Resolution Foundation

Mountain climbing

Making progress on the UK's growth policy challenge

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Acknowledgements

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To note, on 3 February 2026, we amended the report to reflect concerns around the quality of MHCLG indicators of new supply within Table 217 and Table 253, in particular the comprehensiveness of figures related to housebuilding starts and completions. These likely underestimate housebuilding activity. In its place, we have used Greater London Authority data on starts in the Greater London area, and MHCLG data within Table 122 ('housing supply; net additional dwellings, by local authority district, England'), Our changes are signposted where applicable in the report. The net additional dwellings data is derived from a more comprehensive measure of completions to the housing stock, albeit at a less frequent annual interval, but there is no equivalent starts data available to enable comparison across regions. Our amendments are largely confined to Section 5 of the report, in particular to Figure 25 and the accompanying discussion. While the incomplete measure of starts suggests London, Birmingham, Manchester and Sheffield are underperforming the national average, using the more comprehensive measure of completions suggests of these only London is underperforming the national average. Otherwise, our conclusions related to housebuilding are unchanged.

Contents

Executive Summary

When it comes to living standards, GDP per person isn't everything. But in the long run it is almost everything. In this context, there is a welcome consensus across the political spectrum on the need to tackle the UK's dire growth performance as a route to boosting incomes. To its credit, the Government has made improving growth its defining mission. So, 18 months into the new Parliament and two years after the landmark Resolution Foundation-CEP Economy 2030 Inquiry, in this report we consider how the UK's growth challenge has changed, evaluate the Government's policy response, and dive into three areas where the Government can and should go further.

The UK economy has slipped further behind since the pandemic

By Q3 2025, GDP per person had risen by just 0.8 per cent since the pre-pandemic peak – just 0.1 per cent per year. This compares to 1.3 per cent each year even in the disappointing decade for growth that preceded the pandemic. So, the economy has taken six years to grow as much as we would have expected in roughly seven months based on the previous pre-pandemic trend. Over this period, the UK was hit hard by the global shocks of Covid and high energy prices, and we had our own home-grown crisis in the form of Brexit. As a result, the UK's GDP per person has fallen even further behind in the past five years and is now just behind that in Italy, having been 8 per cent larger than it before

the pandemic.

The key driver of the UK's mediocre GDP – both in terms of levels and growth – is not how much work we put in, but how much we get out. Output per hour worked is 10 per cent higher in France and 18 per cent higher in Germany. The UK's low investment rate – the lowest in our comparison group of 20 high-income countries – has long shouldered a big part of the blame, explaining all of the productivity gap with France, for example. But, especially since the pandemic, the efficiency with which the UK's resources are used – known as 'total factor productivity', or TFP – has also performed poorly. Official estimates suggest that TFP in the market sector fell by 0.7 per cent in the five years to 2024, having stagnated in the years since the financial crisis.

Bad news on employment has detracted from signs of 'green shoots' on productivity

The good news is that – once we account for problems in measuring employment – the past year has seen something of a turnaround in productivity growth. Productivity was essentially flat between the pre-pandemic peak of Q4 2019 and post-pandemic trough of Q1 2024, but it has grown by a blistering 3.4 per cent in the six quarters after that, a rate not seen since before the financial crisis.

Consistent with this, we are seeing some signs of increased economic dynamism. In common with most high-income countries, the amount of economic 'churn' – that is, the extent to which firms and sectors have waxed and waned – has slowed considerably since the financial crisis with workers moving less frequently between jobs. This is bad for growth because lower-productivity firms going bust and resources moving to new, growing firms is a key driver of productivity growth. But rises in energy prices, interest rates and the minimum wage are making it harder for low-productivity 'zombie' firms to survive. Following post-pandemic volatility, firm insolvencies are now running at rates not seen in a decade, and the share of jobs lost to closing firms in 2024 was the highest since 2011.

Bankruptcies and redundancies seem odd things to celebrate,

but the UK economy needs more 'creative destruction'. The small rise in destruction so far is, however, too small to account for much of the observed productivity improvement. But we have not seen any improvement in creation of jobs or firms. This leaves the UK with an emerging unemployment problem, with the 5.1 per cent rate the highest for a decade (outside of the pandemic). The fall in employment means that growth in GDP per person has accelerated more slowly – to 0.9 per cent in the four quarters to Q3 2025.

The Government's framework for growth policy has been better in theory than in practice

The Government was elected on a mandate to deliver higher economic growth and living standards. There is no 'growth button' a government can press in a market economy that delivers faster sustained growth. Instead, success requires the Government to make systematic improvements to the supply side of the economy in many areas for a prolonged period and hoping that the benefits turn up before an election. This is an inherently long-term process and the challenge is made harder by falling Government poll ratings and gloomy mood music around its economic policy agenda.

On paper at least, the Government has a sensible three-part framework for delivering systematic improvements to the supply side: restoring stability, increasing investment, and reforming the economy.

On stability, reforms to the fiscal rules and the return of multi-year Spending Reviews are a sensible attempt to provide more certainty and purpose to fiscal policy. Indeed, the Government has used the additional headroom created by rule changes to reverse inherited cuts to public investment. But success on investment depends on boosting such spending in the private sector. Here the Government has introduced measures to support this, including pension fund reforms, publishing new Trade and Industrial Strategies and by delivering on its promise of corporate tax stability.

Alongside this, the Government has pursued supply-side

reforms, including on regulation – with a particular focus on planning, where businesses report the greatest regulatory complexity – and skills provision. The Government has set itself a highly ambitious target of reducing administrative costs for businesses by 25 per cent by the end of the Parliament. On planning, it has taken several steps towards liberalisation, with its latest proposals to revise the National Planning Policy Framework particularly ambitious and well-targeted. In parallel, the post-16 education and skills white paper has rightly prioritised young people not in education, employment or training (NEETs), as well as the 'missing middle' of intermediate skills.

But, although there has been important progress against all three pillars, there have also been significant missteps.

Tight fiscal headroom, self-imposed constraints on major taxes and major fiscal policy reversals – which between 2025's Spring Statement and Budget were the second largest in the past 13 years (beaten only by those in the aftermath of Liz Truss's mini-budget) – have hampered the Government's drive for stability. This high policy volatility has contributed to levels of economic policy uncertainty not seen since the mini-budget. Meanwhile, much of the additional spending capacity on public investment has been gobbled up by the country's defence budget. This is understandable in the current global environment but has severely limited the extent to which the Government has been able to invest in growth-enhancing infrastructure. This has left capital spending on transport and research and development, for example, flat or falling as a share of GDP by 2029-30, despite evidence of their importance for productivity. And on private investment, measures have had little visible effect, with business surveys pointing to continued weakness in investment intentions and investment growth falling to around 1 per cent, compared to 5 per cent at the time of the election.

Overall, policy has delivered some meaningful progress but has been too timid and slow given the scale of the challenge, with adverse external shocks further compounding the task. In this context, there are three key areas in which we believe the Government could be bolder: trade, housing policy and driving

up labour-market participation.

Trade policy can boost GDP by reversing some of the harm done by Brexit

Trade is one of the clearest gaps between the Government's growth ambitions and its policy delivery. There is plenty of evidence that trade is a powerful driver of productivity and growth. But it is also where Ministers have so far ducked some hard political choices. This is most evident in the UK's relationship with the EU. Here, the Government has taken steps to ease some of the most damaging post-Brexit frictions, pursuing new agreements with partners such as the US and India. But these moves do not come close to the potential gains from materially closer EU integration, in the form of a single market for goods, where trade has been most damaged post-Brexit. This sits uneasily with the Government's growth agenda, given emerging evidence suggesting the hit from Brexit could already be close to double the 4 per cent impact assumed by the OBR.

If this sort of deeper EU integration remains politically out of reach, the Government needs a clearer and more ambitious 'plan B' for trade and growth. That means putting services liberalisation at the centre of its strategy, reassessing the UK's relatively high default (Most Favoured Nation, or 'MFN') tariff regime, and using trade-defence instruments where necessary to manage risks from global disruption.

Finally, regulatory autonomy should be used more strategically. Prioritising alignment in highly traded, EU-dependent sectors such as pharmaceuticals and chemicals, while using agility where it can genuinely raise productivity – particularly in digitally-delivered and innovation-intensive sectors like fintech and biotech. Overall, a pragmatic mix of openness, targeted protection, and smarter, faster regulation offers the most credible route to trade-led growth in this Parliament.

Despite welcome planning reforms, housebuilding remains weak and is holding back growth

Increasing housebuilding directly pushes up the country's short-term output. But it can also have a longer-run impact on growth by allowing workers to move into more productive jobs. Here the Government's approach is the right one: reform the planning system to make it clearer, more rules-based and better resourced, thereby allowing developers to build more homes more quickly.

Nonetheless, the manifesto pledge to deliver 1.5 million new homes in England seems likely to be missed: every region is set to undershoot its housing targets, reflecting headwinds from higher rates, rising construction costs, and regulatory changes. The situation in London is particularly bad, where housing starts have hit a 20-year low.

Given this, the key test for the Government is whether its reforms deliver a higher, sustained housebuilding equilibrium, getting houses built in high-productivity areas, or in those which will be in future. To achieve this, the Government needs a London-specific 'delivery package' alongside national planning reform, most obviously by streamlining the functions of the new Building Safety Regulator. The Government should also address capacity issues in the planning system, support greater densification in urban and well-connected areas, reduce avoidable regulatory costs and accelerate the delivery of up-to-date local plans.

And if the Government wants sustainably higher output – including affordable and social housing – it needs clearer ambition for the public sector's role, with funding to match. This should include establishing development corporations with the firepower to build a new generation of new towns.

Achieving the ambitious 80 per cent employment rate target requires big rises for young people and the over 50s

Trade and housing boost GDP largely through productivity. The other driver of GDP per person is employment, and employment boosts can provide living standards growth focused on lower-income families. Here, the Government's aim of raising the

employment rate to 80 per cent is ambitious and would take us to the international frontier (the UK rate of 75.3 per cent in November 2025 is already better than average among rich countries).

But it is possible to go further. Countries like Switzerland, Germany and the Netherlands show us where progress is possible, and how fast it can be. These strongest performers typically have higher employment rates among young people, and those at the end of their working lives. So this is where the Government must focus, in part by improving health and skills among these groups. Extra employment would likely be disproportionately part-time workers, but could still boost GDP per person by over 3 per cent.

Future growth policy must be clear-headed about the policy levers available in a market economy

While hard to achieve, the economic prize for success in these three areas – trade, housing and labour supply – is huge. Bold planning reforms that enable our major cities to hit their housing targets, deeper alignment with the EU and reaching an 80 per cent employment rate could together boost annual growth (in GDP per head) by 0.6 percentage points – increasing projected growth by more than half. Achieving this would deliver a £2,000 boost to household incomes and enough tax revenue, for example, to increase the NHS Budget by a quarter.

But despite the potential for large gains in these policy areas, the development of growth policy must continue. The economy is more like a garden than a construction project: it must be nurtured and coaxed and will always be subject to the weather. But as the Government seeks to coax growth upwards, it should exploit available policy tools as effectively as possible. This paper offers a framing for the tools of future growth policy: liberalisation, incentives, provision of complementary factors, direction and pressure. And action is needed because, despite some promising policies and the 'green shoots' in the data, the UK's growth policy challenge remains immense. We may have ascended the foothills, but there remains a mountain to climb.

Section 1

Introduction

The Government has made it clear that boosting growth is its overriding mission. This is certainly the right priority given the UK's dire economic performance since the financial crisis. It is also key to sustained improvements in living standards and public services. A year and half into the Parliament, and two years after the publication of Resolution Foundation-CEP Economy 2030 Inquiry, we use this report to assess where we have got to, take stock of policy progress made, and pick out some key policy areas where the Government should go further.

To that end, the rest of the report is structured as follows:

- Section 2 takes stock of what the data are telling us about where the UK economy is now, how we got here, and how things might be changing.
- Section 3 sizes up the Government's growth strategy, and how much progress has been made.
- In the first of three deep dives into policy areas where the Government might go further, Section 4 focuses on trade policy
- Section 5 turns to housing policy with the same lens.
- Section 6 looks at the scope to increase GDP per person by expanding the labour force.
- Finally, Section 7 concludes with a framework for how to think about more ambitious growth policy going forward.

Section 2

How the UK economy has performed

Since the financial crisis of 2008, slow economic growth has curtailed living standards and put pressure on the public finances. These pressures have intensified in the period since the pandemic. The current Government came to power promising to turn that situation around. So we start by looking carefully at the UK's recent growth record.

The bad news is that, as of Q3 2025, GDP per person had risen by just 0.8 per cent over the six years since the start of the pandemic – just 0.1 per cent per year. This compares to 1.3 per cent each year in the decade leading up to the pandemic. As a result, the UK has fallen further behind its peers since the pandemic, despite many of them also not performing well. The level of GDP per person in the UK is currently the same as Italy, having been 8 per cent ahead before the pandemic. The UK is also way behind some of our key European peers, including Germany (18 per cent behind) and the Netherlands (38 per cent), let alone the US (42 per cent).

Between the financial crisis and pandemic, around half of the growth in output per person came from increased hours worked. This offset anaemic growth in output per hour, or labour productivity, which was held back by weak investment, a long standing feature of the UK economy. Since the pandemic there has also been a growing problem with the efficiency with which capital and labour are used, holding growth back further.

Encouragingly, when changes in employment are properly accounted for, productivity growth since the beginning of 2024 is at levels not seen since the financial crisis. Some forms of economic change and churn have started to pick up, albeit in the form of higher insolvencies and redundancies as the corporate sector has come under pressure from higher energy costs and interest rates. This is painful for those involved, but is a key condition of a thriving economy. This process is still in its infancy, however, with little sign that workers who have lost their jobs are moving onto more productive jobs at scale. Put simply, the UK needs more creative destruction, and so far at least, it's only had the destruction, not the creation. So while productivity growth has picked up in the past year, growth has picked up much less.

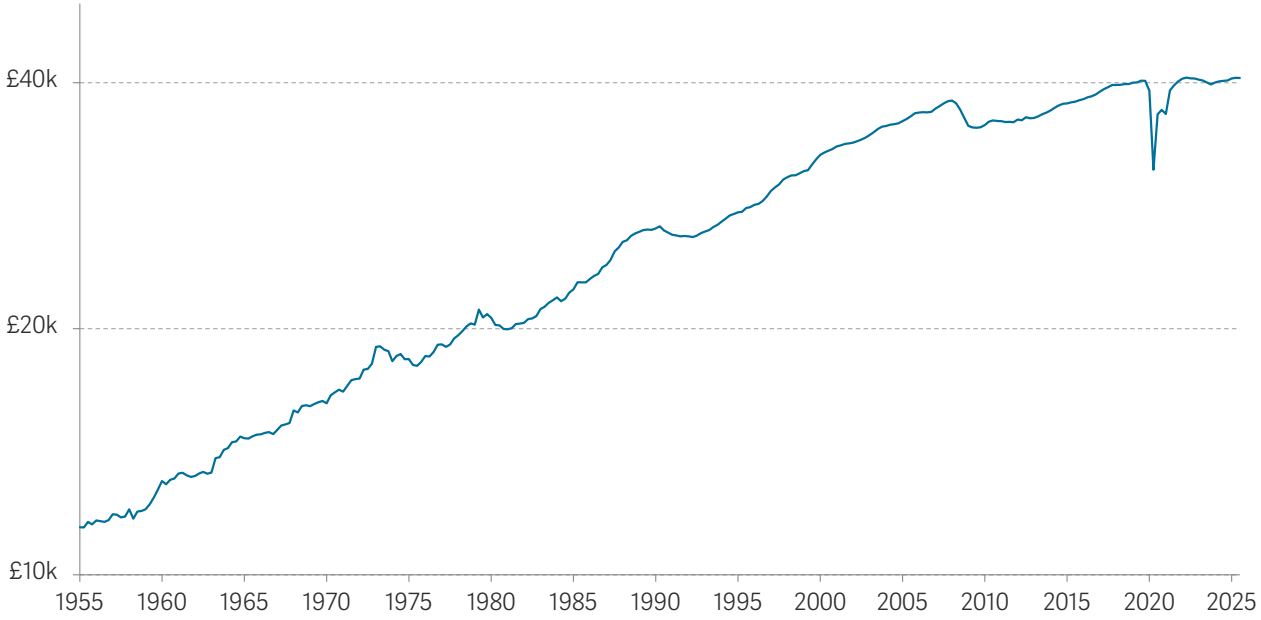
Since the financial crisis, slow economic growth has curtailed living standards and put pressure on the public finances. The period since the pandemic has been worse still. The current Government came to power promising to turn that situation around. So in this section, we review the recent performance of the UK economy from a historical and international perspective. While there are many ways to measure this, we focus on GDP per person, the key measure of growth for living standards.[1] We choose this measure because it is strongly (albeit imperfectly) correlated with other measures we might use, such as average household incomes, and is one of the Government's success metrics for economic policy.

The bad news is that growth has weakened further since the pandemic

As of Q3 2025, GDP per person is only 0.8 per cent above its pre-pandemic peak, with all of this growth taking place in the past year. By way of comparison, GDP per person grew at an average rate of 1.3 per cent a year in the decade to the pandemic. So the economy has taken six years to grow as much as we would have expected in roughly seven months on the previous pre-pandemic trend (Figure 1).

FIGURE 1: **GDP per person is broadly unchanged since the pandemic**

Seasonally adjusted annualised level of gross domestic product per head, chained volume measure at market prices, 2023 reference year: UK



SOURCE: RF analysis of ONS, National Accounts.

1 See N Oulton, The Productivity-Welfare Linkage: A Decomposition, ESCoE, March 2022

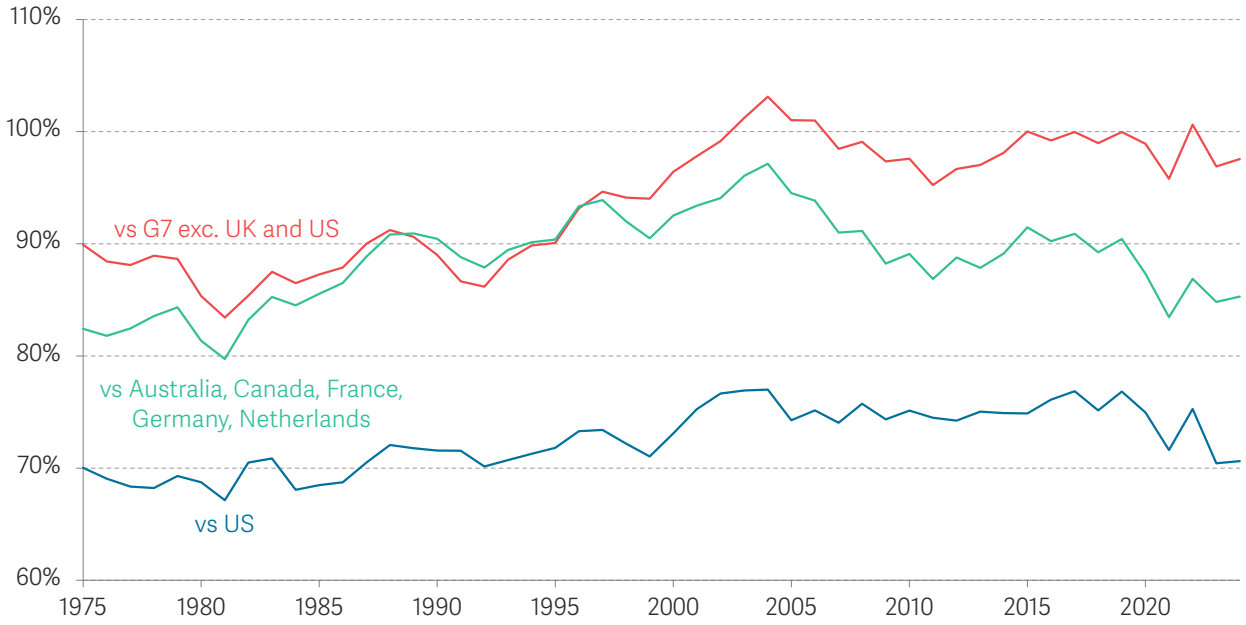
While the UK is still prosperous by the standards of rich countries, we have slipped further behind since the pandemic

The world economy has had a bumpy ride over the past six years – Covid-19 in 2020, the huge shock to energy prices in 2022 and, since 2025, rising trade policy uncertainty emanating from the US. The UK was hit harder than average by the first two shocks and has had its own one in the form of Brexit, which took legal effect in 2020.

The upshot is that the UK has slipped relative to its international peers. The cleanest way to show this is by tracking the ratio of GDP per person in the UK to other countries using a common, current set of prices.[2] In 2019, on the eve of the pandemic, GDP per person in the UK was exactly equal to the average of the other five G7 countries, excluding the US (Figure 2). As of 2024, the UK had fallen to 97.6 per cent of this average.

FIGURE 2: **The UK has lost ground relative to its peer group in GDP per person terms**

Level of GDP per person in the UK at current PPP compared to other countries



SOURCE: RF analysis of OECD, productivity levels.

Compared to the five medium-sized countries that formed the comparison group for much of the Economy 2030 Inquiry, the UK has fallen 5 percentage points – from 90 per cent to 85 per cent.[3] And it has experienced the same fall compared to a broad group of

2 For international comparisons over time, we compare UK GDP to US GDP using current purchasing power parities (PPPs). Expressing GDP as a ratio to the US removes common global price movements and changes in the numeraire, allowing changes over time to be interpreted as shifts in the UK's relative economic position. Using current PPPs ensures that each year's GDP levels are valued using contemporaneous international price structures. By contrast, comparisons based on constant PPPs fix relative prices at an arbitrary base year, which can become misleading over long periods as countries' price levels and economic structures evolve. See R Feenstra, R Inklaar & P Timmer, The Next Generation of the Penn World Table, 2015, American Economic Review

3 This group is Australia, Canada, France, Germany and the Netherlands.

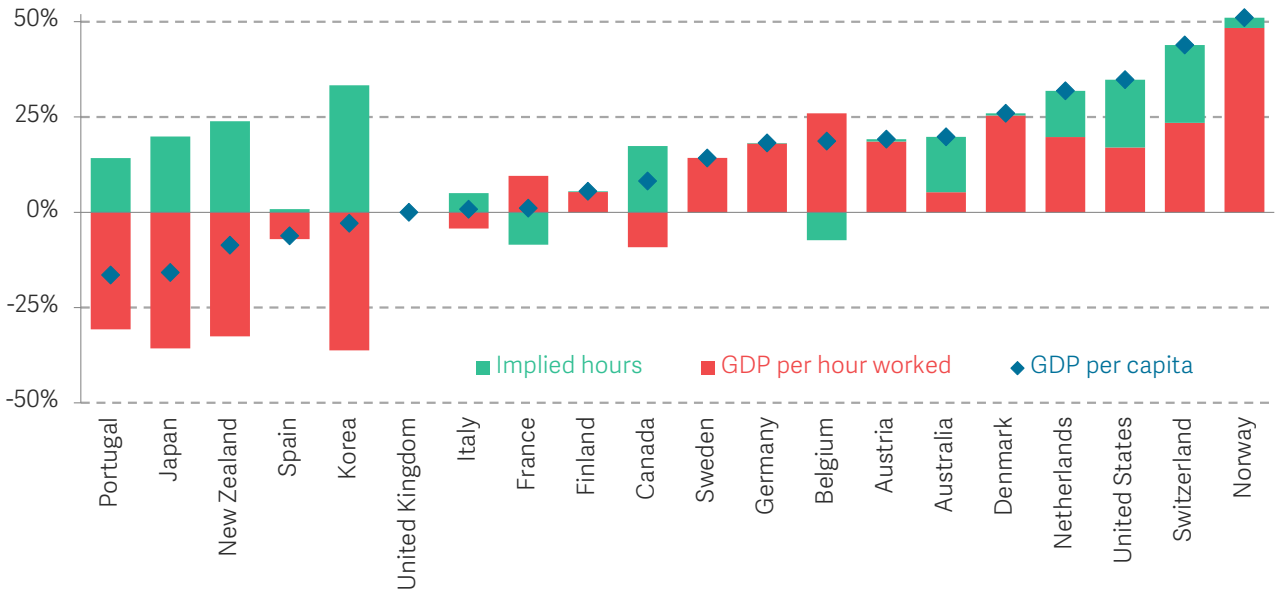
20 high-income OECD countries, from 92 per cent to 87 per cent.[4] Within this group, only Austria, France and Germany lost more ground compared to the US, and all still remain richer than the UK in levels terms.

Weak productivity accounts for the UK's growth slump

Output per person can be broken down into how much work the average person does (the employment rate and the number of hours people typically work) and how much output each hour of work produces – otherwise known as labour productivity. Among these factors, labour productivity is the biggest driver of differences in GDP per person across space and time, even among high-income countries, and is the biggest reason that UK GDP is below average for our comparison group (Figure 3).[5]

FIGURE 3: **Weak productivity explains much of the UK's mediocre level of GDP per person**

Contributions to the difference in the level of GDP per person at current PPP relative to the UK: high-income OECD countries, 2024



SOURCE: RF analysis of OECD, Productivity database.

When it comes to productivity, the UK has long been a laggard.[6] After above-average

4 This is the OECD countries excluding those which are very small, post-Communist, not high-income countries or where their economies are distorted by international profit shifting or war. It comprises Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

5 The squared correlation between GDP per capita and GDP per hour across our comparison group is 79 per cent, with the next highest correlated variable being hours per person employed at 29 per cent.

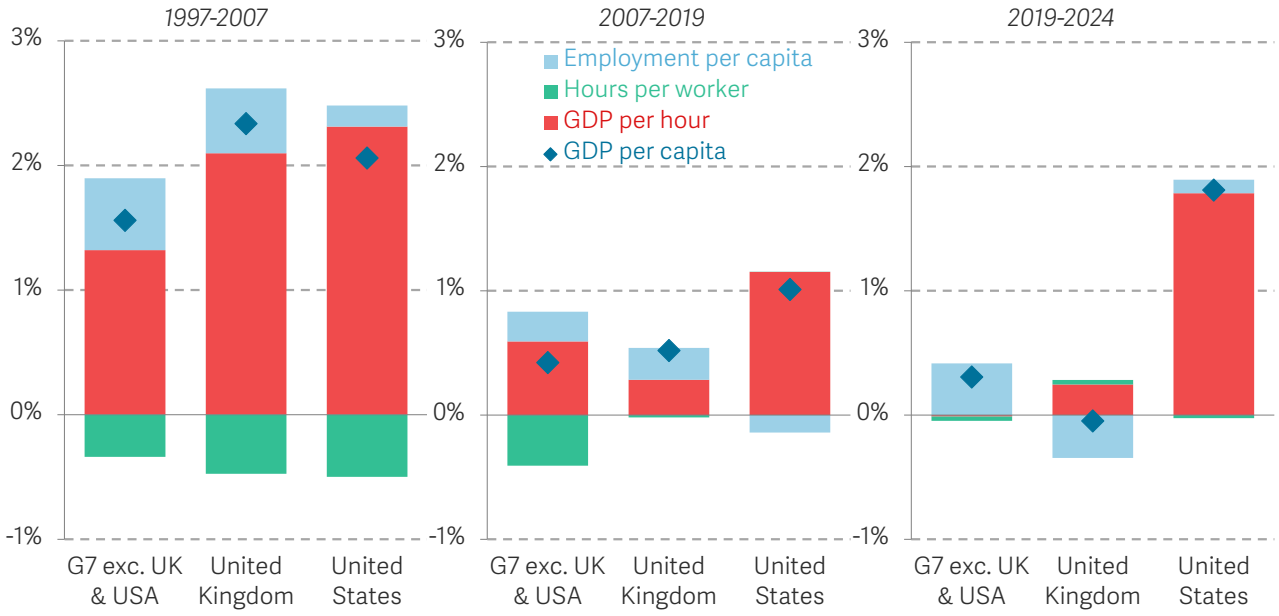
6 See, for example, J van Reenen and X Yang, Cracking the Productivity Code: An international comparison of UK productivity, POID Special Report.

growth in the pre-financial-crisis decade, productivity growth fell sharply in its aftermath to rates substantially below those of our international peers (Figure 4).[7] Relatively strong employment growth made an important contribution to overall growth during this period, keeping the growth of GDP per person closer to the (still decelerated) rates seen in non-US rich countries.

Things have got even worse since the pandemic. Growth in UK GDP per person has ground to a halt, reflecting a fall in the employment rate (measured as a fraction of the total rather than the working-age population) offsetting roughly all of the productivity growth over this period.

FIGURE 4: **Following the pandemic, strong employment growth no longer made up for weak labour productivity growth in the UK**

Contributions to growth in real GDP per person, chained volume measures in domestic currency: various countries



NOTES: Growth between two given years is the geometric mean annual rate of change in the level in those two years.
SOURCE: OECD and RF calculations

Longstanding weakness in investment has depressed UK labour productivity, and is more recently compounded by low growth in overall efficiency

A key issue for anyone trying to turn this dire record around is what is driving this weak productivity growth. Here it's instructive to break this weakness into resources available to workers, and how efficiently those resources are used. This can be done by quantifying the contributions from the various types of productive capital available to workers – most

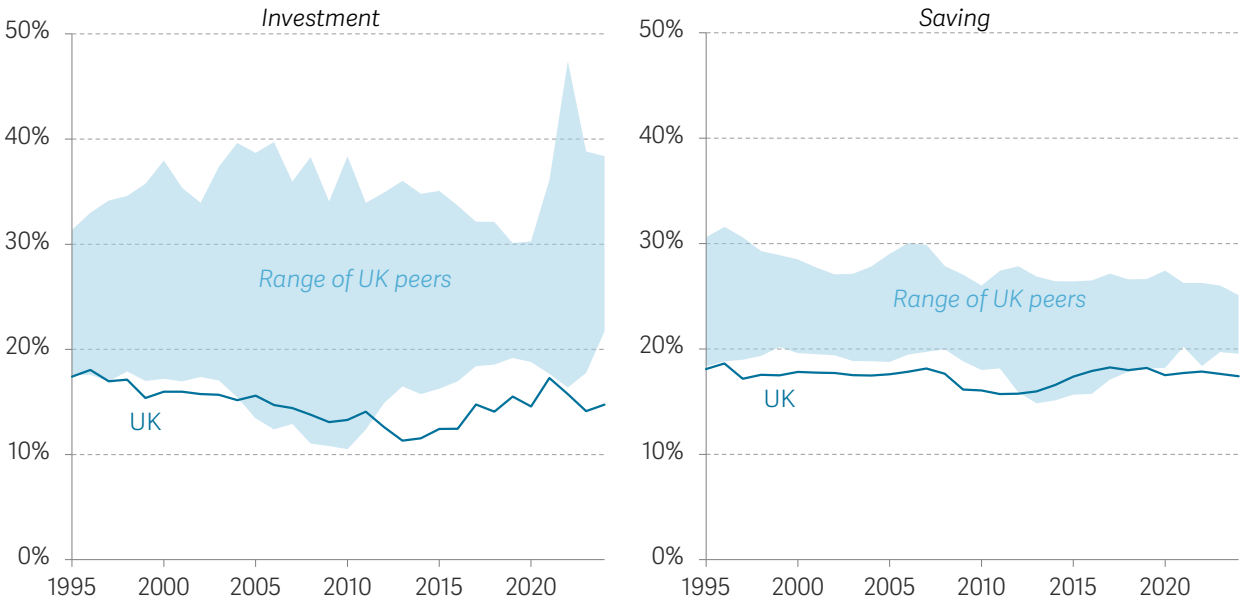
7 When comparing GDP and productivity within countries over time, we use volume measures in domestic prices rather than at PPP, for comparability with national sources.

obviously, equipment, infrastructure, software and skills – and the contribution from the efficiency with which these factors are combined, known as 'total factor productivity' (TFP). This latter component has been referred to as 'the measure of our ignorance' and is essentially the bit of growth that we can't explain by looking at the increase in productive resources in the economy.[8]

Productive capital is accumulated through investment, and this has long been weak in the UK. The UK has the lowest investment rate among our sample of high-income OECD countries (Figure 5), and this has been the case for most of the past three decades. Investment is financed by savings – either by domestic households, firms or the government, or from overseas in the form of a current account deficit. Savings also remain extremely low in the UK, as the recent rise in household saving has been cancelled out by government dissaving and lower corporate saving. So, unless foreign savings can be brought to the UK without cost or risk, low saving and investment go hand in hand. And if the UK wants to invest more, it will need to either borrow yet more from the rest of the world, or increase its rock-bottom savings rate.

