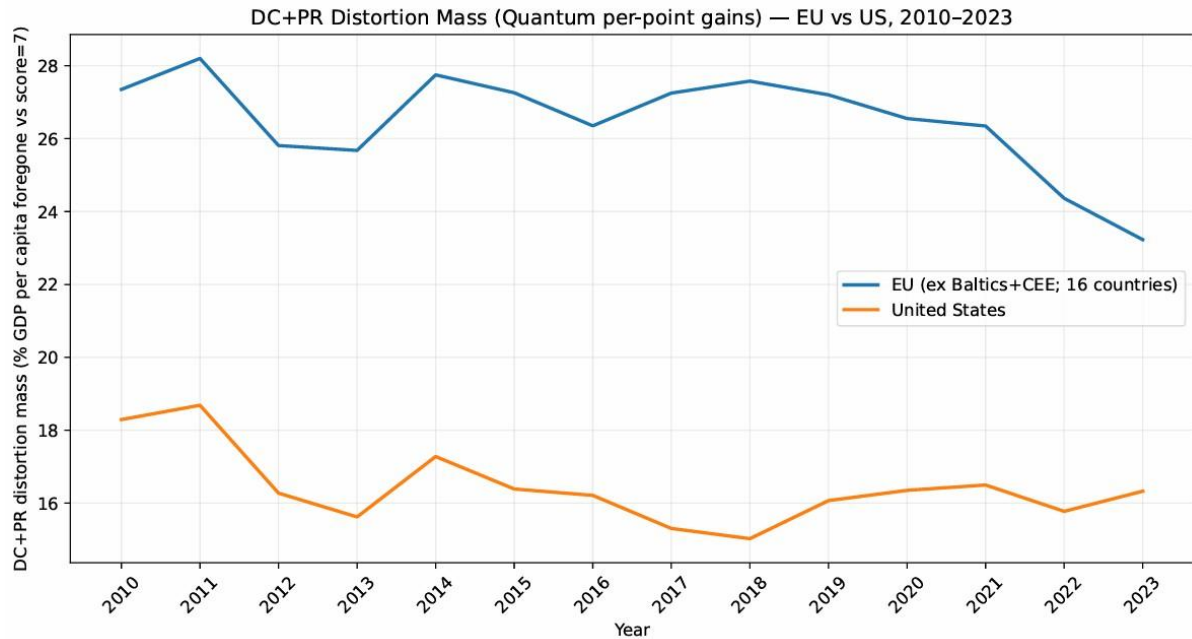
Dynamic alignment would therefore convert what is presently a matter of domestic regulatory choice into a continuing treaty obligation and would prevent the UK from responding independently where EU rules impose greater costs on competition and trade. The proposed

⁴⁹ <https://www.growth-commission.com/2026/02/24/growth-commission-urges-ministers-to-junk-e-u-alignment-plan-that-could-cost-15-billion/>

European Partnership Bill is meant to lay the groundwork for dynamic alignment in many areas by statutory instrument, as the primary legislation would simply give the government the legal ability to align where it deems appropriate.

This would take whole swathes of the UK's regulatory system outside the scope of reform.

We have noted the cost of EU regulation to the EU economy in terms of lost GDP per capita, using the U.S. economy as an example, as the graph below shows.



This regulatory headroom would then be lost for the UK as well, eliminating the potential for 1% GDP per capita growth each year for ten years. This amounts to £350 billion over ten years in lost potential growth.

In other words, if the UK simply improved its regulatory system to U.S. levels, its economy in ten years' time would be 10.5% bigger than if it locked itself into EU regulatory norms. This is what the UK risks losing through its approach to dynamic alignment.



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