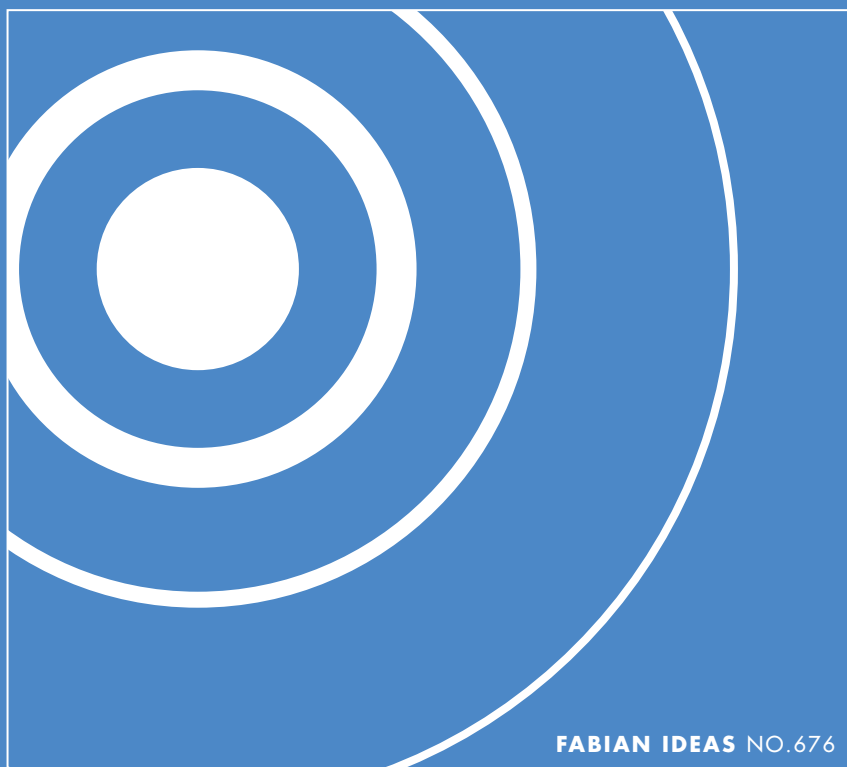

GROWTH

A BETTER ECONOMY IN EVERY POSTCODE

EDITED BY IGGY WOOD, DAVID LAWRENCE AND
MARCUS JOHNS



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FOREWORD

DAN TOMLINSON MP

My generation is special: we are the first in Britain's history (at least since the industrial revolution) to be worse off than our parents.

In an essay for the *New Statesman*, the journalist Vicky Spratt calls us "generation screwed." She's not wrong. Brits between 18-34 are more indebted, more likely to be living at home with their parents, and less financially secure than any generation in living memory. They are also the first generation to have never experienced consistent economic growth in their adult lives, which (for me) began just after the financial crisis.

Growth is fundamental to any plausible vision of social democracy. A hundred years ago, when the Labour party grew out of the trade union movement and the Fabian Society, growth was a given. The post-industrial communities that desperately need growth today were beacons of industrial innovation and progress.

Throughout its history, the Labour movement's mission has been to ensure that economic progress delivers greater social progress. The latter does not proceed inevitably from the former: it

must be fought for, through collective means. Equally, social progress is near impossible without economic growth. Social democracy's victories – from the founding of the NHS to free school meals – were all built on the back of material progress and physical infrastructure.

Our problem today is that in the years since the financial crash Britain forgot how to grow. The right failed us in government, drifting from crisis to crisis but not building our country's economic capacity – even in calmer times – while the left focused insufficiently, at times, on building a political account of both why we need growth and how we get it.

Now we have the hardest task. Against a difficult international backdrop and with real fiscal constraints due to our economic inheritance, we must get Britain growing again, and do so in a way that brings the British people with us.

That's what the essays in this collection are all about. The topics and viewpoints are intentionally broad – I certainly don't agree with everything – but they represent an attempt to

answer a question that has eluded previous British governments, on the left and the right, for decades: how can we grow?

If we cannot be more ambitious about the role of the state and its ability to facilitate growth via public control, we will fail. Similarly, we must make sure that devolution is designed to incentivise and support growth rather

than suppress it. This is our task, and if we get it right, we will see rising investment, innovation and employment in every part of the country, and things can turn around – for my generation and generations to come.

Dan Tomlinson is the Labour MP for Chipping Barnet and the treasury minister for growth

INTRODUCTION

IGGY WOOD, DAVID LAWRENCE AND MARCUS JOHNS

After the 2008 crash, many experts thought that the resulting recession would be merely a bump in the road: painful, yes, but ultimately a temporary slump with well-understood causes, after which normal service would resume.

Nearly 20 years on, however, it is clear that they were wrong – spectacularly so. The British economy has scraped along ever since: had we followed the pre-crisis trend, the average earner today would be £14,000 better off each year.

Successive administrations have tried and failed to put Britain back on the path to growth. This government must buck the trend. In this collection, we have assembled a group of authors from across a vast swathe of the left and centre to put forward their proposals.

Luke Raikes kicks off the collection with an exploration of what reindustrialisation might look like in the UK. He argues, perhaps surprisingly, that Britain has a number of important economic and geographic advantages that could help facilitate a new expansion of industrial productivity.

Even better, he says, our services sector is set to help, not hinder, the process of reindustrialisation.

David Lawrence and Martha Dacombe focus on transport. They set out a plan for a new suite of crossrail projects spread across Britain's five largest cities. They show that, by taking advantage of the tried and tested strategies developed to deliver the Elizabeth line, the projects, taken together, could be fully self-funding.

Anneliese Dodds MP turns to questions of trade. She highlights the EU's growing focus on 'positive integration,' including joint procurement and joint defence spending, and argues that Britain risks being left out. The increasingly insular global context, she argues, means we must move on from the same tired back-and-forths with our most important trading partner.

Tax policy is sometimes treated as a simple tradeoff between raising revenue and leaving people alone. Dan Neidle explains how foolish this is, assembling an extensive list of poorly-designed taxes and showing how we can fix them.

Mathew Lawrence argues that, long

before the financial crash, the seeds of Britain's decline were sown by turning the state into a regulator rather than a positive actor in the economy. The new government, he says, must rebuild state capacity in order to create an economy characterised by abundance, security and dignity.

Imogen Shaw examines one of the biggest constraints on UK growth – our energy costs – and concludes that our challenges are more political than geographical. She outlines a plan to reform the national grid.

Kane Emerson and Anya Martin show that building new housing does not always have to be a pitched battle between developers and residents – and that the people living in an area are often best-placed to decide what to build. Louise Murphy shows that a more generous unemployment insurance system, modelled on the Covid-era furlough scheme, could protect workers

and make our labour market more dynamic.

Meg Hillier MP emphasises that none of this can work without close scrutiny of spending decisions, and to round off the collection, Nick Garland tackles thorny questions around the politics of growth, including how we can communicate policy benefits which may not become apparent for years.

The authors provide their perspectives on the kind of good growth in every postcode that the prime minister has stated he wants to build. This will undoubtedly be a challenge, but it is a surmountable one – as each of the authors argues in their own way.

Iggy Wood is the head of editorial at the Fabian Society and the editor of the Fabian Review. David Lawrence is the cofounder of the Centre for British Progress. Marcus Johns is a senior researcher at the Fabian Society

CHAPTER 1

HIDDEN STRENGTHS

Luke Raikes, deputy general secretary of the Fabian Society, argues that the UK is well-placed to reindustrialise

The country is at a fork in the road – one we have been dithering at since 2008. The global financial crisis proved bankrupt the old model: growing financial services in London, redistributing just enough of its tax receipts to keep former manufacturing regions subsisting, and then expecting people in those places to be content without any sense of purpose or future. Since then, we have prevaricated over the hard choices about what our economy should look like. Meanwhile, wages have stagnated, debt has grown, and the world has moved on without us.

Now we must choose. Are we content to be buffeted by global shocks and at the mercy of big companies and foreign countries? Are we happy to sell off our assets and preside over an ever more fragile and narrow economic foundation?

Or do we want to build again – using the resources we have left to construct a modern, social democratic society

with a productive economic engine at its heart, creating good jobs within reach of all citizens and funding modern public services? The answer is obvious. But it relies on a very different approach than we have ever taken before as a country.