FIGURE 5: **The UK has the lowest rates of saving and investment within our sample of high-income countries**

National saving and investment as a share of GDP: high-income OECD countries



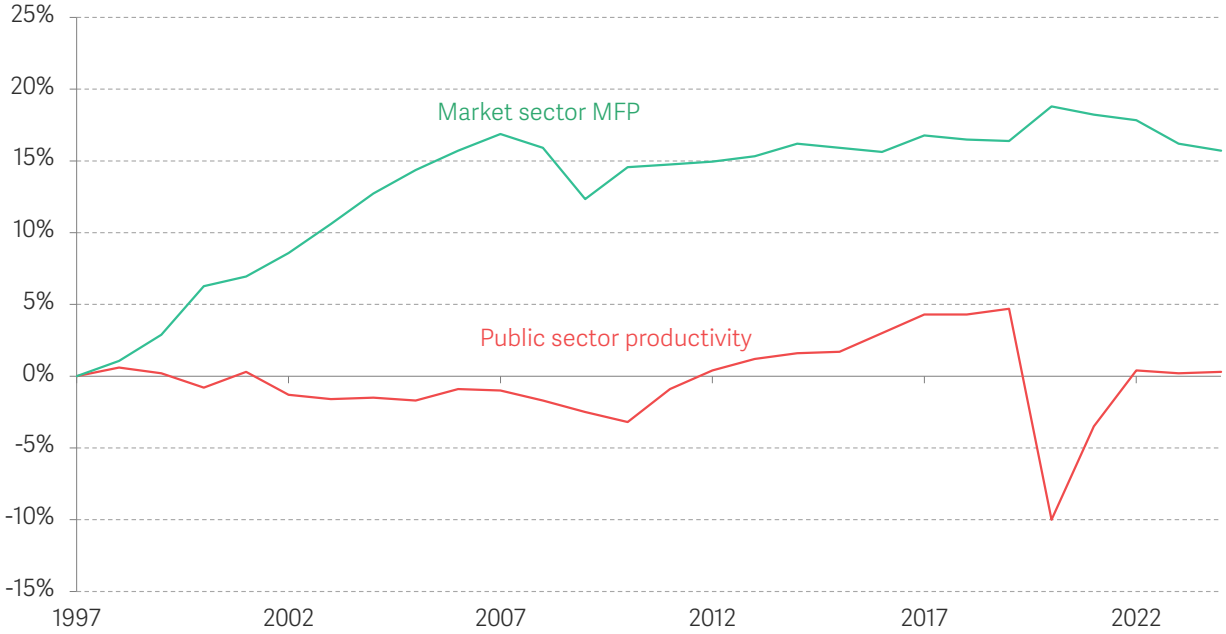
NOTES: National savings is approximated with investment plus the current account balance. High-income OECD countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. (Korea is excluded from this chart for reasons of data availability)
SOURCE: RF analysis of OECD.

8 M Abramovitz, Resource and output trends in the United States since 1870, American Economic Review, vol. 46, pages 5-23, 1956.

We need more investment in capital to raise labour productivity, but we also need to use existing capital better. Official measures of the level of TFP are approximately unchanged since 2007 (see Figure 6) for the market sector, and at least 10 years further back for the public sector.[9] Official estimates suggest that TFP in the market sector actually fell by 4 per cent in the five years to 2024.

FIGURE 6: **Measured efficiency is flat in the market and public sectors**

Cumulative growth in measures of productivity in the market and public sectors: UK



NOTES: ONS market sector data are for 'multi-factor productivity' or MFP, essentially the same concept as TFP. Public sector productivity growth is zero by assumption for some parts of the public sector.
SOURCE: RF analysis of ONS, Annual multi-factor productivity, market sector & Public service productivity.

This flatlining in TFP is very bad news for two main reasons. First, investment as a source of growth has to be paid for with foreign borrowing or less consumption today.[10] In contrast, TFP is essentially 'free money' – higher output that results from using existing inputs more efficiently. Secondly, when inputs are more productive, it is more profitable to deploy them. So strong TFP boosts investment and labour demand.

Productivity growth has accelerated sharply in the past year

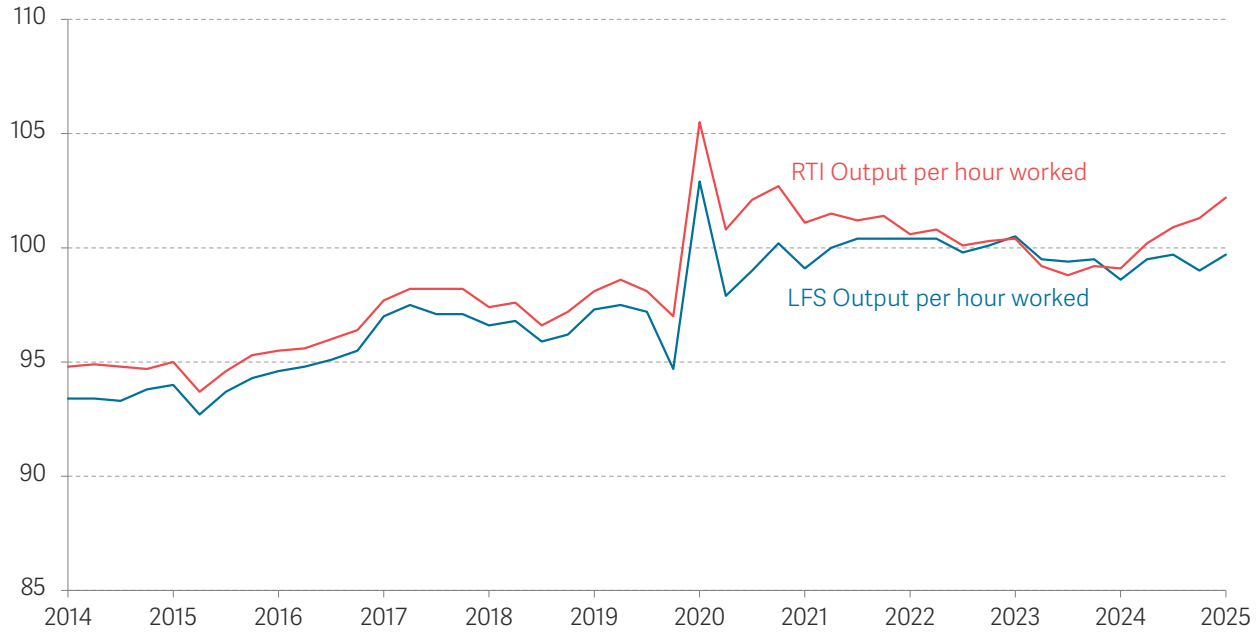
Despite this gloomy mood music around prospects for the economy, there are some early and encouraging signs that the pace of productivity growth has begun to accelerate. This is not fully apparent from the official headline data, however, which are based on the Labour Force Survey (LFS) that shows relatively flat employment levels

9 Note that MFP strips out labour composition and that public sector productivity growth is zero by assumption for some parts of the public sector.
10 J Oliveira-Cunha et al., Business time: How ready are UK firms for the decisive decade?, The Economy 2030 Inquiry, May 2021.

over the past 18 months. On this measure, hourly labour productivity grew by 1.1 per cent in the year to Q3 2025 (Figure 7). But when we adjust for past under-recording of employment by using payroll data, with productivity growing by a tidy 3.1 per cent over those four quarters, as much as in the previous seven years put together. The rise in productivity since the recent post-pandemic trough in Q1 2024 has been a blistering 3.4 per cent in six quarters, a rate not seen since before the financial crisis.[11]

FIGURE 7: **When employment is measured correctly, productivity growth has accelerated sharply since 2024**

Gross value added per hour worked with employment measured by Labour Force Survey and Real Time Indicators (2023 = 100): UK



SOURCE: ONS, Productivity flash estimate and overview, UK: July to September 2025 and April to June 2025.

There are some early indications that economic dynamism is starting to pick up

Where does this acceleration in productivity growth come from? And how can we have more of it, and for longer? The solution lies in a more dynamic economy.

Modern economic growth is driven by change.[12] The creation of new, better products, processes and firms causes their older, inferior competitors to shrink and vanish. We can see this at the level of industries, as manufacturing replaced agriculture, and was in turn replaced with services; at the level of firms, which grow and shrink in response to market signals; at the level of workers, who move from worse to better jobs; and even at the level

11 See www.resolutionfoundation.org/our-work/estimates-of-uk-employment for an explanation of how administrative data can be used to measure employment more accurately.
12 J Schumpeter, Capitalism, Socialism and Democracy, 1942

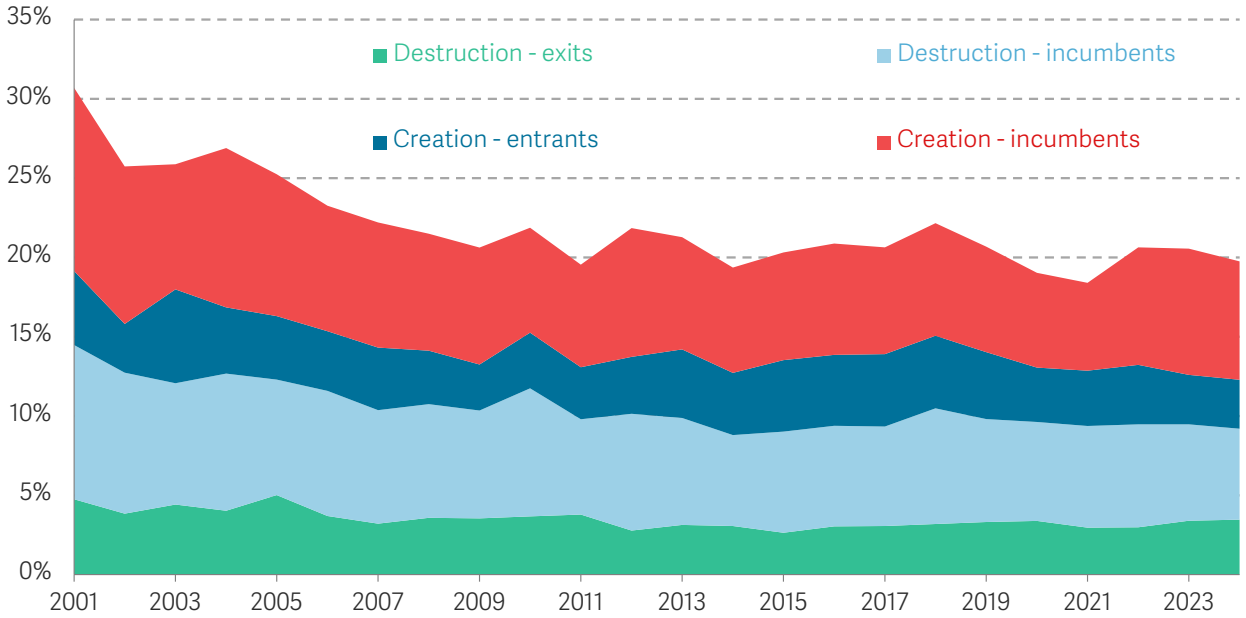
of products, with new models of cars and phones supplanting older ones. This pattern of resources churning through the economy, moving, on average, towards better uses, is known as economic dynamism. We know that productivity varies hugely across firms, even within the same sector.[13] So one way to increase productivity is to shift resources to more efficient firms.

On most measures, economic dynamism has slowed in the UK and most of the rich world over the past two decades or so.[14] The reasons for this slowing are poorly understood, but may include ageing, slower-growing populations, and a shift in technology towards firms with lots of intangible capital.[15] But slowing dynamism is a key culprit in the slowing productivity growth documented above.

Figure 8 shows one standard measure of dynamism known as job churn, which sums up employment growth in new and growing firms and employment losses in shrinking or closing firms. When churn is high, firms are growing and shrinking rapidly. Churn mostly fell in the UK in the two decades before the pandemic, as it did around the world.

FIGURE 8: **Jobs lost to exiting firms in 2024 were the highest since 2011, but other components of job reallocation remain weak**

Jobs gained to new and growing firms, and lost to closing and shrinking firms as a proportion of total jobs: UK



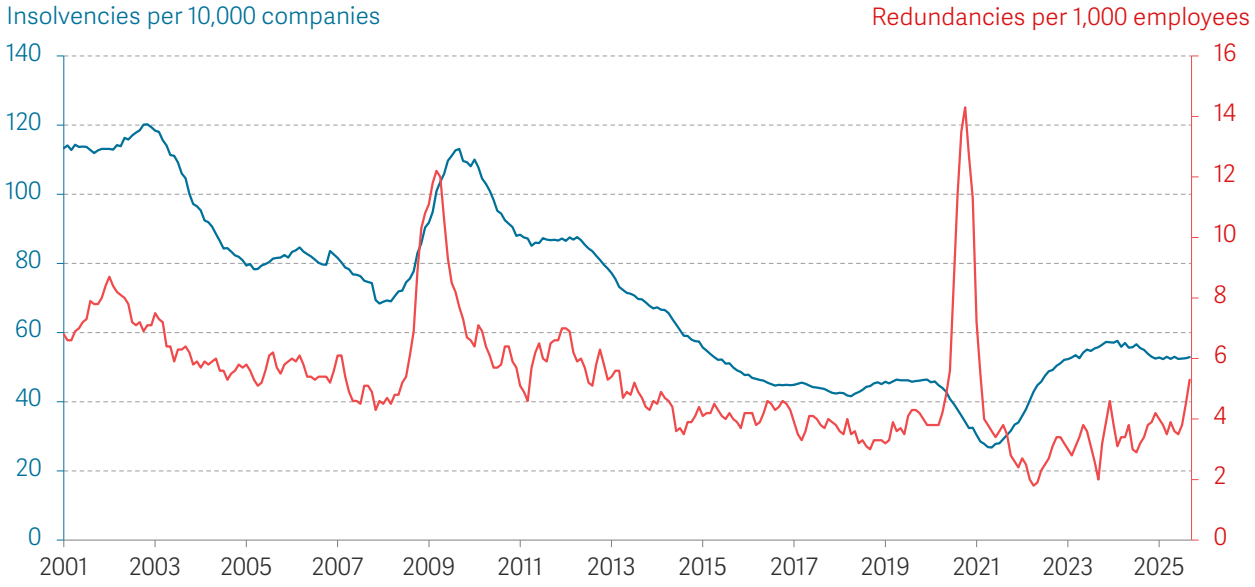
SOURCE: ONS, Trends in UK business dynamism and productivity: 2025.

13 R Davies, N Hamdan & G Thwaites, Ready for change: How and why to make the UK economy more dynamic, Resolution Foundation, September 2023.
14 OECD, Declining Business Dynamism, November 2020.
15 See F Karahan, B Pugsley & A Şahin, Demographic Origins of the start-up Deficit. American Economic Review, vol. 114, 2024; and M de Ridder, Market Power and Innovation in the Intangible Economy, American Economic Review, vol. 114,2024.

Churn has been broadly flat over the past decade, having fallen markedly in the decade before that. But a close look at Figure 8 reveals that job destruction among exiting firms picked up in 2024 to its fastest rate since 2011. This is not a turnaround by any means, and is offset by lower destruction among incumbent firms, but it is a 'green shoot' of improvement to the supply side of the economy. Along the same lines, timelier measures of the number of corporate insolvencies (around 5 per cent of all firm exits) are now substantially higher than pre-pandemic (Figure 9). Figure 9 also shows redundancies – another measure of labour shedding – have now surpassed their pre-pandemic rates.

FIGURE 9: **In line with rising job destruction, insolvencies and redundancies are just beginning to pick up**

Corporate insolvencies per 100,000 companies in England and Wales and redundancies per 1,000 employees in the UK

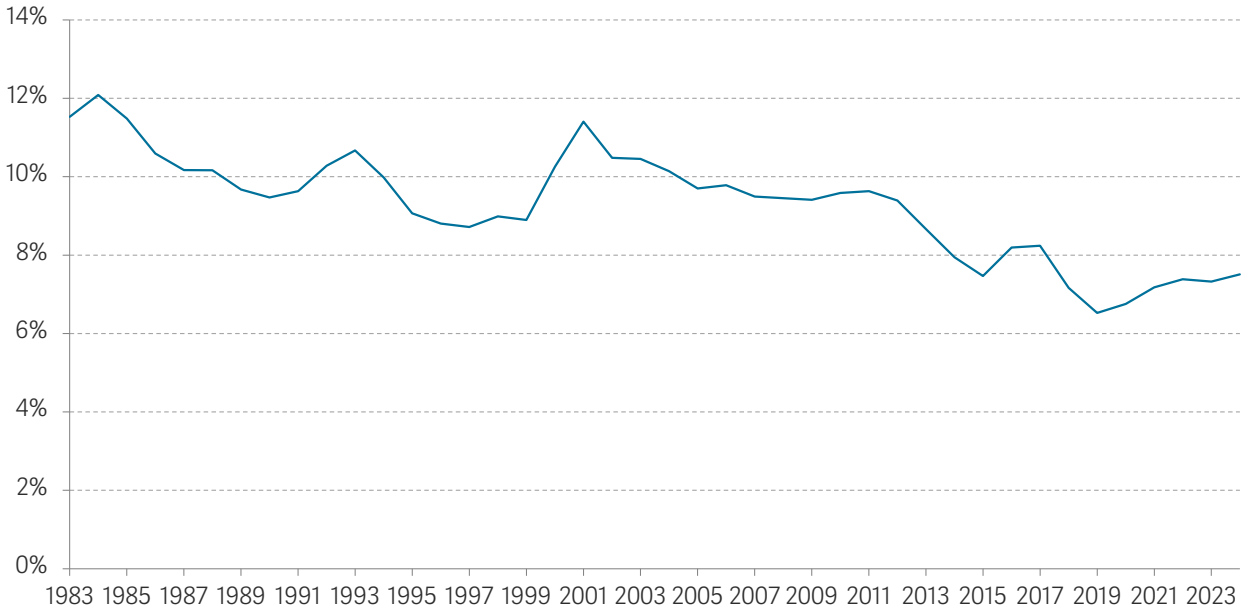


SOURCE: RF analysis of The Insolvency Service, Company Insolvency Statistics; ONS, Labour Force Survey.

Not only are we beginning to see early signs of accelerating labour reallocation between firms, but the economy seems to be changing structure at a faster rate than before too. One way to measure this is by looking at how much the employment shares of different industries change over the medium- to long-term. Figure 10 shows that, after a long period of decelerating change, the pace of structural change has begun to accelerate again.

FIGURE 10: **Having declined for decades, the rate of change across industrial sectors is picking up**

Average absolute five-year change in share of jobs within each two-digit industrial sector: UK

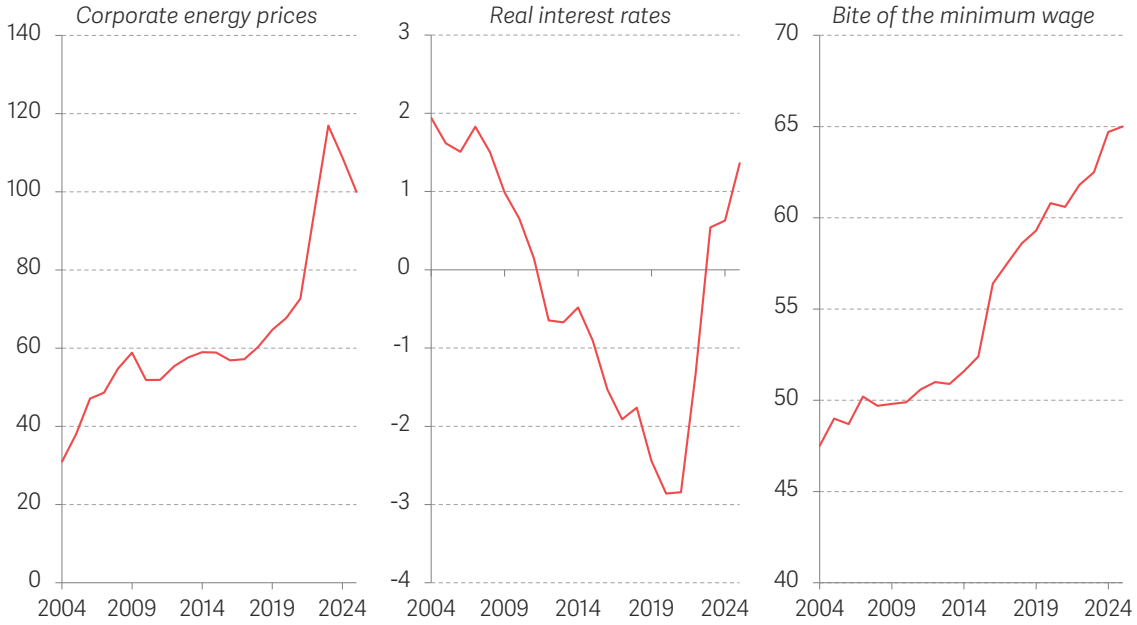


SOURCE: RF analysis of ONS, Workforce jobs.

What might be driving this early resurgence in resource reallocation across firms and sectors? The likely culprits are the sharp rises in the cost of capital, energy and low-wage labour over recent years (Figure 11). These have raised costs for all businesses and firms, but unevenly so, and will have placed most pressure on firms making less money in the first place. It is also possible, although unproven in the UK, that AI is starting to churn the economy faster, as previous general-purpose technology – printing, electricity, telecommunications – once did.

FIGURE 11: **Shocks to energy prices, interest rates and the minimum wage have increased pressure on firms**

Corporate energy prices, real interest and the bite of the minimum wage, various periods, UK



NOTES: Corporate energy prices are an index of a simple average of the prices of fuels purchased by non-domestic customers in the UK, deflated by the CPI. Real interest rates are the yields on 10-year index-linked gilts. The bite of the minimum wage is the ratio of the minimum wage to median hourly wages.
SOURCE: RF analysis of ONS & Bank of England.

The acceleration in productivity growth is too big and too sudden for all of it to be driven by the small increase in reallocation and dynamism we have seen. But both developments point in the same, encouraging direction.

But job destruction without job creation = rising unemployment

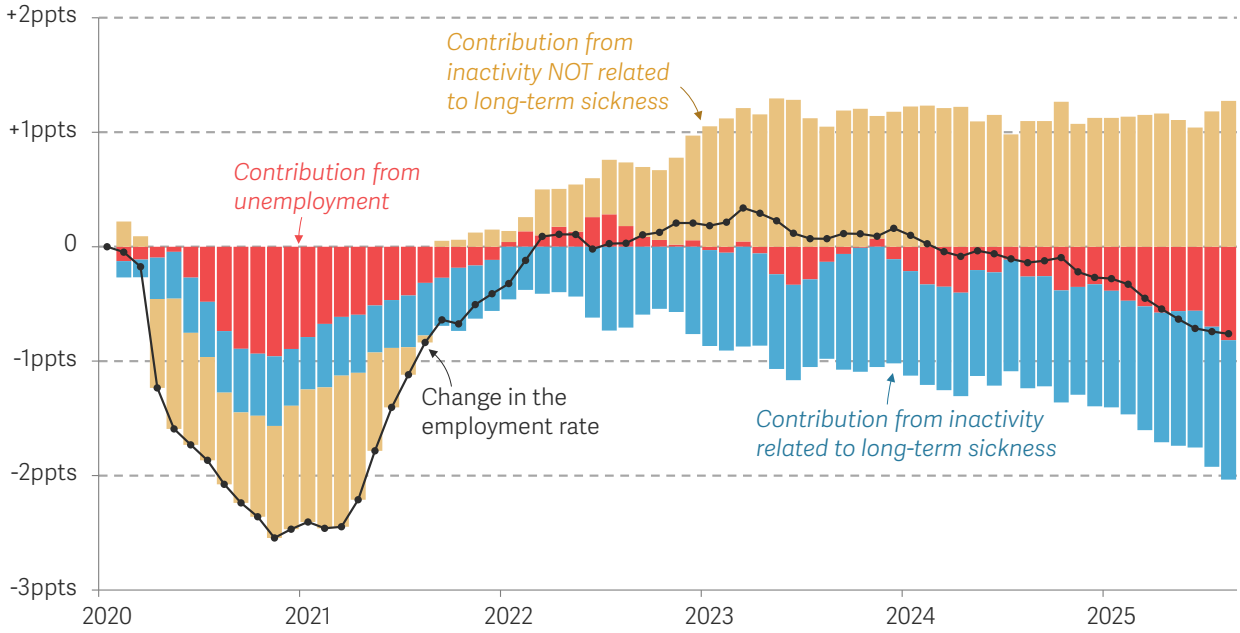
This acceleration in productivity growth is very welcome. It lies behind a more moderate acceleration of growth in GDP per head, to 0.9 per cent in the past year, behind only the US in the G7.[16]

But its counterpart has not only been more output, but fewer hours. The UK's working-age employment rate has fallen by around 1 percentage point since the pandemic, with an especially sharp fall in the past year. Underlying this fall, there has been a large and well-publicised fall in labour-force participation due to ill health.[17] But operating in the other direction has been a big fall in non-participation for other reasons, especially by those caring for others. Overall, labour-force participation is little changed as a result of these offsetting shocks, and instead it is the rise in unemployment that accounts for the fall in the employment rate (Figure 12).

16 Measured at constant Purchasing Power Parities from OECD data. At the time of writing, data for Japan were not available
17 N Cominetti and H Slaughter, Labour Market Outlook Q4 2025, Resolution Foundation, December 2025, https://doi.org/10.63492/wgig239

FIGURE 12: **The rise in unemployment explains all the fall in the employment rate since the pandemic**

Change in the 16-64 employment rate compared to January 2020, and contributions from participation and unemployment: UK



SOURCE: ONS and RF calculations

What this means for growth going forward really depends on what 'kind' of unemployment this is.

- The optimistic case is that unemployed people, by definition, want jobs and are looking for them. Their presence as spare capacity in the labour market will place downward pressure on wage demands, wage inflation and eventually consumer prices. This will allow the Bank of England to cut interest rates, boosting demand for goods and hence labour, bringing growth up and unemployment down.
- The pessimistic case is that the rise in unemployment represents a deterioration in how the labour market functions. It could be that the pool of unemployed workers is not a good match for the jobs that employers have on offer. Or it could be that workers' wage demands are unrealistic, seeking to compensate for high past or expected inflation, such that more unemployment is necessary to bring them into line with what the economy can afford.

The balance of evidence suggests more of the former than the latter: the relationship between vacancies and unemployment does not seem to have shifted over this period, and wage growth has also eased, consistent with the idea that there's more slack in the labour market.[18]

18 See Figure 7 in Cominetti, N and Slaughter, H, Labour Market Outlook Q4 2025, Resolution Foundation, December 2025. https://doi.org/10.63492/wgig239

Despite a year of encouraging productivity data, growth policy has a mountain to climb

There has been an encouraging acceleration in productivity growth over the past year. Despite the recent recovery, GDP per head remains 6 per cent lower than if the economy had maintained even its meagre pre-pandemic trend. This Section has shown that, when it comes to improving the growth performance of the UK economy, there is a mountain to climb. So the following Section takes stock of the Government's progress through the foothills over the past 18 months.

Section 3

Taking stock of growth policy

For a Government elected on its promise to raise growth, the tentative green shoots in the UK's growth performance set out in the previous Section should be good news. But a key question here is whether these developments are a reflection of good policy, or just luck.

What is clear is that the Government has enacted a lot of growth policy. Since entering office, the Government has set out an extensive growth agenda, centred on structural, supply-side reforms. Its approach is organised across three policy pillars: restoring stability, increasing investment, and reforming the economy. Key initiatives include: reforms to planning and infrastructure delivery; a renewed industrial strategy; changes to the fiscal framework to support investment; and a trade strategy that looks beyond new free trade agreements towards services liberalisation.

Yet a closer look under the hood suggests that the emerging green shoots may owe more to good luck than they do to good policy. Indeed, many of the mechanisms through which the growth strategy is supposed to operate – business investment, confidence, delivery pipelines and labour market participation – have yet to convincingly improve. This should not come as a surprise. Structural, supply-side reforms are inherently difficult, politically costly, and slow to bear fruit. The Government should, therefore, resist the temptation to abandon its growth ambitions. The challenge is not to change direction, but to double down – by moving faster, going further, and sharpening the focus of reform so that policy intent is more clearly translated into economic outcomes.

The Government was elected on a promise to deliver higher economic growth, and this remains central to its economic agenda. As the previous Section showed, there are some encouraging signs that the economy is beginning to move in the right direction. But it also demonstrated that the task is far from complete, and that progress to date has yet to translate into growth at the pace needed to materially improve the UK's economic performance.

The Government has set out a growth strategy built around a framework of stability, investment and reform.[19] This supply-side-focused approach is the right one. The strategy recognises that macroeconomic stability is important, but not sufficient alone, for higher investment and growth; that mobilising private capital must be complemented by public investment; and that structural reforms are essential to raising the UK's long-run growth rate.[20]

Despite this, the strategy has faced criticism, reflecting both scepticism about its coherence and the political difficulty of pursuing growth-enhancing reforms. The Confederation of British Industry (CBI) found that only 55 per cent of firms believe the Government's policies amount to a coherent economic strategy.[21] At the same time, many of the reforms required to boost growth are politically contested and often unpopular, placing sustained pressure on the Government's ability to maintain momentum.[22]

Achieving the Government's ambitions – whether defined as becoming the fastest-growing economy in the G7, or simply outperforming current forecasts – requires overcoming the UK's deep-rooted structural constraints on growth.[23] The following section sets out the policy levers within the Government's growth strategy and assesses the extent to which they are starting to have an effect, before turning to the question of whether the limited progress to date reflects shortcomings in direction, delivery, or both.

Restoring stability

The Government committed to "stop the chaos" and restore stability as a central pillar of its growth strategy.[24] This emphasis is unsurprising given the prolonged period of policy uncertainty preceding the election, compounded by the additional volatility associated with Liz Truss' mini-budget. This reinforced perceptions of an unstable policy environment that was undermining business confidence and investment – with investors describing the UK as "very good logistics-wise, good aspiration-wise, medium economy-wise, uncertain policy risk-wise".[25]

Restoring stability is the first component of the Government's growth strategy. This includes enhancing "macroeconomic and financial stability, fiscal sustainability and policy certainty". [26] There is strong evidence that uncertainty is bad for growth, increasing

19 HMT, Autumn Budget 2024, October 2024; HM Government, K Starmer, PM speech on Plan for Change: 5 December 2024, December 2024.
20 S Pittaway & J Smith, Built to last: Towards a sustainable macroeconomic policy framework for the UK, Resolution Foundation, October 2023.
21 C Courtney, One year in: taking stock of the government's growth mission, CBI, July 2025
22 The Economist, Why Labour's growth mission remains grounded, 25 September 2025.
23 Prime Minister's Office, Prime Minister's speech on Britain built for all: 1 December 2025, December 2025.
24 Labour Party, Labour Party Manifesto 2024, 2024.
25 Reuters, Sunak bids to lead wary investors through British maze, 23 November 2023.
26 HMT, Autumn Budget 2024, October 2024.

risk premia, leading investment to be postponed, and making it harder for firms and households to plan for the future.[27]

The Government has set out a framework for restoring stability

As part of its efforts to boost stability, the Government has put in place a revised fiscal framework designed to "support fiscal sustainability and long-term growth".[28] This includes changes to the fiscal rules and the strengthening of the institutional role of the Office for Budget Responsibility (OBR). This includes a legal commitment to ensuring that every fiscally significant change to tax and spending will be subject to scrutiny by the independent OBR. Under the new framework, the year in which the fiscal rules bind is being gradually brought forward, reducing the extent to which fiscal problems can always be put off for another day.

At the same time, the Government has also sought to improve predictability and discipline in public spending by enhancing the medium-term framework for expenditure planning. This includes committing to multi-year Spending Reviews at least every two years, publishing its first Spending Review with firm departmental spending plans and limits, and setting out a 10-year infrastructure plan. These commitments reverse the drift towards increasingly infrequent multi-year reviews since the mid-2000s – including a period with none between October 2021 and June 2025 – and, by creating a one-year overlap between successive reviews, providing greater certainty and stability for public finances and departmental planning.[29]

Further actions have been taken to anchor expectations in financial markets, including the doubling of the buffers – or 'headroom' – against the fiscal rules announced at last year's Budget. This should reduce the perceived risk of breaching fiscal rules and reduce the need to 'fine-tune' policy at fiscal events. Headroom in the Budget 2025 was increased to £22 billion, up from £10 billion at Spring Statement 2025. And while it is still on the low side – it is, for example, below the £29 billion average headroom held since 2010 – it is above the £21 billion average forecast move (average absolute forecast move in borrowing in the fourth year of the forecast).

