

Growth Mais-day

Resolution Foundation response to the Chancellor's 2026 Mais Lecture

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The Chancellor's reaffirmation of her commitment to focusing on the UK's miserable growth rate is welcome and reflects the scale of the UK's challenge: a decade of exceptionally weak growth and a fragile outlook shaped by global risks. The Chancellor set out three new priorities: regional growth, innovation and closer EU alignment. The most eye-catching new commitments were on devolution and investing in city regions to address long-standing regional productivity gaps. Meanwhile, the emphasis on AI and innovation rightly recognises both the UK's strengths and the need for wider diffusion of new technologies. And a shift towards closer alignment with the EU signals a more pragmatic approach to trade given the need to diversify away from chaotic US policy. Taken together, these priorities form a credible framework for supporting stronger growth.

However, they do not always represent the most direct response to the Chancellor's own diagnosis of weak growth driven by low investment. Important gaps remain, particularly on how exactly the Government can boost private investment, where tax policy was noticeably absent; addressing the shortfall in housebuilding in high-productivity areas; and setting clearer sectoral priorities for strategic state intervention. While the direction of travel is broadly right, delivering sustained growth will surely require a more ruthless confrontation of political trade offs and policy follow-through.

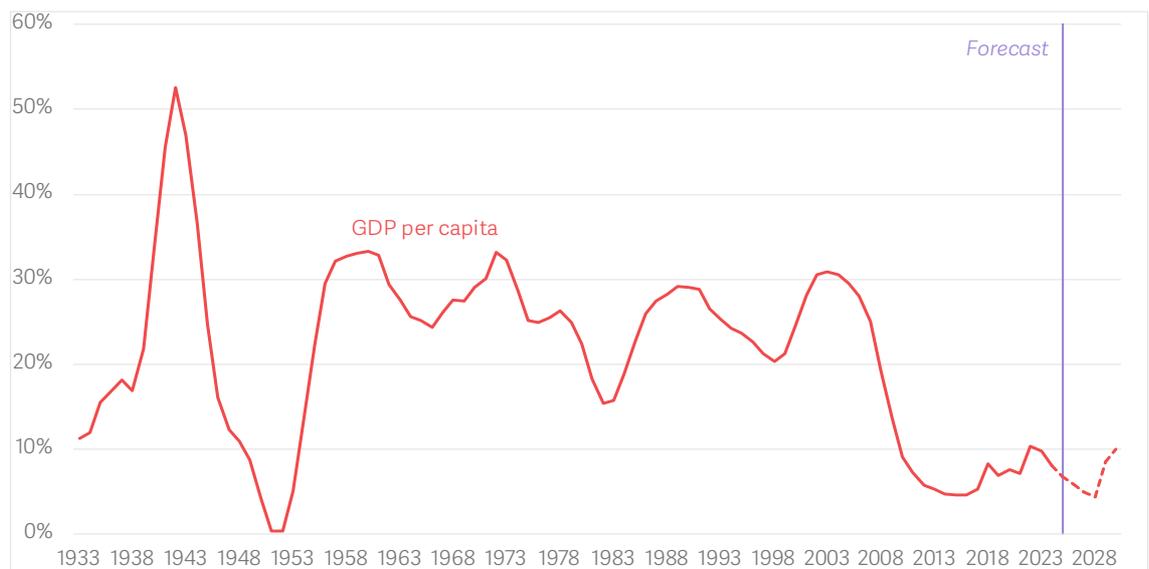
Unlocking faster growth underpins every other priority

It is welcome that in yesterday's [Mais Lecture](#) the Chancellor has restated her focus on growth as the central economic challenge facing the UK. This comes in a week of several major policy announcements, from new measures to tackle the [rise in youth unemployment](#) to plans aimed at easing pressure on [heating oil related energy bills](#). Yet stronger growth clearly remains essential: as the Chancellor has set out "growth is the condition for secure and rising incomes, the revenues to support our public services, and a strong state able to safeguard its people".

The case for refocusing economic policy on growth has rarely been more pressing. The UK's recent growth record has been [exceptionally weak](#): GDP per person had risen by just 0.8 per

cent since the pre-pandemic peak – just 0.1 per cent per year. Put another way, 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. And looking ahead the outlook is no stronger. Instead, setting aside the Second World War and the depths of the pandemic, the OBR is forecasting that growth over the decade to 2028 is set to be the weakest in a [century](#) (see Figure 1).

Figure 1 **10-year growth could soon reach a century low**
 Decadal growth rate of real GDP per capita: UK



Notes: Rolling average of GDP per capita growth centred on the date show, compared to the three years centred on the date 10 years previous. For example, 2024 shows growth between 2013-2015 and 2023-2025.

