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# Why does the UK struggle with growth?

How the centre of government can design better growth policy



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# About this report

Labour has set itself the mission of markedly raising the UK's growth rate – indeed, to be the fastest growing country in the G7. By implication, government must believe that by the decisions and actions of its leaders it can do something to bring about what is a daunting ambition. This report considers what that might be.

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# Introduction

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Labour has set itself the mission of markedly raising the UK's growth rate – indeed, to be the fastest growing country in the G7. By implication, government must believe that by the decisions and actions of its leaders it can do something to bring about what is a daunting ambition. This report considers what that might be.

The government is right to be ambitious. The fall in growth rates since 2008 has left the country poorer to the tune of hundreds of billions of pounds of GDP. This has generated serious and negative implications, from lower living standards to fewer resources for public services. There is a serious risk of a low-growth trap – of stagnation sapping the country of the means and will to clamber out of the hole it has fallen into.

This report believes there is room for optimism. One reason is that while growth is a complex topic, it should not be seen as a mysterious one. There is no puzzle that requires a new investigation or dose of highly novel thinking to unlock. The attributes of more productive economies are widely known (see Box 1).\*

Nor is the aim of higher growth controversial. You would be hard pressed to find any politician who says they'd rather see *less* money coming into the Treasury. And while politicians like to emphasise their differences, there is considerable evidence that Keir Starmer's Labour sits comfortably within a stable economic consensus embedded over the past several decades and is pursuing growth in a similar way to its Conservative, coalition and New Labour predecessors. The fundamentals of that consensus are:

- **The problems are on the supply side.** The UK economy is not crying out for a burst of higher spending. This was a disputed point in the 2010s, in the wake of the financial crisis, when conditions were deflationary and monetary policy, as the conventional means of addressing this, appeared near its limit. In 2025, inflation is uncomfortably above its target range – and even if demand *were* the problem, it would be easily addressed.

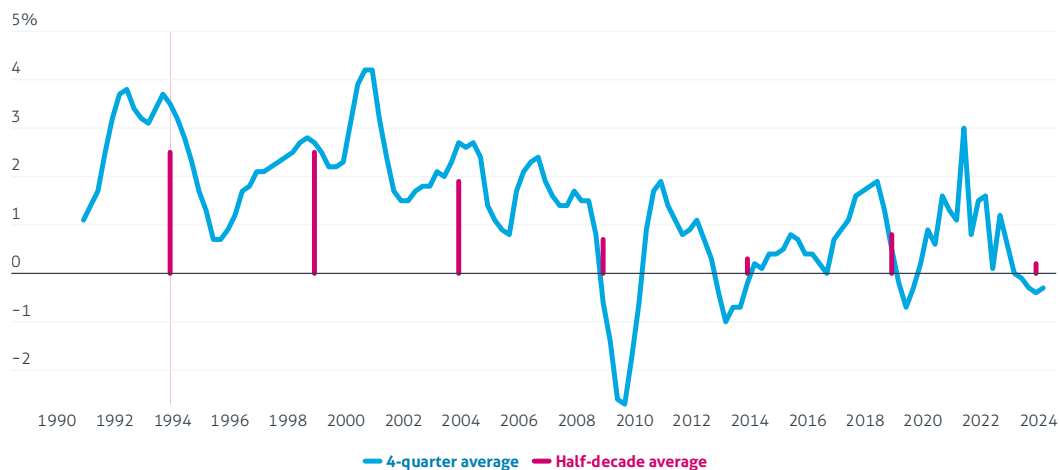
There is today no equivalent to a financial crisis, pandemic or non-credible monetary policy that prevents the combined forces of the Bank of England and the UK government from keeping spending growing at a healthy pace. The problem is that even with the macroeconomic situation fully under control, real economic growth – which adjusts for inflation – is much worse than it should be. In many ways this is a harder problem to solve than a demand-side crisis, but there is room for optimism in the widespread understanding of the problem.

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\* The case is well made by Tej Parikh, leader writer of the *Financial Times*, who, in a wide-ranging article about the productivity crisis, wrote: "The solutions are known, but delivering on productivity policy is hard... Britain has a puzzle. But it is one of policy, not productivity." Parikh T, 'The UK doesn't have a productivity puzzle', *Financial Times*, 1 June 2025, [www.ft.com/content/583a30e1-f411-40b2-bf60-8102634a6a3c](https://www.ft.com/content/583a30e1-f411-40b2-bf60-8102634a6a3c)

- **The problem is productivity.** The UK has usually managed to keep its labour force growing, so the issue is productivity: how much each unit of labour can produce. From the end of the 1990–92 recession up until 2008, it was normal to record annual increases of 2.0–2.5% in how much each worker could produce in an hour. In the aftermath of the crisis, this dropped to below 1.0% and has stayed there.