But measures of uncertainty remain elevated, suggesting that delivery has fallen short in places

Global uncertainty has clearly complicated the Government's efforts to restore macroeconomic stability. Weak global growth, geopolitical tensions and tighter financial

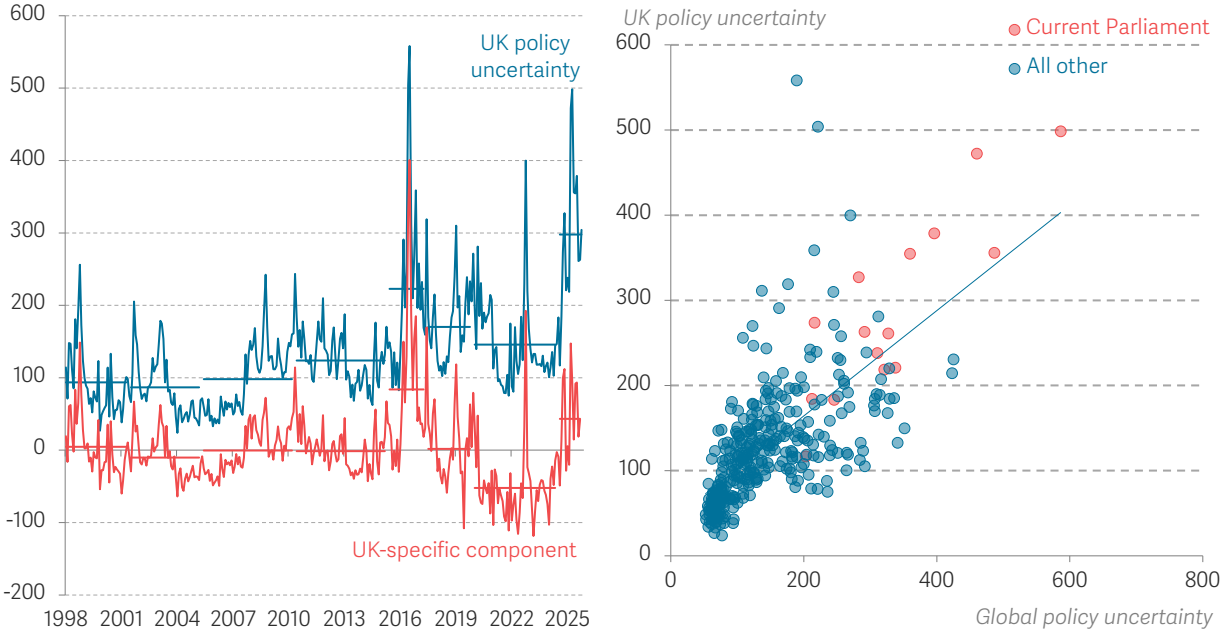
27 See, for example: M McMahon, Why is uncertainty so damaging for the economy?, Economics Observatory, May 2020; S Baker, N Bloom & S Davis, Measuring Economic Policy Uncertainty, The Quarterly Journal of Economics 242(4), July 2016, https://doi.org/10.1093/qje/qjw024.
28 HM Treasury, A strong fiscal framework, October 2024.
29 B Paxton, Darren Jones' reformed spending review process can help government to deliver, IfG, January 2025.

conditions have all weighed on economic confidence. Nonetheless, it is clear that the UK-specific uncertainty is higher than in other countries (see Figure 13). And this persistent uncertainty may reflect several areas where policy delivery has fallen short of the stability promised by the Government's strategy.

As shown in Figure 13, UK policy uncertainty has been, on average, higher this Parliament than in any of the past seven Parliaments. This is partly driven by higher global uncertainty – but even after controlling for this, it remains the second highest (only lower than the Parliament that oversaw the Brexit referendum).

FIGURE 13: **Economic policy uncertainty has been higher this Parliament than all but one of the past seven relative to global levels**

UK policy uncertainty index and UK-specific component (residuals from regressing UK on global index), including parliament averages (left panel) and scatter of UK and global policy uncertainty (right panel): 1998-2025



NOTES: The UK-specific component is the residuals from a regression of the UK policy uncertainty index on the global PPP series. Excludes the month of and the month before a general election from parliament averages.
SOURCE: RF analysis of Economic Policy Uncertainty Index (for the underlying methodology, see: S Baker, N Bloom & S Davis, Measuring Economic Policy Uncertainty, The Quarterly Journal of Economics, November 2016).

Some increase in policy uncertainty should be seen as a consequence of a reform-oriented growth agenda. But elevated UK-specific policy uncertainty is almost certainly linked to the scale and frequency of fiscal interventions during this Parliament. Large tax and spending measures at successive fiscal events have become the norm rather than the exception. Comparing the absolute average value of tax and spending measures across Parliaments, shows that the average size of tax and spending decisions is larger

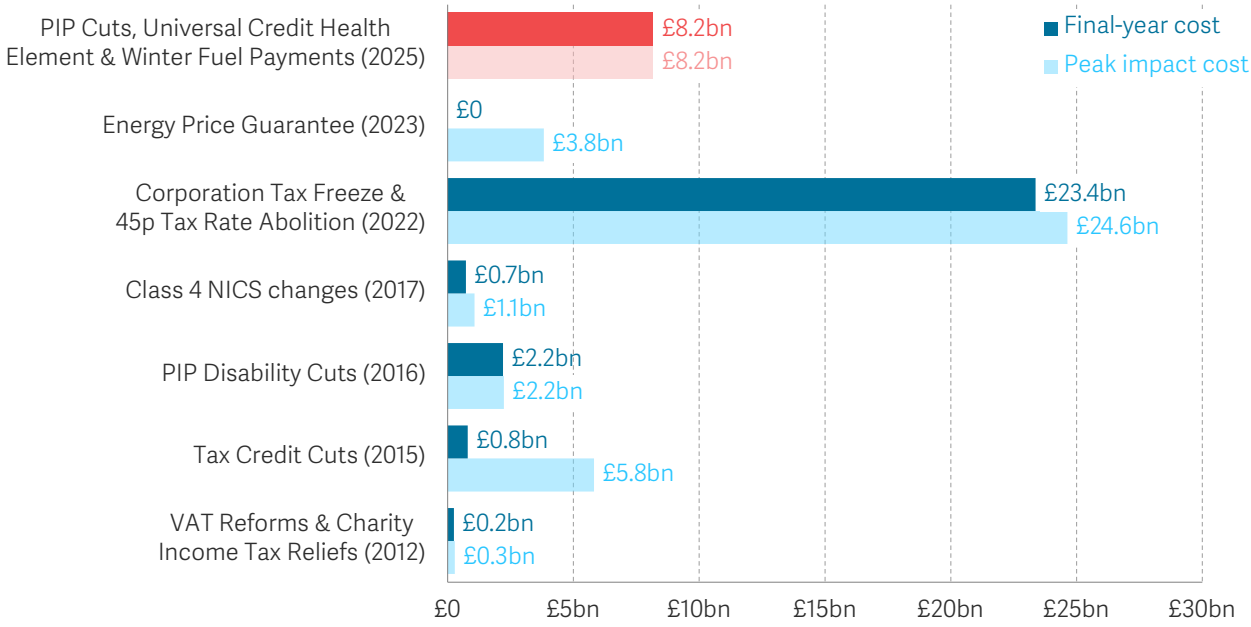
than in any previous Parliament over the 2010's and 2020's.[30] Even excluding the typically large initial Budget of a new Parliament, the average scale of fiscal measures remains high, indicating that policy churn has persisted beyond an initial reset. While many of these policies may be defensible on their own terms, the cumulative effect of extensive fiscal activism is to increase uncertainty rather than reduce it.

The need for such large fiscal events has, at least in part, been the result of the combination of (until recently) limited fiscal headroom and the need to unwind earlier policy decisions. Larger headroom, at least in principle, allows Governments to absorb a forecast deterioration without changing policy. There have also been large and frequent policy reversals since the election. As shown in Figure 14, substantial policy U-turns between the Spring Statement and the Budget in 2025 were the second largest in the past 13 years, exceeded only (but substantially) by the reversal of measures announced in the aftermath of the mini-budget. The act of reversing policy creates uncertainty, but this is compounded by the subsequent need to identify alternative measures to fill the gap left by abandoned fiscal savings.

30 Based on absolute values for all tax and spend measures by fiscal event, calculated in 2029-30 prices. The first Budget is the first following a General Election. Source: RF analysis of OBR Policy Measures Database (March 2025 vintage) and November 2025 Economic and Fiscal Outlook.

FIGURE 14: **Policy reversals at the 2025 Budget were the second largest in recent history**

Value of substantial policy U-turns undertaken between two fiscal events since 2012 based on the final-year cost and peak impact cost (in 2030-31 prices): UK



NOTES: The Corporation Tax Freeze and 45p Tax Rate Abolition in 2022 were not costed by the OBR but by HMT's The Growth Plan. These costs have been extended beyond their scorecard period using the growth rate of nominal GDP, in line with the OBR's methodology in its Policy Measures Database and the other policies in the chart. The Energy Price Guarantee was a single, within-year event so its final-year cost was zero. VAT reforms and Charity Income Tax Reliefs refer to VAT base-broadening, including for hot takeaway food and caravans, and to the cap on Income Tax relief for charitable donations respectively.
SOURCE: RF analysis of OBR, Policy Measures Database, November 2025; OBR, Economic and Fiscal Outlook, November 2025; HM Treasury, Table 4.2: The Growth Plan policy decisions, September 2022.

Evidence suggests that business uncertainty has also not fallen back recently: the share of businesses in the Bank of England's Decision Maker Panel reporting they are facing 'high' or 'very high' uncertainty about future sales forecasts rose from 50 per cent immediately before this Parliament (June 2024) to 53 per cent in December 2025, with the share reporting very high uncertainty rising from 12 per cent to 18 per cent.

Financial market indicators tell a similar story. UK 10-year government bond yields remain elevated relative to international peers in recent years, suggesting investors are demanding a sizeable risk premium for holding UK government debt.[31] The spread between the yields on 10-year UK government debt and the average on the debt of peer countries increased since the start of the Parliament – rising from 1.0 percentage points in July 2024 to 1.4 percentage points as recently as October 2025 – rather than narrowing

31 The sample of high-income OECD countries comprises: United Kingdom, Australia, Belgium, Canada, Finland, France, Germany, Japan, Korea, New Zealand, Norway, Portugal, Spain, Sweden, United States, but excludes those where December data not yet available, such as Austria and Switzerland. Source: OECD, Long-term interest rates, accessed 14 January 2026. For further discussion, see: J Smith, The Macroeconomic Policy Outlook: Q3 2025, Resolution Foundation, September 2025, https://doi.org/10.63492/rxn9076.

as credibility was supposedly rebuilt. So, while some of this gap reflects inherited damage, the Government's approach to fiscal communication may also have contributed. Extensive briefing around forecast movements and speculation about a wide range of potential fiscal measures ahead of Budgets appear to have added to, rather than reduced, uncertainty – reinforcing market perceptions of elevated fiscal risk rather than anchoring expectations around a clear and credible medium-term path.[32] However, this spread has narrowed in recent months, returning to 1.0 percentage points in December 2025, offering early signs that the 2025 Budget, including the move to boost headroom, may have begun to restore a greater sense of certainty in markets.

Finally, the pursuit of macroeconomic and policy stability has been complicated by the Government's commitment to key manifesto pledges, particularly the decision not to raise the rates of the largest taxes. This has narrowed the set of available fiscal options, increasing reliance on alternative revenue-raising measures that can come with higher economic costs. The rise in employer National Insurance contributions (NICs) illustrates the trade-off: while raising around £16 billion by 2029-30, the OBR estimates it added around 0.2 percentage points to inflation and weighed on short-term employment.[33] In a context where inflation remains above target and monetary policy is still restrictive, such measures risk adding to economic uncertainty rather than alleviating it.

Stability on its own, then, has not proved a silver bullet for raising growth. While a credible and predictable policy environment will help to support investment, it was never going to be sufficient to deliver a step change in economic performance. Indeed, an ambitious agenda of structural reforms was always bound to raise policy uncertainty. Nevertheless it remains a laudable goal – periods of destabilising policy create lasting damage.

Viewed through this lens, the framework the Government has put in place to restore stability is welcome, but should be seen primarily as a corrective rather than a catalyst for growth. Recent moves towards a more measured approach to fiscal policy, including in welfare policy, alongside efforts to rebuild fiscal headroom, are encouraging.[34] Avoiding unnecessary sources of instability moving forward – through policy churn or weak fiscal discipline – remains essential to strengthening credibility and supporting investment and growth.

32 G Tetlow et al., Rachel Reeves's budget 2025: The IfG's six things to look out for, Institute for Government, November 2025.
33 Raising employer NICs has a starker inflationary impact than employee taxes on labour, for example income tax or employee NICs. In the short run, nominal wage rigidity limits firms' ability to pass on the cost to workers through lower wages. Instead, firms are more likely to raise prices, pushing up inflation directly, while real wages adjust gradually. By contrast, employee taxes reduce workers' take-home pay, and while it may lead to wage bargaining over time, it does not immediately raise firms' labour costs or the prices they set. For estimates of impacts on inflation and employment, see: HMRC, Changes to the Class 1 National Insurance Contributions Secondary Threshold, the Secondary Class 1 National Insurance contributions rate, and the Employment Allowance from 6 April 2025, November 2024. For estimates of revenue raised, after behaviour responses, see: OBR, Static costing of changes to Employer National Insurance, May 2025.
34 DWP, The Timms Review, October 2025.

Increasing investment

There is no credible route to higher and more durable growth without a sustained increase in investment. As set out in Economy 2030 and Section 1 of this report, our long-running failure to invest has left the UK living off its past investment, infrastructure and capabilities.[35] Recognising this, the Government has committed to raising both public and private investment as a core part of its growth strategy.[36] Delivering on this ambition requires more than simply restoring a stable investment environment. It also demands a more strategic approach to public sector investment that targets growth-enhancing areas, alongside active partnership with the private sector – for example through institutions such as the National Wealth Fund – to crowd in private capital and support long-term productive capacity.

The Government has boosted public investment, though alignment with pro-growth priorities appears uneven

Public investment serves two distinct but complementary purposes: to raise the economy's productive capacity, supporting growth through improved infrastructure, higher housing supply, and stronger innovation and diffusion; and to improve public services and social infrastructure. In the UK, pressures in this second category are acute: the country has fewer hospital beds per capita than all but one OECD economy, and fewer MRI machines than all but four.[37] While investment in public services can support growth indirectly, by improving health and labour market participation, its primary rationale is preventing further deterioration in service quality and living standards.[38]

It is encouraging that the Government's growth framework recognises both purposes of public investment, seeking to boost overall public sector investment while also prioritising areas with the greatest growth potential – where it points to transport, housebuilding, supporting new industries and job creation, and protecting research and development (R&D) funding – as well as safeguarding investment in critical public services, such as the NHS and education.[39]

To deliver this, the Government has taken clear steps to strengthen the framework and capacity for public investment. First, it has restored longer planning horizons for major projects and departmental spending. Central to this are the commitments to multi-year Spending Reviews at least every two years and the publication of a 10-year infrastructure

35 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
36 As set out in the Government's growth mission under the pillar of Investment, Infrastructure and Planning. HMT, Autumn Budget 2024, October 2024
37 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023.
38 Z Leather et al., Capital gains: Public investment priorities for the 2025 Spending Review, Resolution Foundation, April 2025, https://doi.org/10.63492/135lcek.
39 HMT, Autumn Budget 2024, October 2024.

plan. These steps are designed to provide greater certainty for departments, delivery bodies and private sector partners involved in or affected by large, capital-intensive projects.

Second, the Government has revised the fiscal rules by introducing a new 'investment rule', which shifts the stock target to public sector net financial liabilities (PSNFL).[40] Because debt is measured net of financial assets under PSNFL, this change has created more room to increase public investment. This provides a one-off increase in the amount of grant-based investment permitted and entirely lifts the limit on investment via financial transactions (to the extent these are not creating financial losses). It has enabled the Government to deliver a significant increase in public investment compared to the previous Government's plans, equivalent to an uplift of approximately £33 billion in 2029-30, or £126 billion cumulatively up to 2029-30.[41] If delivered as planned, this would maintain public investment at its highest sustained rate since the 1980s, marking a break from the low levels of public investment that have characterised much of the past few decades.[42]

The 2025 Spending Review set out concrete allocations for this capital expenditure for the next four years, with the Government's pro-growth investment priorities clearly visible. For example, investment in affordable housing was increased by around £1 billion a year, to £3.5 billion, higher than all previous iterations since 2008. Transport investment was also increased, relative to the previous Government's plans, by a cumulative £16.9 billion, enough to secure funding for projects like a West Yorkshire mass transit system.[43]

While boosting public sector investment is a necessary step in addressing long-standing deficits in economic and social infrastructure, the composition of that investment matters for growth. And it is important to consider changes in both the tools being used (for example, the balance between grants and financial transactions) and the allocation across Departments when evaluating the likely growth impact.

But the current allocation appears misaligned with the Government's growth ambitions. Most notably, a large share of the increase in capital spending (relative to previous plans) has been directed towards defence: this category is now expected to rise from 0.7 per cent of GDP in 2023-24 to 0.9 per cent in 2029-30 (see Figure 15). Defence spending may well be justified and necessary on strategic grounds, but the growth multipliers

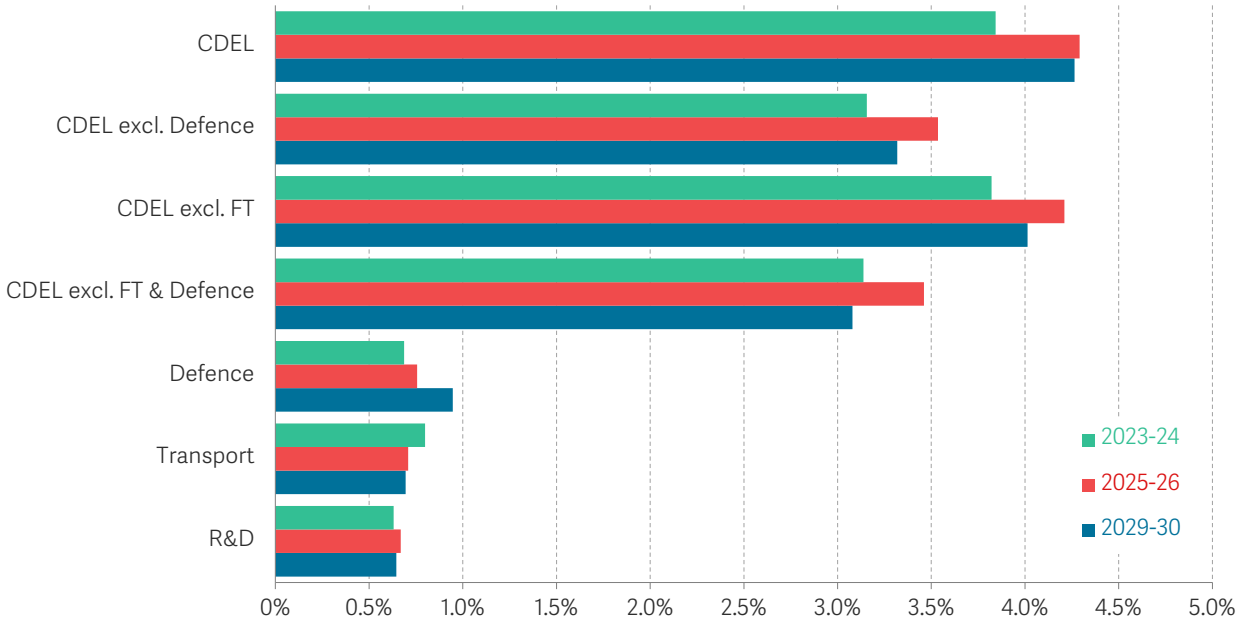
40 HMT, A strong fiscal framework, October 2024.
41 C Aref-Adib et al., A healthy state?: Putting the 2025 Spending Review into context, Resolution Foundation, June 2025, https://doi.org/10.63492/pfg738.
42 It is welcome that the Government has avoided repeating a familiar pattern from past fiscal consolidations, where public investment has been cut to help balance the books. Since the 1970s, fiscal consolidations have all reduced public investment as a share of GDP, and by around one-fifth on average. H Aldridge et al., Stairway to headroom: Putting the Autumn Budget 2025 decisions on tax, spending and borrowing into context, Resolution Foundation, November 2025, https://doi.org/10.63492/gad912.
43 C Aref-Adib et al., A healthy state?: Putting the 2025 Spending Review into context, Resolution Foundation, June 2025, https://doi.org/10.63492/pfg738.

associated with investment in military equipment are likely to be much smaller than traditional pro-growth investments like roads and railways in the UK.[44] That doesn't mean the skew to defence is mistaken, but it does mean we should expect lower growth returns from the same total amount of investment.

Looking beyond defence spending, it becomes clear that the increase in public investment set out in the Spending Review has been enabled primarily by an expansion of financial transactions (instruments that create financial assets on the public balance sheet), rather than traditional grant-based expenditure. Capital spending beyond defence and financial transactions has been squeezed: real grant-based capital spending in 2029-30 is £3.6 billion lower than in 2025-26.[45] And spending on the Government's own growth priorities, specifically transport and research and development, is also set to fall or remain flat as a share of GDP (see Figure 15), despite evidence of their importance for productivity and agglomeration if well-targeted.[46]

FIGURE 15: **The composition of public investment is not favourable for growth**

Capital Departmental Expenditure Limits (CDEL) as a proportion of GDP in 2023-24, 2025-26 and 2029-30: UK



NOTES: Based on November 2025 Budget figures where available. R&D spending uses Spending Review 2025 estimates as no update published post-Budget. FT is financial transactions.
SOURCE: HMT, Spending Review 2025; OBR, Economic and Fiscal Outlook, November 2025.

44 This is not necessarily the case in the US where defence investment is particularly R&D intensive and so there is evidence that public sector investment on defence can be pro-growth. But it is unlikely to deliver the same benefits for the UK: defence spending is no more R&D intensive than average public investment spending in the UK and a much larger share of spending on equipment and support (around one-third) is imported. M Beck, Economic effects of higher defence spending, House of Lords Library, October 2025.

45 C Aref-Adib et al., A healthy state?: Putting the 2025 Spending Review into context, Resolution Foundation, June 2025, https://doi.org/10.63492/pfg738.

46 Department for Transport, Transport investments and agglomeration benefits, October 2024; The Economist, Rachel Reeves has decided where Britain's cash will go, 12 June 2025.

What certainly has been expanded is the use of public balance sheet tools and partnerships with the private sector, including co-investment vehicles such as the National Wealth Fund and British Business Bank, with the aim of supporting long-term investment while crowding in private capital. It is this and other policies to support private investment to which we turn to next.

The Government has also put in place policies to support private investment

Most productive investment in the UK economy is undertaken by the private sector. As a result, while public investment plays a critical enabling role, the success of the Government's growth strategy ultimately depends on its ability to unlock higher levels of private investment.

Efforts to do this include taking steps to redirect domestic savings towards more productive UK investment through reforms to the private pension system. Central to this approach are measures to consolidate pension funds and encourage greater investment in UK-specific assets, such as unlisted equities, private credit, infrastructure and property. To date, reforms have been largely industry-led and voluntary, agreed through the Mansion House Accord and Sterling 20 initiative. However, the Pension Schemes Bill seeks to mandate investment targets if sufficient progress is not made. These reforms are supported by actions taken by the British Business Bank, for example the launch of the British Growth Partnership Fund I.[47] This is a positive, but very small, step towards responding to industry concerns about the lack of a robust pipeline of investable UK assets and aims to improve the matching of long-term domestic capital with viable domestic growth opportunities.[48] This activity will need to be scaled up considerably if the allocation of around £3 trillion in total UK pension assets is to be materially changed.[49] A lack of progress reflects a range of structural and practical constraints, including the costs and risks of rapid reallocation into private markets and the maturity of many schemes, while reforms will take time to bed in. This all means any substantial impact on investment patterns is likely to emerge only gradually over the coming years. Moreover, the expected benefits of pension reform are likely to be marginal and to operate less through increasing the availability of finance, and more through rebuilding more concentrated and engaged firm ownership, strengthening investor discipline rather than materially easing funding constraints.[50]

The Government has also published an industrial strategy and a trade strategy. The industrial strategy set out a set of priorities, allowing policy to focus on specific sectors (the so-called 'IS-8' high-priority growth sectors), technologies and places where the

47 British Business Bank, British Business Bank's British Growth Partnership announces partners for targeted £200m first close of initial fund at end of the financial year, November 2025.
48 Pensions UK, Pensions and Growth: Creating a Pipeline of Investable UK Opportunities, August 2024.
49 Pensions Policy Institute, Pension scheme assets – how is asset allocation changing and why?, June 2025.
50 P Brandily et al., Beyond Boosterism : Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

UK has existing strengths or clear potential, and where public intervention can credibly 'crowd in' private investment. Taken together, the sectors form a sensible portfolio that is predominantly service-oriented, playing to the UK's comparative advantages in knowledge-intensive and tradable services.[51] It has also drawn on positive elements from past strategies, such as reintroducing an Industrial Strategy Advisory Council (replacing the previously disbanded council in 2021).[52]

It is also encouraging to see a more explicit role set out for the state in bearing and sharing risk. The strategy envisages an expanded use of public financial institutions such as the British Business Bank, UK Export Finance and the National Wealth Fund to 'crowd in' private investment, support scale-up finance, and underwrite risk for investments in strategically important sectors. In principle, this approach is supported by recent changes to the fiscal rules, which allow greater use of financial transactions to support investment.

In practice, delivery is likely to be constrained by the limited scale and risk appetite of these institutions. Both the National Wealth Fund and the British Business Bank remain underpowered relative to the size of the UK's investment gap, while venture capital activity continues to lag international peers.[53] For example, the British Business Bank's Growth Guarantee Scheme is several times smaller relative to GDP than comparable schemes in the US and major European economies. Similarly, the National Wealth Fund's £27.8 billion capital over nine years is not far from the £21 billion annual capital it would need to match the scale of peer policy banks such as Bpifrance and Germany's KfW.[54]

Some have also argued that the requirement to generate positive financial returns constrains these institutions' ability to invest in higher-risk assets – precisely where government intervention may be most valuable.[55] In extremis, the desire to seek a commercial return means entrepreneurs will see little difference between the expectations and risk appetite of these institutions and conventional funders. A delicate balance is required between taxpayer risk and achieving the public policy objective of high investment – and issues like whether positive returns are required on each transaction or on a portfolio basis can be crucial. By contrast, Canada's equivalent operates with a negative return target – although of course this makes it more costly for the taxpayer.[56] Against this backdrop, it is promising to see institutions like the British Business Bank,

51 J De Lyon et al., Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, April 2022.
52 Department of Business and Trade, The UK's Modern Industrial Strategy, June 2025.
53 T Allas & D Zenghelis, The UK's capital gap: a short-fall in the trillions of pounds that will take decades to bridge, May 2025. Business and Trade Committee, 18 November 2025 - Financing the real economy - Oral evidence, November 2025.
54 Growth Guarantee Scheme and equivalents accounted for 0.05 per cent of GDP in the UK, 0.2 per cent in the US, 0.19 per cent in Germany, 0.17 per cent in Spain and 0.15 per cent in France. See; Business and Trade Committee, Oral evidence: Financing the real economy, November 2025; J Sood & T Harris, Firing up the fund: Empowering the National Wealth Fund to meet the UK's needs, New Economics Foundation, March 2025.
55 The third investment principle of the National Wealth Fund is that investment should deliver a positive financial return. See: National Wealth Fund, Financing the Future: a statement of intent by the National Wealth Fund, June 2025.
56 Treasury Committee, National Wealth Fund, October 2025.

setting out a plan to take on more (managed) risk in their five-year strategic plan.[57]

A central feature of the industrial strategy is a renewed focus on clusters and place-based growth. By concentrating efforts to boost private investment geographically and sectorally, the strategy seeks to pool risk for firms and workers alike, while raising productivity through agglomeration effects. The strategy claims this will be supported by targeted sector-specific public investments across places where the IS-8 sectors are concentrated, relating to transport, skills and housing, intended to help them attract private investment and enhance connectivity.

Despite this, the strategy remains too broad in its sectoral and regional focus and constrained by the limited scale of public investment underpinning it. While the IS-8 span areas of UK strength, their breadth (accounting for over a third of the economy) risks diluting impact when not matched by clear choices about where growth should be concentrated.[58] At the same time, regional priorities are spread across multiple corridors and city regions – including the North of England, Oxford-Cambridge corridor, the Edinburgh-Glasgow Central Belt and Welsh cities – without the depth of investment needed to transform productivity in any one place. Progress is also further constrained by the slow pace of establishing regionally empowered decision-making bodies. Closing regional gaps at scale would require substantial, targeted public investment: for example, in previous work we have estimated that reducing the productivity gap between Greater Manchester and London to 20 per cent, from 35 per cent, would require a 15 per cent increase in business capital and up to 180,000 additional graduates, alongside major investment in local transport and housing.[59] Without a sharper sectoral focus, stronger geographic prioritisation and significantly greater investment, this strategy risks joining a long list of failed government initiatives to close regional disparities and raise economic growth.[60]

The closely-related trade strategy also builds on these priorities and reflects a broadly sensible diagnosis of the UK's post-Brexit trade position. It recognises that much of the damage from Brexit has been concentrated in goods trade, while the UK's comparative strengths lie increasingly in services.[61] As such, the strategy looks beyond the pursuit of new Free Trade Agreements (FTAs) – which are now likely to deliver diminishing returns, given that agreements already cover over 60 per cent of UK trade and much of the remainder is with partners such as the US and China, where the scope for comprehensive new FTAs is, at best, limited. Instead, the strategy prioritises reducing barriers to services trade, including through greater use of mutual recognition agreements.[62] It also avoids

57 British Business Bank, Five-year Strategic Plan, November 2025.
58 S Mahmood, How much do the Industrial Strategy sectors contribute to UK countries and regions?, House of Commons Library, December 2025.
59 P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, June 2022.
60 See, for example: N Lee, Powerhouse of Cards? Understanding the 'Northern Powerhouse', SERC Policy Paper 14, January 2016.
61 S Dhingra et al., The Big Brexit: An assessment of the scale of change to come from Brexit, Resolution Foundation, June 2022.
62 Department for Business and Trade, UK Trade Strategy, June 2025.

proposing damaging or ineffective policies, such as protectionist large-scale subsidies or the further expansion of freeports. These policies are highly focused on goods (rather than services) trade, and in the case of freeports are likely to simply shift activity from one location to another, rather than creating additional jobs.[63]

Yet the strategy remains constrained. Consistent with commitments in the Labour Party manifesto, it avoids consideration of a meaningfully deeper economic relationship with the EU, and sidesteps key decisions on regulatory alignment, despite the clear and material implications these choices have for growth (discussed further in Section 4 on trade policy).[64]

More broadly, the strategy also exposes an unresolved tension in the Government's approach to trade and competition. At present, it is unclear what balance policy is seeking to strike between protecting domestic industries from international competition and lowering costs for firms and consumers through cheaper imports. This ambiguity matters: it shapes how tariffs, trade preferences and safeguard measures are deployed, determines how exposed different sectors of the economy are to global trade shocks, and leaves little clarity about which parts of the economy should be shielded and which would benefit from greater competitive pressure. Taken together, this risks blunting the effectiveness of trade policy as a tool for raising productivity and long-run growth.