Reindustrialisation must be at the centre of the new economy we build. This is an appeal to the head, not the heart. If we learn only one thing from Manchester's example, it is that we cannot prattle on about a new industrial revolution, harking back to our role in the last one, and expect a bright future to magically appear. A good origin story adds no value in a global supply chain. But we do have assets, and we can add value, because we have a more diverse set of priority industries, and high-potential places, than is commonly supposed.

A MORE DIVERSE SET OF INDUSTRIES

Our first untapped strength is our industries. We are often told that

knowledge-intensive business services are our sole and only strength – that services are the future, manufacturing is the past, and that we should double down on what we are good at. These services have enjoyed sustained government support for decades, unlike manufacturing – which gets a reactive, ad-hoc policy response at best.

This view is now dated. It is built on pre-crash assumptions and woefully out of step with the modern economy. Yes, there are some knowledge-intensive businesses we specialise in and export to the world; we should nurture these, although we shouldn't conflate them with the mass of non-traded accountants and solicitors as people often do. Our fixation on services, however, neglects three key points.

First, manufacturing is still often tradeable and value-adding. The well-documented decline in manufacturing employment is also a story of rising productivity, diversification and specialisation – from life sciences to aerospace. We innovate well, in fact. The problem is often that we are the world's laboratory, but not its factory – we invent world-leading new products but let others make them, sell them and use them first.

Second, our 'service-based economy' could be an asset to our manufacturing and other industries. Services don't exist in isolation – by definition, they permeate our entire economy and serve other sectors. Consider how reliant modern manufacturing is on marketing, legal and financial services. This cross-sector working is especially important for our IS-8 sectors, where

supply chains for life sciences, energy or digital thread together businesses across old-fashioned industrial classifications.

Third, while specialisation matters, diversity is the key to resilience and therefore long-term growth. The UK's overreliance on financial services has meant that when this sector flatlined post-crash, it held down London's and the country's productivity too – and this lesson applies just as much to Germany's ailing car manufacturing base.

In short, we have the potential to succeed in industries that we have not really tried to develop, and we must do so if we want to grow in the long term.

A MORE DIVERSE SET OF PLACES

Our second untapped strength is our geography. Policymakers now understand the population density of cities can enable higher productivity through economies of agglomeration, including via deep, diverse labour markets and proximity, which enables ideas to be shared and partnerships to be formed. That has justified a focus on London, and latterly, other cities, such as Manchester.

Yet this is only a partial account that overlooks Britain's true potential. Agglomeration is about connectivity, not just city-centre density: a series of well-connected cities and towns can be very productive by 'borrowing' scale from one another. Besides, agglomeration is not the only place-based advantage – far from it. Local economies can be boosted by universities, which partner with industry on high-value innovations; access to the coast, which enables the development of offshore

wind; or proximity to the motorway network, which is vital for logistics. In Britain, we have a large group of towns in possession of these assets and in the sweet spot for growth – close to cities, but with space to develop and where people want to live. Some are already productive, notably in Cheshire, along the M4 Corridor and along the Oxford-Cambridge arc. There are also many towns inside city-regions that are viewed as part of a ‘city success story’ by those unfamiliar with their real geography.

Our greatest geographical advantage is obvious, yet often missed. Britain’s major city-regions and towns are grouped relatively close together – there is one grouping across the Pennines in the North, and another in the Midlands, each with populations of around 10 million. There is a further, highly productive cluster spanning Oxford to Cambridge. The problem is that we cannot move within them and between them quickly and reliably, so their true potential remains unrealised.

BUILDING ON OUR STRENGTHS

To modernise our economy, we need industrial strategy that is place-based in action, not just in words. The government’s industrial strategy, set out in 2025, is a solid foundation for better policy, and acknowledges the above sectoral and geographical strengths. Now it needs to be driven from the very top and in collaboration with regional leaders.

Number 10 North was set up to do this very job. There must be a team in government that wakes up every

morning and sets out to grow the economy, with the direct backing of the prime minister and the chancellor, and ideally led by a first secretary of state, as the Fabian Society has consistently recommended. But our high-potential regional economies cannot be managed from central government offices – wherever they are based. This is why devolution to strategic authorities like Greater Manchester is so important: economic powers must sit at the primary geography at which economies function and people live and work. Mayors should also be backed to collaborate across regions to realise that crucial pan-regional potential.

The overriding priority is transport – within city-regions, across regions, and throughout the major economic hubs of England. Transport is the great catalyst: it makes economic areas function and irrigates whole regions, transforming them from shapes on a map into living, breathing places. The urgent need for high-speed rail infrastructure must be seen for the national emergency it is, with short shrift given to the petty considerations that led to the HS2 debacle.

This needs vision as much as it needs engineering. The aim should be to ‘wire up’ England with rail so that people can flow easily between its major population centres. It should be easy for Mancunians to commute not just to Leeds but to Birmingham and London. The world we now live in requires this level of ambition.

We are at risk of talking ourselves into permanent decline. We have become far too defensive, preoccupied

with guarding a shrinking inheritance of narrower and narrower specialisms. And Britain is often the only country playing by the 'old rules' of globalisation, services-first, unquestioned openness, and hands-off government. Others have long since moved on, using industrial strategy, public investment and state capacity to seize the opportunities we could be taking. We have done little to connect our regions, or support our industrial strengths, and then we act

surprised when productivity stagnates.

Our economy has advantages and assets that other countries envy: our geographical position, our universities, deep capital markets, and even the English language. But if we want to thrive in the decades ahead, we cannot continue to write off entire sectors and swathes of the country. If these places, industries and people pull together, then we can shrug off this decline and build the future economy we need.

CHAPTER 2

ALONG SIMILAR LINES

David Lawrence, cofounder, and Martha Dacombe, technology and state capacity programme manager, at the Centre for British Progress, set out a plan to build Elizabeth lines in Britain's five largest cities – at no cost to the exchequer

Which country built the world's most successful railway line of the last decade?

The answer may surprise you: it's Britain. London's Elizabeth line carries more passengers than any line in the Western world built in the last 50 years. New York and Paris haven't built anything that comes close since the 1970s. The Elizabeth line accounts for 15 per cent of all British rail journeys, created half a million new jobs, and has one of the highest revenue-to-mile ratios in the world. Despite cost overruns, two-thirds of its construction was funded by money raised in London, primarily through land value capture.

Against the backdrop of our infrastructure woes – bat tunnels, cost overruns, cancellations and delays – it is easy to forget that we have built something genuinely marvellous. Anyone who has been on it knows that the Elizabeth line is a joy. The large and airy stations have won architectural

awards. The trains are so quiet you barely hear them coming. The carriages are roomy and properly air conditioned, offering respite in the summer heat. But most importantly, the Elizabeth line is incredibly quick. It used to take me an hour to get from my home in Shoreditch to Paddington. It now takes 26 minutes. For those living further east or west, the 'Lizzy line' is even more transformative, opening entire new industries to London's workers.

Britain's new prime minister now has a historic opportunity to bring these benefits to the rest of the country by building new crossrails in Britain's five largest cities – at no additional cost to the exchequer. If he acts now, we could see spades in the ground and station upgrades before 2029, and new trains running within the decade. What better legacy for a prime minister focused on creating growth in postcodes across the UK?

THE SECRET OF THE ELIZABETH LINE'S SUCCESS

The answer lies in two brilliant innovations.

The first is through-running. The term 'crossrail' has become synonymous with the Elizabeth line, but it actually refers to a specific engineering solution. Crossrails connect major rail terminuses, such as Paddington and Liverpool Street, allowing trains to run from commuter lines straight through the city. Because it takes so long to turn trains around at dead end terminuses compared to running them through normal stations, this setup typically triples the number of trains that can run, vastly increasing capacity and speed for passengers and opening up new areas to economic opportunity.

The actual amount of tunnelling needed can be quite small. The distance between Manchester Victoria and Piccadilly, for example, is less than a mile. This significantly reduces the cost of building a crossrail compared to building an entire new metro line. For a small extra stretch of track, you carry three times as many passengers.

The crossrail approach has been adopted in several great European cities: the RER in Paris, the S-Bahns of most German cities, and the Cercanias in Madrid. Through-running has also been used in Merseyside, the Tyne and Wear Metro and Thameslink. The genius is that because most of the network already exists, we can create full metro systems at the cost of a short tunnel in the centre of the city.

The second innovation of the Elizabeth line is land value uplift. This

is what allowed two-thirds of the cost of the line to be funded by London rather than central government. More ambitious land value capture could allow new crossrails to be fully self-funded. While farmland in London is worth about £50,000 per hectare, land assigned to housebuilding is worth about £35m. This gulf means that crossrails can facilitate huge uplifts in land value by connecting land to productive city centres. The value uplift can be captured through existing taxes, such as council tax and business rates, or supplements.