Figure 1 UK hourly productivity growth since December 1990



Source: Institute for Government analysis of ONS data.

- **There are identifiable root causes across policy areas.** These include years of weak investment<sup>1</sup> (private and public), big regional productivity gaps, a slowing rate of economic change, weak skills, and a failure to make the most of growth sectors and breakthrough technologies.
- **These problems are not simply a case of bad luck.** Although the shocks of the financial crisis, Brexit, Ukraine crisis and pandemic undoubtedly played a role in pitching the UK on to a lower growth path, it is too fatalistic to blame structural forces or bad luck entirely for the UK's current position. Other countries in a similar position have done better, and the UK has consistently underperformed its own expectations. Its relatively weak performance has been particularly striking since the Brexit referendum and Covid crisis.

### Box 1 The unmysterious drivers of growth

To a conventional economist, the **proximate causes of higher growth are not mysterious**. In simple terms, an economy's capacity comes down to key inputs – labour, public and private capital, levels of skill – and the efficiency with which these are brought together to provide goods and services. The latter is usually termed *total factor productivity*. TFP might be raised in any number of ways: improved market functioning and size, strong property-defending institutions, and greater uptake of technology, for example. These lead to some clear principles.

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- **More workers lead to more production.** Economic output is generated by workers using capital and technology to generate products and services. The more workers, the more production.
  - **Higher skill levels support higher growth.** More educated workers are generally more productive.
  - **Investment, both public and private, raises production,** albeit with diminishing marginal returns.
  - **Dynamic markets** help the process of reallocation, pushing the economy towards a more efficient use of resources. Barriers to market activity, including from the government, act against this.
  - **Economic incentives matter.** Lower taxes usually raise output, all other things being equal. There is room for argument about the strength of incentive effects, but taxes that cut the reward to effort ratio and investment will tend to lower economic potential.
  - **Free trade and larger markets are better than constrained trade and smaller markets.** The principle of comparative advantage leads to more specialisation, and higher levels of output and welfare.
  - **A country's sectoral structure can affect its potential.** Having economic resources oriented towards expanding rather than stagnant markets can be a significant driver of growth.
  - **Uncertainty impedes growth** by increasing the risks inherent in economic behaviour, notably investment. Macroeconomic uncertainty is a particularly damaging variety.
  - **'Rent-seeking' and monopolising behaviour damage efficiency.** Firms with monopoly power have incentives to curtail output and impede the market's ability to allocate resources efficiently.
  - **Key factor costs matter for competitiveness.** Expensive energy, for example, undermines an economy's ability to compete for market share.
  - **New technology increases the range of production possibilities.** The adoption of innovations is important for the creation of new products and services, improving processes, satisfying new demands and solving productivity problems.

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Taking these elements of the consensus together, then, it is the argument of this report that a great deal of the problem lies in what might be captured with the term 'governance' – that is, the inability of successive governments to follow through on what they set out to do. The stable consensus provides one reason to believe this. Predecessors to this government have intended to prioritise good growth policies that are in many cases the same as those the chancellor, Rachel Reeves, wants,<sup>\*</sup> but have not delivered on the intention. To quote the words of one anonymous official: "If you think the policy solution to growth isn't one or two big things but lots of little things then repeated delivery failure is where you need to look." Governments know what they want to do to restore growth. The question is why they can't do it.

Since politicians' role is to convert political preferences into policy action, the logical first place to start is with the politics. Repeated failure often comes about because the politics of good, supply-side growth policy is hard. The government needs to create a system that reliably addresses the political problems that will inevitably arise.

### **Strong leadership is paramount for growth**

It is from the leadership that a growth strategy is meant to emanate, with all its important elements: a clear diagnosis of the challenge, actions to address that challenge, and governance to monitor and adjust progress over the course of the strategy.

To qualify as a proper governmental strategy, the vow to prioritise growth must mean a commitment to take the political decisions necessary to its delivery. The problems of growth policy are usually political, and solving such problems is the task of the leadership of government: setting priorities, deploying political capital, taking political risks, the settling of inter-departmental squabbles. No single department can deliver growth, no matter the significance of its remit – not even the Treasury, with its ownership of fiscal and tax policy levers. Collaboration between departments and policy longevity are both essential, and these cannot be assured without the involvement of those at the top.