The industrial strategy and trade strategy rightly push in the direction of building on the UK's particular strengths in services. But success will ultimately depend on whether they meaningfully shape government decisions about where to prioritise resources and reform; and whether they have sufficient staying power for businesses to treat them as credible guides to the structural changes they should expect over time.[65]

Counteracting decades of underinvestment will require sustained effort

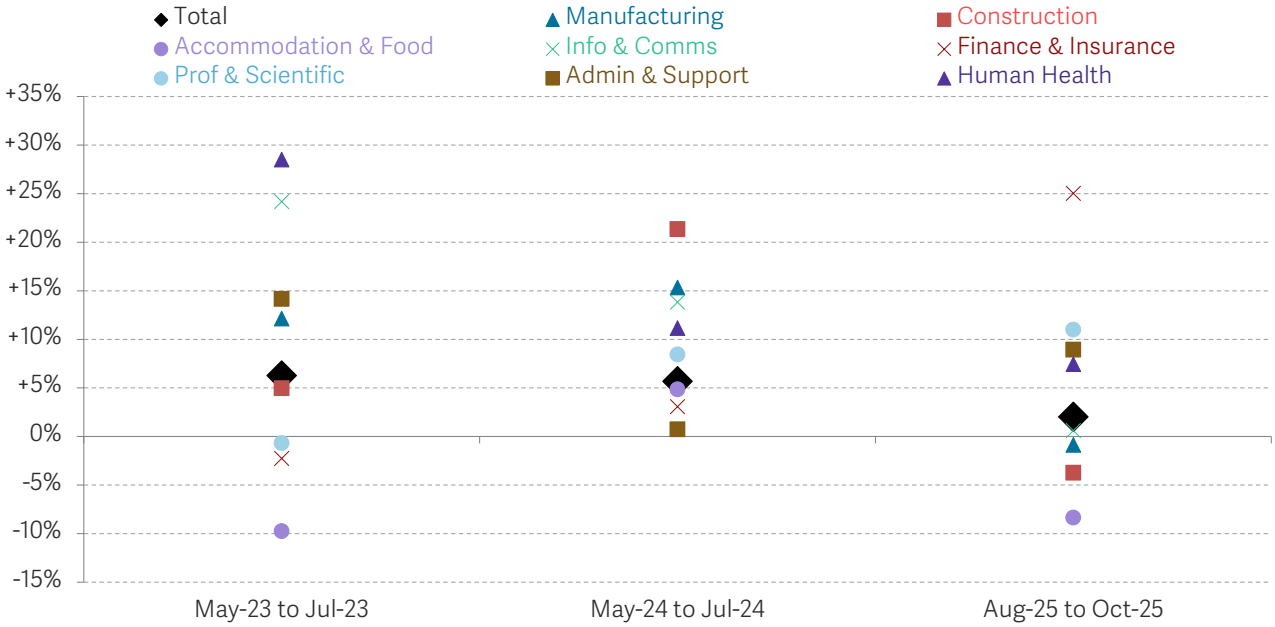
Yet despite the measures taken across the areas set out above, the outlook for business investment remains extremely weak. Expected investment growth has fallen to around 1 per cent, compared to 5 per cent at the time of the election and 6 per cent in the year before (as shown in Figure 16). Several major sectors, including manufacturing, construction and accommodation and food, are now expecting investment to fall over the next year. This is not inevitable: business investment growth in the US has been picking up as firms increase spending on new technologies, particularly AI. Business investment in the US has grown by more than 6 per cent in every year since 2021, excluding 2024 where it grew by 2.9 per cent, and growth is forecast to remain strong over

63 I Serwicka & P Holmes, What is the extra mileage in the reintroduction of 'free zones' in the UK?, February 2019.
64 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.
65 P Brandily et al., Beyond Boosterism : Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

the next few years at 4 per cent.[66] But this success is yet to be replicated in the UK (and the rest of Europe) with weak investment intentions across many sectors.

FIGURE 16: **The outlook for business investment remains weak**

Average expected annual growth in capital expenditure over the next 12 months, by industry: UK



SOURCE: Bank of England, Quarterly Decision Makers Panel, October 2025.

As shown in Figure 5 in Section 2, the UK remains at the bottom of the international investment league table. Just moving it to the middle of the pack would require an increase in national investment of around 5 per cent of GDP, equivalent to roughly a 30 per cent rise from current investment levels. This illustrates both the scale of the challenge facing the Government and the need for policy that is ambitious rather than incremental.

Tax policy remains the most powerful lever available to the Government to influence business investment, although policy in this area was already in a relatively strong position under the previous Government. The move to make full expensing permanent materially improved the UK's investment incentives, with evidence suggesting such measures are among the most effective ways to raise investment by lowering the cost of capital, particularly for firms undertaking marginal projects.[67] However, the current regime remains incomplete: full expensing applies narrowly to plant and machinery, excluding many of the intangible assets – most notably software licences – that are seen as critical to productivity growth. Expanding full expensing to better reflect the modern investment mix would therefore strengthen an already sound policy foundation and

66 M Wolf & R Sanyal, United States Economic Forecast, Deloitte Global Economics Research Center, December 2025.
67 R Barro & J Furman, Macroeconomic Effects of the 2017 Tax Reform, Brookings Papers on Economic Activity, March 2018.

improve its alignment with the UK's growth ambitions. Broader pro-growth tax reforms are discussed under 'reforming the economy' below.

Beyond this, tax reform remains largely absent from the Government's growth strategy. While some of the Government's tax priorities are clearly pro-growth – such as maintaining capital allowances, providing corporate tax rate stability and avoiding new disincentives to work – these largely function to limit damage rather than form part of a coherent vision for a better-designed tax system.

Nonetheless the Government has taken some steps in the right direction, including reforms to pensions taxation, closing Inheritance Tax loopholes, and commitments to reform property and electric vehicle taxation.[68] But other decisions, most notably increases in employer NICs, have cut directly against stated growth objectives. A more ambitious approach would focus reform where tax reform has the greatest growth potential, including on business rates, Corporation Tax design, VAT thresholds, SME reliefs and property taxation. These can have material impacts on growth: for example, reforming business rates could raise business investment in structures by around 30 per cent and boost GDP by almost 1 per cent.[69] Our previous work shows that removing such growth-harming distortions need not be costly: revenue-neutral tax packages could deliver meaningful gains to investment and economic dynamism without weakening the public finances.[70]

Overall, meeting the challenge of boosting investment will require being bolder in areas where the current investment strategy appears weaker or misaligned. While public investment is set to rise under current plans, decades of underinvestment have left substantial gaps to fill. At the same time, commitments to higher defence spending will need to be financed in a way that does not continue to displace much-needed public investment in social and economic infrastructure. This places a premium on clear prioritisation of public investment. The Industrial Strategy should therefore act as a guiding framework for deciding which sectors and regions to back, and how public investment is used to catalyse wider economic change. But public ambition alone will not be sufficient. The UK's persistent and pervasive underinvestment problem means that success ultimately depends on securing a strong private sector response. That, in turn, requires progress across all three parts of the growth strategy: a stable investment environment, effective crowding-in of private capital, and genuinely pro-growth reforms, the last of which we turn to next.

68 HM Treasury, Budget 2025 in full, November 2025.
69 M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.
70 A Corlett, Call of duties: Revenue and reform for Autumn Budget 2025, Resolution Foundation, September 2025, https://doi.org/10.63492/rc611.

Reforming the economy

Kickstarting growth also requires removing longstanding barriers to growing a business, working and building things in the UK.[71] The Government has set out a reform agenda spanning the planning system, improving skills provision, and delivering a more coherent and efficient regulatory environment. Consistent with the Government's overall approach, each element is aimed at easing supply-side constraints and supporting higher long-run growth.

The Government has pursued a programme of regulatory reforms, particularly taking aim at the planning system

While planning is widely recognised as a critical regulatory bottleneck for housing and infrastructure investment, the broader industrial regulatory landscape also exhibits significant weaknesses that constrain growth.[72] Outdated or overly restrictive regulation can entrench market power, dampen rivalry and limit productivity across key sectors of the economy. Evidence suggests that competitive pressures have weakened in the UK over time, with rising markups and declining business dynamism indicative of reduced rivalry.[73] Competition intensity is low in several industry clusters – including some of the Government's own strategic priority sectors – indicating that regulation is too often failing to foster a dynamic, competitive environment. Addressing these regulatory frictions is an important lever for the Government to pull in order to deliver supply-side reform and higher investment and ultimately drive sustained productivity improvements.

The Government's regulatory reform agenda has focused on reducing administrative and regulatory burdens, while explicitly challenging excessive risk aversion in regulatory systems. It has committed to an extremely ambitious target of cutting administrative costs for business by 25 per cent by the end of the Parliament, as well as targeting the areas where businesses report finding regulations most complex, specifically environmental and planning regulation.[74] This dual approach of simplification alongside a stronger tolerance for managed risk, represents a welcome shift towards a more growth-oriented regulatory stance.

Recent reviews of the water and nuclear sectors by Jon Cunliffe and John Fingleton, respectively, highlight a common constraint on investment and productivity growth: fragmented regulatory responsibilities.[75] Where oversight is split across multiple

71 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
72 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.
73 Competition and Markets Authority, The State of UK Competition, October 2024.
74 HMT, New approach to ensure regulators and regulation support growth, October 2025.
75 Independent Water Commission, Independent Water Commission: review of the water sector, June 2025; Nuclear Regulatory Taskforce, Nuclear Regulatory Review 2025, December 2025.

regulators, decision-making can become narrowly focused and lead to insufficient weight being given to the wider economic and social benefits of innovations, particularly where these fall outside a regulator's area of expertise. This creates a risk that valuable technologies are under-adopted. Drones, for example, can significantly reduce delivery times and could be used to improve patient outcomes in the NHS while boosting productivity. They can also replace high-risk manual inspections of tall buildings, addressing one of the leading causes of workplace fatalities. Yet such benefits may be largely invisible within regulatory assessments focused solely on, say, the management of domestic airspace.

A welcome innovation in this space is the creation of the Regulatory Innovation Office, intended to address these coordination failures by helping regulators take a more system-wide view of innovation and its benefits. Given that this is chaired by our very own President of the Resolution Foundation, Lord Willetts, we wish it every success but will leave others to judge its progress.

Planning regulations have long been identified as one of the most binding constraints on growth.[76] And yet despite decades of evidence highlighting the costs and delays imposed by the UK's flawed planning system on both housing and infrastructure delivery, successive governments have struggled to implement reforms at the scale required.[77] In response, the Government has promised to deliver an ambitious reform agenda aimed at unlocking higher levels of development and supporting plans to achieve clean power by 2030, make 150 decisions on major infrastructure, and build 1.5 million homes.[78] This has included legislative action through the Planning and Infrastructure Act, alongside two major revisions to the National Planning Policy Framework (NPPF), representing one of the most significant shifts in planning policy in recent years.

The first revision to planning regulation, shortly upon entering office, restored mandatory housing targets for local authorities (effectively removed in 2022 under the previous Government), defined 'grey belt' land for release, and strengthened presumptions in favour of development. The second set of revisions, published in December, goes further by proposing more automatic approvals for higher-density development around transport hubs, introduces elements of the 'brownfield passport' scheme, and places limits upon the scope for variation of housebuilding and environmental standards across local plans. These proposals, which aim to tackle longstanding barriers to urban densification, are currently subject to consultation. If not watered down, the new NPPF is likely to

76 See, for example: D Lawrence et al., Results from the UK Growth Survey 2025, Centre for British Progress, October 2025; C Aref-Adib, J Marshall & C Paciti, Building blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024.
77 Barker Review of Land Use Planning, Barker Review of Land Use Planning: final report recommendations, December 2006; OECD, Brick by Brick: Building Better Housing Policies, May 2021; P Cheshire, Broken market or broken policy? The unintended consequences of restrictive planning, National Institute Economic Review 245, August 2018.
78 Prime Minister's Office, Plan for change: Kickstarting Economic Growth, December 2024.

have a significantly positive effect for housing delivery.[79] In addition, by encouraging densification in urban areas and around well-connected train stations, the new NPPF aims to direct housing delivery towards more productive areas, where the potential agglomeration benefits, and therefore growth payoff, are greatest.[80]

These changes have been complemented by legislative action through the Planning and Infrastructure Act, which has reformed planning committees and environmental delivery plans (for example, establishing a Nature Restoration Fund), and introduces Spatial Development Strategies, which could help to better align housing growth with infrastructure delivery. In addition, the Government has provided targeted funding to expand local authority planning capacity through the recruitment of new planning officers – 300 this year and 1,400 over the course of this Parliament.[81]

While the reforms attempt to reduce the degree of discretion exercised by local authorities within the planning system, they fall short of a much more radical system shift towards a rules-based or zonal planning system, advocated by many.[82] Such systems, which are common in other advanced economies, place greater weight on clear, automatic permissions rather than case-by-case decision making. Proponents point to the experience of Auckland and other cities in New Zealand, where a city-wide 'upzoning' approach has been associated with a sustained increase in housing supply over the past decade.[83] This evidence suggests that more fundamental reform could deliver larger and more durable gains than those currently envisaged.

Nonetheless, the reforms undertaken have the potential to deliver a significant boost to growth and are likely among the most significant and pro-growth policies pursued since the Government assumed office. Housebuilding contributes to growth through multiple channels, including the value of housing services to their occupants through actual or imputed rents, by facilitating the movement of workers to more productive jobs, and through agglomeration.[84] In the OBR's March 2025 assessment of the 2024 NPPF, it estimated that planning reforms could increase GDP by 0.2 per cent by 2029-30 and this impact could more than double by 2034-35.[85] This was primarily attributed to the stronger requirement for local authorities to release land and grant approvals for more development. Importantly, these estimates pre-date the even bolder action proposed in

79 R Clements & M Spry, Tipping the scales? Can the revised presumption in a festive NPPF help unlock growth?, Lichfields, December 2025.
80 On developing near well-connected train stations, for example, see: E Clarke, D Bowers & M Spry, All aboard or stuck between stations? How the new NPPF might unlock growth around rail stations, Lichfields, December 2025.
81 HM Government, Housing Sec pledges to 'go further than ever before' to hit 1.5 million homes, December 2025.
82 See, for example: A Breach & P Swinney, Climbing the Summit: Big cities in the UK and the G7, Centre for Cities, June 2024; J Airey & C Doughty, Rethinking the Planning System for the 21st Century, Policy Exchange, January 2020; P Brandily et al., Beyond Boosterism : Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.
83 A Breach, New Zealand shows how planning reform will end Britain's housing crisis, Centre for Cities, May 2023.
84 E Fry & G Thwaites, The Growth Mindset: Sizing up the Government's growth agenda, Resolution Foundation, September 2024, https://doi.org/10.63492/xbgr77.
85 OBR, Economic and fiscal outlook, March 2025.

the most recent draft NPPF.

It is, however, important to recognise the unfavourable conditions facing housebuilding. Higher interest rates are dampening demand and raising financing costs, and with reforms taking time to be delivered and feed through, meeting the Government's ambitious target of building 1.5 million homes in England over this Parliament looks challenging. The OBR's November 2025 forecast suggests total net additions of around 1.49 million homes, across the whole UK, over the Parliament – implying a shortfall of roughly 240,000 (16 per cent) against the Government's 1.5 million manifesto target, which applies to England alone.[86] TThis is underscored by particularly weak performance in London, where housing residential starts in Q2 20252024-25 were just 11 44 per cent of their recent quarterly peak in Q2 20222022-23.[87] These concerns are reinforced by investment expectations in the construction sector, which remain weaker than the economy-wide average, with firms expecting a cut in investment of around 4 per cent (see Figure 16), suggesting it is not a sector preparing to scale up activity. While many of the most recent planning reforms will not be reflected in such statistics, and are positive if delivered in full, further action will be needed to address persistent barriers to building, particularly in areas showing little sign of recovery (discussed further in Section 5).

From the perspective of growth, however, the more relevant test is whether reforms can deliver a higher, sustained equilibrium for housebuilding. Despite falling short of the manifesto target for England and official housing targets, there are grounds for cautious optimism on this measure: the OBR projects that net additions across the UK could approach 300,000 homes per year by 2029-30, which would represent a nearly 40 per cent increase on the average outturn between 1990-91 and 2022-23 if achieved.[88]

Further reforms, enabled by the Planning and Infrastructure Act, will target the planning process for infrastructure, including changes to consultation requirements, environmental assessments, judicial review, national policy statements and compulsory purchase orders. Alongside this, the Government has advanced an infrastructure strategy aimed at improving clarity over public sector investment priorities and accelerating delivery. This has included steps to unlock onshore wind and nationally significant infrastructure projects, alongside reforms empowering Ofgem to address bottlenecks in energy and grid infrastructure.

Delivering further gains will depend on better coordination across decision makers

86 Note that the OBR has not yet analysed the effects of the draft NPPF published in December. Net additions in England averaged 84 per cent of the UK total between 2000-01 and 2022-23. Source: OBR, Economic and Fiscal Outlook, November 2025; RF analysis of MHCLG, Live Table 118 Annual net additional dwellings and components, England and the regions, November 2025.
87 Greater London Authority, Residential starts dashboard, accessed 27 January 2026
88 Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2025 and November 2025. Note that this measure represents a shortfall against both the target of 1.5 million homes in England on account of its different geography as well as the 370,000 homes under the New Standard Method.

and addressing persistent capacity, recruitment and retention challenges within the Planning Inspectorate.[89] More fundamentally, there remains a mismatch between where the costs and benefits of infrastructure development are realised and where planning decisions are made. Commercial development shapes employment, productivity and commuting patterns across entire labour markets, but planning authority is exercised at the level of individual local authorities, each responding to local pressures and incentives. This fragmentation can lead to under-provision of development that would deliver net economic benefits across a wider area, such as a travel to work area spanning multiple local authorities. And the Government could go further by aligning planning with functional economic areas – through combined authorities and elected mayors, as in London – would better match costs and benefits and support more coherent planning for growth.[90]

The Government has articulated a sensible focus for skills and employment reforms, but policy still has far to go

The Government has articulated the need for a more targeted approach to strengthening work incentives and improving skills provision, but this should not be mistaken for having solved the UK's long-standing skills problems. The Skills White Paper rightly prioritised young people not in education, employment or training (NEETs), as well as the 'missing middle' of intermediate skills. This is key to unlocking growth in the Government's priority sectors, which face a pronounced shortage of upper-intermediate (sub-degree) skills, with the current share of workers at this level around a third of what occupational requirements suggest.[91] However, the scale of the challenge remains substantial, and recent moves to commission further reviews underscore that policy direction has not yet translated into effective delivery.[92]

Nevertheless, the announcement of a Youth Guarantee Scheme and reforms to the Growth and Skills Levy represent steps in the right direction. But they should be bolder by widening the Youth Guarantee to 22-24-year-olds and ringfencing part – in past work we suggested two-thirds – of the Growth and Skills Levy for training for young people.[93] While apprenticeships are often thought of as stepping stones for young people into work, an increasing share of Growth and Skills Levy-funded spending now goes towards older, existing employees – often with relatively high skill levels. This reflects rational employer behaviour when faced with a choice between investing in new, untested

89 Institute of Civil Engineering, ICE presidential roundtable: is the Planning and Infrastructure Bill enough, or just the start?, October 2025.
90 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.
91 R Costa at al., Learning to grow: How to situate a skills strategy in an economic strategy, Resolution Foundation, October 2023.
92 DWP, Alan Milburn calls for a 'movement' to address lost generation of young people not earning or learning as investigation opens, December 2025.
93 This research also suggested removing degree apprenticeships from levy funding and instead using the student loan and grant system to fund these, to save more funds for young people with low skills. Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

workers or upskilling trusted staff, but a clear policy failure if the objective is to help more (young) people to upskill and enter work.

More policy changes should be delivered to support 16-17-year-olds, for example improving enforcement of mandatory participation in education, to reduce the number of young people becoming NEET in the future.[94] Finally, some policies announced by this Government may be making it harder to achieve the stated aim of improving youth employment, such as plans to rapidly abolish so-called 'discriminatory' youth minimum wage rates, which in the current economic environment, where the labour market is loosening, risk making it even harder for young people to find employment.

Employment rights reforms have generally been well calibrated, improving worker protections without substantially disincentivising hiring and, therefore, harming growth.[95] However, progress on health- and disability-related worklessness has been more mixed: the Government has signalled an intention to tackle inactivity through benefit reform, but, to date, this has focused more on cuts than on systemic reform (where the priority is to improve work incentives), and last year's cuts culminated in significant policy reversals. It is promising to see a more considered approach seems to be being taking hold now in the form of the Timms Review.[96]

The task for the remainder of the Parliament is to translate this sensible focus and welcome first steps into tangible outcomes, while avoiding the policy and delivery pitfalls that risk blunting its impact. For example, while tackling shortages in intermediate higher-technical qualifications is necessary, there is a risk that policy discourages degree-level study instead of expanding progression from advanced school and college routes. This also highlights the importance of building on the UK's strengths in higher education and its high graduate share, both of which underpin productivity growth.[97] Yet sustained underinvestment has begun to erode these advantages: a roughly 25 per cent real-terms cut in per-student resources over the past seven years has resulted in outdated equipment, crowded teaching, and stronger incentives to recruit internationally rather than domestically.[98] Against this backdrop, indexing tuition fees is a welcome first step, though likely only a starting point in resolving university funding.[99]

However, taken together, these measures are very unlikely to deliver the scale of improvement needed to reach an 80 per cent employment rate, which would require encouraging around 5 per cent of the working-age population into employment. In reality,

94 J Diniz & L Murphy, False starts: What the UK's growing NEETs problem really looks like, and how to fix it, Resolution Foundation, October 2025.
95 N Cominetti, Unfair dismissal – Day One Frights: The Government should keep but reduce 'qualifying periods' for unfair dismissal protection, Resolution Foundation, October 2025.
96 DWP, The Timms Review, October 2025.
97 A Valero & J Van Reenen, The economic impact of universities: evidence from across the globe, January 2019, https://doi.org/10.1016/j.econedurev.2018.09.001.
98 D Willetts, Are universities worth it? A review of the evidence and policy options, January 2025, https://doi.org/10.63492/MHMX56.
99 Department for Education, DWP and Department for Science, Innovation & Technology, Post-16 education and skills white paper, November 2025.

employment has instead been falling throughout this Parliament.[100] The scale of ambition needed to reach such a target is discussed further in Section 6.

The Government should double down on its growth agenda rather than changing tack

The Government was elected on a promise to deliver faster economic growth, and it has pursued that objective through a reform agenda that is generally well-targeted. Its focus on structural, supply-side policies aimed at unlocking long-standing growth bottlenecks and playing to the UK's strengths in services and high-value activities is the right approach. And a substantial amount of important and, in places, politically difficult policy has already been enacted.

Yet the central question remains: if so much has been done, why is the evidence that it is having an impact so weak?

Part of the answer here is that it will take time – years in many cases – for the policies discussed above to have their full impact. Nonetheless, doing nothing would be a mistake given that that there are a number of areas in which the Government could go much further. One clear example is fiscal devolution. While the Government has taken steps in the right direction – including partially rebalancing funding away from the South East, reforming the Green Book and launching a Fair Funding Review - these fall short of substantive reform.[101] A more ambitious approach would explore giving local areas greater control over tax policy, linked to economic performance potentially through a 'triple deal' negotiated with the mayors of Greater Manchester, the West Midlands and London.[102] Ultimately, a successful regional growth strategy will require deeper devolution combined with public investment at sufficient scale, targeted at the places with the greatest potential to drive productivity growth.[103]

More broadly, while directionally right, the reform agenda has been too slow to emerge and remains too cautious given the scale of the UK's growth challenge. The Government's stated ambitions – from building 1.5 million new homes and raising employment to 80 per cent, to becoming the fastest-growing economy in the G7 – require going significantly further and faster across many of the areas discussed above.

And for these reasons it is no surprise that outcomes on investment, uncertainty and activity suggest the UK is yet to shift onto a materially stronger trajectory. This reflects

100 This is based on admin-based employment data and presents a different employment trend to official ONS, Labour Force Survey data, which has been plagued by data issues. For full explanation Please see: G Thwaites, N Cominetti & H Slaughter, Labour Market Outlook Q3 2025, Resolution Foundation, August 2025, https://doi.org/10.63492/wvk136
101 HMT, Green Book Review 2025: Findings and actions, June 2025.
102 A Breach, S Bridgett & O Vera, In place of centralisation: A devolution deal for London, Greater Manchester, and the West Midlands, Resolution Foundation, November 2023.
103 P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, June 2022.

two core factors. First, in some areas policy ambition has been limited, and some of the most powerful levers – such as tax reform and the UK's relationship with the EU – remain underused. Second, and more fundamentally, the UK's growth problems are deep-rooted and structural. There is no simple 'growth button' to press: economies are more like gardens than clocks, requiring sustained nurturing rather than one-off fixes.

TABLE 1: **Summary of growth reforms and early indicators of progress**

	Primary policy focus	Missed or counter-productive policy	Leading indicators (since start of parliament)
Restoring stability	• Updated fiscal framework • Spending review and infrastructure 10-year plan	• Stability vs. manifesto commitments • U-turns	→ 10-year yield spreads ↑ Policy uncertainty index ↑ Business uncertainty index
Increasing investment	• Higher public investment • Industrial and trade strategy • Pension reform	• Defence • EU trade strategy	↑ Public investment ↓ Public R&D / transport investment (% of GDP) ↓ Business investment growth expectations
Reforming the economy	• Regulatory reform with particular focus on planning • Skills and employment	• Tax reforms	↓ Construction investment ↓ Planning approvals → NEETs

SOURCE: RF analysis.

While the UK's growth problems are deep-rooted, they are not insurmountable. Policy has made meaningful progress, but it has often been too timid and slow relative to the scale of the challenge, while adverse external shocks have compounded the task. With greater political determination and a more favourable external environment, the UK can still be set on a higher growth path. The next three sections therefore focus on where policy now needs to be bigger, bolder and more targeted to deliver that shift.

Section 4

How can the Government go further on trade policy to boost growth

In the previous section we concluded that the scale of the growth challenge means the Government will need to double down on its growth strategy. A key area in which policy has failed to match ambitious growth targets is on trade. Here, despite signs that the global trading system is becoming more fragmented, trade policy remains a powerful lever for generating faster productivity growth. It is, however, also an area in which the Government has so far ducked the harder political trade-offs. Although public attitudes appear to have shifted markedly against Brexit, this has not been decisive enough to empower the Government to change course on the EU this Parliament.

This sits uneasily with the Government's growth agenda: Brexit was initially expected to reduce UK GDP by at least 4 per cent in the long run, but emerging evidence suggests the losses may already be around double this. Meanwhile the global trading environment is almost unrecognisable from that which prevailed when the UK voted to leave the EU. And while UK trade policy has helped to navigate this uncertainty through new agreements with partners such as the US and India, and by mitigating some of the most damaging new barriers with the EU. But these efforts fall well short of the potential gains from closer EU integration, in the form of a single market for goods, which would deliver almost twice the reduction in trade barriers achieved by current deals, while full re-entry would reduce barriers by nearly seven-times as much. The scale of the gains, along with the polarisation of the global trading system in recent years, mean that the arguments for moving in this direction are strong.

But if entering into a closer formal relationship with the EU remains off the table, at least for this Parliament, growth-oriented trade policy must focus on alternative levers. In this context, the Government has rightfully put more ambitious services liberalisation at the heart of its trade strategy. But on the goods side the Government should go further than its proposed 'reset' with the EU and also consider a

reassessment of the UK's relatively high most favoured nation (MFN) tariffs, alongside greater use of trade defence instruments where needed to manage risks from global trade disruption. Alongside this, regulatory autonomy should be used selectively to regulate faster rather than diverge indiscriminately: maintaining alignment in highly traded, EU-dependent sectors such as pharmaceuticals and chemicals, while exploiting agility in digitally-delivered and innovation-intensive sectors like fintech and biotech. Overall, meaningful growth gains may be achievable with a pragmatic mix of openness, targeted protection, and smarter, faster regulation.

Trade policy is a well-established lever for raising productivity, supporting real incomes and strengthening long-run growth.[104] For the UK, its role in shaping economic performance has come into sharper focus since leaving the EU. As discussed in Section 3, the Government's trade strategy has rightly sought to consider what trade policy tools should now be prioritised, given the UK has largely exhausted the pool of plausible new free trade agreement partners. However, consistent with the Government's stated red lines, the strategy adopts a relatively low-ambition approach to improving trade with the EU, despite the well-publicised, material implications this has for growth. This section, therefore, explores whether the economic case for EU-centred trade policy has changed, and where the UK might instead look for growth-promoting trade policy if deep EU integration remains politically off the table.

The context for trade policy has changed considerably since 2016

Public support for Brexit has fallen, but no clear consensus to rejoin the EU has emerged

Public attitudes towards EU membership have shifted materially in recent years. A clear but small majority (56 per cent) now believe it was wrong to leave the EU and the same share express support for rejoining in principle.[105] However, this support is shallow and conditional: nearly two-thirds (65 per cent) back the current policy of closer cooperation without rejoining the Single Market or Customs Union. And only 45 per cent believe there should be another referendum in the next five years. So while the political context has clearly changed, this is not dramatic enough to create a clear political incentive for the current Government to change tack on the EU.

At the same time, Eurosceptic positions retain electoral salience: Reform UK is leading

104 For example, see: M Melitz, The impact of trade on intra-industry reallocations and aggregate industry productivity, Econometrica, vol. 71, pages 1695-1725, 2003; M Melitz & G Ottaviano, Market size, trade, and productivity, Review of Economic Studies, vol. 75, pages 295-316, 2008.
105 M Smith, Nine years after the EU referendum, where does public opinion stand on Brexit?, Yougov, June 2025.

in the polls, campaigning for looser ties with the EU, including proposals that would strain the Trade and Cooperation Agreement, such as ending indefinite leave to remain and abandoning UK fishing quotas.[106] Taken together, this points to a political equilibrium in which dissatisfaction with Brexit coexists with limited appetite for the institutional steps required to reverse it.

Failing to pursue closer integration with the EU is in tension with the Government's growth ambitions

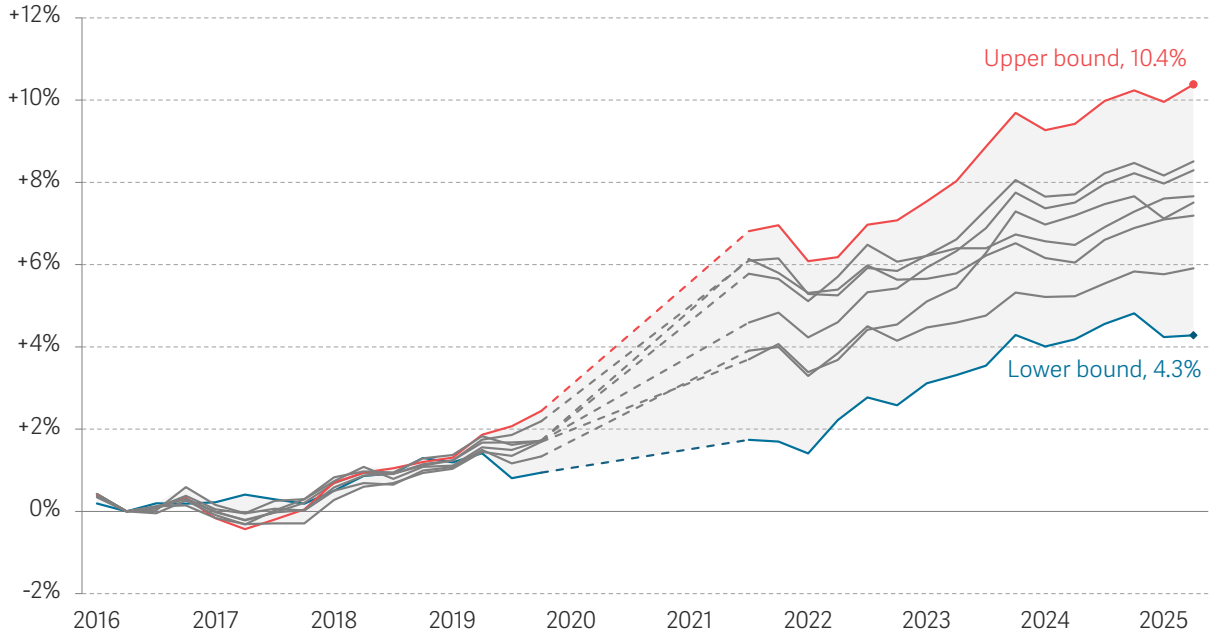
For a Government that has placed 'kickstarting economic growth' at the heart of its agenda, a strategy that largely sidesteps the potential upside from substantially easing EU trade barriers sits uneasily with that objective. Brexit was expected to reduce the size of the economy by around 4 per cent in the long run.[107] This is around 20-times the size of the impact of the Government's planning reforms (which were themselves the policy with the largest positive impact on potential output over the last five fiscal events).[108]

Recent evidence suggests the impact may have even exceed these substantial costs, for example a recent study found that, by 2025, Brexit had reduced UK GDP per head by between 6 and 8 per cent – with no guarantee the full long-run adjustment to Brexit is yet complete.[109] Figure 17 shows a range of estimates of the impact of Brexit on GDP per person, using similar methods to the aforementioned study to compare the UK to other countries.[110] The estimates vary based on the economic variables (such as educational attainment and openness to trade) used to match the UK to the countries which make up its counterfactual path. The range reflects the challenges in accurately identifying a counterfactual – we cannot observe how the UK would have grown had it remained within the EU – but it suggests the impact on GDP per person may well sit above 4 per cent already.