HOW WE CAN APPLY THIS MODEL BEYOND LONDON

The Centre for British Progress, building on the work of Ben Southwood and others, has identified five cities that would benefit from additional crossrails. These are: Birmingham, Manchester, Leeds, Glasgow and London (which could easily absorb several more crossrails).

Our modelling shows that this programme of crossrails could be entirely self-funded so long as the projects are done in tandem. It might seem incredible that a fleet of railways on this scale, across five cities, could be self-funding. The British state has been scarred by the failure of HS2, which has cost taxpayers over £40bn already, even though the project has been largely scrapped.

However, even the most conservative modelling shows that GB Crossrails could not only be self-funding, but comfortably so. The reason is that the level of land value uplift in and around

London creates more than enough value to pay for the tunnelling, extra track and station upgrades required to connect terminuses in Manchester, Birmingham, Leeds and Glasgow.

To give an example, Stoke Mandeville is a small railway station on the Chiltern Mainline north-west of London. There are about 193 hectares of developable land within 1000 metres of the station. The area is outside the green belt, outside of flood risk zones, and is not protected for habitats or conservation.

If the government enabled development here at normal suburban densities, the captured uplift just from permitting this modest development could be worth at least £6.7bn. Needless to say, the uplift would be greater once more frequent train services are factored in or if housing densities were above normal suburban levels.

This alone could fund a new north-south crossrail in London, which would entail 3.5km of tunnel (from Moorgate to Elephant and Castle), two or three wholly new stations, some new rolling stock and electrification, and some station upgrades. If costs were the same as the Elizabeth line, the bill would come to £6bn. In other words, a whole line and more could be funded from development around a single station.

Some 30-35 stations in the London green belt have more than 190 hectares of developable land around them and

sit on a line whose frequency could be dramatically upgraded by a crossrail. We estimate there are 15-20 more sites where such a station could be added.

But modern, ambitious crossrails should not be the sole preserve of London. Outside London, our great cities all share challenges of congestion, long travel times and infrequent rail services. We propose building new crossrails in Britain's next four largest metropolitan areas: Birmingham, connecting Duddeston and Five Ways via Curzon Street and New Street, with an additional branch to Smethwick; Manchester, by through-running commuter railways into a trunk tunnel from Piccadilly to Salford, modelled on the Munich S-Bahn; Leeds, by converting several of the suburban lines in the west of the city into a metro; and Glasgow, by reopening the line between Bellgrove and West Street to passenger services, with a new chord at High Street and a new connection to Crossmyloof to allow through cross-river services.

Britain's infrastructure has suffered from decades of underinvestment and decay, but the Elizabeth line shows that we have not forgotten how to build. The innovations of through-running and land value uplift show us a way to build cheaply and pay for it. A fleet of "GB Crossrails" could be a unifying, national infrastructure project that spreads benefits across Britain.

CHAPTER 3

POWER WITH THE UNION

Anneliese Dodds MP, the co-chair of the Fabian Society, who served as both international development minister and women and equalities minister from 2024-25, argues that without closer integration, we risk being left behind by the EU

As a trading nation, growth in the UK has long been shaped by our relationship with those who buy from and sell to us, especially since importing and exporting companies in the UK tend to be more productive than those which focus only on our domestic market.¹ Our geographical closeness to the EU means that these trading links will often be the first that British companies engage with and seek to strengthen.

Now, as well as removing barriers to trade (many of which were induced by Brexit), our future relationship with the EU must acknowledge increasingly commonplace geopolitical blockages on trade and broader economic activity. In this context, promoting our economic growth requires both intensifying trade with the EU and promoting our joint 'economic security'. This brief article sets out how the new Burnham administration can do this.

Eurocrats are understandably

frustrated with the word 'reset' being used by British policymakers. The last 10 unsettled years since Brexit have sapped policymakers' attention as well as growth and investment in the EU and the UK. Keir Starmer's government did acknowledge the economic impact of Brexit, not least at the time of Rachel Reeves' last budget.² But the transition to Burnham's team offers an opportunity to inject fresh energy into the greater economic security that both sides need.

It is crucial that the new government speedily reschedules the UK-EU summit that had been scheduled for July (presumably to late October or November, after Labour party conference and the UN general assembly) and that both sides meet the expectations resting upon it. According to recent reports, the summit should lead to the removal of some of the Brexit barriers to agrifood and emissions trading, help

align electricity market regulations and perhaps secure increased youth mobility (if the sticking point of EU student fees can be overcome).

Yet independent estimates³ suggest a successful deal in the autumn would only boost GDP by 2040 by between 0.2-3 per cent of GDP – small beer compared with recent analysis⁴ suggesting a hit from Brexit of between 6 to 8 per cent of GDP per capita over the last 10 years. Much of the economic damage has come from what are now sunk costs from years of prolonged uncertainty. However, damage has also arisen from reduced levels of trade, disrupted UK-EU supply chains and the UK becoming less attractive to productive international firms. All three challenges are now even more marked amid current global trade turbulence and geopolitical competition.

Of course, Burnham's team will have to ensure that commitments under existing agreements (the TCA, withdrawal agreement, and common understanding) are met. But we must look well beyond them given the new global economic reality of increasing trade barriers, calls for sovereignty over key technologies and defence-led reindustrialisation. These three factors are now critical for the EU and UK economies, yet they fall largely outside the agreements mentioned above.

There is a considerable risk of path dependency here: both EU and UK policymakers could fail to refocus economic talks on current challenges. Traditionally, economic benefits derived from the EU were from 'negative integration' – ie the removal of barriers

to trade. Now, in response to increased geopolitical pressure, the EU is increasingly focused on 'positive integration', including joint procurement, joint defence spending and protecting supply chains. Refocusing our relationship with the EU around mutual economic security would recognise this changed focus of EU economic decision-making, as well as the national interests of EU member states and of the UK.

This context forms the backdrop for current debates over the long-term shape of UK-EU relations. Commentators differ over whether the UK should now seek a customs union, entry into the single market, an EEA or 'Swiss-style' deal, or indeed membership. It has often been argued that all four are ruled out by Labour's manifesto, either because they would necessitate freedom of movement (in the case of membership, the single market, the EEA, a Swiss-style deal) or damage trade deals concluded since Brexit, not least with the US and India (in the case of a customs union). My discussions with EU policymakers have suggested that, for them, the stumbling block was the Keir Starmer administration's keenness to promote a single market in goods only, with the UK remaining open to US (and some Chinese) firms for services, not least in tech.

The situation is especially concerning when it comes to AI. So far, the UK has chosen dependence on US tech firms over working with the EU to deliver shared sovereignty. This is despite the fact that tech sovereignty for the UK alone is proving difficult if not impossible to achieve, not least in

frontier model AI. The chief executive of the French AI company Mistral has stated that the EU has at most two years to build its own AI or become permanently dependent on the US or China.⁵ This analysis applies in spades to the UK – yet we have cut ourselves off from EU initiatives on this crucial aspect of economic security.

Working more closely with the EU on tech to support our mutual economic security is not without risk. The UK significantly outranks the EU27 on tech investment, much of it from US firms. But the dangers of miscalibration with the EU and overreliance on the US are clear. A better approach would build on the existing UK-EU agreement on data flows, developing structured dialogues on tech and on economic security, joining the Scaleup Europe Fund, reforming our competition rules to deliver greater sovereign control and using procurement strategically to support our economic security, including working with European allies.

Promoting our mutual economic security must also involve improved integration of defence procurement. The Security Action for Europe (Safe) debacle – which has left the UK still subject to the 35 per cent limit for non-EU firms wanting to contribute to Safe-backed projects – cannot be repeated. Instead, we should seek to build on our participation in the Ukraine Loan Fund, the E3 and Joint

Expeditionary Force to realise shared gains. Given increasing competition from Chinese manufacturers, we should also seek as a matter of urgency to solve the current impasse over rules of origin for the UK automotive sector and ensure that the UK is integrated within the Made in Europe programme so that the latter covers the continent and islands of Europe, not just the EU. This will benefit workers from Oxford and Ellesmere Port to Leipzig and Rennes while strengthening our shared manufacturing base. Put simply, “Made in Europe” should mean “Made in the EU and its allies including the UK”.