Source: Analysis of Bank of England, Millennium of Macroeconomic Data; OBR, Economic and Fiscal Outlook, March 2026; ONS, UK resident population.

As the Chancellor noted, the global backdrop presents further downside risks. The war in the Middle East is raising economic uncertainty while placing upward pressure on energy prices and interest rate expectations. If these pressures persist, the already weak growth outlook could deteriorate further.

Against this backdrop, the Chancellor has doubled down on the Government's existing growth strategy – centred on stability, investment and reform – with a clear emphasis that “in Britain the fundamental challenge is investment”. But it also highlighted three “big choices” where the Government has “identified the greatest growth and opportunities for the UK in the decade to come”: regional growth, innovation and AI and EU trade.

On regional growth the Chancellor announced additional investment in cities and a bold promise for future fiscal devolution

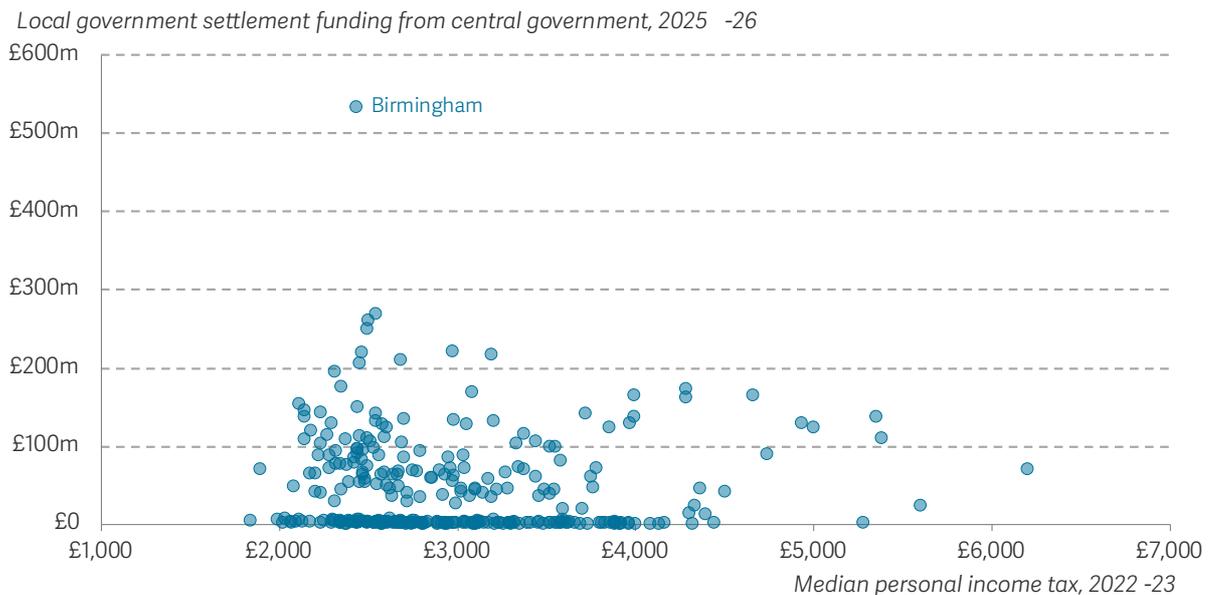
The focus on regional growth reflects one of the UK economy's central challenges: large and persistent regional productivity gaps between places. The gap between the UK's leading city (London) and other major cities is wider than in peer countries, including France. Closing these gaps will require a clear commitment to prevent our second cities from falling further

behind, including providing the powers, improved connectivity and infrastructure they need to improve local performance.

The Chancellor has kept her focus on her two regional growth 'corridors' – the Oxford to Cambridge Growth Corridor and the Northern Growth Corridor. And she made some chunky announcements on both regional investment and devolution. On investment, the big ticket item was a promise of an additional £2.3 billion of funding for the new City Investment Funds, focused on major city regions in the North and West Midlands. And on devolution the Chancellor has made a bold promise to deliver a roadmap for future fiscal devolution by this year's Budget, which will "set out plans to give regional leaders control of a share of some national taxes". Ultimately the impact depends on how this is implemented. As Figure 2 shows that there is no clear relationship between the settlement funding a local area receives and typical personal income tax – which suggests that designing a fair and neutral system would be complicated.

Figure 2 **There is no clear relationship between local government settlement funding and typical personal income tax**

Median personal income tax (x axis) compared to settlement funding from central government (y axis): English local authorities, 2022-23 & 2025-26



Notes: Only includes English local authorities where comparable data is available. Settlement funding differs to local government 'core spending power' which includes settlement funding, council tax and locally retained business rates.

Source: RF analysis of HMRC, Survey of Personal Incomes for tax year 2022 to 2023; House of Commons, Local Government Finance Settlement 2026/27 to 2028/29.