106 Yougov, Latest YouGov Westminster voting intention figures, December 2025.
107 OBR, Economic and fiscal outlook – March 2020, March 2020.
108 OBR, Briefing paper No.10: Accounting for the supply-side effects of policy, November 2025.
109 This paper uses both a micro- and macro-based approach to estimate the impact of Brexit, giving the 6 to 8 per cent range. N Bloom et al., The Economic Impact of Brexit, NBER Working Paper No. 34459, November 2025, https://doi.org/10.3386/w34459.
110 Synthetic control modelling is a method used to estimate the impact of a policy change by comparing the affected country to a constructed counterfactual. Instead of relying on a single comparator or the average of a group (for example the G7), it creates a "synthetic" version of the country by weighting together similar countries so that their pre-policy trends closely match the country of interest. The post-policy divergence between the actual outcome and this synthetic control is then interpreted as the effect of the policy change.

FIGURE 17: **The Brexit impact on GDP per person may be bigger than feared**

Estimated fall in GDP per person resulting from Brexit (based on different specifications in a synthetic control model): UK, Q1-2016 to Q2-2025



NOTES: Chart shows GDP deviation as a share of actual UK GDP. Shock period is Q2-2016. Model 1 (lower bound) includes GDP per head, employment, population and output per hour worked. Model 2 (upper bound) includes educational attainment, openness and GDP per head. The remaining specifications, shown in grey, are variations of model 2 using different combinations of the following covariates: GDP per head, openness, educational attainment, and industry share in value-added. Covid-19 disruption in the period between Q4 2019 and Q3 2021 is smoothed in the chart and shown with a dashed line.
SOURCE: RF analysis of data from J Springford, What can we know about the cost of Brexit so far?, June 2022 and OECD data on GDP per capita, employment, population and output per hour worked.

The economic case for closer EU integration is even stronger in a more polarised global trading environment

Given the much more hostile global trade environment that has emerged in the past 10 years, it is perhaps unsurprising that public support has shifted and the economic consequences of Brexit appear to be larger than we anticipated.[111] Few expected the degree of global trade policy uncertainty and trade fragmentation that has emerged since the referendum. The return of large-scale US tariffs, the increased use of aggressive industrial policy and the paralysis of the World Trade Organization's (WTO) dispute settlement system has fractured the rules-based trading system.[112]

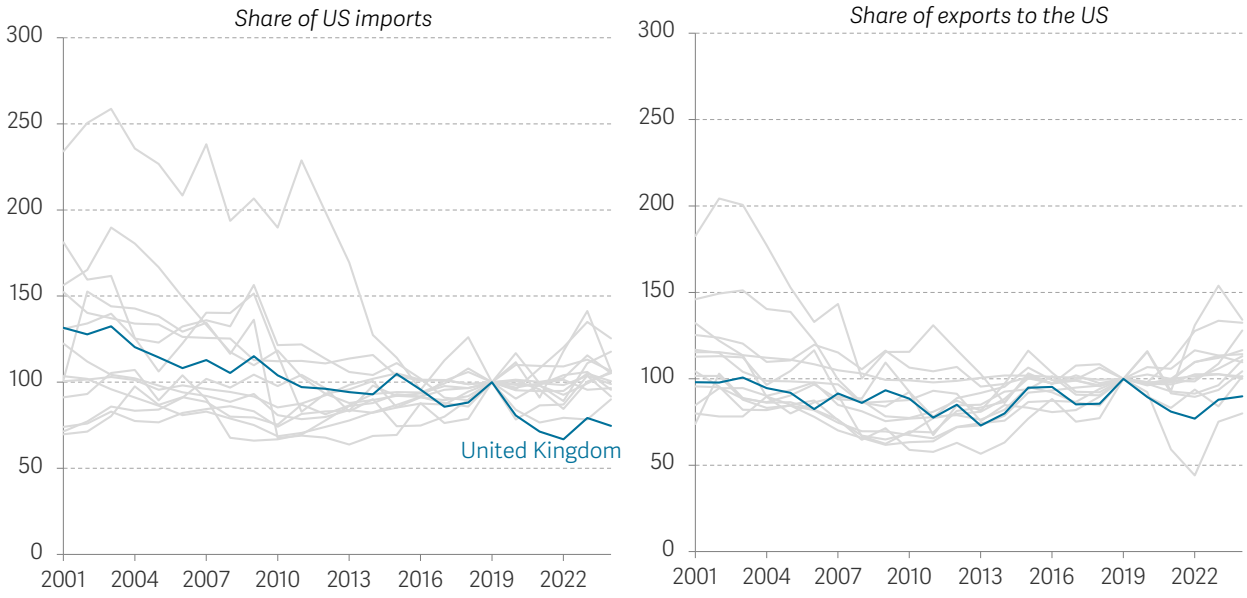
Against this geopolitical backdrop, earlier hopes of reorienting UK exporters post-Brexit towards non-EU partners – particularly the US through a new free trade agreement – now look wildly optimistic. Figure 18 shows the UK has, in practice, become less, rather than more, exposed to US trade. The UK experienced a sharp fall in its share of total US goods imports, which fell by 25 per cent (from 2.9 per cent in 2019 to 2.1 per cent in

111 IMF, Global Economy: Tenuous Resilience amid Persistent Uncertainty, July 2025.
112 S Baquie et al., Industrial Policies: Handle with care, IMF, March 2025; A Wolff, US tariff policy: At this time, the brakes don't work, Peterson Institute for International Economies, October 2025.

2024), as US businesses and consumers pivoted away from UK-made products. But this was not just about weak UK goods trade. The right panel of Figure 18 shows the share of exports destined for the US was higher in 2024 than in 2019 for most countries shown, while it fell for the UK. And this weakness is broad based, reflecting weaker performance in sectors such as chemicals, vehicles and machinery. This decline reflects domestic competitiveness challenges rather than shifts in US demand, limiting the growth upside from US-focused trade strategies.

FIGURE 18: **The UK has not reoriented towards the US post-Brexit**

Index of countries' share of US goods imports (left panel) and index of the share of countries' goods exports sent to the US (right panel) (2019 = 100)



NOTES: Shows Austria, Belgium, Canada, Germany, Denmark, Spain, Finland, France, Italy, the Netherlands, Norway, Portugal and Sweden,
SOURCE: RF analysis of UN Comtrade.

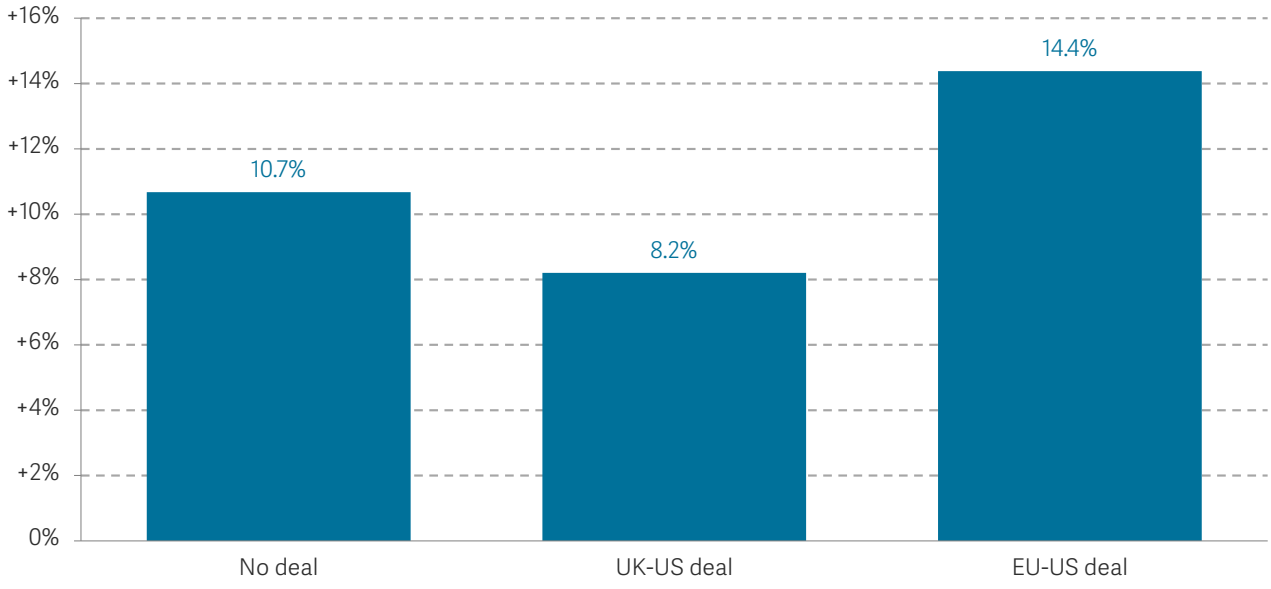
The failure to reorient the UK's trade landscape towards the US has, arguably, turned out to be fortuitous. Throughout this year the US has announced tariff measures affecting all countries and sectors to varying degrees. These reflect the aims of the Trump administration to reshore manufacturing activity and reduce the reliance of the US economy on imports. For the UK, this has meant substantial new trade barriers on exports to our second largest trading partner (after the EU): the weighted average tariff on UK exports to the US increased by 10.7 percentage points (see Figure 19).

It is important to note that the UK has got off relatively lightly compared to other countries. First, the UK runs a goods trade deficit with the US. This meant that, when President Trump's 'Liberation Day' tariffs were initially announced, the UK was only subject to the baseline tariff of 10 per cent. Had the UK remained in the EU, it is likely it

would have been subject to the higher 15 per cent rate EU exporters face today. Second, the UK was among the first countries to conclude a deal with the US, mitigating some of the tariffs applied. For example, the UK agreed a quota for car exports and has (so far) managed to avoid facing the 50 per cent tariff on steel and aluminium (paying 25 per cent instead). The UK-US deal removes 2.5 percentage points of the increase in weighted-average tariffs on exports to the US (reducing the increase to 8.2 percentage points from 10.7 percentage points). While the EU has also concluded a deal with the US, had the UK been subject to the tariffs now facing the EU post-deal, the increase in the weighted average tariffs on US exports would have been 6.2 percentage points higher (at 14.4 percentage points). It is important to emphasise that such trade agreements fall far short of full FTAs and, in the case of that with the UK, is yet to be fully concluded and is itself a source of significant uncertainty.

FIGURE 19: **The UK faces large new tariffs but has mitigated some of the impacts**

Weighted-average tariff increases on UK exports to the US from tariff announcements under no deal, UK-US deal and if subject to the US-EU deal: September 2025



NOTES: Weighted based on UK trade flows in 2024. This removes pre-existing MFN tariffs facing the UK, based on tariffs facing the UK on 1st January 2025. No deal assumes the UK would face the same tariff increase as Australia in September – a country with the same 10 per cent baseline tariff applied but no new deal post-2025 announcements.
SOURCE: RF analysis of The Global Tariff Database: U.S. Trade War Extension (v_2025-10) from Rodríguez-Clare et al. (2025), based on the methodology developed in Teti (2024) and UN Comtrade, trade data.

This is not the only area where the UK has secured differential market access for its exporters relative to those in the EU. Since leaving the EU, the UK has concluded notable trade deals with India, Australia and New Zealand and has joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

In discussions about the future direction for EU trade policy, it is often argued that closer alignment would require the UK to give up its independent trade policy and abandon these agreements. In practice, this concern is overstated. The EU has already concluded similar deals with Australia and New Zealand, while most current CPTPP members are either covered by existing EU agreements or account for a very small share of UK trade. As a result, the trade-offs are concentrated primarily on the UK's deal with India and its agreement with the US.

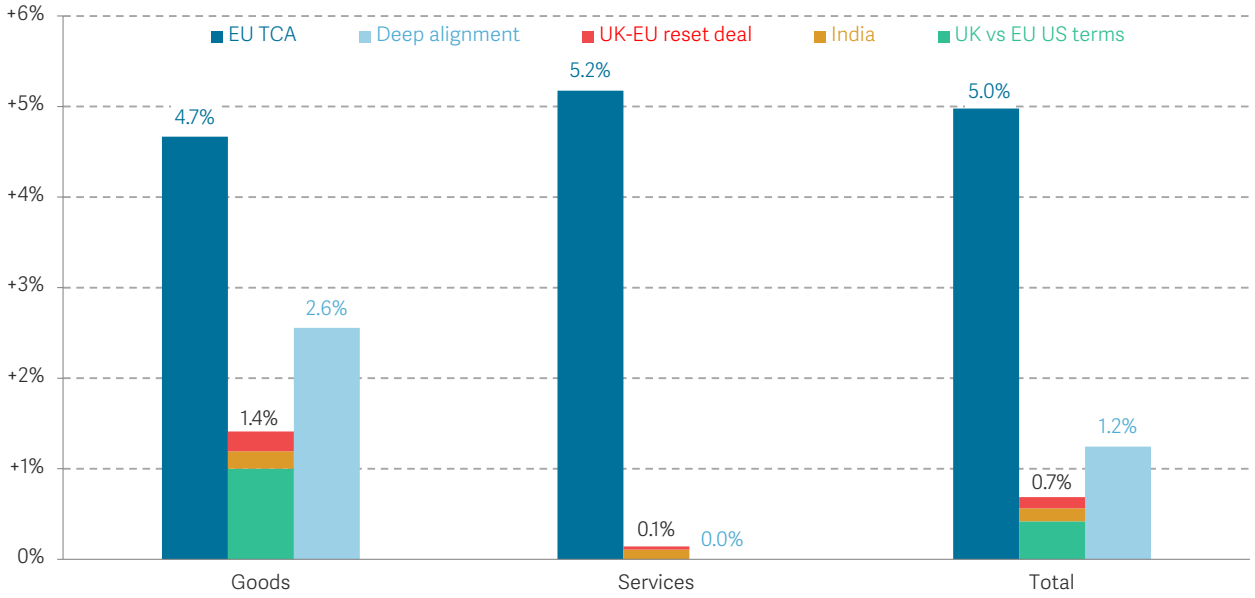
Figure 20 shows that the combined reduction in trade-weighted barriers from preferential access under the US and India deals – together with a potential EU-UK reset – amounts to around 0.7 percentage points.[113] This gain could be more than offset by deeper goods alignment with the EU. Indeed, proposals set out in our previous work – negotiating a single market style arrangement for goods for the whole UK, equivalent to that which operates between the EU and Northern Ireland - would reduce barriers by 1.2 percentage points, almost twice the size of the India, US and EU-UK reset deals combined.[114] The potential benefits from full EU re-entry are larger still, lowering trade barriers by 5.0 percentage points (more than seven-times the combined impact of these other deals).

While true at the aggregate level, there may be individual sectors or products for which improved access through the deals with India and the US more than offset the loss of market access to the EU. This is most likely for products where a high share of exports are destined for the US, the UK has negotiated larger tariff preferences with the US vis-a-vis the EU, or post-Brexit barriers to EU trade have been less damaging. This could be true for certain steel or automotive products, where the UK has secured a relatively larger tariff margin over the EU and the US is an important partner (for example the US accounts for more than a quarter of UK car exports).[115] But this is typical of trade liberalising policy, where such arrangements typically create both winners and losers, and – provided there is a net gain overall – the benefits should, in principle, be able to be redistributed.

113 The impact of the EU-UK reset is also included, despite not yet being secured. If successfully delivered it could mitigate around 0.1 percentage points of the 5.0 percentage points increase to trade barriers from leaving the EU. Source: RF analysis of J Springford, Is the UK-EU reset worth pursuing?, CER, December 2024.
114 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.
115 ONS, UK trade with the United States: 2024, April 2025.

FIGURE 20: **Losing access to the deals delivered and promised post-Brexit is not a valid argument against changing EU trade policy**

Weighted average trade barrier increase on exports from Brexit and post-Brexit trade deals: UK, 2024



NOTES: Takes the barrier reduction for the EU TCA and deep alignment scenario from past Resolution Foundation research, for the India FTA from the published impact assessment, for the EU-UK reset from published research by CER, and for the US deals from analysis of US tariffs and these are weighted by the partner trade share for goods, services and total trade.
SOURCE: RF analysis of Department for Business and Trade, UK-India Free Trade Agreement: impact assessment, July 2025; The Global Tariff Database: U.S. Trade War Extension (v_2025-10) from Rodríguez-Clare et al. (2025), based on the methodology developed in Teti (2024); S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023; S Dhingra et al., The Big Brexit: An assessment of the scale of change to come from Brexit, The Resolution Foundation, June 2022; J Springford, The gap between the 'Brexit reset' rhetoric and the reality , CER, December 2024 (including analysis of OBR, OECD, Eurostat, UN, Higher Education Statistics Authority, HEPI/London Economics data); UN Comtrade, trade data and ONS, Quarterly trade by partner.

The EU remains the UK's largest trading partner, and deep integration reduces non-tariff barriers that matter far more for modern trade than tariffs alone. These include regulatory divergence, customs frictions, restrictions on data flows and limits on labour mobility – costs that are not meaningfully offset by trade deals with more distant partners. While the Government has reaffirmed manifesto commitments that rule out deeper EU integration – specifically negotiating a customs union or rejoining the single market – during this Parliament, this stance leaves a substantial source of potential growth untapped. At the same time, even with renewed political will on the UK side, securing deeper access to – or re-entry into – the EU Single Market, and the growth potential associated, would neither be quick nor guaranteed.[116]

116 J Reland, New year, same old Brexit trade-offs, UK in a Changing Europe, January 2026.

Looking beyond deeper integration with the EU

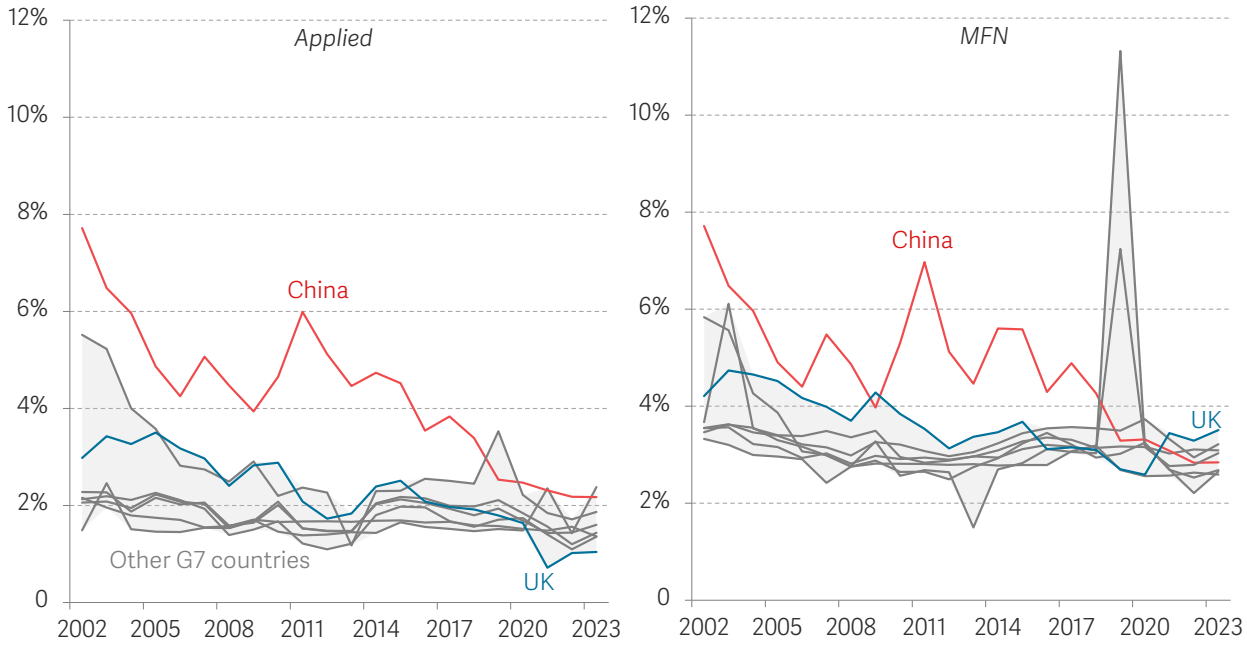
So, despite compelling growth benefits, deeper economic integration with the EU is likely to remain off the table this Parliament. That does not, however, mean that the Government should be passive in its trade policy; it should instead seek alternatives. To its credit, the Government's Trade Strategy, discussed in Section 3, set out some fruitful areas for cooperation, such as the efforts to liberalise services trade through sector-specific mutual-recognition agreements. Yet being bolder on trade policy may mean looking at all the tools available, including unilateral liberalisation and the UK's broader regulatory approach.

The UK combines relatively high most-favoured-nation (MFN) tariffs with generous preferential access

At present, as discussed in Section 3, it remains unclear what balance policy is seeking to strike between protecting domestic industries from foreign competition and lowering prices for firms and consumers through cheaper imports. Relative to international comparators, the UK combines relatively high most-favoured-nation (MFN) tariffs – the default tariff regime that is applied in the absence of specific FTAs – with generous preferential access through FTAs and unilateral preference schemes. Figure 21 shows this pattern: while the UK's MFN tariffs are high relative to the G7, and even China, preferential market access leaves the UK with the lowest applied tariffs.

FIGURE 21: **Relatively high MFN tariffs are combined with generous preferential access**

Weighted average applied (left panel) and MFN (right panel) tariffs by country: G7 and China, 2002-2023



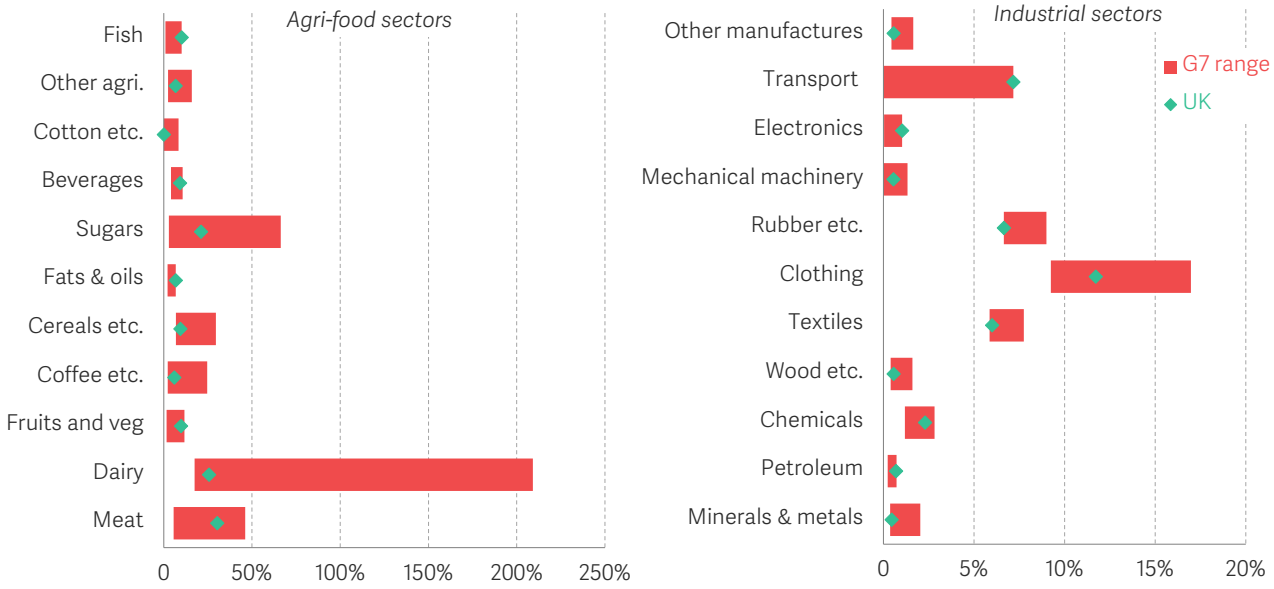
NOTES: Applied (AHS) and MFN weighted average from World.
SOURCE: RF analysis of World Bank, World Integrated Trade Solution.

This hasn't always been the case: for example in 2003, Canada, China and Japan all had higher weighted average MFN tariffs, while the UK's applied rates were relatively high, above all but Japan and China. Since Brexit, the UK's MFN tariff regime has become slightly less liberal. The trade-weighted MFN tariff at 3.5 per cent in 2023 is higher than its 2.7 per cent level immediately before Brexit and the Covid-19 pandemic (in 2019) and is higher than it has been in any year since 2015. And importantly, this model relies heavily on preferences rather than unilateral, across-the-board openness.

As Figure 22 shows, the UK applies the highest MFN tariffs in the G7 in several sectors, including large, high-value manufacturing industries such as transport equipment and electrical machinery and electronic equipment, as well as relatively high tariffs in chemicals and mechanical machinery. Trade-weighted tariffs on chemicals are also higher than in several comparator countries.

FIGURE 22: **The UK has the highest trade weighted tariffs in the G7 in several sectors**

Weighted average MFN tariffs: G7 range and UK, 2024



NOTES: Range includes the US, Japan, China, the EU and Canada. Uses 2024 values for all but the EU which uses 2023 (latest available).
SOURCE: RF analysis of World Bank data.

Another way to assess how liberal the UK's tariff regime is in practice is to look at the implied average tariff rate – measured as tariff revenues collected divided by the value of goods imports. On this measure, the UK's average tariff rate rose from around 0.7 per cent in 2019 to close to 0.9 per cent in 2022, reflecting post-Brexit changes in trade patterns and tariff application. But this measure reflects not only the preferences offered, but also the extent to which firms exporting to the UK actually take them up.

The effectiveness of tariff preferences depends on whether firms are able and willing to avoid paying the higher baseline (MFN) tariffs - for example, whether they can meet rules-of-origin requirements and whether doing so is worth the associated compliance costs. In 2023, preferences were used on around 90 per cent of EU trade and 83 per cent of non-EU trade. This means that around 5 per cent of UK imports paid tariffs despite being theoretically eligible for tariff-free access under the Trade and Cooperation Agreement. Preference utilisation for non-EU trade has also declined since Brexit, falling from around 95 per cent in 2019.[117] Lower utilisation weakens the effective value of the liberalisation undertaken using the UK's independent trade policy and blunts the gains from increased competition and lower prices.[118]

The risks to unilateral tariff liberalisation can be mitigated with trade defensive measures

Arguments for a more cautious approach to unilateral liberalisation typically rest on two considerations. The first is the risk of losing negotiating leverage in future trade talks; the second is that the current global environment increases the risk of disruptive import surges that could harm domestic industries.[119]

The first risk has fallen over time as the UK has successfully secured free trade agreements covering partners that account for more than 60 per cent of its trade.[120] And much of the remainder is accounted for by trade with the US and China, where prospects for comprehensive new agreements are, at best, constrained. As a result, the scope for further negotiations, and so the value of retaining tariff rates as a bargaining chip, is relatively modest.

On the second, the global trading environment has become markedly more volatile. While the UK experienced relatively limited trade redirection during earlier episodes of protectionism, the scale of the current shock is much larger.[121] Recent US tariff increases amount to around 15 percentage points, compared with around 2 percentage points in previous episodes, increasing the risk that diverted trade flows could place pressure on domestic producers.[122]

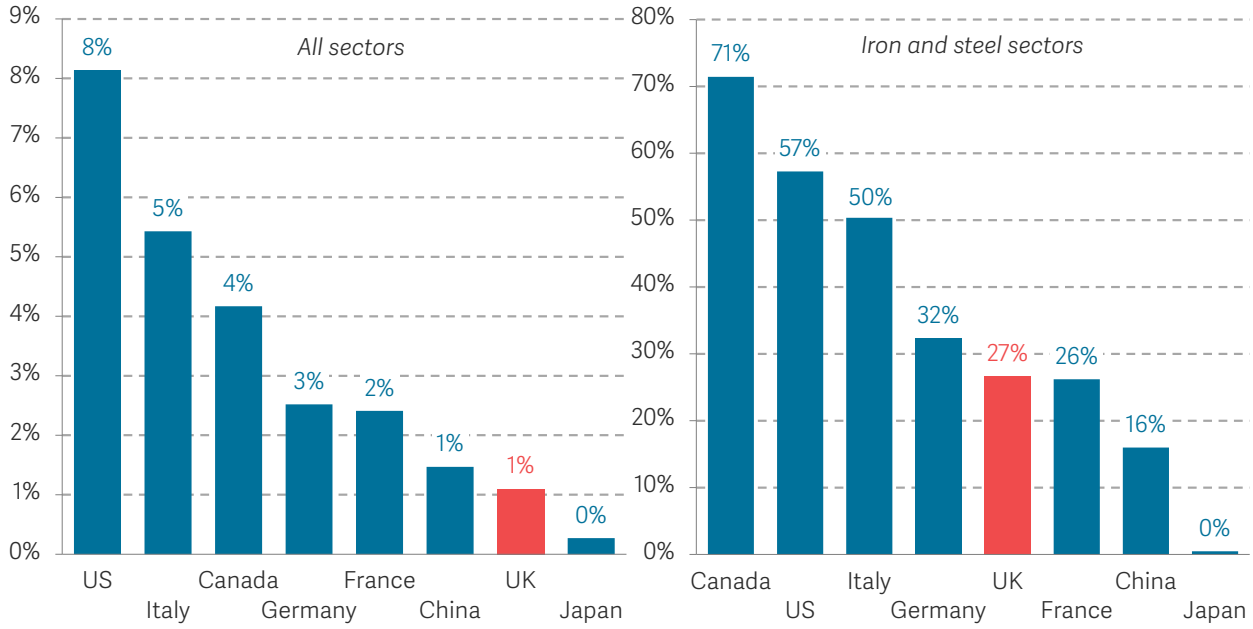
Yet the UK currently makes relatively limited use of trade-defence instruments. Only 1 per

117 One contributing factor is that some non-EU origin goods were previously routed through the EU, but in the absence of the EU customs union now face barriers at the UK border. Additionally, the treatment of EU content may have changed when preferential agreements were rolled over, reducing firms' ability to meet the rules of origin requirements and claim preferential rates.
118 Rules of origin also play another role in attempting to encourage trading partners to utilise UK content in their supply chains in order to benefit from the preferences. However, where tariff margins are small and firms are exporting to many countries (for example, for many large manufacturers), the influence of this channel is likely to be small.
119 Additionally, preferential agreements allow the Government to define rules of origin requirements, to prevent circumvention but also to promote the use of UK inputs in supply chains. The latter gain is arguably lost when MFN tariffs are lowered.
120 J Lyon et al., Trading places: Brexit and the path to longer-term improvements in living standards, Resolution Foundation, October 2021.
121 S Evernett & F Martin, Redirecting Chinese exports from the US: Evidence on trade deflection from the first US-China trade war, CEPR, April 2025.
122 RF analysis of C P Bown, US-China Trade War Tariffs: An Up-to-Date Chart, November 2025.

cent of UK trade is covered by contingent trade-protective measures, the second-lowest share in the G7 (see Figure 23). The UK is much more typical in its use on iron and steel products, where almost a quarter of trade is covered. But if this is stripped out just 0.4 per cent of trade is covered, significantly below the 2 per cent among EU neighbours (France, Italy and Germany) or the 7 per cent in the US. If concerns centre on dumping or sudden import surges arising from global disruption, there is scope to use these tools more actively to protect industry, alongside simplifying and liberalising the MFN tariff regime.

FIGURE 23: **The UK uses relatively little contingent trade-protective measures outside of the iron and steel sectors**

Share of trade covered by Contingent Trade-Protective Measures all trade (left panel) and iron and steel (right panel): G7 and China, 2025



NOTES: Iron and steel include all trade within HS2 codes 72 and 73.
SOURCE: RF analysis of Global Trade Alert data.

Unilateral tariff liberalisation would not directly reduce the costs facing UK exporters abroad. But it would lower costs for UK firms and consumers who currently pay higher prices either through tariffs or through the administrative burden of complying with rules of origin. Over the longer term, reviewing the MFN tariff regime could reduce costs, improve competition and raise efficiency in the sectors most affected, while targeted trade defence measures could be used to manage genuine risks of unfair trade.[123] Importantly, the sectors benefiting could include several of the Government's own priority sectors within its Industrial Strategy, such as advanced manufacturing sectors.

The scale of the gains, in growth terms, is likely to be relatively modest, particularly

123 F Erixon, The Economic Benefits of Globalization for Business and Consumers, European Centre for International Political Economy, February 2018.

relative to the much larger prize available from bolder action with the EU, however. Changes to the MFN schedule would only cut tariffs on trade currently ineligible or not using preferences, which is less than half of UK trade (although it might also reduce non-tariff costs for firms using preferences). Moreover, most of the direct gains would come from reducing tariffs on industrial goods, where the existing tariff margins are smaller. That said, given the scale of disruption caused by Brexit, the pandemic and changes in US trade policy, there is a strong case for reviewing the UK's tariff schedules to ensure they remain fit for purpose and aligned with the Governments current industrial strategy.