This bold approach may face opposition from protectionists on both sides of the Channel as well as those in the UK who continue to press the case for transatlanticism over closer relations with the EU. Nonetheless, it offers the strongest path for UK and EU security and growth.

The new administration is understandably focused on domestic issues, but it cannot afford to ignore the need to work more closely with the EU to advance our shared economic security. It should avoid getting caught up in old arguments and instead pursue a less transactional, more security-focused relationship with the EU. One of the few certainties in economics, as well as politics, is that geography cannot be ignored. In these turbulent times, that is becoming clearer than ever.

CHAPTER 4

TAX PLANNING

Dan Neidle, founder of Tax Policy Associates Ltd, explains how tax reform could be an engine of growth

Britain's demographics are brutal. As such, spending on health and pensions is set to rise inexorably. There are two obvious answers: substantial tax increases on the one hand, or substantial cuts to welfare and services on the other. Equally obvious is that neither option has any public support. The only way out of this dilemma is growth.

While encouraging growth has been the stated priority of successive governments, there is one growth lever that successive chancellors have barely touched: tax. Tax policy has operated in its own rather depressing world, where the only purpose of raising tax is raising revenue, and the only purpose of cutting tax is putting money in people's pockets. Tax as an engine for growth (or at least getting out of its way) has barely been mentioned. We should be more ambitious. Below is a rough list of pro-growth tax reforms, compressed by necessity (a longer version, with sources, is on the Tax Policy Associates website).

Let's start with the easy wins: the closest we'll get to free lunches.

We should simplify corporation tax. Fifty years of accumulated anti-avoidance rules (including nine different sets just to work out whether a US parent company's loan to its UK subsidiary is deductible) have left the UK near the bottom of the OECD for tax competitiveness. Fixing this need not cost a penny; it just requires one question of every rule: "is this really necessary?"

Then we should restore stability to the policymaking process. The rumours before the last budget did more damage than the actual tax rises. I know entrepreneurs who left the UK because of speculation about an exit tax that never happened. The new chancellor must impose iron discipline on pre-budget briefing and "kite-flying" and return to one fiscal event a year, not two. If taxes must rise, then better to do it all now, with stability next year, than some this year and another round next

year. The apparently endless cycle of tax increases is deeply damaging.

We should also improve the standard of service for large companies by creating a statutory clearance service to ensure that a business investing £100m or more (rather than the current £1bn) could get a binding answer on tax in weeks. We can improve customer service for individuals and small companies more straightforwardly: waiting an hour on hold, or months for a VAT registration, is unacceptable.

Two for the nerds: abolish interest withholding tax, which is easily avoided by the sophisticated and a hassle and a trap for everyone else; and let foreign companies redomicile into the UK. (The latter has been consulted on twice now. Making it easier for business to come to the UK should be a slam-dunk. Get on with it.)

Rounding off the quick wins, we should solve the mystery of the small business tax gap: £30-48bn missing each year, and only 330 random audits to tell us why. Until we know what's going on, we can't fix it – and all the while, honest businesses are being undercut by competitors who do not pay tax. If we recovered just £10bn of the missing tax, we could cut the rate of corporation tax from 25 per cent to 22.5 per cent.

Then, the medium-level challenges, where the trade-offs are harder.

The government should abolish or fix the taxes that hold back growth. It should abolish the bank levy – which penalises low-risk banking and incentivises medium-sized foreign banks to stay below its £20bn threshold – and roll it into the bank surcharge. Investment

banks would pay more and commercial banks less, which is a result Labour should be comfortable with. It should fix business rates by taking improvements out of the valuation. Better still, rates could be based on the value of the site rather than the building. It should abolish stamp duty on shares: little wonder the UK struggles to attract IPOs when no other comparable financial centre has a tax this high. The burden of stamp duty falls on pension funds, not City speculators, and the wider economic effects should offset most of the apparent cost. The government should also replace the failed R&D relief system (with questionable claims wasting up to £10bn over recent years while real R&D struggled for relief) with a targeted, pre-cleared scheme for 5,000 businesses rather than a chaotic scramble between 50,000.

It should end the irrational income tax marginal rates kicking in at £60,000 (58 per cent for a parent of three) and £100,000 (a truly astonishing 20,000 per cent as childcare subsidies vanish), which people answer by cutting hours and refusing promotions. The Centre for British Progress has a proposal for ending these rates at limited or no cost. Then, it should address the 70 per cent+ marginal rates lower down the income scale by integrating council tax support into universal credit.

We should also stop meddling with non-doms, commit to stability on the inward investor regime after four major reforms in six years, and smooth out the 10-year inheritance tax cliff edge that prompts sudden exits.

Capital gains tax needs reform, too:

it taxes inflationary gains, rewards holding assets till death and, as Nigel Lawson recognised, invites income to be dressed up as gains. The rate should be equalised with income tax. There should be an allowance for the normal return, relief for entrepreneurs, and the proceeds should fund tax cuts. The chancellor should complete Jeremy Hunt's full expensing by allowing companies to claim for leased assets and buildings and expanding it to unincorporated businesses. This is probably the single most evidenced pro-growth corporate tax lever. Loss relief should be made symmetrical; currently, the state shares in successful firms' upside while refusing start-ups' downside.

Then, the big challenges.

The government should merge employee national insurance into income tax so that the same work bears the same tax whether done as an employee, as a contractor or through a company. Then a bigger challenge still: phasing out employer NI (making sure employers pass the saving onto employees) and shifting the burden into income tax. This would end the bias against employment and achieve a tax cut for employees. The cost would be a tax increase for investors and pensioners (but why should people over 66 pay less tax?).

We should abolish stamp duty land tax, which at rates of up to 19 per cent clogs the housing market, reduces labour mobility and makes people miserable, replacing it (ideally along with council tax and business rates) with one annual property tax.

We should reform our bewilderingly

irrational VAT base, which charges 20 per cent on chocolate biscuits but 0 per cent on Jaffa Cakes, and, more confusing still, 0 per cent on a £5,000 Harrods girl's jacket. To do so, we should remove almost all exemptions and special rates, protect losers through child benefit and universal credit, cut the rate, and commit to the principle that VAT reform should not be a revenue-raiser.

The government should scrap the £90,000 VAT registration threshold, below which many tens of thousands of businesses (the plumber turning away work, the guest house shut for the winter) deliberately stop growing.

It should radically reform the corporation tax base, with all investment immediately deductible, the income/capital distinction abolished, and interest non-deductible in exchange; broaden inheritance tax and cut the rate, ending reliefs that encourage holding inefficient assets until death; and introduce real road pricing, varying by congestion, time and vehicle. The last budget's flat per-mile EV tax entrenched exactly the wrong model.

Growth isn't everything, but everything needs growth. The prime minister says he wants a circuit breaker – a new economic model. That model should start with tax reform.

The easy items could start tomorrow; the medium ones need a budget; the hard ones need a general election. What none of them need is another decade of "this is too hard". We can't tax our way to growth, or tax-cut our way to growth – but maybe, just maybe, we can tax-reform our way to growth.

CHAPTER 5

STATE OF DECAY

Mathew Lawrence, the founder and director of Common Wealth, sets out how a reassertion of public control of essential sectors could create an economy characterised by abundance, security and dignity

The prime minister has made the recasting of Britain's economic and political order his government's mission, with the reassertion of public control over essential sectors the tool of transformation. This ambition is welcome, but if rhetorical boldness is to lead to enduring change, it must be matched with analytical clarity on the fundamental questions facing the country. Why has the existing architecture of public control – the institutional coordinates of neoliberalism that Burnham wants to replace – failed to produce broad-based prosperity? What alternative arrangement can better deliver abundance and security? And how can we rebuild state capacity to deliver good growth in every postcode, even as the constraints of an unstable world tighten?

Public control of essential sectors is about the ability of democratic institutions to consciously determine the

organisation, operation and outcomes of foundational areas of the economy – like energy, housing, and transport – rather than leaving it to market coordination. While the policy toolkit is varied, from ownership to regulation, it operates through three channels: allocation, distribution, and stabilisation. Allocation shapes what is produced and how the capital stock evolves. A society's distributional architecture patterns how people and businesses access what is produced. Stabilisation refers to the macroeconomic toolkit that determines whether the economy can maintain dynamism without generating crisis.

One reason why the neoliberal agenda was so compelling was that it had a single and coherent answer to all three channels. In place of public coordination, market primacy became the allocative mode, with the price signal and profit motive substituting for the institutions of the mixed economy.