No team, however strong and well organised, can make up for a lack of political resolve in the leadership. This report is meant to inform governments that are assumed to have those attributes, are sincere about their intention to achieve growth and have a decent fund of prime ministerial authority to deploy. It is not intended as a commentary on whether this or previous governments have these qualities, but what they can do to turn them into a proper, effective growth strategy.

The team leading the government from No.10 can make a positive difference to the growth agenda, or it can make the problem worse. The question is how to ensure the former.

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<sup>\*</sup> There is a good argument for there being a consensus shared between Rachel Reeves and her predecessor, Jeremy Hunt, dubbed Heevesian: this Bennett Institute blog from Will Lord is a good place to start, [www.bennettschool.cam.ac.uk/blog/industrial-strategy](http://www.bennettschool.cam.ac.uk/blog/industrial-strategy)

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## Supply-side growth politics is inherently hard

Good growth policies are hard to enact, and the reasons are often political.\*

**Short-termism: the fruits of good supply-side policy are slow to appear, while the costs are more immediate.** The benefits of growth seldom arise as soon as the costs do. Take, for example, the Crossrail project in London, now the Elizabeth line. Eighteen years passed between the introduction of the Crossrail Bill to parliament and the first passenger trains setting off. In the short run, whatever voters 'feel' is happening to the economy will be determined mostly by the demand side, shocks to important prices like energy, international conditions or other hard-to-manage external influences. The impact of supply-side policy decisions will be swamped by these other factors.

**Uncertain causality.** How an economy performs is the result of many factors, often effectively invisible to the voter's eye; few will quickly spot that a market has become more competitive, say, let alone credit the government. The rule applies equally to actions that are *bad* for growth, such as striking a poor trade deal. This is in part because there is a great amount of inertia in a country's economy – accumulated capital, laws, social norms and long-lasting attributes like skill levels, business culture and sectoral shape. Most chancellors, boasting about how the economy performed under their watch, are really showing off the work of their predecessors.

**Competing considerations.** Actions to improve growth or productivity regularly come into tension with other goals that have just as great or even more salience. For example, development often clashes with environmental concerns, the benefits of dynamism undermine the comfort of economic security, and distributional considerations come into conflict with allocative efficiency. Any politician claiming to "prioritise growth" needs to confront the follow-up question: "over what else?"

**Collective action.** The benefits of growth generally affect the interests of those far beyond whoever is responsible for any particular growth policy. This also means that someone acting in a way that damages growth will not suffer all the consequences of their behaviour; for example, a neighbourhood, by resisting new development, might damage growth across a whole city, but still benefit from quieter streets in its vicinity. Within Whitehall, a department that gets to prioritise its own agenda at the expense of growth-enhancing measures will not bear the full costs of doing so. Good growth policies are thereby 'under supplied' relative to what is socially optimal.

**Special interests: winners and losers.** Higher growth and productivity may benefit the nation, but groups within society can have other interests that matter more to them and organise to defeat it. The economist Mancur Olsen wrote extensively about this, arguing that the rise of "distributional coalitions" acts to "slow down a society's capacity to adopt new technologies and to reallocate resources in response to changing conditions", thereby impeding growth.

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\* There is a school of economics – public choice theory – concerned with the behaviour of politicians and public officials, their incentives and the behaviours that result. This has helped to form some of the following observations about why politics and growth policy are often at odds.

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Another economist, Chris Dillow, has raised some ever-present examples:<sup>2</sup>

"Incumbent companies and monopolists don't want increased competition; lawyers and accountants don't want tax simplification; landlords and financiers don't want taxes to shift from incomes to capital or land... many voters and workers also don't want the disruption and uncertainty that must accompany creative destruction."