Regulating faster, not less

A central pro-Brexit argument was that: "Britain's messy Parliamentary democracy would be more effective in error-correcting than Brussels' bureaucracy, in the long run".[124] The regulatory burden within the EU is widely accepted as a drag on EU competitiveness and in principle greater autonomy should allow the UK to regulate in ways that better support innovation and competitiveness.[125]

Section 3 outlined the Government's efforts to reform the regulatory environment to both lower costs for businesses and support innovation. Aligning regulation more closely with Industrial Strategy objectives – such as backing innovation clusters, deepening domestic venture capital markets and raising investment in R&D – could strengthen the UK's ability to adapt to technological change. However, it is easy to overplay the role Brexit freedoms play in enabling this. The UK's experience since Brexit suggests that the binding constraint was not clearly EU over-regulation. Even under more market-liberal governments, the UK has continued to operate a comparatively risk-averse domestic regulatory regime, implying that domestic political pressures, rather than EU rules, have been the primary brake on regulatory liberalisation.

That said, there are opportunities for the UK to have a more favourable regulatory regime to new technologies than the EU. For example, the new Genetic Technology (Precision Breeding) Act 2023 permits gene-editing techniques that are not permitted in the EU, while stopping short of permitting full genetic modification. [126] Similarly, while the EU has adopted a relatively restrictive AI Act, the UK has so far avoided comprehensive AI legislation, retaining greater flexibility, notwithstanding some constraints introduced through the Online Safety Act.

More generally, EU law-making is slower, as it typically takes more time for 27 member states to reach agreement than one highly centralised nation state. New legislation

124 R Bourne, We Brexiteers must acknowledge the costs of leaving Europe, The Times, 26 November 2025.
125 M Draghi, The future of European competitiveness, European Commission, September 2024.
126 UK Parliament, Genetic Technology (Precision Breeding) Act 2023, March 2023.

takes around 19 months at EU level, while typically undertaken within a year in the UK.[127] And the UK should exploit the potential advantage of using its regulatory autonomy to regulate faster rather than less.

The strongest case for this approach lies in digitally delivered and innovation-intensive sectors, where regulatory divergence generates fewer direct trade frictions. These include fintech, biotech, agritech, cleantech, gaming and proptech. The EU is an important market for UK digital services, but it does not dominate as much as other sectors: around 36 per cent of UK digitally delivered services exports go to the EU, compared with around 30 per cent to the US.[128] Moreover, EU regulation of digital companies is fragmented by the gold-plating of EU regulation across member states, meaning there is no fully effective single market comparable to that in goods sectors, such as chemicals.[129] In this context, greater UK regulatory agility could support innovation, productivity and growth without materially undermining market access.

But this logic does not extend across the economy. There is a strong case for dynamic alignment for highly traded sectors such as pharmaceuticals, medical devices and chemicals, where a large share of exports go to the EU and regulatory alignment underpins scale and certainty. But maintaining alignment requires a sustained effort to track and implement EU regulatory changes, which has proved difficult to deliver in practice. UK Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) is a case in point, where further work is needed prevent passive divergence from the EU, with similar challenges arising in sanitary and phytosanitary (SPS) frameworks.[130] Absent clear strategic decisions, there is a risk of hitting key industrial sectors with passive divergence that imposes significant costs and uncertainty on business.[131]

Yet even in these areas pursuing dynamic alignment may constrain the freedom to adopt more permissive regimes in selected areas, for example alignment on food standards, agriculture and Sanitary and Phytosanitary (SPS) could jeopardise the new precision breeding regime. One response would be to seek opt-outs from alignment in specific domains, effectively reverting to a familiar British model of selective participation, but now negotiated from outside the EU and, therefore, from a weaker position.

Overall, the growth gains from regulatory autonomy are unlikely to come from wholesale divergence. They depend on a more selective approach: preserving alignment where it matters most for trade, while exploiting regulatory speed and

127 G Da Costa et al., European Union Moves Towards Mandatory Supply Chain Due Diligence: Start Gearing up For New Directive, The National Law Review, April 2021.
128 By comparison UK exports almost half its goods to the EU and only 16 per cent to the US in 2024. J López González, S Sorescu & C Del Giovane, Making the most out of digital trade in the United Kingdom, OECD, September 2024; ONS, UK trade with the United States: 2024, April 2025.
129 M Draghi, The future of European competitiveness, European Commission, September 2024.
130 Chemical Industries Association, UK REACH Briefing, July 2025.
131 S Hale, EU-turn: Resetting the UK-EU relationship through strategic dynamic alignment, Resolution Foundation, October 2024.

flexibility in areas where divergence carries lower costs.

Trade policy remains one of the most powerful, yet underused, levers available to the Government to raise productivity and long-run growth. While deeper EU alignment is likely to remain politically constrained in the near term, this does not justify policy stasis. A growth-oriented trade strategy should be clearer-eyed about the scale of the EU trade-off, more willing to liberalise unilaterally where risks can be managed, and more strategic in how regulatory autonomy is used – prioritising speed and innovation where divergence is low-cost, while preserving alignment where market access matters most. Without such realism and selectivity, trade policy risks falling short of its potential to support higher growth and better living standards.

Section 5

Delivering a larger boost to growth through residential planning reform

The second area where the Government can go further is on building new homes. Here the strategy centres on residential planning reform: making the system clearer, more rules-based and better resourced, so that private developers build more homes. But, with the 1.5 million homes manifesto pledge for England likely to be missed, the more important test is whether reforms deliver a higher, sustained housebuilding equilibrium, and do so in the places that matter most for growth and living standards.

On current trajectories, every region in England looks set to undershoot their housebuilding targets. This is the result of higher interest rates, higher construction costs, and regulatory changes. London stands out: the capital's pipeline has collapsed, with housing starts hitting a 20-year low, and forward-looking indicators still weak. This matters for growth because the gains from higher housing supply are larger when new homes are built in high-productivity labour markets: under-building in London undermines the economic growth potential that new housing supply can offer.

Alongside national planning reform, the Government needs a London-specific 'delivery package' alongside national planning reform, this can also provide a template for accelerating development in the most productive cities. The most immediate, most controllable blockage is coming from the new Building Safety Regulator, with delays concentrated in London's high-rise pipeline. The priority should be to stabilise the new regime as it grapples with implementation, and streamline it by removing lower-risk works from its responsibilities.

Beyond safety regulation, the Government should go further to support densification in urban areas nationally – especially around stations – by reducing avoidable regulatory costs and limiting local standards from exceeding national baselines. It should accelerate plan-making by enforcing more up-to-date and consistent local plans. And it should address workforce constraints in construction (especially in London) and capacity constraints in the public planning system.

And if the Government wants sustainably higher output – including affordable and

social housing – it needs clearer ambition for the public sector's role, with funding to match. This should include establishing development corporations with the firepower to build a new generation of new towns.

Increasing housebuilding matters for growth both because it directly raises the flow of housing services – what we consume from housing either by paying landlords rent or through the 'imputed rents' consumed by owner-occupiers – and because it supports labour mobility allowing workers to move into more productive, high-paying jobs.

The Government's strategy to transform English planning was outlined earlier in this report. Beneath the 'build, baby, build' rhetoric, ministers are trying to move England towards a clearer, more harmonised and more rules-based planning system.[132] The bet is straightforward: a system that is more predictable and less protracted will encourage developers to build more, particularly if local authority capacity improves alongside policy reform. So this section assesses where the Government can go further to boost growth through its planning reforms, and housing policy more broadly.

There has been welcome progress on planning reform but housebuilding remains well short of Government targets

As discussed in Section 3, the Government's reforms to housebuilding are among the most significant pro-growth policies pursued since taking office. But while there has been undeniable progress, the Government looks set to fall well shy of its target for housebuilding.[133] The OBR expects a shortfall of around 240,000 (16 per cent) against the Government's 1.5 million target for new homes in England.[134] External forecasters are more pessimistic still: for example, Savills estimates a 42 per cent shortfall.[135]

Part of the gap reflects a weak housing market: higher interest rates, higher build costs and new regulatory requirements have all contributed to lower viability.[136] There has also been a pipeline shock: energy-efficiency reforms incentivised a rush to start homes ahead of a June 2023 cut-off, followed by a sharp fall in starts (see Figure 24).[137] Developers have been able to sustain completions for a time by finishing earlier starts, but the collapse in new starts points to weaker additions ahead.

132 MHCLG & The Rt Hon Steve Reed OBE MP, Housing Secretary issues 'call to arms' to 'build, baby, build, September 2025; HM Treasury, The Rt Hon Steve Reed OBE MP & The Rt Hon Rachel Reeves MP, Chancellor takes on the blockers to get Britain building, October 2025.

133 The OBR estimated planning reforms as of March 2025 would add 170,000 net additional dwellings to its baseline assessment of housing supply. Source: OBR, Economic and Fiscal Outlook – March 2025, March 2025.

134 Note the OBR has not yet modelled the effects of the draft NPPF published in December. Net additions in England averaged 84 per cent of the UK total between 2000-01 and 2022-23. Source: Office for Budget Responsibility, Economic and Fiscal Outlook – November 2025, November 2025; RF analysis of MHCLG, Live Table 118 Annual net additional dwellings and components, England and the regions, November 2025.

135 D Hill, C Buckle & E Williams, Housing Completions Forecast for England, Savills, 2025.

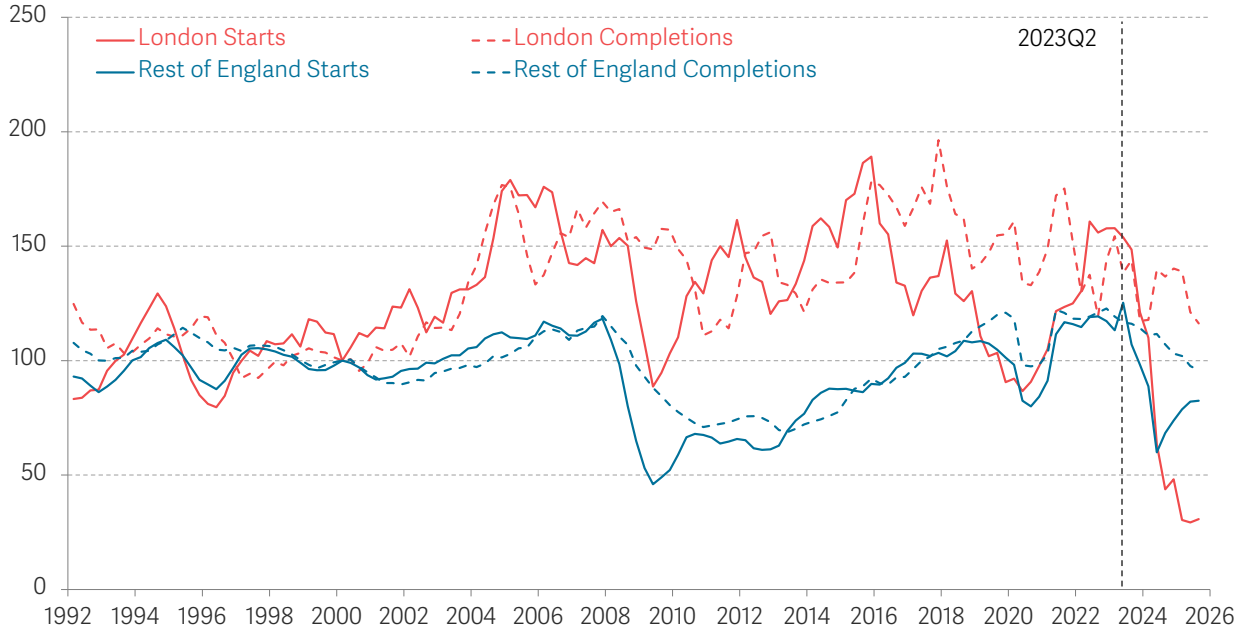
136 On construction input prices, see Department for Business & Trade, Construction building materials: commentary December 2025, January 2026.

137 See 1.1, MHCLG, Housing Supply: indicators of new supply, England: April to June 2025, September 2025.

It is also true that planning reform takes time to deliver results. Councils need time to identify sites and update plans; developers then need time to finance and build. And as shown by Figure 24, starts across most of England have started to pick up again, although they remain 26 per cent below their 2023 average in Q2 2025.[138]

FIGURE 24: **Every region in England has seen dramatic falls in housebuilding since 2023, though London's market has been particularly hard hit**

Rolling average of permanent dwelling completions in London and other England regions (1992Q1-2025Q3, index 2000Q1=100): England.



NOTES: Starts and completions are calculated on a rolling average over four quarters to 2025Q2.
SOURCE: RF analysis of MHCLG, Live Tables on Housing Supply, Table 217a: permanent dwellings started and completed by tenure and region (quarterly), January 2026.

As a result, the medium-term outlook appears more positive than the near-term pipeline: the OBR expects UK net additions to rise to over 300,000 by 2030-31 as requirements for local authorities to release land for development and a stronger presumption in favour of development drive a higher rate of private sector-led housebuilding.[139] While still below the Government's new target path, sustaining that

138 Quarterly and annual data for housing starts and completions are likely to underestimate net additions to the dwelling stock. The data is largely based on building control figures, a market historically dominated by the National Housebuilding Council whose market share has deteriorated from about 85 per cent to about 60 per cent. However, this is the only timely data available to compare starts across regions and recent trends are unlikely to be caused by this issue. MHCLG also acknowledges there are issues with data coverage and undercounting of housing delivery, particularly in quarterly data. For further explanation, see: N Hudson, We don't really know how many homes we're building, Financial Times, January 2025; MHCLG, Housing supply: indicators of new supply, England: July to September 2025 - technical notes, January 2026.

139 See Chart 2.22, from the OBR's November 2025 forecast, which is largely unchanged since its March forecast, where the OBR set out its view of the first revision to the NPPF (the OBR has not yet scored the December 2025 draft NPPF). Note the 300,000 figure applies to the UK and therefore represents a shortfall against the Government's manifesto target of 1.5 million in England. Completions in England on average make up 84 per cent of the UK total between 2000-01 and 2022-23. Source: RF analysis of OBR Economic and Fiscal Outlooks, March 2025 and November 2025, and RF analysis of MHCLG, Live Table 118 Annual net additional dwellings and components, England and the regions, November 2025.

level would represent a large step-up relative to the long-run average since 1990.[140] The current picture is still bleak. The current picture is still bleak. Were completions net additions to housing stock expected to continue at their 2024-25 three-year average rate in 2025-26, just 43 56 per cent of England's annual housing target would be met (see Figure 25).[141]

London is performing particularly poorly

Housing supply plays a critical role in enabling labour mobility, allowing people to exploit the opportunities from working in closer proximity (or 'agglomeration').[142] This means that where we build is of fundamental importance. From a growth perspective, housing supply needs to be increased in places where it can underpin future productivity growth, as well as where productivity is highest today. And this means that under-delivery matters most in London, as well as in England's 'second cities', whose productivity performance is central to the UK's overall performance.[143]

In this context it's particularly worrying that net additional dwellings across London in 2024-25 accounted for just 38 per cent of its annual housing targets, and this was substantially below the England average of 56 per cent (as shown in Figure 25).[144] Starts data, which underestimates the level of building due to known data issues, suggests that in addition to London, three other core cities – Birmingham, Manchester and Sheffield – could also underperform the England average next year.[145]

140 Official housing targets for local planning authorities are set out under the mandatory standard method for assessing local housing needs, amounting to over 370,000 annual net additions, while the Government manifesto set out a target of 1.5 million new homes in England over this Parliament. Note that 'local housing need' is not the same as the housing requirement contained in a local plan, though the Government expects authorities to plan to meet its assessment of local housing need in full. The term 'housing need' may also refer to people living in substandard or unsuitable homes or homeless. See S Lewis & C Barton, Reform of the standard method for assessing local housing need, House of Commons Library, May 2025.

141 Source: MHCLG, Live tables on housing supply, Table 122: housing supply: net additional dwellings, by local authority district, England, November 2025.

142 These positive externalities arise from sharing, matching and learning mechanisms. See G Duranton & D Puga, Micro-Foundations of Urban Agglomeration Economies, NBER Working Paper 9931 (2003), https://doi.org/10.3386/w9931.

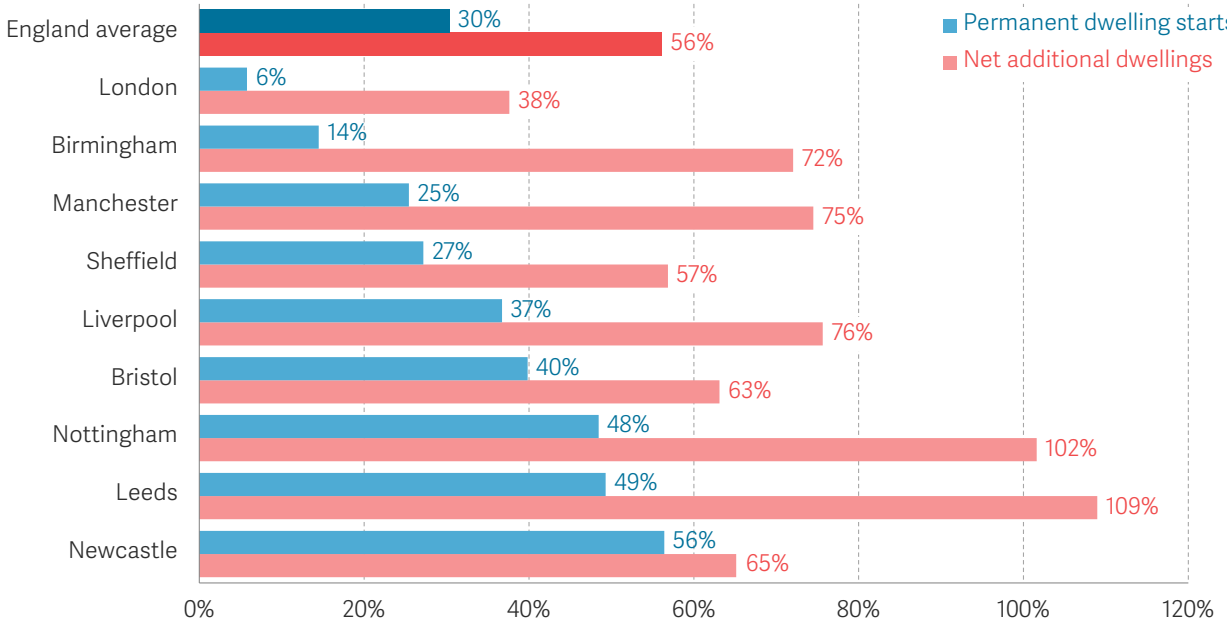
143 See P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond and A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, September 2023.

144 Note the London Travel To Work Area (TTWA) does not match the London Local Authority areas: it partially includes areas such as Epsom and Ewell, Dartford, Harlow, and Thurrock. This broader geography is because TTWAs are designed to capture self-contained areas where people both live and work. Areas such as Kingston Upon Thames, a Local Authority in London, are also partially considered part of other TTWAs, such as Slough and Heathrow. We have allocated housing starts, additions, and targets across the TTWAs based on the percentage of Output Areas of each Local Authority within each TTWA.

145 A one-year lag assumes a relatively rapid rate from start to completion, particularly for larger developments and in cities, but is an indicator used by Savills: see Figure 2, D Hill, C Buckle & E Williams, Housing Completions Forecast for England, Savills, June 2025. Source: RF analysis of MHCLG, Indicative local housing need (December 2024 – new standard method), December 2024; ONS, Indicators of House building, UK: permanent dwellings started and completed by local authority.

FIGURE 25: **Housebuilding in England's largest cities is performing particularly poorly**

Permanent dwelling starts and net additional dwellings in 2024-25 as a share of annual housing targets in England's Core City Travel to Work Areas



NOTES: Calculated at Travel to Work Area (TTWA) level using local authority starts and net annual additional dwellings in 2024-25. We have allocated starts, net annual additions and targets across the TTWAs based on the percentage of Output Areas of each Local Authority within each TTWA. There is a known issue with data on starts resulting in their level being significantly underestimated. They are not comparable to net additions. We have used this metric as it is the only timely data available to compare starts across regions and, therefore, provide a more forward-looking indicator of the current state of housebuilding across regions. For further explanation, see: N Hudson, We don't really know how many homes we're building, Financial Times, January 2025.
SOURCE: RF analysis of MHCLG, Indicative local housing need (December 2024 – new standard method), December 2024; ONS, Indicators of House building, UK: permanent dwellings started and completed by local authority, November 2025; MHCLG, Live tables on housing supply, Table 122: housing supply; net additional dwellings, by local authority district, England, November 2025.

Underperformance in London, in particular, risks skewing the geography of new housing supply away from high-productivity areas. By comparing the productivity of Travel to Work Areas, weighted by their existing housing stock, and how this changes if the number of additions (i) were to meet their housing targets and (ii) are delivered at the rate of net additions in 2024-25, we can get an indication of whether new housing being built is in areas of higher or lower productivity than the existing housing stock. This analysis shows that if local housing targets were met across all local authorities, new homes would be built in more productive areas than the average of the existing stock – around 6 per cent more productive according to this measure. But once likely under-delivery is accounted for, the implied productivity of where new homes are built falls equivalent to a sizeable 'productivity penalty' (of 4 per cent relative to targets being met).[146]

146 Productivity, defined as GVA per job filled, is estimated at Travel To Work Area (TTWA) level based on 2023 figures. Existing stocks are aggregated from local authority level. Indicative delivery in 2025-26 is based on local authority starts in 2024-25 based on one-year lag used by Savills as an indicative time between start and delivery of housing projects. Targets are defined as Local Housing Needs under the new standard method. Source: RF analysis of MHCLG Table 100, housing targets under the New Standard Method for Local Housing Need, and ONS Indicators of House building, UK: permanent dwellings started and completed by local authority; D Hill, C Buckle & E Williams, Housing Completions Forecast for England, Savills, June 2025.

London's pipeline has deteriorated sharply since mid-2023 with residential starts in 2024-25 less than half the level in 2022-23, and reaching a 20-year low.[147] And permissions data suggests London is unlikely to see a strong uptick in starts in 2026 either – 33,700 housing units were granted permission in the year to September 2025 compared to 44,000 in the year to September 2024, while the number of applications was also 4 per cent lower.[148]

Many of the factors driving the wider slowdown in UK housing delivery are particularly acute in the capital. Higher interest rates have reduced effective demand, depressing sales rates, with London house prices undergoing a large correction – falling 2.4 per cent in the year to October 2025 compared to a 1.7 per cent increase across the UK.[149] While lower prices improve affordability, they can undermine development viability when combined with rising costs. It is also true that additional cost pressures are especially pronounced in London, due to building safety requirements and other regulatory costs falling more heavily on denser, flatted development.

However, it is important to note that cost pressures on construction should, over time, be absorbed through adjustments in land prices. In the long run, this should restore the viability of housing development at any given level of construction costs, provided residential land values continue to exceed those for alternative uses – specifically industrial and agricultural land. Land values across London have fallen considerably in the past decade, almost halving in central London.[150] Even so, residential land in London was worth more than three times the value of industrial land as recently as 2019, and subsequent declines are very unlikely to have been large enough to close this gap.[151] But this adjustment will take time. Landowners may hold sites off the market in anticipation of price recovery or policy intervention, slowing the process by which land values adjust.[152] In the meantime, delays to housing delivery will continue to hinder economic growth.

Recognising the collapse in delivery, the Government and Mayor of London announced in October a draft package of temporary measures designed to stimulate development.[153]

147 Greater London Authority, Residential starts dashboard, accessed 27 January 2026.
148 Housing units granted permissions do not always result in completions, while application numbers do not indicate the number of units per application, meaning there is some uncertainty about their use as indicators of supply. Source: MHCLG, Planning applications in England: July to September 2025 - statistical release and Planning applications in England: July to September 2024.
149 V Romei, House prices fall in half of London boroughs, Financial Times, December 2025.
150 E Williams et al., Market in Minutes: Residential Development Land – Q3 2025, October 2025.
151 See Figure 5, C Aref-Adib, J Marshall & C Pacitti, Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024 https://doi.org/10.63492/fvh320
152 It is important to note that land values may have been distorted by Help to Buy's demand-side stimulus, which was closed to new applicants in October 2022, which Savills cite as a major factor affecting housebuilder sales between 2023 and 2024. See, for example, L Judge, Helping or hindering? The latest on Help to Buy, Resolution Foundation, November 2017; D Formston, C Buckle & E Williams, Delivering 300,000 homes per year in England, Savills, October 2024.
153 This included temporary changes to the London Plan's cycle parking requirements, relaxing housing design standards on dual aspects and number of homes accessed by a core exit that developers argued constrained density and consequently scheme viability and lowering thresholds for affordable housing delivery. The Government is consulting on a time-limited cut to the Community Infrastructure Levy and introducing further planning powers for the Mayor to call-in developments when boroughs are considering refusal. Source: Statement made by Rt Hon Steve Reed, Housing Delivery, October 2025

This package should at least ameliorate the crunch in housing delivery by increasing how much of a development plot can be sold at market rates rather than designated as 'affordable', making projects more profitable for private developers.[154] Delivering less affordable housing in the UK's least affordable city is less welcome from a living standards perspective. However, as the UK's most productive city, the country cannot afford for housebuilding in London to become structurally unviable. Getting the right approach in London is therefore central to any credible 'growth through housebuilding' strategy, and dealing with the issues preventing development in London can also accelerate building in other cities and urban areas.

Going further: bold reform to address barriers to housebuilding in London

The analysis above shows that any pro-growth housing strategy should go further, including confronting the slowdown in London. Although many of the recent reforms are a step in the right direction, further action will be needed.[155] Below we focus on three key areas.

Taking further action on the Building Safety Regulator

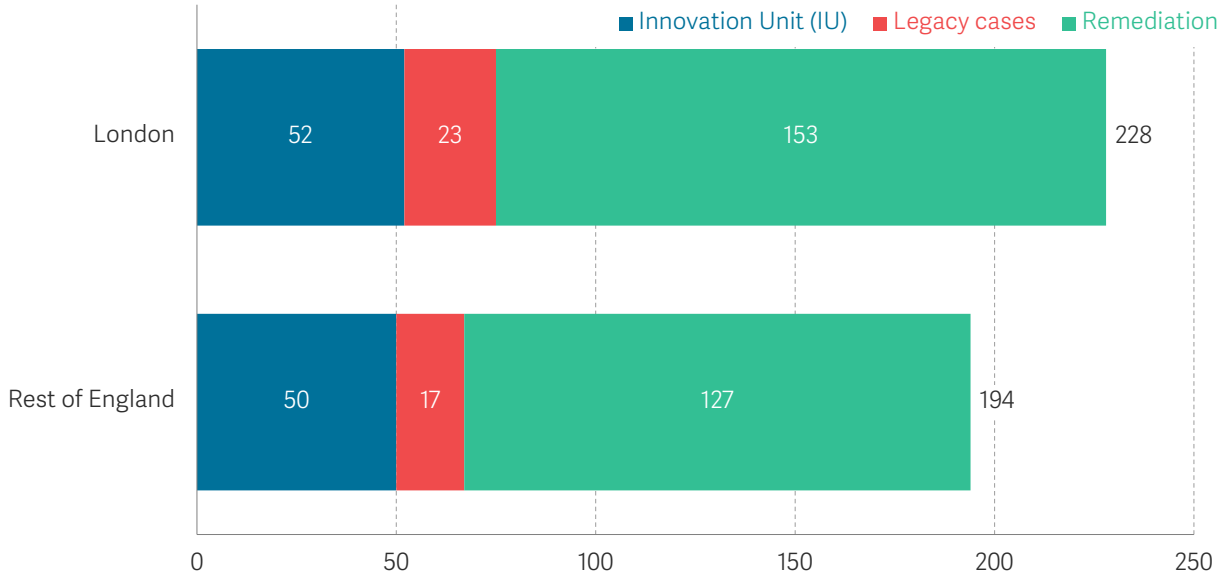
The additional costs and delays related to the Building Safety Regulator (BSR) are among the most immediate issues for the government. The BSR was established following Grenfell Tower fire, as part of the Health and Safety Executive, becoming the Building Control Authority across England in October 2023 for higher-risk buildings.[156] However, it quickly became apparent that establishing a new regulator created implementation challenges as it struggled to keep up with demand. In the first quarter of 2025, the BSR made decisions in only 20 per cent of its 1,276 cases (of which 763 had been carried over from the previous quarter) and only 33 per cent of decisions were made within its statutory timelines.[157] These prompted an inquiry by the House of Lords Industry and Regulators Committee, which concluded the delays were unacceptable, and worryingly created a perverse outcome of delaying remediation of dangerous cladding and "leaving residents in unsafe buildings for longer".[158]

154 Centre for Cities, Support package: London housebuilding, the 'emergency measures', and what further action is needed, 28 October 2025.
155 A non-exhaustive list of welcome steps include the successive revisions to the NPPF, which included stronger presumptions in favour of development, release of 'grey belt' land, and goals for densification near stations, as well as the reinstatement of housing targets, greater funding for planning officers and for updating local plans, reforms to planning fees and decision-making in the Planning and Infrastructure Act, and increasing investment for social and affordable homes under the Social and Affordable Housing.
156 Higher-risk buildings are buildings that have at least 7 storeys or are at least 18 metres high and contain 2 or more residential units, or are a hospital or care home. The regulator oversees the construction of new buildings or works to any existing building that would become a higher-risk building; remediation to existing higher-risk buildings (such as those with combustible cladding); and works done to existing higher-risk buildings (including but not limited to changing the internal layout).
157 The Building (Higher-Risk Buildings Procedures) (England) Regulations 2023 set 12-week and 8-week periods for the regulator to agree works, unless agreed in writing with applicants. RF analysis of Table 1 and 3, Building Safety Regulator, Building control approval application data October 2023 to March 2025, July 2025.
158 House of Lords Industry and Regulators Committee, The Building Safety Regulator: Building a better regulator, 2nd Report of Session 2024–26, HL Paper 225, December 2025.

Housebuilding in London has been particularly delayed by the BSR's processes. High-rise buildings, which come under the Building Safety Regulators remit, are disproportionately concentrated in London, making up 12 per cent of homes compared to 3 per cent across England in 2021.[159] So it is unsurprising that figures from the BSR show that London makes up just half of the its caseload, with 228 cases awaiting Gateway 2 approval – and so to start construction – as of December 2025 (see Figure 26).[160] In terms of units, London is similarly affected: 16,700 of the 33,000 new units awaiting approval nationally are in London.[161]

FIGURE 26: **London is disproportionately affected by delays caused by the Building Safety Regulator**

Building Safety Regulator regional Gateway 2 applications (as of 20 December 2025): England



NOTES: Gateway 2 refers to a stop/go point where building control approval must be obtained before undertaking any qualifying work on a higher-risk building (Gateway 1 takes place during planning applications for new higher-risk buildings, where the BSR must be consulted by local planning authorities, and Gateway 3 is completion approval where a higher-risk building must pass BSR checks before being occupied.). The Innovation Unit was introduced in August 2025 to accelerate decision-making on new higher-risk buildings. Legacy cases were handled by a multi-disciplinary team (MDT) model. Remediation cases refer to works on existing buildings.
SOURCE: RF analysis of Health and Safety Executive; Building control approval application data September to December 2025, December 2025; House of Lords Industry and Regulators Committee, The Building Safety Regulator: Building a better regulator, 2nd Report of Session 2024–26, HL Paper 225, December 2025.

159 London Assembly Research Unit, London's Housing Stock, November 2024.
160 Gateway 2 refers to a stop/go point where building control approval must be obtained before undertaking any qualifying work on a higher-risk building. Gateway 1 takes place during planning applications for new higher-risk buildings, where the BSR must be consulted by local planning authorities, and Gateway 3 is completion approval where a higher-risk building must pass BSR checks before being occupied. Source: Paragraph 21, House of Lords Industry and Regulators Committee, The Building Safety Regulator: Building a better regulator, 2nd Report of Session 2024–26, HL Paper 225, December 2025.
161 New units refer to the sum of Innovation Unit and legacy cases. Source: Health and Safety Executive, Building control approval application data September to December 2025, November 2025.