Successive waves of privatisation and outsourcing retrenched direct public control of essential sectors with the state left as an arm's-length and ineffective regulator. Distribution was marketised as collective bargaining was dismantled, the social wage cut, and the welfare state residualised. The stabilisation function was delegated to a central bank insulated from democratic control and given a single instrument to respond to inflation: interest rate manipulation, the intended effect of which was demand suppression.

Coherent and seductive as this political economy may have appeared, the settlement explains much of the dysfunction of the British economy. The economic characteristics of essential sectors – capital-intensive assets with long payback periods, modest returns, high coordination requirements, prices acutely sensitive to the cost of capital, and social value that substantially exceeds private return – turned out to be a poor match for private capital. The shift toward private allocation consequently led to chronic underinvestment and an atrophied capital stock, resulting in excessively volatile, expensive, and scarce essential goods.

Marketised distribution ensured maldistributed income; the inequality of purchasing power this generated continues to weaken demand and contributes to our worsening output gap. The cost-of-living crisis is the political face of waning economic dynamism as incomes fail to keep pace with rising prices.

The bluntness of the stabilisation instrument means policymakers are

repeatedly forced to trade off economic growth for price stability. Yet rising interest rates that throttle demand and weaken investment, even when the inflationary problem is supply-side in origin, are often a cure worse than the disease.

The result is a poorer and more unequal economy, one that has organised its essential sectors to extract rather than invest, fragment rather than coordinate, and price for profit rather than economic or social need.

The three-pillar progressive alternative would transform upstream allocation through the return of the productive state, reshaping and expanding on the supply side by public corporations investing, owning and operating public assets for public provision of the essentials required for a dignified life rather than relying solely on market redistribution or regulation. Downstream, a new distributional architecture should be built that ensures household access to essentials, not just as a route to tackling poverty but as a mechanism for putting a floor under demand and providing certainty for businesses to invest. A more expansive macroeconomic strategy can knit it together, deploying supply-side instruments, fiscal-monetary coordination, and targeted capacity expansion to broaden the stabilisation toolkit and ensure inflationary pressure that originates outside of demand can be tackled without sacrificing growth.

As a growth model, progressive public control addresses Britain's longstanding weaknesses: rather than relying on incentives for fragmented

private actors, the investment gap in essential sectors would be fixed directly through public allocation, at a lower cost of capital and with longer term horizons; putting a stronger floor under income would smooth out demand; and a more fine-tuned stabilisation regime that can absorb and metabolise sector-specific shocks means demand-weakening rate rises have to do less work to control inflation. Put together, it is the institutional basis for a high demand, investment rich, dynamic economy.

Merely envisioning a new settlement is not the same as building it. Change will entail addressing the limits of state capacity. Given the decades-long hollowing out of capacity (including financial and technical know-how, project management skills, and institutional memory) so evident in debacles like HS2, this must be done sequentially, and with an eye on both financial and real resource constraints. This will not be easy, but devolution is an accelerant of renewal and a mechanism for learning by doing. Whitehall would struggle to rebuild capacity all together, all at once, across multiple complex domains, and would lack the feedback loops to learn and improve, whereas devolved authorities can experiment. The Bee Network in Greater Manchester is public control

in motion. Its success – falling fares, rising ridership, better route coverage – shows that devolved and empowered government can build the capacity and create outcomes that Whitehall conspicuously failed to deliver. Going further in devolving the core pillars of the public control agenda – for example, on regional transport, publicly owned water and energy networks, or public housing development corporations – to the appropriate economic and political geography is therefore a vital step toward rebuilding the in-house expertise that unlocks the benefits of structural changes in ownership and control.

The political economy of public control faces many obstacles, not least challenges of capacity. They can be overcome with clarity of planning, purpose, and practice. In doing so, we can build a three-tier economy of genuine abundance, security and dignity: a decommodified foundation, where essentials are provided as rights and the cost of living does not rise faster than incomes; a stabilised market middle, where dynamic competition is disciplined by the state as anchor and public option; and an innovation frontier, where risk-taking drives entrepreneurship. That prize is worth the effort.

CHAPTER 6

NEW ENERGY

Imogen Shaw, climate and energy programme manager at LCEF, argues that energy policy is too often siloed from plans for growth

As any one of Rishi Sunak, Keir Starmer, or Rachel Reeves could tell you, promising voters that you will deliver economic growth can be a dangerous game: you are effectively placing your political future at the mercy of global markets and structural forces almost entirely beyond your influence. Andy Burnham's response to this difficulty appears to be structural: he wants to separate the government's growth ambitions from the day-to-day spending of the Treasury, moving it into the remit of his new Number 10 North, while encouraging reindustrialisation. As he told the Times recently: "The dual job of growth and control of the public finances sometimes clouds the growth mission... Having No 10 leading on that growth mission means you've got maximum power to unlock the blockages where they exist in the Whitehall system."

It is true that, while it remains risky to claim the government can guarantee growth, there are domestic blockages

to prosperity that we have the power to remove. One such institutional blocker is the way in which energy policy is often siloed from plans for growth and reindustrialisation.

Energy costs affect where manufacturers invest, where data centres locate, whether electric transport expands, whether households have disposable income to spend, and whether regions can attract new industry. In the UK, the available evidence increasingly points to a simple conclusion: high electricity prices are becoming one of the most significant structural drags on British economic performance. According to Make UK, 90 per cent of UK manufacturers have seen energy bills rise since 2022, more than half identify energy costs as their biggest business challenge, and high industrial electricity prices risk the loss of substantial manufacturing capacity alongside up to £85bn in economic output. High business energy costs are also a significant drag for

sectors like construction and logistics, as well as the venues that support the UK's arts industries and nightlife.

Burnham's early emphasis on reindustrialisation reflects an understanding of this challenge, including how it applies to sectors like advanced manufacturing and life sciences, as well as other tradable sectors like the creative industries. These all formed explicit parts of his local growth strategy as mayor of Greater Manchester.

Yet ambitions to rebuild Britain's industrial base will collide with reality if energy remains structurally more expensive than in competing economies. For instance, Spain is emerging as one of Europe's most attractive destinations for energy-intensive investment, benefitting from abundant solar generation while also possessing extensive onshore wind resources. It has also embraced large-scale deployment of both technologies: wind and solar contributed similar amounts to Spain's total energy mix last year, together accounting for 42 per cent⁶. In early 2026, wholesale electricity prices in Spain averaged around €44/MWh, compared to roughly €103/MWh (£87/MWh) in the UK.

This is obviously significant in terms of its impact on bills, but also because electricity is becoming the key input for many of the industries of the future, from battery production and advanced manufacturing to artificial intelligence infrastructure. If economic growth increasingly follows cheap clean power, countries with abundant renewable generation will be at an advantage.

The Spanish example, however, should not be interpreted as evidence

that Britain's fate is sealed. Success is not just down to topography and climate advantages; it is also a product of political decision-making.

The two principal drivers of high energy bills in the UK are continued exposure to wholesale gas prices and the large volume of policy costs added directly to bills. Both can be remedied, the latter more quickly than the former.

Despite renewables' share of the UK energy mix looking very similar to Spain's (52.5 per cent⁷ last year to Spain's 55.5 per cent⁸), gas sets the price far more often in the UK system than the Spanish one.

Both the UK and Spain use a marginal pricing system, where the last and most expensive generator needed to meet demand sets the price. In the UK, gas sets the wholesale electricity price roughly 60 per cent of the time.⁹ By contrast, in Spain, gas sets the price in a much smaller fraction of hours, dropping to only 9 per cent of the time in the first half of 2026.¹⁰

The reason is simple: in Spain, solar, hydro, and wind push gas out of the merit order for the majority of the day. In the UK, wind and solar output fluctuate significantly, leaving frequent gaps where gas-fired CCGT plants are still needed to balance the grid, and therefore set the marginal price.

Continuing to build out our renewable energy capacity, then, is an unquestionable part of our route out of that exposure to high gas prices. In fact, it is already making an impact: ECIU research found that wind generation reduced average UK day-ahead electricity prices by around 31 per cent in

2025 compared with a counterfactual system without wind generation.¹¹

Nevertheless, building generation is only one part of the story. Britain's creaking electricity grid has become a bind affecting everything from decarbonisation to industrial strategy and regional development. Gas-fired power plants are paid to ramp up in place of constrained wind power when transmission bottlenecks prevent it from flowing where it needs to go. Moreover, network constraints impose substantial costs on consumers and businesses, while projects ready to build often face lengthy waits for grid connections. A manufacturer cannot operate on promised electricity, and a data centre cannot run on planned infrastructure. Investment decisions require confidence that power will be available, affordable and reliable. This is why accelerated grid upgrades should be seen as essential growth infrastructure.