This could still represent a substantial step in the right direction towards giving city regions stronger revenue-raising powers, enabling them to harness more of the wealth of a more productive city region for redistribution locally, and truly ensuring the gains from growth are shared. But delivering this in a way that is both fiscally neutrally, as promised, and equitable will be a challenge.

Policy needs to focus on turning research strength into economy-wide innovation

On innovation the Chancellor primarily focused on setting out her approach to responding to AI as the “defining technology of our era”. She set out a four-part strategy – boosting data centre capacity, identifying and supporting the UK’s AI strengths, backing AI adoption and finally upskilling workers.

The Chancellor is right to highlight innovation, including the AI transition, as central to the UK’s growth prospects. And it is true that the UK has real strengths here: from [indicators](#) of AI readiness to being world leaders in research quality. And it is positive that the Chancellor has also recognised that success depends not only on being at the cutting edge but also on how widely new technologies are adopted across the economy. [Strengthening innovation](#) will require helping productive firms scale, improving the diffusion of new technologies into mid-productivity businesses, and building stronger regional innovation clusters beyond the South East. It will also require closing the UK’s gap with international leaders in key areas of investment – such as boosting UK business investment in software, which [grew at half the rate](#) of the US between 2021-23 and 2017-19.

The largest new policy announcement here was a commitment to procure up to £1 billion of quantum computers from the first UK company to make them at commercial scale. And this builds on the recent announcement by the Department for Work and Pensions of [a new AI and automation practitioner apprenticeship](#) to help workers and businesses harness artificial intelligence.

The fourth part of the strategy - focused on jobs and equipping the workforce with the skills needed to manage the transition - is also vital. The commitment to closely monitor the impact of AI on labour markets is, therefore, welcome, alongside a clear recognition of its productivity potential. However, policy will need to remain agile and responsive if the pace and scale of change leads to the higher levels of unemployment that some fear.

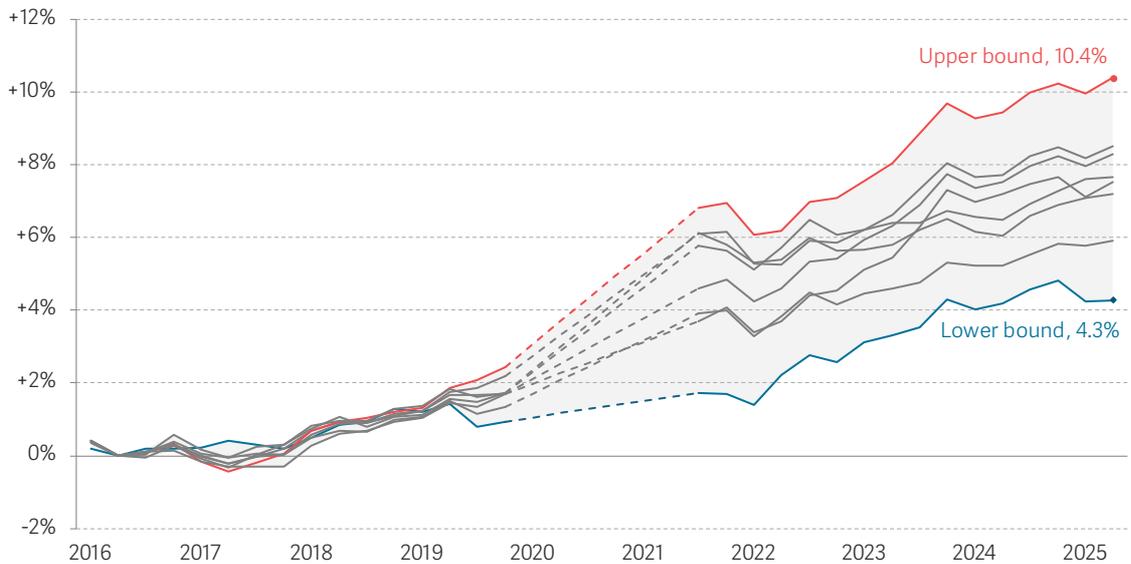
Dynamic alignment by default with the EU is a substantial change in rhetoric, but must be matched with action

Many advanced economies have experienced weaker growth in recent years, with several major shocks such as Covid-19, Russia’s invasion of Ukraine and the fluctuating US tariff policy affecting countries to different degrees. But Brexit has been a particular headwind for the UK economy and has contributed to the UK falling further behind its international peers. Failing to address this sits uneasily alongside the Government’s growth ambitions, especially since, as the Chancellor noted, recent [evidence](#) suggests the economic cost of Brexit may already be approaching twice the 4 per cent impact assumed by the OBR.

Figure 3

Brexit has likely done more economic damage 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.