## Politics is often the smoking gun

These are not just abstract problems; they can be linked directly to the sorts of policy analyses that now make the up the consensus. For example:

- Britain's dearth of **investment** is related to **short-termism** and the **stock-flow** problem. The Institute for Government has long decried the habit of departments raiding capital budgets, from which longer term, growth-enhancing projects stem, to support day-to-day spending.<sup>3</sup> As the Resolution Foundation has put it: "It is easier to cancel a bridge tomorrow than fire a nurse, or raise a tax, today."
- Attempts to help **growth-enhancing sectors** are undermined by **special interests**. Incumbents and stagnant sectors compete for resources better used on insurgents. Pressure to 'spread the jam' undermines effectiveness.<sup>4</sup>
- **Fiscal instability** is brought about by **short-termism, competing considerations** and **collective action problems**. Sound finances are an archetypal example of an asset that benefits the future, while requiring nearer term sacrifices across a swathe of policy areas. Departments benefit collectively from strong public finances but individually prefer to be allowed access to the Treasury's available resources.
- **Burdensome regulation and planning rules are a problem of competing considerations**. The government's objective is never just higher economic growth; other goals like a pleasant environment, safe products and fair treatment for consumers must be weighed too.<sup>5</sup>
- A repeated failure to reform taxes for growth is partially explained by **special interests**,<sup>6</sup> with 'losers' invariably more vocal and motivated than 'winners'.\*
- Neglect of issues like economic dynamism can be blamed on **uncertain causality** – what benefits might accrue would be difficult to pin on policy – as well as **special interests**. For example, consider strong opposition to any lowering of the UK's high VAT threshold, despite evidence that it undermines dynamism.

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\* Former Treasury Permanent Secretary Lord Nick MacPherson spoke about this in his evidence on tax reform. [lord-macpherson-tax-interview.pdf](#) "Nigel Lawson was right to try and align the main rates, but successive chancellors pandering to the small business lobby and the enterprise agenda, have significantly changed the balance back in capital gains' favour. And added to which you just have preposterous reliefs in things like inheritance tax and CGT [capital gains tax] to reward family businesses, farmers and other key voters The [New] Labour government was always happy to be nice to these people on the grounds that they want to show that they support enterprise."

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The politics behind supply-side growth are so reliably difficult that anyone responsible for the strategy must assume it as a foundational rule. Doing what is right ought to feel difficult and unpopular and require the expenditure of political effort. This difficulty does not mean politicians have no choice; they do. The problem is their failing to exercise their assumed pro-growth preferences effectively.

The task is to work out how to do this to greatest effect, rather than attempt to find ideas that are both immediately popular and beneficial for the economy. Such a search, as so many chancellors have found, is invariably fruitless.

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# 1. Setting the strategy

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To have a strategy is to choose between alternative approaches. Such choices are hard, but any government serious about setting a worthwhile growth strategy must confront them proactively. This section looks at what government should consider, and avoid, when doing this.

## **Avoid the temptation to look exclusively for win-wins**

Politicians must fight against their tendency to look exclusively for win-wins, rather than trade one interest off against another. In his classic treatment of the subject, Richard Rumelt gave this as the key reason for bad strategies enduring:

“Strategy is scarcity’s child... to have a strategy is to choose one path and eschew others... when leaders are unwilling or unable to make choices among competing values and parties, bad strategy is the consequence... Strategy involves focus, and therefore choice. And choice means setting aside some goals in favour of others”.<sup>1</sup>

The reason to situate the ownership of growth strategy at the top of government is that it will often involve hurting some interests to further others. This is difficult in the context of corporate strategy – the main subject matter of most strategic literature – but much harder in politics, where difficult tasks cannot be sloughed off like a failing product line. Developing this should be a key task of the leadership of the government; in the words of the Institute’s Commission on the Centre of Government: “Setting the government’s strategic direction is the centre’s core purpose – and the most important thing that it is currently failing to do.”

## **Prime minister and chancellor must share in the endeavour**

The task should fall to the economics function in No.10, in concert with the Treasury. Both sides are essential. As we argued in *Treasury ‘orthodoxy’*,<sup>2</sup> it is inaccurate to portray the Treasury as somehow indifferent to growth and, given the fiscal implications of most growth-related decisions, it is unrealistic to expect a policy to be developed without its considerable, expert input.

But a solely Treasury-run growth strategy does not work either, given how many inherent challenges, and options, extend beyond its core expertise of fiscal, financial and tax policy. Given the need to trade off other political issues against the growth imperative, an effective strategy needs the oversight of other parts of the government’s agenda, which means No.10.

To quote the words of a former adviser: “You have to set the strategy from No.10. It must be agreed with Treasury. That was missing with Philip Hammond and Theresa May and it really mattered.” He recalled how the two most important residents of Downing

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Street would pursue their own agendas separately and then clash. For example, there were strong differences about whether consumers were getting a raw deal out of energy markets, with the agreement to an energy price cap only achieved through a bargain.<sup>3</sup> Another notorious example of Numbers 10 and 11 falling out happened when Margaret Thatcher (and her adviser Alan Walters) differed vehemently with the chancellor, Nigel Lawson, on exchange rate policy.