Planning reform is equally important. Britain's planning system often struggles to deliver major infrastructure quickly. Fast-tracking transmission projects, substations and strategic network upgrades could help unlock investment across multiple sectors. At the same time, England's restrictive approach to onshore wind has constrained deployment of one of the cheapest proven forms of generation available across a large part of our land mass. Despite Labour's reversal of the near-decade-long de facto ban on English onshore wind introduced by the Conservatives, planning process issues are still rife, and local supply chain infrastructure and relevant expertise in local authorities

are taking time to rebuild. Scrapping the ban was step one – step two must be unpicking the constraints that are still putting the brakes on further deployment.

The final piece of the puzzle concerns who pays for the transition. If electrification is central to decarbonisation and industrial competitiveness, overburdening electricity bills while seeking to encourage greater electricity use makes little economic sense. The government has already begun the process of removing some legacy policy costs from energy bills, but it could go further. There is a strong case for removing levies like the renewables obligation (RO) and feed-in tariff (FiT) from business energy bills and shifting them onto general taxation while scrapping the portion of the climate change levy (CCL) applied to electricity.

The encouraging reality is that the UK's challenges are more political than they are geological or topographical. This country possesses world-class renewable resources, strong industrial capabilities, leading universities and deep capital markets. None of the barriers to cheaper electricity are insurmountable. Above all, achieving faster growth will require recognising a simple truth: energy is one of the foundations upon which almost every other economic ambition depends. If Britain wants reindustrialisation, higher productivity and stronger regional economies, it must make affordable clean power, strategic grid expansion and planning reform national priorities. Growth, in the end, runs through the grid.

CHAPTER 7

LOVE THY NEIGHBOUR

Kane Emerson and Anya Martin, head of housing research and policy lead, respectively, at the Yimby Alliance, set out how community-led development can help solve our housing problems

In 2016, eight households on Hafer Road in Wandsworth did something that ought to be ordinary. Their post-war terrace, built as bomb infill, was cramped and dated, so they hired an architect, designed its replacement together, and rebuilt the row as 16 homes with nearly triple the floorspace. The value of the land they already owned paid for the project. Nobody was displaced, existing families ended up with a better home, and eight more families got one. The strange thing is not that this happened; it is that it almost never does.

The government has promised growth in every postcode. In housing, that promise tends to conjure a familiar scene: a large housebuilder acquires a site, submits a scheme designed far away, and the neighbourhood organises to oppose it. Builders have worked to improve relations through community liaison work, but it hasn't changed the

fundamental relationship. One side proposes, the other objects, and a planning committee referees. Communities tend to see development as something that is done to them – and it largely is. The hurdles to get any homes built are so great that the only thriving building firms are large ones, covering a vast area and hoping to build in large quantities on single sites.

The planning system promises communities a say over how their neighbourhoods change, but the say they get is that of the objector: a chance to respond, late in the process, to proposals drawn up elsewhere – in other words, a veto. This is a limited form of input which wastes the knowledge residents have about their streets: which homes are overcrowded, which corner could carry another storey, and what a scheme would need to offer for the street to welcome it.

People support plans they share in.

Give residents the power to say yes on their own terms and with a share of the benefit, and the impact can be dramatic. Tel Aviv is the clearest demonstration of this principle. In 2005, the Israeli government launched a programme called Tama 38 under which builders reinforce or rebuild ageing blocks of flats against earthquakes, at no cost to the owners, in exchange for the right to add and sell extra flats created from the redevelopment. By 2020, 35 per cent of all new homes in Tel Aviv arrived through the scheme, and Israel's central bank credits the policy for placing downward pressure on housing costs.

Other places show similar patterns. Japan has assembled around 30 per cent of its urban land through land readjustment, a policy in which landowners pool and replot their land by qualified-majority consent, funding new streets and parks out of the rise in land values. Democrat-run Houston cut its minimum lot sizes and let individual blocks vote to opt out of new development; few did, and more than 34,000 townhouses followed. It is often thought that existing residents are consistently blockers of new housing. But these examples show that where they hold the pen, and not just the veto, they can be enthusiastic supporters of new development.

The lesson is about where power resides. Local government cannot act merely as an intermediary between developers and residents. The long history of poor housebuilding rates, elections turning on one controversial development, and the current queue of stalled schemes shows where that leads. It is not enough for local government to

set targets; people must be empowered to make the right decisions for their place. We must give residents the tools to do growth themselves.

Some of the tools required already exist. Community land trusts have shown that residents will build for their neighbours when they control the land. At St Clements in Mile End, London Community Land Trust sold its first homes at prices tied to Tower Hamlets incomes: £130,000 for a one-bedroom flat on a site where the private ones started at £450,000, with resale prices rising with local wages rather than with the market.

Estate renewal demonstrates the same logic at a larger scale. Since 2018, London estate regeneration schemes receiving City Hall funding must win a resident ballot before proceeding. Many expected this to put a blocker on regeneration schemes, but in fact the opposite happened: it turns out that when tenants are offered improved homes as part of the regeneration, they are enthusiastic supporters. On one Tower Hamlets estate, 24 homes are being redeveloped into 218, half at below market rates, with approval by 84 per cent of residents on a 100 per cent turnout. Thirty-eight London estates have now voted yes to regeneration under the mayor's ballot requirement, many with majorities above 80 per cent, and only one estate is known to have voted no, later approving revised plans at a second ballot. A national presumption in favour of ballot-approved schemes could export this experience to social housing tenants around the country: improve your own homes and

estates and provide desperately needed social homes in the process.

For those outside of estates, the same principle can be expanded through street votes. Residents of an ordinary street, renters and owners alike, design a plan for what their street could become and put it to a ballot; if two-thirds vote in favour, every plot gains planning permission to improve their home in line with the plan (though nobody is obliged to use it). Nothing can be imposed on a street that has not voted for it. The legal framework passed in the Levelling-up and Regeneration Act 2023 with cross-party support, and the regulations are largely drafted; modelling suggests street votes could provide around 30,000 homes a year in the places where they are needed most. It is a community-focused approach which enables new developments to be designed by the people who know the area best: those already living there.

Other measures drawing on the same principles can support families to continue living where they are. In South Tottenham, Haringey council has

since 2010 allowed households to add 1.5 storeys matched to the design of the original house. Roughly 60 per cent of the thousand eligible homes have done so, housing around a thousand more people on the same streets. It has been a huge help to Charedi families in the area; with an average of six children per family, many were living in overcrowded houses. Expanding their existing house has enabled many to stay close to their schools and synagogues.

Britain's planning system is extremely difficult to navigate for small and self-builders. This has left us unusually reliant on large builders compared to other countries. The alternative is already visible from Tottenham to Tokyo: let the people who must live with development be the people who choose it, shaping it to their own community needs in the process. Wherever it has been tried, residents have voted for more homes than any developer would have dared to ask of them. The problem for a mass housebuilding drive is not too much community involvement in planning – it is too little.

CHAPTER 8

BENEFIT FUNCTION

Louise Murphy, senior economist at the Resolution Foundation, argues that more generous unemployment insurance could contribute to a more dynamic labour market

Losing your job in Britain is a very risky business. Workers who become unemployed face a large income loss, greater than in most rich OECD countries and almost all of western Europe. Indeed, the cost to a household of job loss is more than twice as high in the UK than in Denmark, Finland or Germany. This largely reflects the UK's flat-rate unemployment benefits system: the amount of support workers receive in the event of unemployment is not related to their previous earnings, and is worth just £96 per week (compared to average weekly earnings of £703). For middle and higher earners, this does not represent much of a safety net.

Almost all European countries have an unemployment benefit system that offers support based on workers' previous earnings. So why has the UK maintained such an ungenerous flat-rate system? Some argue that our low level of unemployment benefits is a positive feature of our social security system,

and that it contributes to us having a modern and flexible labour market. There is some truth in this: even though our unemployment rate has ticked up in recent years, it tends to sit lower than the European average.

Yet while the UK labour market might be relatively flexible, this is not translating into dynamism for workers. The rate at which workers move jobs is lower than it was two decades ago, and wider business dynamism (the rate at which jobs are created and destroyed) is declining too. This is bad news for the productivity of the country, since reallocation of employment between firms can be an important mechanism through which average productivity increases as workers move to more productive or better-matched jobs. It is also bad news for workers, since moving job is associated with a substantial pay boost compared to staying put. The UK labour market can therefore be thought of as being flexible but undynamic: one

which is easy to sink to the bottom of, but hard to climb within, like a trampoline that has lost its bounce.