Here the Chancellor has indicated a shift in the Government's international priorities, stating "no partnership is more important" than with the EU and that "closer alignment is the right course for Britain". She has promised to go beyond Labour's initial commitments to negotiate a Sanitary and Phytosanitary Measures agreement with the EU and improve arrangements on mutual recognition of professional qualifications and for touring artists. And this includes a commitment to align with EU regulation wherever it is in the UK's national interest and a claim that regulatory autonomy will be the "exception, not the norm". The size of the impact will ultimately depend on how high the bar is set for such exceptions. Ultimately, the success of this agenda will depend on whether the Government is willing to confront difficult political trade-offs. Even if delivered ambitiously, it would fall short of the deeper arrangements for goods trade set out in [previous work](#), which would provide single market-type access akin to that in Northern Ireland. It is, nonetheless, encouraging to see the Chancellor acknowledge that improving the UK's trading relationship with Europe is a priority.

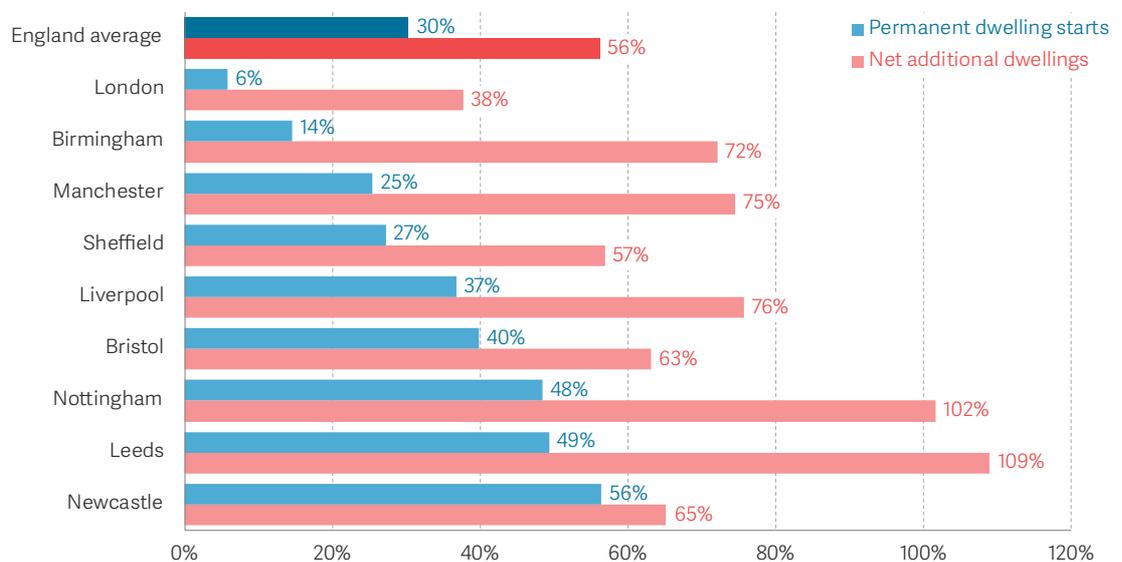
A sensible set of priorities, but ones that don't completely address her core diagnosis of the problem: low investment

The Chancellor's decision to keep growth at the centre of her economic strategy is welcome and she has set out a sensible set of priorities. However, while these priorities address important aspects of the UK's economic challenges, they are not the most direct response

to her central diagnosis of weak growth driven by low investment. This points to three areas where the Chancellor could have said more.

First, investment in new houses. Reforming the planning system to get Britain building has been a central part of the Government's growth strategy to date, yet the housebuilding shortfall persists. This is not only a living standards issue but a growth one. The collapse in building has been particularly sharp in London (as shown in Figure 4), limiting the ability of high-productivity places to expand. In this context, we await the forthcoming announcement on "arrangements to strengthen and unlock package housing development in the capital".

Figure 4 **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.

Second, the Chancellor said relatively little that was new on how to boost *private* investment more broadly. Her comments on opening access to capital focused largely on existing reforms to pensions and ISAs, alongside changes to listing rules and tax incentives, and concluded with a promise of 'more to come'. There was limited detail on plans for further pro-investment tax reforms or how public investment could be better leveraged - for example, through stronger coordination and targeting by institutions, such as the National Wealth Fund and the British Business Bank.

Third, the lecture's focus on an 'active and strategic state' implies prioritisation in how and where the state intervenes to support growth. However, the eight high-growth sectors

identified in the Government's Industrial Strategy are too broad – accounting for over a third of the economy – to provide a clear basis for such prioritisation.

Ultimately the focus on growth is welcome and three areas to go further are sensible. But sustained growth will depend not only on strategy but on delivery and policy follow-through. The politically easy policies have already been tried and bolder and braver action is now needed. This means facing up to the trade offs and not turning back when inevitably pressures to change course emerge.