The Government's priority should be to stabilise the BSR's operating model and bring determination periods down in line with statutory targets. Early evidence suggests that approvals are accelerating thanks to new processes and extra resources.[162] Most significantly, in August 2025, the BSR established an Innovation Unit which in-housed expertise for assessing new-build applications – the BSR claims this could reduce the time it takes to obtain approval by six weeks.[163] Between September and December, the BSR appears to have got on top of its caseload, making the highest number of decisions of any quarter since its establishment, and approving over 15,000 new-build units (with approximately half of these in London).[164] The priority should be to build on this progress.[165]

Streamlining the BSR's functions could also help to further reduce pressures. As of March 2025, over one-fifth of the BSR's caseload was made up of 'Category B' works. These refer to works on existing buildings which may be described as lower risk, versus higher-risk 'Category A' works.[166] Yet the regulations do little to differentiate between each type of work – effectively treating minor works as higher risk.[167] The House of Lords concluded this "strains credulity" and diverted skilled BSR resources toward low-risk works, and recommended that the Government should review and if necessary remove Category B works from the BSR's approval processes, or allow other bodies to conduct this on the BSR's behalf.[168] We note the BSR would likely welcome this change.[169]

Furthermore, certain works – such as window replacements – can be carried out through Competent Person Schemes organised through industry, provided for in 2010 legislation.[170] Yet there appears to have been industry reluctance to sign off on works to higher-risk buildings, unnecessarily adding to the BSR's caseload.[171] So, alongside honing the BSR's functions, the Government could engage with existing schemes on this matter and issue further guidance if necessary.

162 In February 2025, the Government announced £2 million of additional funding to the BSR to speed up its processing of applications. Source: Matthew Pennycook MP, Large-scale Housing Site Delivery, February 2025.
163 See Q111, House of Lords Industry and Regulators Committee, Corrected oral evidence: Building Safety Regulator, September 2025.
164 Health and Safety Executive, Building Safety Regulator building control approval application data September to December 2025, December 2025.
165 P Apps, A Consensus is Developing on the Building Safety Regulator, December 2025
166 Category A works involve significant alterations to a higher-risk building's structure, safety or design that have the potential to impact overall safety and functionality. Category B includes all work not covered by Category A (i.e. does not significantly impact a building's structure, fire safety or escape routes). Source: Health and Safety Executive, FAQ Explainer Building Safety Regulator as the Building Control Authority. November 2024
167 See Regulations 11 and 12 in the Building (Higher-Risk Buildings Procedures) (England) Regulations 2023). Category B works are exempt from submitting information only under 12(2)(c) and 12(2)(d), and, if the works are within a flat, 12(1)(d).
168 Paragraphs 223-224, House of Lords Industry and Regulators Committee, The Building Safety Regulator: Building a better regulator, 2nd Report of Session 2024–26, HL Paper 225, December 2025.
169 Q133, House of Lords Industry and Regulators Committee, Oral evidence: Building Safety Regulator, 28 October 2025.
170 The requirements of Regulations 11 and 12 (see footnote 23) do not apply to 'scheme works', defined by Regulations 20 and 20A of the Building Safety Regulations 2010.
171 S Dumitriu, How much does it cost to replace two rotting windows in Britain in 2025?, November 2025.

Others have called for more substantial changes to the system itself, including raising the 18-metre height threshold for special high-rise building control.[172] Though, following a review of available (albeit limited) evidence, the Government has for now maintained its approach while committing to maintain the definition under review.[173]

Tackling other barriers to densification is needed to boost building in the capital

If London is to build at the scale implied by its housing need, it must densify. Densification supports labour mobility and agglomeration, reduces pressure on land availability, and can align with environmental goals when done well.[174] The Government could go further to incentivise densification in urban areas by reducing regulatory costs, at a national level, which inhibit development in urban areas.

The Government has already made the welcome proposal to grant a default 'yes' to developments near train stations subject to minimum density requirements for residential development, and set higher minimum requirements for 'well-connected' stations.[175] Despite London being on average denser than most areas of England, many areas around stations remain relatively low density.[176] The Government should ensure these schemes meet or ideally exceed its minimum density requirements. Furthermore, while the current London Plan encourages intensification of residential areas within 800 meters of a station or town centre boundary,[177] the next London Plan should include a specific density requirement following the example of the new NPPF.

Another area to look at is biodiversity net gain (BNG) contributions, a new policy introduced under the Environment Act 2021 which aims to improve biodiversity. Urban pressures, small sites, and the complexities of remediating brownfield sites make delivery of biodiversity net gains on-site particularly expensive for developers.[178] Some authorities have adopted, or are considering, BNG commitments exceeding statutory requirements, including five London authorities.[179]

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172 A Breach, Breaking the Bottlenecks: Reforming 'anti-supply measures' to support urban housebuilding, Centre for Cities, May 2025. This would presumably also involve revising the number of storeys the building contained to around 10 storeys, as to be a higher-risk building, a building must be at least 18 metres in height or has at least 7 storeys, and contain at least two residential units.

173 Ministry of Housing, Communities & Local Government, Definition of higher-risk buildings: initial review and plans for ongoing review, December 2025.

174 Page 25, C Aref-Adib, J Marshall & C Pacitti, Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024 https://doi.org/10.63492/fvh320; P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

175 Defined as stations, including underground, tram and light rail, located within the top 60 TTWAs (in England) by GVA, with a service frequency (in the normal weekday timetable) of four trains or trams per hour, or two per hour in any one direction.

176 Section 1.2 in N Bosetti & K Hannah, Centre for London Ideas Above Your Station: Exploring The Potential For Development at London's Stations, September 2017. Analysis by Lichfields suggests 40,000 or more additional homes could be delivered near train stations and presently, Transport for London (TfL) – one of London's largest landowners – has plans for 20,000 new homes (of which 16,000 are contained in named schemes) for London by 2031 through its subsidiary Places for London, Transport for London, Business Plan & Budget, December 2023.

177 Policy H1 Increasing Housing Supply, Mayor of London, London Plan 2021, March 2021.

178 On brownfield development, see A Breach, Breaking the Bottlenecks: Reforming 'anti-supply measures' to support urban housebuilding, Centre for Cities, May 2025; Home Builders Federation, Biodiversity Net Gain: One year on, April 2025.

179 Wildlife and Countryside Link, Frontrunner councils show that Biodiversity Net Gain can be more than a glorified offsetting scheme, 7 February 2024

There is clearly a difficult trade-off here between environmental standards and building for growth. In this context, the Government's commitment to consult on easements to BNG for a new 'medium' category of development early in 2026 is welcome.[180] If effective, reforms should lower the costs of BNG. It is also welcome the Government has signalled it intends to limit local variation related to BNG standards.[181] The Government should go further by considering other areas where variation in local standards create unnecessary barriers to development, such as energy efficiency.[182]

Delivering and coordinating the content of local, regional and national plans

The most immediate action for the Government should be ensuring local plans are in place and kept up to date, given the evidence showing housebuilding rates are slower in the absence of timely local plans.[183] Upon entering office, most local plans in England were out of date and nearly 40 per cent of all local plans were expected to be more than 10 years old by 2025.[184] Even among Labour-led councils in London, local plan provision is incomplete.[185] Since taking power, the Government has taken steps to accelerate plan-making, including providing up to £15 million in additional funding to support local plan delivery, publishing new guidance and tools, and signalling a willingness to use existing intervention powers to sanction underperforming authorities – though no such interventions have yet been exercised.[186] In addition, the new NPPF's more strongly drafted presumption in favour of sustainable development and its status as a material consideration in decision-making (if and when it enters into effect), should further incentivise councils to update their plans.[187] The Planning Inspectorate is also doubling its local plans inspector workforce in anticipation of increased demand.[188]

In addition to addressing issues with the provision of local plans, the Government could and should go further to improve consistency between national, regional and local plans. Currently, developers in London must navigate multiple plans devised across those three levels: national (the NPPF), regional (the London Plan) and local (the local planning authority). This introduces additional complexity to the planning

180 Page 119, MHCLG, National Planning Policy Framework: proposed reforms and other changes to the planning system, December 2025.
181 See N1(2), MHCLG, National Planning Policy Framework: proposed reforms and other changes to the planning system, December 2025.
182 For instance, the Government has stated it wants to reduce the ability of local authorities to use local plans to vary (i.e. raise) standards from what is nationally specified, such as energy efficiency, to enable economies of scale. See policy intention related to PM13, Ministry of Housing, Communities and Local Government, National Planning Policy Framework: proposed reforms and other changes to the planning system, December 2025. Nonetheless, adequate national standards would be needed if the Government did reduce local authorities' autonomy.
183 Competition and Markets Authority, Housebuilding Market Study Final Report, February 2024.
184 M Spry, Lichfields, A new dawn has broken, has it not? July 2024
185 See Figure 1, E Williams, Savills, Planning Data Update, June 2025.
186 MHCLG, Funding to support local authorities with the costs of local plan delivery and Green Belt reviews, December 2024; Statement by Matthew Pennycook MP, Reforming Local Plan-Making, November 2025; P Inman, Rayner set to hit English councils that block new housing with tougher sanctions, The Guardian, August 2025.
187 R Clements & M Spry, Tipping the scales? Can the revised presumption in a festive NPPF help unlock growth?, Lichfields, December 2025.
188 Planning Inspectorate, New local plan system launching early 2026: latest update, November 2025.

system. A review of the London Plan found its "multiplicity of policies [...] works to frustrate rather than facilitate the delivery of new homes" and results in longer decision timeframes: the average duration for residential applications to be decided in London was seven weeks longer than Birmingham, Bristol, Liverpool and Manchester.[189] The interaction between these layers of plans can produce long lags between a new policy entering effect at higher tiers before being incorporated into a revised local plan, creating further delays.[190] In 2024, approaching halfway through the London Plan's ten-year housing strategy, less than one-third of Boroughs had adopted plans implementing the London Plan.[191]

With the next London Plan due to be adopted by 2027, the Government should examine mechanisms to ensure there is ongoing conformity between the new NPPF, new London Plan and London Boroughs' local plans. First, it should ensure that London Boroughs bring forward new plans on the basis of the new NPPF and updated housing targets, not the current London Plan. Second, it should assess whether the temporarily relaxation of the London Plan's design codes should be permanently revised under the forthcoming Plan. Third, it should provide guidance to Boroughs on how standards can be applied in a proportionate manner. [192]

To complement these reforms, the Government should promote greater uptake of joint local plans across boroughs, such as the Places for Everyone joint development plan in Greater Manchester.[193] In the same vein, the Government could go further on reforming Section 106 by implementing the recommendations of the Housing, Communities and Local Government Committee.[194] These could help streamline often protracted Section 106 negotiations, which slow development.[195]

The precipitous fall in London's housing delivery market is not the result of any one single cause. But it is clearly bad news for growth. Tackling the constraints in the planning system holding back building in London will also ensure other cities in England do not suffer the same fate. Ensuring cities can densify prevents the

189 See Paragraph 8 and Figure 3.3, DLUHC, London Plan Review – Report of Expert Advisers, January 2024.
190 S Dumitriu, How to Density Britain's cities, November 2025.
191 See Table 3.1, DLUHC, London Plan Review – Report of Expert Advisers, January 2024. The London Plan 2021 set ten-year targets for net housing completions which Boroughs must include in their Development Plan Documents. See Mayor of London, London Plan 2021 – Chapter 4: Policy H1 Increasing Housing Supply, March 2021.
192 The Report of Expert Advisors noted alterations to the policy requirements which are most often cited by commentators as inhibiting delivery was a fraught issue (see paragraph 4.11(2), DLUHC, London Plan Review – Report of Expert Advisers, January 2024). However, the Government and Mayor have moved on this issue, so should set out their assessment of the problems.
193 The proposed NPPF joint plans "should be considered where this would enable local planning matters to be dealt with most effectively" See PM2(5), MHCLG, National Planning Policy Framework: draft text for consultation, December 2025. Stockport chose to opt out of Greater Manchester Spatial Framework, an earlier iteration of the Places for Everyone plan, undermining the creation of a full-city plan. See C Aref-Adib, J Marshall & C Pacitti, Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024 https://doi.org/10.63492/fvh320; Greater Manchester Combined Authority, Places for Everyone, March 2024.
194 These include the introduction of a standardised template clauses for Section 106 agreements and commencing regulations for a Section 106 dispute resolution mechanisms. Housing, Communities and Local Government Committee, Delivering 1.5 million new homes: Land Value Capture, Third Report of Session 2024–26, October 2025.
195 S Ricketts, Why does negotiating Section 106 agreements have to be such a drag?, 14 June 2025.

most productive areas in the country do not become constrained by insufficient housebuilding, allowing them to attract more productive workers and firms.[196]

Getting to a new housebuilding equilibrium

As argued above, the best test of success is whether policy delivers a higher, sustained equilibrium of housebuilding. Planning reform and better-resourced planning departments are needed for that step-change—but likely to be insufficient. Sustained higher delivery will also require action on capacity constraints and a greater role for the public sector in investment and delivery.

Action is needed to tackle workforce constraints

More housebuilding requires an expansion of the construction workforce. Yet we are moving in the opposite direction – England's construction workforce has been shrinking (as well as ageing).[197] Since 2019, it has fallen by around 3 per cent nationally, and by nearly 15 per cent in London.[198] The Construction Industry Training Board estimates London alone will need to recruit around 8,500 additional workers per year between 2025 and 2029 to meet demand.[199] The Government has recognised construction sector skills shortages nationally, announcing £600m in skills funding over four years in March 2025.[200] Some of this has already been used to fund training programmes in London.[201]

Shortages are also evident at a national level in the public sector. For example, the Environmental Audit Committee (EAC) recently concluded there was a shortage of ecologists and lack of expertise in ecology among planning professionals, hindering the planning system's ability to carry out the functions required from it.[202] In a similar vein, the House of Lords report found the BSR has also suffered from recruitment issues.[203] The BSR has attempted to square this problem by contracting external engineering firms to progress its caseload, but this is a short-term fix, not a long-term solution. Though the Government has recognised the problem and allocated £46 million to employ 300 more planners across England, this is significantly below the estimated shortfall of 2,200

196 See P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond and A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, September 2023.
197 See C Aref-Adib, J Marshall & C Pacitti, Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024 https://doi.org/10.63492/fvh320
198 RF analysis of ONS JOBS05: Workforce jobs by region and industry, December 2025. Offsetting these declines are growth in the construction workforce in the North East (7.5 per cent), Yorkshire and the Humber (7.7 per cent), and East of England (11.2 per cent).
199 The Construction Industry Training Board's (CITB) measure of the construction workforce is broader than the ONS figure, including managerial, professional and administrative workers alongside skilled trades, whereas ONS use Standard Industrial Classification (2007) codes. Source: CITB, The Construction Workforce Outlook: England – Labour Market Intelligence Report 2025-2029, June 2025.
200 HM Treasury & The Rt Hon Rachel Reeves MP, Government unleashes next generation of construction workers to build 1.5m homes, 23 March 2025.
201 Mayor of London, MD3409 London construction skills package, August 2025.
202 Environmental Audit Committee, Environmental sustainability and housing growth, Sixth Report of Session 2024-26, November 2025.
203 Chapter 6: Resources and Skills, House of Lords Industry and Regulators Committee, The Building Safety Regulator: Building a better regulator, 2nd Report of Session 2024–26, HL Paper 225, December 2025.

planning officers in England and Wales.[204] More will need to be done to secure a pipeline for recruiting, training and retaining professionals within the public sector across the planning system.

Clarity about the role of the public sector in housebuilding

While private housebuilding has historically dominated supply, it has exceeded 150,000 annual completions in only 18 out of the past 78 years, and exceeded 200,000 homes only twice.[205] Evidence from both the Letwin Review and the Competition and Markets Authority suggests private developers lack the incentives to build at significantly higher rates.[206] By contrast, the post-war peak in housebuilding coincided with sustained public sector delivery, driven primarily by local authorities.[207] This underlines the need for a substantial public sector role if higher, more stable levels of supply are to be sustained.

Existing mechanisms for public sector involvement in housebuilding – most notably the Affordable Homes Programme and Section 106 obligations – demonstrate that one core function of the state has been to ensure the delivery of housing that the private market consistently fails to provide at sufficient scale, particularly affordable and social housing. From a living standards, as well as growth, perspective, this role is critical. The current combination of subdued housebuilding activity and lower requirements on the private sector to deliver affordable housing in London, at least in the short-term, has made an increasingly urgent case for greater public-led delivery of affordable housing.[208] Without stronger public intervention, there is a material danger that affordable housing supply in London will stagnate or decline, even as underlying need continues to rise – worsening existing long social housing waiting lists.[209]

To its credit, the Government has taken some steps to increase public sector investment in this area. For example, the Government increased the average annual funding from £2.3 billion under the Affordable Housing Programme 2021-26 to £3.9 billion under the Social and Affordable Homes Programme from 2026.[210] The Government has also launched the National Housing Bank, with £10.5 billion of investment capital for loans and £5.5 billion of contingent liability capacity for providing housing guarantees, which aims to unlock over £53 billion of private investment.[211]

204 Para 87. House of Lords Built Environment Committee, New Towns: Laying the Foundations, Second Report of Session 2024–26, October 2025.
205 MHCLG Live Table 244.
206 MHCLG and HM Treasury, Independent review of build out: final report, October 2018; Competition and Markets Authority, Housebuilding market study final report, March 2024. For discussion of both reports, see C. Aref-Adib, J. Marshall & C. Pacitti, Building blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024.
207 Housing association completions overtook local authority completions in the mid-1980s. Source: MHCLG Live Table 244.
208 M Lange, The limits of funding affordable housebuilding through private development, Centre for Cities, 28 January 2025.
209 London Councils, London's social housing waiting lists reach 10-year high, January 2025.
210 HM Treasury, Spending Review, June 2025; Figure 24, C Aref-Adib, J Marshall & C Pacitti, Building Blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024. https://doi.org/10.63492/fvh320
211 Matthew Pennycook MP, National Housing Bank and new capital grant funding, June 2025.

But delivering at the scale needed will likely mean going further. Governments in the past have successfully established and funded new development corporations and other public-private partnerships, such as the London Docklands and Merseyside Development Corporations.[212] And this Government's ambitious manifesto pledge to deliver "a new generation of new towns" – specifically 12 new towns in England, with each containing at least 10,000 new homes – will certainly require leveraging the private sector in this way.[213] Yet the public sector will be needed too: the New Towns Taskforce report to the Government in September 2025 noted that the building of these new towns would require "land assembly and housing delivery usually beyond the capacity of the private sector alone".[214]

New development corporations will depend on public investment to succeed, particularly at early stages to acquire land, provide early investment in infrastructure and de-risk sites. One estimate places the cost of building a New Town and associated infrastructure around £3.5 to £4 billion.[215] Yet in its initial response to the Taskforce, the Government did not commit to a detailed funding settlement for new towns, noting that new towns would be backed by extant housing programmes.[216] If the new generation of towns are to materialise, the Government must bring forward legislation to establish development corporations for new towns, and set out the associated funding required to enable delivery.

The Government can also look at how other countries, such as France and Denmark, use development corporations and other financing models to fund public housing and drive forward large-scale urban projects. For example, Copenhagen's By & Havn organisation, established as a commercial enterprise to regenerate former military land, is jointly owned by the city of Copenhagen and the Danish state.[217] The latter enabled it to access long-term borrowing at favourable rates. By & Havn pursued an infrastructure-first approach by developing metro connections, enabling anchor tenants to establish and stimulate further demand in regenerated areas. They act as masterplanners and set design standards for plots, which are reviewed periodically to remain responsive to local needs. Similarly, French public development agencies (Établissements publics d'aménagement and Sociétés publiques locales d'aménagement d'intérêt national) used the tools of masterplanning, land acquisition, and planning approvals to help build 6,300 homes in 2024, of which 35 per cent were social housing.[218]

212 J Muellbauer & D Soskice, The Thatcher legacy: Lessons for the future of the UK economy, Resolution Foundation, November 2022.
213 Labour Party, Change, June 2024; MHCLG, Expert taskforce to spearhead a new generation of new towns, 31 July 2024; Paragraph 4.9, MHCLG and HM Treasury, Independent Review of Build Out Final Report, October 2018.
214 Paragraph 4, Executive Summary, MHCLG, New Towns Taskforce: Report to government, September 2025.
215 P Chamberlain & D Morris, New Towns for England: Where should they be and how can they be funded, WPI Strategy, May 2025.
216 MHCLG, Independent report: initial government response – September 2025, September 2025.
217 Report body and Annex, House of Lords Built Environment Committee, New Towns: Laying the Foundations, 2nd Report of Session 2024-26, October 2025.
218 Ministère de la Transition écologique, Les Etablissements Publics d'Aménagement (EPA), catalyseurs de projets de territoire, October 2025; W Coucke, Strategic Urban Planning in the Paris Metropolitan Region A historic overview of the applied instruments, May 2023.

The Government's planning reforms are necessary, but not sufficient, to deliver the higher, sustained housebuilding equilibrium the UK needs for stronger growth and rising living standards. London's pipeline collapse shows how quickly delivery can fall away when viability, regulatory capacity and plan-making fail at the same time - and why relying on the private sector alone is a risky bet.

To turn reform into results nationally, ministers now need to shift from redesign to delivery: stabilise the Building Safety Regulator without undermining safety, set clear national baselines for building standards to reduce costly local variation, accelerate plan-making and alignment across planning tiers, and expand the state's ability to build and invest, especially in affordable housing. Without that fuller package, the target may be missed – but more importantly, the UK will miss the chance to build where it matters most and lock in a more productive, more affordable economy.

Section 6

Progress on the Government's employment ambition would boost the size of the economy

The Government has set a target of raising the employment rate to 80 per cent. This is ambitious: it would bring us close to the top of the international league tables on employment. But the UK's recent past shows that substantial labour market gains are possible: boosting employment was the main source of GDP growth in the 2010s and could help again in the 2020s.

Despite recent falls, the UK doesn't do too badly on employment relative to other rich countries, hovering around the 70th percentile across comparable countries over the last two decades. Looking in detail at where the UK falls short relative to the best performers suggests that the Government should especially focus on people aged under 25 or over 50, and that improvements in the health and education of the workforce are likely to be key.

Boosting employment could have considerable benefits for growth: even if additional workers were part-time rather than full-time, reaching an 80 per cent employment rate would boost GDP by 3.3 per cent. To make progress towards this goal, policy makers should build on existing commitments to boost the employment and health of young people who are out of work by expanding eligibility of the Youth Guarantee, limiting access to private pension wealth before the State Pension age, and incentivising employers to do more to retain ill or disabled staff.

Boosting employment is not an explicit part of the Government's growth strategy, but the Government has separately stated a 'long-term ambition' to raise the UK's employment rate to 80 per cent.[219] This is a hugely ambitious target: if it were reached overnight, it would imply an additional 2 million people working compared to today's employment rate of 75.3 per cent.[220] That would roughly entail adding a Manchester

219 Department for Work & Pensions, HM Treasury & Department for Education, Get Britain Working White Paper, November 2024.
220 This applies an 80 per cent employment rate to the November 2025 working-age population level of 43.2 million, giving a hypothetical employment level of 34.6 million for November 2025, compared to the actual (as estimated using the Resolution Foundation's alternative data) of 32.6 million.

and a Liverpool's worth of workers to the economy.[221]

Clearly, a change of that scale would have a major impact on the size of the UK economy. Even if the new workers were working part time, reaching an employment rate of 80 per cent (a 4.7-percentage-point rise) would boost GDP by 3.3 per cent.

So even though the Government has not explicitly made its employment ambition part of its growth strategy, higher employment does have the potential to contribute to growth. In this Section we discuss the size of this potential contribution and whether the Government is heading in the right direction.

Between the financial crisis and the Covid-19 pandemic, employment drove half the growth in GDP per capita, with the gains concentrated among lower-income households

As we saw in Section 2, growth in GDP per person plummeted after the financial crisis, from 2.3 per cent per year in the decade to 2007 to 0.5 per cent per year between 2007 and 2019. In this latter period, fully half of the growth in GDP per person came from increases in hours worked per person. Moreover, this employment-driven growth boosted incomes disproportionately towards the middle and bottom of the income distribution.[222] But since the pandemic, the growth boost from rising employment has gone into reverse: between 2019 and 2024, the contributions of productivity and hours worked per person exactly offset one another, resulting in no growth in output per person.

Current falls in employment are worrying, but in international and historical terms the UK is in a reasonably good position

There is both good news and bad news when it comes to the UK's starting point on employment. The bad news – just like with housebuilding – is that the country is currently heading in the wrong direction. In November 2025, the UK's working-age employment rate (among those aged 16-64) was 75.3 per cent. This is substantially lower than the 76.3 per cent recorded on the eve of the pandemic (January 2020), and lower still compared to the brief post-pandemic high point of 76.6 per cent recorded in March and April 2023.[223]

221 According to the ONS's Annual Survey of Hours and Earnings, in 2025, there were 1.24 million employees working in the Manchester metropolitan country and 560,000 employees working in the Liverpool metropolitan county, amounting to 1.8 million in total. We add self-employed workers in line with the UK average (13 per cent of total employment) to get to 2.1 million total employment.

222 L Try, Money, money, money: The shifting mix of income sources for poorer households over the last 30 years, Resolution Foundation, February 2025, https://doi.org/10.63492/p3505p.

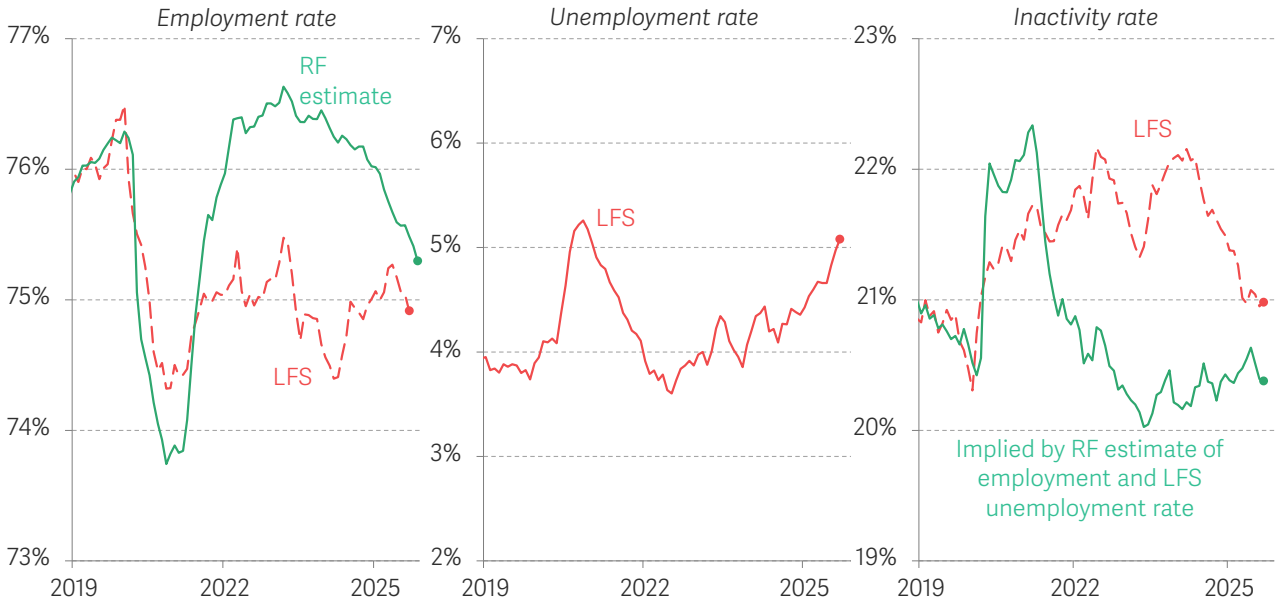
223 The ONS has worked to improve the quality of its Labour Force Survey following a period of falling response rates and resulting bias, but we don't yet consider it a reliable guide to employment trends. Given this, we use alternative estimates of employment and the employment rate developed by the Resolution Foundation, based on tax and population data, throughout this Section when referring to the period 2020 onwards. These are published at: www.resolutionfoundation.org/our-work/estimates-of-uk-employment/. The exception is the LFS's unemployment rate estimates, which we consider to be reliable. We use the LFS unemployment rate in conjunction with the Resolution Foundation alternative employment estimates to derive participation and inactivity rates. For further details, see: G Thwaites, N Cominetti & H Slaughter, Labour Market Outlook Q3 2025: How tight is the labour market?, Resolution Foundation, August 2025, https://doi.org/10.63492/wvk136.

If the working-age employment rate had remained at its 2023 peak, there would be an additional half a million people working today.[224]

There are reasons to expect the employment rate might recover some of its recent falls. The most important factor is that the recent drop in employment comes mostly from rising unemployment rather than by rising inactivity (i.e. fewer people participating in the labour market). As Figure 27 shows, the unemployment rate stood at 5.1 per cent in the three months to October 2025, up from 3.9 per cent pre-Covid; on the other hand, an increase in health-related inactivity post-pandemic has been offset by less inactivity related to caring for families, so overall participation rates are essentially unchanged since 2019.[225] Higher unemployment is bad for those looking for work, of course, but it may be easier for policy makers to stimulate demand for workers than to raise the share of people participating in the labour market.

FIGURE 27: **The employment rate has been falling since 2023, driven most recently by rising unemployment**

Employment rate, unemployment rate and inactivity rate, LFS and alternative estimates based on tax data: UK, age 16-64



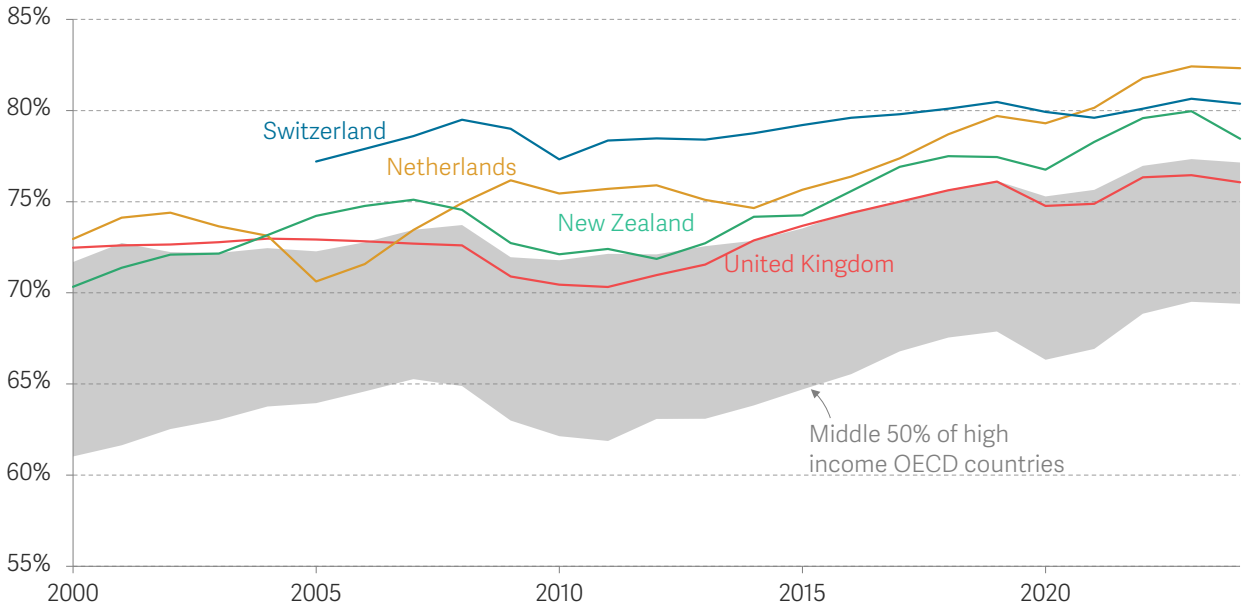
NOTES: Resolution Foundation alternative employment estimates are based on tax data (for the estimate of the number of people employed; the numerator) and ONS population estimates (for the number of people; the denominator). ONS population projections have been adjusted to reflect outturn net migration data. In previous work we compared the LFS unemployment rate estimates to other indicators of labour market slack and found the LFS measure to be reliable. In turn this allows us to derive an inactivity rate. Latest data point is November 2025.
SOURCE: RF analysis of ONS, Labour Force Survey; RF, Estimates of UK employment; ONS, Long-term international migration, provisional: year ending June 2025.

224 This applies the March 2023 76.6 per cent employment rate to the November 2025 working-age population level of 43.2 million, giving a hypothetical employment level of 33.1 million for November 2025; the actual (as estimated using the Resolution Foundation's alternative data) rate was 32.6 million.
225 N Cominetti & H Slaughter, Labour Market Outlook Q4 2025: The UK lacks jobs, not just jobseekers, Resolution Foundation, December 2025, https://doi.org/10.63492/wgig239.