There are good reasons for thinking these two characteristics of the UK labour market – insecurity and a lack of dynamism – are related. Many workers will be risk-averse given the low (or non-existent) support on offer if things do not work out. As one worker told us in a focus group: “If I really wasn’t happy, OK, I might look for other jobs, but I wouldn’t just quit mine and walk... as main breadwinner, no, I see it as my job to keep my salary coming in.” This is especially true for middle and higher earners, for whom moving from work onto unemployment benefits would represent a large income shock. This means that too many workers in the UK cling onto jobs that are not a good match for them rather than feeling able to take the ‘risk’ of moving to a different (but more productive) firm. Evidence from abroad shows us that creating a better system of unemployment insurance can boost labour market dynamism and productivity. We only need to look to Denmark’s ‘flexicurity’ to see an example of a country that has a generous system of unemployment insurance, high levels of job mobility and low levels of unemployment.

The UK should stop being an international outlier and adopt a new system of unemployment insurance that provides genuine wage insurance and supports unemployed people to search for good jobs. We propose modelling the new system on the successful Covid-19 furlough scheme and paying workers 65 per cent of their previous wages,

up to a cap set at 65 per cent of the median wage. Crucially, this should be a generous benefit paid for a short amount of time: three months as standard, but longer in economic downturns when workers will take longer to find a new job. This relatively short duration would give workers the time to look for a good job while minimising the chance that a worker’s jobhunting turns into long-term unemployment (this ‘moral hazard’ issue is a common critique of unemployment insurance schemes).

The caricature of earnings-related unemployment insurance systems is that they benefit middle-to-higher earners at the expense of low-earners. Our proposed scheme benefits those from across the earnings and income distribution. While middle and higher earners benefit most from payments linked to their previous wages, patterns of unemployment in the UK mean that it is those from lower-income families that are most likely to qualify for our unemployment insurance scheme.

This new scheme might sound like a radical change that would put excessive demands on the exchequer, but this is not the case: we estimate that this new scheme would normally cost less than £1bn a year – a rounding error in the context of the hundreds of billions spent on social security overall. This low cost is a product of both the UK’s relatively low unemployment rate and our tight eligibility criteria.

Of course, no single policy change can be expected to transform the UK’s economy. But creating a better system of unemployment insurance scores highly on many fronts. As well as being

inexpensive, it would improve living standards by protecting workers from income shocks. If accompanied by higher labour market standards and stronger worker rights, it would help to create an economy in which workers

felt more able to take risks, resulting in better quality work for them and a more prosperous economy for all of us. It is time to turn Britain's patchy safety net into a springboard towards higher living standards and growth.

CHAPTER 9

UNDER SCRUTINY

Meg Hillier MP, chair of the treasury select committee, emphasises the importance of both local and national accountability

Perhaps the most economically qualified post war premier was Harold Wilson. After securing a double first from Oxford, he became a don teaching economic history; by his late 20s, he was a minister.

On becoming prime minister in 1964, he was acutely aware of the economic challenges facing the country. Treasury orthodoxy had to be challenged, and so he created the Department for Economic Affairs to champion growth, led by the deputy prime minister, George Brown.

That innovation lasted only a couple of years (not helped by Brown's personal foibles). So what are we to make of the prime minister's seeming tribute act, with Number 10 North charged with driving economic growth?

Prime ministers quickly learn that saying they want something does not mean it happens. Two lessons for any minister. First, you are as powerful as people think you are, but never believe that anything is as simple as pulling a

lever to effect change – for then people will quickly discover your lack of power.

What prime ministers can do is focus attention and try and focus belief. In Andy Burnham, we have a PM with solid knowledge of how Whitehall works because of his previous experience in government. I welcome his determination to focus on growth and not just in a few places or for a narrow group of people. The ambition to see growth benefit all citizens is one we can all back – but it is challenging to deliver. And we need to ensure that in promoting growth in regions that have struggled we do not reduce opportunities in London. It cannot be a zero-sum game.

Second, the economic challenges facing the country manifest themselves in our political challenges. Reform has had most impact in those parts of the country that have seen long term economic stagnation. Gateshead and County Durham were famous for being

longstanding Labour strongholds that remained Labour even when Labour did poorly nationally. Today both are run by Reform. In Durham, Labour is down to only five councillors. In Gateshead, Labour is now third, beaten by the Liberal Democrats to second place. Meanwhile, in London and other places with high levels of young graduates, people voted Green in great numbers.

The economic challenge is thus a political challenge for Labour.

When I chaired the public accounts committee, my closest regular contact in Whitehall was the treasury officer of accounts. We were often criticised for being bean counters by ministers who believed in their own hype. Every permanent secretary – the senior official responsible for public spending in their department – was well aware that they would be held to account, in public, for their decisions and their department's spending. Taxpayers pay their taxes out of their hard-earned income, so they rightfully expect that the government spends their money well and can prove it.

There are also areas where the government should take more risk. When the PAC examined the Covid ventilator programme, we were positive about an approach that balanced risk and reward in a way that in normal times would not have been considered. In the early days of Covid, there was expected to be a huge demand for ventilators. A visionary civil servant paired up engineering companies with universities and tax pounds paid for them to develop prototypes. The top two were then manufactured. Tax money

was spent on "failed" projects but we secured the ventilators (that they were not in the end used was not a fault of Whitehall but because the approach to treating Covid patients had moved on by the time the ventilators were delivered).

This take-risk, fail fast approach has a place if well managed. As the MP representing the tech companies of Shoreditch I believe that, with the right safeguards, the government should be a bit more Shoreditch and a little less Whitehall.

But I am clear that there need to be well-defined parameters. This should not be a licence for overoptimistic ministers to get away with promises which fly in the face of evidence (an optimism bias is a common thread in failed projects which cost the taxpayer dear). Nor should it mean a sloppy approach to delivery of major capital projects. But organisations such as the British Business Bank, and institutions like the National Wealth Fund, take on certain risks in order to deliver the reward of economic growth. We need to create the space for well-managed risk on the expectation of a level of reward over a defined period of time.

History reminds us to be sceptical about internal reorganisations within Whitehall, but that does not mean we cannot undertake radical redistribution of power between central government and the regions and nations of Britain. Devolution must be delivered in a way that gives confidence to businesses and investors.

So I welcome the prime minister's commitment to growth and devolution (though as a Hackney MP, I remind

him this also means a redistribution of power from Whitehall to London government at all levels). But we also need to make sure that there is proper accountability.

In 2016 I met with the newly elected regional mayors about the need to have stronger accountability for public spending in their region. I reminded them that, to bolster their arguments, they would need to prove to their electorate that they had managed money well, show the government that they had spent effectively, and prove that Whitehall had not provided enough funding to deliver what had been agreed. They agreed, but the system around them didn't change.

In the dash for much needed growth, and the hope that will bring to the UK, we also need to remember the importance of the sceptical voice.

In giving more power to regional government (and not just regional mayors) we need equally more powers of financial scrutiny. The current system is not enough. It relies on a local government officer in one of the local councils

which makes up the combined authority to challenge the mayor. Local council leaders have a role, but not the resources for detailed financial scrutiny.

The failure to deliver any significant growth after the 2008 crash has left our public finances in a parlous state. We cannot let them get into an even worse state.

Devolution would allow more joined up governance and a move away from departmental silo thinking, but that must not be a move away from financial discipline. It must rather be a move towards more regional financial discipline.

Our new prime minister is now the custodian of the famed Ming vase. He needs to boost confidence with taxpayers and investors that their money will be spent well and that risk will be well managed. This is the other half of the devolution coin. If mayors are to have more power, they need to be able to convince Whitehall, their voters and investors from the UK and overseas that they are not afraid to embrace proper scrutiny.

CHAPTER 10

MEANS BEFORE ENDS

Nick Garland, senior research fellow at IPPR and a former adviser to Rachel Reeves, examines how to get the politics of growth policy right

Much of my time between May 2021 and July 2026 was spent being asked to “bring growth to life”, to “make it more concrete”, or even to “sound exciting”. That I never fully succeeded doubtless reflected, in part, my limitations as a speechwriter. But I would plead that there are challenges to the politics of growth that John Healey and Andy Burnham – with his mantra of “good growth in every postcode and hope in every heart” – should be wary of. The basic problem goes something like this: Britain’s poor productivity performance explains many of the difficulties that have plagued governments since the mid-2000s. If it does not recover, then all of progressives’ other objectives – on living standards, public services, or equality – will remain extremely difficult to deliver and, insofar as they can be achieved, will require painful trade-offs. On the other hand, however, the politics of growth are treacherous. Here I identify three challenges: the

politics problem; the priorities problem; and the delivery problem. I suggest a way forward by foregrounding a much clearer argument about the mechanisms of growth which are distinctively ‘Labour’: on investment, devolution, and tactical economic populism.

GDP growth is a highly abstract, aggregating concept. It does not connect immediately to the very tangible problems voters perceive in their everyday lives – rising prices, deteriorating high streets, and NHS waiting lists – nor does it fire the moral imagination of the progressive base. This is not helped by the fact that progressives often talk about growth as if it were a rather tedious necessity – a way of making the numbers add up to announce more social spending, rather than a driver of progressive outcomes in terms of higher pay, better work, and increased opportunity in its own right.

Moreover, because few of Labour’s competitors would not identify growth

as a central priority, in the abstract, it provides no useful political dividing line. This is the root of the politics problem: everyone agrees growth is desirable, but few people are moved by the prospect. While it might be true that a successful growth strategy will ultimately make everything better and every choice easier, such a claim is unlikely to persuade a public shaped by long-term economic stagnation and deep political mistrust which understands economic choices in zero-sum terms. To put it another way: if a politician is to convince a cynical public that someone will gain from a policy, they are expected to show who will lose out, or at least where the sacrifice will fall.

This flows into the priorities problem. It is one thing for a government to avow that growth is its absolute priority; it is another to subordinate other priorities to growth. Voters want many things and not all of them are conducive to expanded future prosperity. Often, the right thing is for a government to prioritise growth – but not always. Too often, politicians, think tankers and indeed speechwriters are tempted to conflate everything which is good for society with things which are good for growth, creating further confusion about priorities. The reality is, for instance, that many small businesses will remain relatively unproductive, so a (desirable) plan to keep pubs and cafes open should not be confused with a growth plan.

The Starmer government made many choices which were clearly in service of its growth strategy. It also made choices – notably on immigration, and in the

cautiousness of its EU ‘reset’ – which put other priorities ahead of growth. The decision to raise employers’ national insurance contributions in 2024 may prove a long-term ‘pro-growth’ choice, but it was not straightforwardly so. It was driven by the priority to avoid deep cuts to public services while honouring Labour’s manifesto tax commitments. The danger of insisting everything is about growth is that messaging becomes muddled while opportunities to take credit for choices which deliver for prospective Labour voters are passed up.

The third challenge is delivery. Growth policy is hard. The ‘levers’ that a government does control matter less than myriad global factors. All governments’ fortunes are tethered to the performance of the economy, but the risk of placing growth at the heart of the political narrative is that it opens up a government to performance review by incidental monthly economic data and the grumblings of each frustrated business leader.

Moreover, there is no guarantee that even a very successful growth strategy will reap electoral dividends. Amidst wonks’ enthusiasm for Bidenomics and green industrial policy in 2022, many missed the basic fact that such a programme, however ambitious or successful, is unlikely to bear fruit quickly enough to matter at the next election – or that employment rates in growing, high-productivity industries will only ever impact a small share of any electorate. There is also a question of attribution: are people who get a new job, or a pay rise, likely to credit their government? And are they as

likely to do so as they are to blame the government for rising inflation?

One option might be to talk much less about growth and focus instead on the public's immediate economic priorities. Today, that means the cost of living. Yet this, too, is dangerous. First, because it risks incoherence, with government presenting radically different economic strategies to different audiences – a growth programme for business, a set of price interventions for the public. Second, because pursuing costly and sometimes economically harmful policies in the short term to the detriment of addressing the fundamental causes of Britain's malaise would not represent progress. Ultimately, politicians must trust that, with the right argument made consistently and well, the public can understand the relationship between economic cause and effect.

What, then, is to be done? A decent start would be for Labour to talk more about rising wages and the range of new opportunities that a successful growth strategy could achieve. Beyond this, however, Labour politicians should ignore – even invert – the traditional injunction to focus on the outcome over the mechanism. Growth is not simply one 'outcome' of policy choices anyway; it is the aggregation of a diffuse series of outcomes. It is in the means, as well as the distribution, where the politics can be found.

Absent a distinctively progressive theory of growth, Labour will find itself on the back foot, with the test of seriousness about growth defined by the right: how many regulations

have you cut, how low can taxes go, how many progressive shibboleths will you abandon? Hence the appeal of the 'knowledge economy' paradigm to New Labour, with its celebration of investment in education as the key to growth.¹² Today, the mechanisms must be different, but the same logic should apply: Labour must answer what it is about a progressive government which uniquely equips it to deliver growth in a contemporary setting. I would emphasise three pillars.

The first is investment. The most significant economic choice that Labour has made in office is to change the Conservatives' fiscal rules to prioritise capital investment. The aim of maximising public and private investment is what unites a raft of economic choices made since 2024, from more conventionally 'left-wing' state activism to reforms of planning and pensions. The government should be explicit that its aim is not the revival of a pre-2008 consumption-led growth model but a paradigmatic shift towards an investment-led model. It is a shame that this was not always made clear over the last two years. Ministers should seek, wherever possible, to talk in terms of growth and investment – a frame easily tailored to speak to Labour MPs concerned about public services, voters disgruntled with geographical unfairness, or policy wonks debating productivity. At the next election, regardless of who proves the party's main antagonist, the central political dividing line for Labour will be between maintaining progress already made and the risk posed by radical change; the central fiscal dividing line

will be between Labour investment and right-wing cuts. Labour should embrace this sooner rather than later.

The second is devolution. Reading between the lines, the Burnham administration's economic ambitions are not radically different from what went before. In the prime minister's rhetoric on partnership with business, place-based inequalities, and the cost of living, there is more continuity than change. The difference lies in Burnham's compelling critique of the institutions of government. Whereas the Starmer administration started with a rather centralist, institutionalist bias – one which it only began to grapple with rather belatedly – Burnham has entered office with some powerful statements of intent about rewiring the state. The Westminster model of government, he argues, structurally discriminates against Britain's regions, entrenches partisan 'point-scoring' over collaborative 'problem-solving', and hoards power far away from the people with the best understanding of distinct place-based challenges.

This is a distinctively progressive argument about the distribution of power and wealth and confrontation with age-old concentrations of power. But it is also about growth. A wider distribution of power, backed with meaningful fiscal devolution, can let different parts of the country focus on their assets and needs, carve out their distinctive comparative advantages, and make long-term investment decisions shielded from Treasury overreach. Politically, this argument is straightforward: first, Britain is distinguished

among its international counterparts by both its degree of centralisation and the extent of its geographical inequalities; second, the two are directly connected. But this cannot be allowed to become a woolly argument, in which devolution and regional growth are all things to all people, and in which every area is assumed to have equal growth potential. Ministers will have to be explicit in their argument about the merits of agglomeration and how its benefits can extend outside urban centres.

The third pillar is a tactical economic populism. The pollster Steve Akehurst posits cost-of-living populism as an attention-based political strategy. If Labour is to unite its prospective bloc, and split the right's, then they must do so by accentuating economic (rather than cultural) dividing lines and making these fights extremely visible.¹³ It is no use, however, picking fights which are detrimental to either improving Britain's growth performance, or tackling the supply-side constraints which drive inflation. Windfall taxes or even some selective price interventions can enable some short-term relief, but these must be in support of a wider strategy. The government will have to pick the fights most conducive to both resolving the structural causes of the affordability crisis and boosting growth. The obvious targets here are the causes of avoidable scarcity within the structure of the UK economy which obstruct growth and drive inflation. The planning system is one; so too, in a way, is centralised government.

A greater willingness to confront distortive concentrations of market

power may present other enemies. Part of the logic of Labour's employment rights agenda is that reducing labour market flexibility will necessarily push employers, no longer able to rely on cheap labour, to invest more; if the government really believes this, then

it should not be afraid to make that argument.

The new government has an opportunity to reframe its approach to growth and bring greater clarity to economic dividing lines which will define the next election. It must seize it.

ENDNOTES

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- 6 Ember country profiles: Spain.
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WITH A FOREWORD BY DAN TOMLINSON MP

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