Moreover, even after the recent falls, the UK employment rate remains above the average of other rich countries. Among 23 high-income OECD countries, the UK's employment rate ranked 10th in 2024, the latest year for which data is available.[226] Figure 28 plots the employment rate among these countries going back to 2000, and shows that the UK has hovered around the 70th percentile – near the top of the middle 50 per cent swathe highlighted in grey – throughout this period.

FIGURE 28: **The UK has relatively high employment by the standards of other rich countries**

Employment rate among 15-64-year-olds: high-income OECD countries



NOTES: UK estimates post-2020 are based on alternative RF estimates (based on tax and population data) for 16-64 age group (all other estimates refer to 15-64 age group). UK's rank in 2024 (10th) is the same on either measure. 'High-income OECD countries' are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States. Latest data point is 2024.
SOURCE: Eurostat, Labour Force Survey; ONS, UK Labour Force Survey.

Higher-employment countries show that progress is possible

The situation on employment is quite different from the situation with the UK's investment levels where, as we set out in Section 2, becoming less of an international laggard would involve big gains. If the UK is already doing middling-to-well on employment compared to other rich countries, is it plausible that we can make substantial further progress? The answer is, nevertheless, 'yes': the UK could do better

226 This is the same set of countries as used for the GDP comparisons in Section 2, plus Greece, Ireland and Israel.

on employment, and potentially much better. The Government's 80 per cent target is highly stretching, and not likely to be achieved quickly, but other countries are already there. As shown in Figure 28, two countries (the Netherlands and Switzerland) already have working-age (here defined as age 15-64) employment rates above 80 per cent, while New Zealand's employment rate was at 80 per cent in 2023. Japan is not far off, at 79.4 per cent in 2024, and there are three European countries (Germany, Denmark, Norway) with employment rates of around 77 per cent. This is some way south of the Government's target, but matching those countries would still add hundreds of thousands of people to the UK's workforce.

Other countries' experiences also show that big increases are possible. The UK's rise in employment over the past two decades has been significant (a 3 percentage-point rise between 2005 and 2024), but that is actually one of the smallest increases in employment among high-income OECD countries over that period. Among countries with high employment rates today, those with notably larger increases over the past 20 years include the Netherlands and Germany (where employment rates rose 12 percentage points between 2005 and 2024), and Japan (up 10 percentage points).

Of course, it doesn't follow that the UK can achieve an 80 per cent employment rate just because other countries have. Some might argue that the UK's economic model is less favourable to high employment levels than others. As a liberal market economy, the UK has less coordination between firms and the state on matters such as wage bargaining and skills, and more of an emphasis on general rather than specific skills, than many continental and northern European countries, and this is associated with lower employment levels.[227] The UK is not about to rewire its entire economy, so if having a more coordinated model is necessary to achieve the highest employment rates then there may indeed be a limit on the UK's employment potential. But there is nothing to stop the UK from taking policy inspiration from countries with different economic models. And we can also look to New Zealand for inspiration: it is a liberal market economy like the UK, but its employment rate is higher.

Higher-employment countries achieve better outcomes for those at the start and end of their careers, and better health and education are likely part of the reason

So how do those countries achieve those higher employment rates? A large part of the answer is that they do better than the UK among both young people, and those

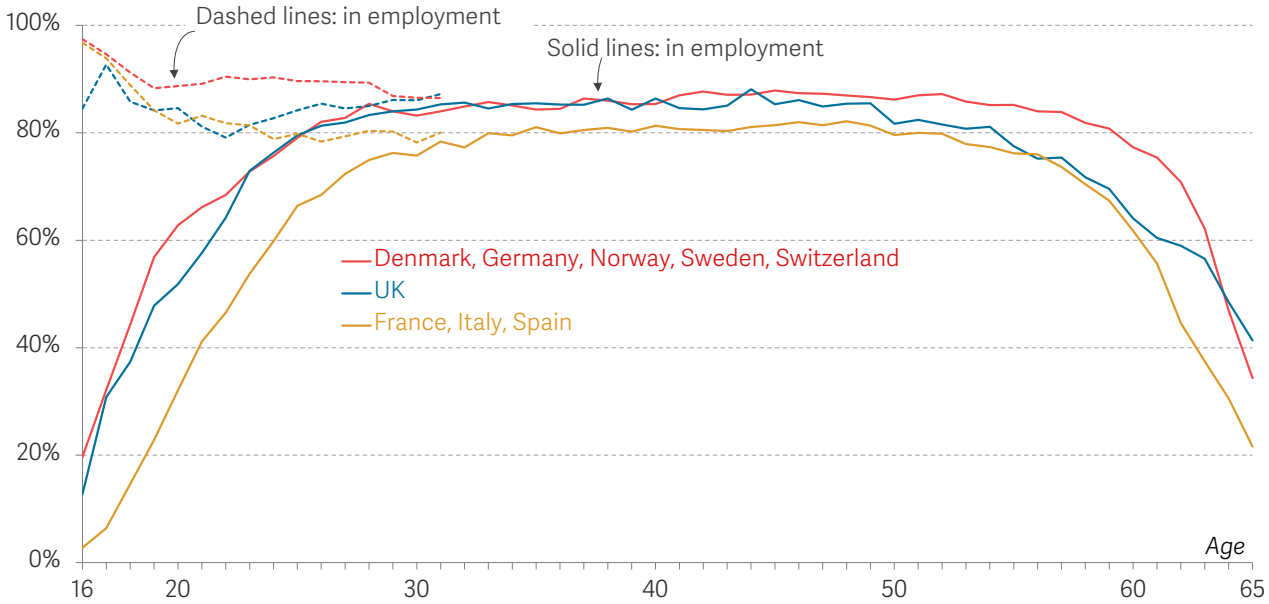
227 This draws on the 'varieties of capitalism' typology set out in: P Hall & D Soskice (eds.), Varieties of Capitalism: The Institutional Foundations of Comparative Advantage, Oxford Academic, August 2001, https://doi.org/10.1093/0199247757.001.0001.

approaching the end of their careers.[228] Figure 29 plots the employment rate in 2024 by single year of age, comparing the UK with a set of European countries (Denmark, Germany, Norway, Sweden and Switzerland) with higher employment rates than the UK, and a set of countries with lower employment rates (France, Italy and Spain).

In the 'prime-age' years – roughly ages 25-50 – there is not much difference between the high-employment countries and the UK. In 2024, employment rates at those ages averaged 85 per cent in both the UK and the high-employment countries. But among 50-65-year-olds, the UK's employment rate is 7 percentage points lower (69 per cent) than in the high-employment countries (76 per cent), and there is a 5-percentage-point gap between the 50 per cent employment rate in the UK among younger workers (aged 16-24) and the 55 per cent in the high-employment countries. Of course, many in the younger age group are in education, so a better measure is probably the share in either employment or education, but the gap on this broader measure is bigger: 84 per cent of the UK's 16-24-year-olds were in work or study in 2024, compared to 91 per cent in the high-employment countries.

FIGURE 29: **Higher-employment countries do better than the UK among the young and older parts of the working-age population**

Employment rate (solid lines) and employment-or-education rates (dashed lines), by country groups: 2024



NOTES: UK data are unadjusted LFS microdata i.e. we have not corrected for known issues relating to bias in the survey in this period (LFS employment rate estimates during 2024 are 1.5 percentage points lower than estimates produced by Resolution Foundation based on tax and population data). EU data are Eurostat LFS.

SOURCE: Eurostat, Labour Force Survey; ONS, UK Labour Force Survey.

228 A similar point was made in: E Latimer, The government's 80% employment rate target: lessons from history and abroad, Institute for Fiscal Studies, December 2024, https://doi.org/10.1920/co.ifs.2024.1177.

Knowing that employment differences between the UK and high-employment countries show up at both ends of the age spectrum is useful, but it doesn't tell us why those gaps exist – or how policy makers could go about driving improvements. Digging further into the data suggests that differences in health and education may be part of the story.

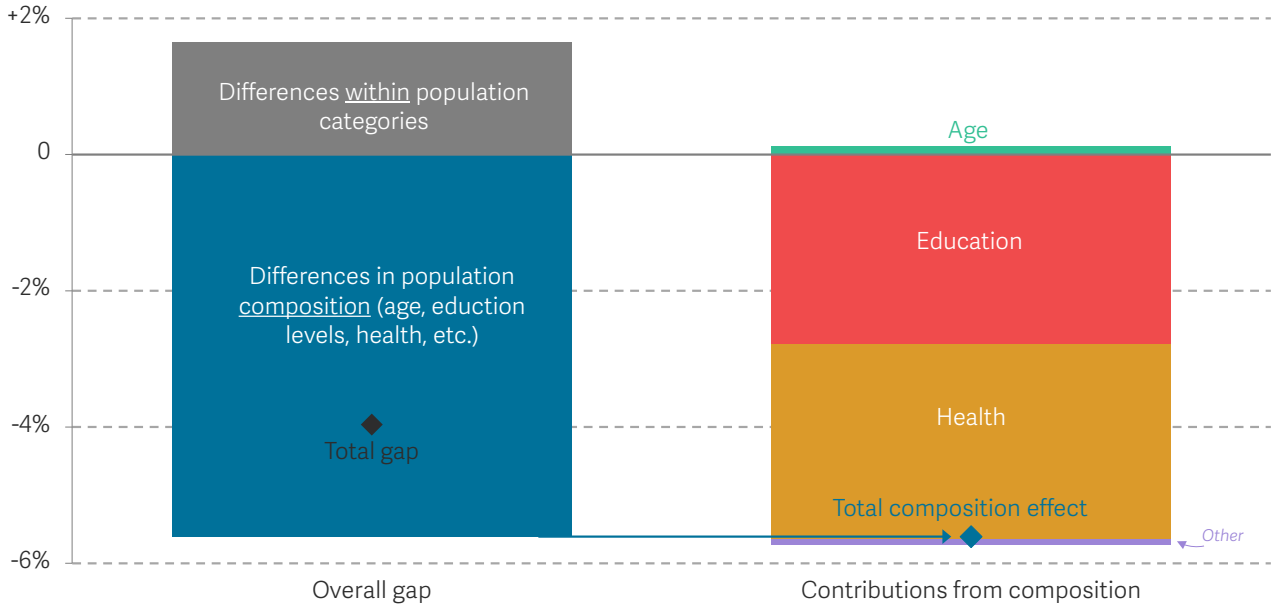
On education, the UK has for a long time sent large numbers of young people to university, but there are also lots of young people who leave education much earlier. A standout statistic from our Economy 2030 Inquiry was that one-third of young people in the UK have left education by age 18, compared to just one-in-five in France and Germany.[229] In the UK data, leaving education early is associated with less employment later in life. On health, the UK appears to simply have a relatively high share of working-age adults in poor health. In the Labour Force Survey, 26 per cent of working-age adults in the UK report a health condition which affects their day-to-day activities, compared to 14 per cent among the high-employment group of countries listed above. These figures should be treated with caution given data quality and comparability issues, but there are several other indicators of population health (such as life expectancy, avoidable mortality, and diabetes prevalence) where the UK also does worse than high-employment countries.[230]

Better health and education are associated with being more likely to have a job, at least in the UK. A simple thought experiment suggests that raising health and education levels to those in high-employment countries would close the employment gap too. This is shown in Figure 30, which shows the results of a decomposition of the difference in employment rates age 21-65 between the UK and high-employment European countries into that which is driven by differences in observable characteristics like health and education, and that which is driven by differences in employment rates for people with given characteristics. The chart shows that the UK is good at getting the people it has into jobs, given their health status and so on. The positive grey bar on the left says that if the UK workforce had the same characteristics as the comparator countries, it would have a higher employment rate. But characteristics like worse health status in the UK drag down its employment rate (the negative blue bar on the left). The right bar unpacks these characteristics, showing that education levels and health each account for around half of the gap. While precise international comparisons are difficult, this analysis does indicate that raising the UK's employment level is likely to require improvements on those two fronts.[231]

229 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023
230 OECD, Health at a Glance 2025, November 2025.
231 Specifically, we are here relying on the UK LFS, which as we note under the Figure has known issues relating to response rates and bias which we have not attempted to correct. Additionally, there is the likelihood that the design of survey questions is not identical in the UK and EU LFS, meaning we may not be measuring 'health' and 'education' identically.

FIGURE 30: **If the UK had a healthier and better-educated workforce, it could close the jobs gap with high-employment countries like Denmark**

Gap in employment rates among 21-65-year-olds between high-employment EU countries (Denmark, Germany, Norway, Sweden, Switzerland) and the UK, and estimate of contribution to this gap from population composition differences: 2024



NOTES: Results are from an Oaxaca-Blinder decomposition. Negative numbers indicate contributions to UK having a lower employment rate than the high-employment European countries. 'Education' is proxied by the age at which a person left education. 'Health' is based on a binary indicator of whether a person's health limits their daily activities. In the EU LFS, the health variable used relates to 'limitation in activities because of health problems' and those reporting being 'severely limited' or 'limited but not severely' are coded as having poor health. In the UK LFS, the variable relates to 'has a long-lasting health condition which limits day-to-day activities' and those reporting 'a lot' or 'a little' are coded as having poor health. Other variables included in the decomposition are migrant status (whether born outside the country) and sex. UK data is unadjusted ONS LFS microdata, i.e. we have not corrected for known issues relating to bias in the survey in this period (LFS employment rate estimates during 2024 are 1.5 percentage points lower than Resolution Foundation estimates based on tax and population data). EU data comes from Eurostat LFS.
SOURCE: Eurostat, Labour Force Survey; ONS, UK Labour Force Survey.

The Government is looking in many of the right places to boost employment, but its decisions on tax have made things worse

The Government's "Get Britain Working" White Paper offers a reasonable diagnosis of the UK's employment problems.[232] It contains a number of sensible ideas, including a Youth Guarantee (involving job guarantees for those who are long-term unemployed, alongside better mental health services), and more money for employment services. The creation of local trailblazers to tackle health-related inactivity is also a promising and innovative idea.

The three groups the White Paper identifies where labour market participation must

232 Department for Work & Pensions, HM Treasury & Department for Education, Get Britain Working White Paper, November 2024.

increase for the UK to achieve a higher employment rate are:

- young people not in education, employment or training;
- people 'inactive' due to ill-health; and,
- women 'inactive' due to caring responsibilities.

This choice of target groups is sensible given the cross-country comparisons set out earlier: young people stand out as a group where the UK does relatively badly, and health seems to be a driver of the UK's overall employment gap to higher-performing countries. Women with caring responsibilities don't stand out as a group where the UK does badly compared to other countries, but this may nevertheless be a group where more progress is possible.[233]

The cross-country analysis would suggest adding two target groups:

- older workers; and,
- people with low education levels.

The Government has made some policy proposals to improve labour supply. But there are areas where it could go further to get the UK on its way to an 80 per cent employment rate:

- Young people. The Youth Guarantee is promising, but it should be offered to a wider range of young people. Eligibility should be extended to those up to age 24, and to all young people in long-term unemployment regardless of whether they are claiming benefits. Additionally, the Government should be more cautious in its approach to the youth minimum wage rates. The Government should not pursue further reductions in the gap between the youth and adult minimum wage rates until unemployment levels improve.[234]
- Older workers. To reduce the financial incentives for people to retire early, the Government should consider limiting access to private pension wealth before the State Pension age. This could be done either by raising the age at which tax-relieved private pension wealth can be accessed or by reducing the amount that is tax-free.[235]
- Ill-health and disability. The Government should commit to funding the proposals

233 Differences in variable availability mean this comparison is not perfect. In 2024, in the UK LFS the employment rate among women with at least one child aged 0-4 was 69 per cent, as was employment rate among women with at least one child aged 0-5 in the high-employment countries we have focused on in this Section (Denmark, Germany, Norway, Sweden and Switzerland).
234 J Diniz & L Murphy, False starts: What the UK's growing NEETs problem really looks like, and how to fix it, Resolution Foundation, October 2025, https://doi.org/10.63492/kvz546.
235 L Murphy & G Thwaites, Post-pandemic participation: Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead, Resolution Foundation, February 2023.

in the Mayfield "Keep Britain Working" Review, and consider creating incentives (perhaps through the tax system) for employers to retain staff dealing with ill health or disability.[236] The Government is right that the UK's disability benefits need reform, but it is also right to have abandoned its initial effort, in which the proposed changes were arbitrary,[237] and which would not have been effective at getting people into work.[238] Reform should start – as the Government is now doing with the Timms review – from first principles, and an assessment of the extra costs faced by people with disabilities.[239]

Finally, any discussion of policy relating to employment needs to acknowledge that the Government made a misstep by choosing to raise tax revenue through employer NICs at the 2024 Autumn Budget. The impact on employment is hard to quantify, but there is no doubt that it was negative: at the time, the Office for Budget Responsibility thought the impact would be a (relatively modest) reduction in labour supply equivalent to 50,000 people on average hours, on the assumption that the tax would mainly reduce wages rather than employment.[240] Of course, any tax that increases labour costs is likely to hurt employment to some degree, but the Government did have options (albeit politically difficult) which would have been less damaging to the labour market, such as raising income tax. The choice to raise employer NICs (and within that, to do so by lowering the threshold above which the tax is levied, thereby disproportionately affecting lower earners) has undoubtedly made the Government's 80 per cent employment ambition harder to achieve.[241]

A higher employment level would add materially to growth

Raising the UK's employment rate to 80 per cent would have a very significant impact on the size of the UK economy (as well as on the growth rate, in the period during which the employment rate was rising). But the exact scale of the impact would depend on the output of the additional workers, which comes down to how many hours they work and their productivity level: adding low-productivity workers on part-time hours would mean a smaller economic boost than adding high-productivity workers on full-time hours. Figure 31 presents four scenarios, where the additional workers who push the UK employment rate up to 80 per cent either work average hours or work part time, and either earn the average wage or the minimum wage. In the 'average pay, average hours' scenario, the

236 B Baumberg Geiger & L Murphy, Opening doors: How to incentivise employers to create more opportunities for disabled workers, Resolution Foundation, July 2025, https://doi.org/10.63492/kvno88.
237 M Brewer, A Clegg & L Murphy, A dangerous road? Examining the 'Pathways to Work' Green Paper, Resolution Foundation, March 2025, https://doi.org/10.63492/fxz2960.
238 L Murphy & G Thwaites, No workaround: Assessing the impact of the Spring 2025 disability and incapacity benefit reforms on employment, Resolution Foundation, May 2025, https://doi.org/10.63492/lzjc98.
239 L Murphy, Delivering the undeliverable: Five principles to guide policy makers through reforming incapacity and disability benefits, Resolution Foundation, March 2025.
240 Office for Budget Responsibility, Economic and fiscal outlook – October 2024, October 2024.
241 N Cominetti & G Thwaites, Minimum wage, maximum pressure? The impact of 2025's minimum wage and employer NICs increases, Resolution Foundation, March 2025, https://doi.org/10.63492/dxif445.

boost to economic output of getting to 80 per cent employment would be 6.2 per cent. At the other end of the scale, if all the additional workers were working part time on the minimum wage, the impact would be 1.7 per cent, around a quarter as large.

FIGURE 31: **The impact of higher employment on GDP would depend on the pay and hours of the additional workers**

Impact on GDP of raising the working-age employment rate to 80 per cent under different assumptions about the profile of additional workers: UK

Earning level of additional workers	Hours worked by additional workers	
	Average hours	*Part time*
Average hourly pay	+6.2 per cent	+3.3 per cent
Minimum wage	+3.3 per cent	+1.7 per cent

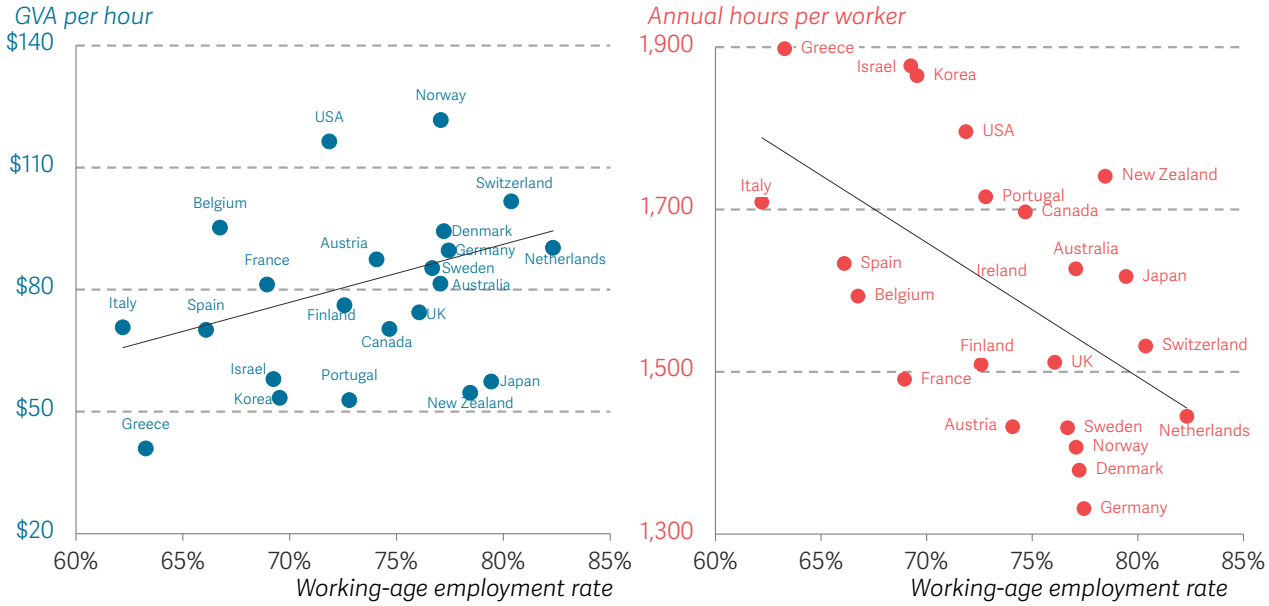
NOTES: We assume that productivity is proportional to hourly pay. Impact of 'average pay, average hours' scenario is simply the percentage difference between 80 per cent and the current employment rate (75.3 per cent). Impacts of other scenarios scale this down in proportion to hours worked (e.g. the ratio of average part-time hours to average hours overall), or hourly pay (e.g. the ratio of the minimum wage to mean hourly pay among employees) or both.
SOURCE: RF analysis of ONS, Actual weekly hours worked (produced from the Labour Force Survey); ONS, Annual Survey of Hours and Earnings (mean gross hourly pay excluding overtime).

A middle scenario – where many additional workers are working part time, but where their pay is around average – may be more plausible. That's because the international evidence strongly suggests that higher employment rates tend to come at the expense of lower hours worked (see the right-hand panel of Figure 32). Indeed, all of the high-employment European countries listed above apart from Switzerland (i.e. Denmark, Germany, Norway and Sweden) have lower average hours worked than the UK. We might also expect a substantial share of additional work to be part time if it comes from currently lower-employment groups such as people with disabilities, the over 55s, and women with young children, among whom rates of part-time work are higher than average.[242] On the other hand, the international data does not suggest there is a trade-off between employment and average productivity levels (see the left-hand panel of Figure 32) – higher employment countries tend to have high hourly productivity, but the relationship is not very strong. Raising the UK's employment rate by adding part-time workers on average hourly pay therefore looks like a reasonable baseline expectation. We calculate that getting to an 80 per cent employment rate on this basis would boost GDP by 3.3 per cent (see Figure 31).

242 In the Q1 2025 UK LFS data, 25 per cent of overall employment is part-time, but rates of part-time work (as a share of employment) are higher among women with a child under 5 (48 per cent), people with a disability (35 per cent), the over 55s (39 per cent).

FIGURE 32: **Higher-employment countries tend to have higher hourly productivity, but lower hours worked**

Working-age employment rate compared to GVA per hour (left panel) and average hours worked (right panel): high-income OECD countries, 2024



NOTES: 'Working-age' in the OECD data refers to people aged 15-64.
SOURCE: RF analysis of OECD labour and productivity statistics.

Of course, impacts of this scale will only materialise if we get all the way to 80 per cent employment, which is a very stretching target. Partial progress towards this goal would still be welcome, but the impacts would naturally be smaller. Under the 'part-time work, average pay' scenario, each additional percentage point added to the employment rate delivers a GDP boost of 0.7 per cent. This means that even just repeating the gains made during the 2010s (when the employment rate rose by 3 percentage points) would imply a GDP boost of 2.1 per cent.

In our concluding Section, we zoom back out from specific policy areas to consider in broad terms how the Government can continue making progress on its growth mission.

Section 7

The priorities for future growth policy

Economic growth remains the big policy challenge facing the UK Government, despite recent signs of 'green shoots' in productivity and dynamism. We have seen that the Government's policy to date, while well-intentioned, and even impactful in many places, is still too timid and contradictory in many areas.

While hard to achieve, the economic prize for success in our three key areas – trade, housing and labour supply – is huge. Deeper alignment with the EU could reverse around one-quarter of the economic damage of Brexit, worth around 1.5 per cent of extra GDP or 0.15 percentage points extra growth per year if spread over a decade. Bold planning reforms that enable our major cities to hit their housing targets could raise GDP growth by 0.14 percentage points per year.[243] Finally, reaching an 80 per cent employment rate would boost GDP per person by 3.3 per cent or 0.33 percentage points extra growth per year if spread over a decade. In total, this implies a boost to annual growth in GDP per person of 0.6 percentage points – increasing projected growth by more than half. Based on the historical relationships between GDP per person, real household disposable incomes and tax revenues, achieving this over a decade would deliver a £2,000 boost to living standards (in today's money) and increase government revenues by £70 billion, more than a quarter of the NHS budget.

But delivering such large gains depends crucially on the Government accelerating its policy agenda. Put simply, the country is, at best, at the end of the beginning of the growth policy challenge. So we conclude this report, with two ways of thinking about how else to build on the progress so far.

Where to look for growth

One place to look for growth is by comparing UK industrial sectors to the international frontier – looking 'vertically' at industries rather 'horizontally' across key areas of growth like skills or labour supply. For tradable sectors, we can test this by looking at 'revealed comparative advantage' – how much we export in that sector relative to our economic

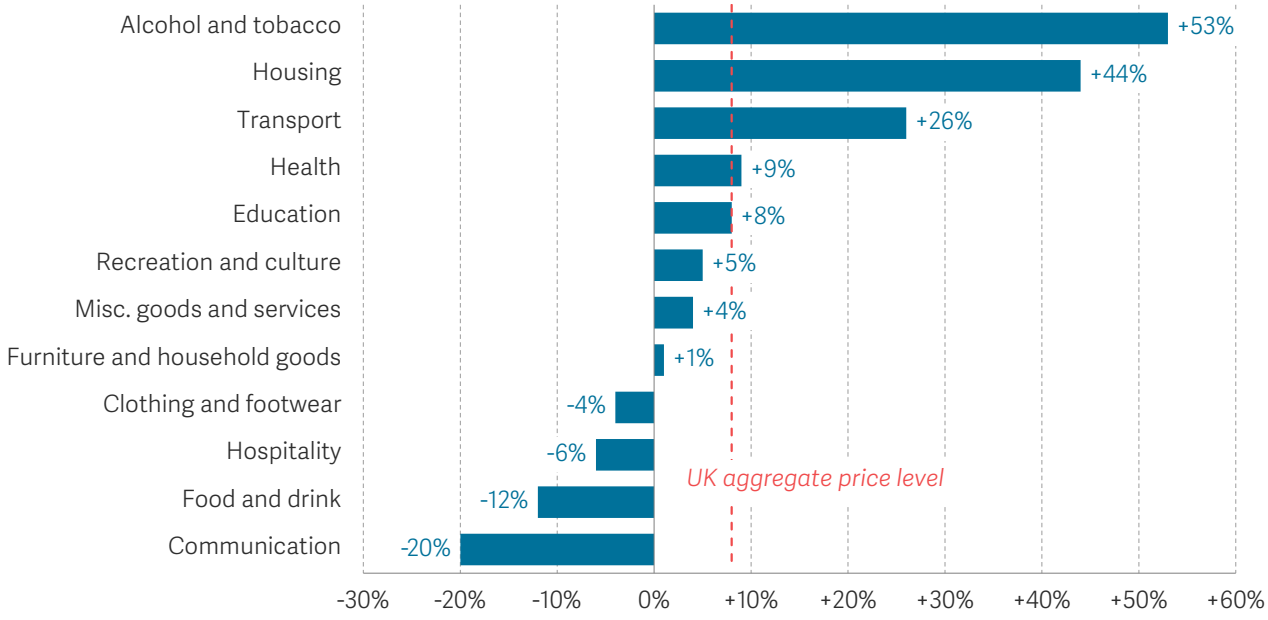
243 E Fry & G Thwaites, The growth mindset: Sizing up the Government's growth agenda, Resolution Foundation, September, 2024, https://doi.org/10.63492/xbgr77.

size. Previous RF work has shown that the UK has a comparative advantage in several service sectors, and recommended doubling down on them as a means of raising national income.[244]

But this does not work for non-tradables – sectors not exposed to international trade – which form the bulk of the economy. Doubling-down on a given non-tradable sector (such as retail) might not make sense because we have to consume everything that sector produces, whereas extra production in tradables can be absorbed by world market. Instead, the aim should be to look for relatively inefficient sectors in the UK. These sectors, furthest behind international best practice, are probably those which have the most room to improve efficiency. Ideally, we would compare individual sectors directly across countries, but this is not possible given the data we have.[245] As an alternative, however, we can compare prices. If the products of a given sector are relatively expensive, this is an indicator – albeit an imperfect on – of that sector's relative efficiency.[246] With this in mind, Figure 33 shows that housing (including utilities), transport and health are products which are relatively expensive in the UK and therefore likely to be a long way from the international efficiency frontier.

FIGURE 33: **Housing, transport and health are relatively expensive sectors in the UK**

Percentage difference between each category's price level and OECD average: UK, 2022



NOTES: Aggregate price level if for household final consumption expenditure
SOURCE: RF analysis of OECD 2022 PPP Benchmark results

244 J De Lyon et al., Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, Resolution Foundation, April 2022.
245 The best we have are the GGDC Productivity Level Database which ends in 2017 and covers 12 sectors. More timely, disaggregated data would be necessary for this exercise.
246 It could also be that the inputs of the sector are relatively expensive, not just that they are used inefficiently. For example, to the extent that the OECD includes some much poorer countries than the UK, products like health might be more expensive because of the Balassa-Samuelson effect. And housing may always be expensive in a densely populated country like the UK.

Collecting better data here, especially on the prices of the intermediate goods and services that firms buy to produce their output, should be a big priority for a Government that wants to know where and how to boost national productivity.

Once the Government has identified target sectors, it should look for tools to raise efficiency. In a liberal market economy like the UK's, there isn't a switch a government can use to boost growth. Instead, growth policy must be more like gardening – the economy be coaxed and nurtured, but with the wrong care can also stunted and killed. Some places and times will always be more propitious for growth than others.

When working on the next phase of growth policy, it is helpful to think through what the levers of growth policy in a market economy are:

- Liberalisation – the alleviation of barriers to beneficial market transactions. Examples include planning reform, reducing Stamp Duty Land Tax and reducing trade barriers with the EU and elsewhere.
- Incentives – aligning the private payoffs from economic activity more closely with the social benefits. Examples include full expensing of investment, and benefits conditionality.
- Provision of complementary factors – providing inputs to production that the market cannot. Examples include transport infrastructure, primary education and basic research.
- Direction – solving collective action problems by giving market actors focal points around which to co-ordinate. Examples include aspects of spatial policy and industrial strategy. Taking direct control of activities through nationalisation is another form of direction.
- Pressure – strengthening incentives for innovation and efficiency that may be too weak in an imperfect market economy. Examples include competition policy and, potentially, 'running the economy hot'.
- Of course, a given policy might work through more than one channel. But thinking in terms of these channels will help to generate new policy ideas.

We still have a mountain to climb to turnaround the UK's dire growth performance

A more expansive set of growth policies is needed because, despite some promising policies and the 'green shoots' in the data, the UK's growth policy challenge remains immense. The Resolution Foundation will work on these in coming months, in line with

the framework identified above. Meanwhile, the Government should pursue its existing agenda with alacrity and consistency. We may have ascended the foothills, but there is a mountain to climb.

Annex

Data citations

- European Labour Force Survey (series page here):
  - Eurostat. (2024). EU Labour Force Survey (EU-LFS) microdata [dataset]. European Commission. DOI: 10.2907/LFS1983-2024
- UK Labour Force Survey (series page here):
  - Office for National Statistics. (2024). Labour Force Survey. [data series]. 11th Release. UK Data Service. SN: 2000026, DOI: http://doi.org/10.5255/UKDA-Series-2000026

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

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