As Ed Balls said to the Institute for Government's annual conference on 13 January 2026:

**"In the end, constitutionally, the chancellor and the prime minister must have simultaneously a collective sense of endeavour based on objectives and a diagnosis they share, [also] be really tough on each other not to make mistakes."<sup>4</sup>**

Pro-growth reforms will generally need some combination of political and financial support. Departments need to know they will be supported on both sides if they are to push through difficult or expensive policy. Those that need to be brought in line will be less inclined to follow a strategy if they think their resistance might be given some tacit support from one or the other of these centres of power. All in all, when there is a lack of a common understanding between Numbers 10 and 11, the effects are felt through the whole policy delivery process.

### **Talk is cheap: constantly reiterating the goal of growth has little value**

In rhetorical terms, the current Labour government began its time in office very clear on the importance it puts on growth. Rachel Reeves, in her first major speech as chancellor,<sup>5</sup> said: "We will be guided by one single mission: to rebuild Britain's economy for the long term. That means a new fiscal discipline and a relentless focus on growth." The rhetorical emphasis has, if anything, increased with time; the prime minister's 2025 party conference speech called it "the defining mission of the government".<sup>6</sup>

But simply reiterating a goal does not create the means for achieving it, as if the only problem is a failure of the troops to understand what the leader wants. Nor does it help that the government has published so many missions, goals, 'first steps', milestones and other objectives that are meant to tease out the strategy, in the run-up to the election and afterwards, that they somewhat blur into one. As Richard Rumelt also wrote: "Like a quarterback whose only advice to teammates is 'Let's win,' bad strategy covers up its failure to guide by embracing the language of broad goals, ambition, vision, and values."

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## **Aim for a system for making choices, not adventures in theory**

This cornucopia of goals and missions led some commentators to worry that Labour lacked anything that might be called a 'theory of growth'. The political academic Professor Ben Ansell lamented Labour's apparently incoherent approach:

**"Labour does not seem to have a coherent theory of how that growth might emerge. Worse, the current agenda is a mishmash of different theories of growth that potentially offset one another".<sup>7</sup>**

He saw a government that is "Schumpeterian" in places (looking for breakthrough innovations), neoclassical elsewhere (create a sound environment for investment), neo-Keynesian where it aims to stimulate growth with spending, and "developmentalist" in aspects of industrial strategy. Similarly, the political commentator Stephen Bush wrote: "Many politicians can't seem to decide if the problem is that free markets have stopped being the route to prosperity and growth, or if it has simply become more difficult to convince voters they work".<sup>8</sup> It makes a big difference whether government means to work with markets, fight against them, or both.

There is no doubt the government could be clearer. Few commentators or business people can explain what it means by 'securonomics', for example, a phrase Reeves has often used to describe its approach. Actual fuzziness on anything as basic as whether markets work is unsettling.

But the clarity that is needed is not which specific economic ideology to adopt to the exclusion of all others, but a simpler question of how the government means to prioritise its limited resources, financial and political. In a large economy with multiple strengths and weaknesses, some eclecticism in method is reasonable: to intervene consciously in one corner of the economy does not mean it must do so everywhere, for example. Nor should the government adopt the same method regardless of overall conditions; it would be unwise to be crudely Keynesian no matter what the state of the economy, markets and public finances.

Being willing to discriminate is a sign of confidence, and if done well can be a strength not a weakness. If Labour appears to have different methods in different parts of the economy, then this is not unlike how most governments have behaved.

But if its claim to be able to deliver growth does not depend on some new theoretical departure, this makes it all the more important that the government shows, rather than tells, how it will make political choices in pursuit of growth: some consistent method for determining where its emphasis will lie, the political strength to stick at its policy choices, and the ability to apply it across government. This means making clear what it prioritises – and at a more granular level than just 'growth'.

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## **A strong strategy helps co-ordination and staying power**

A strongly communicated strategy is crucial for co-ordinating all the arms of the state to the leadership's priorities. It saves time, since there is less need for constant interference to ensure that it is being followed. For example, a consistent line from government on that question of how and where it sees markets working well was important for the design of new interventions like the National Wealth Fund and Great British Energy: it makes a crucial difference where it means to compete with and possibly replace the private sector or simply seed new private sector activity.

A clear strategic plan also helps maintain confidence within the government that its plan is on course, when adverse events undermine confidence. The most well-known example of this is the Thatcher reforms of the 1980s, when the approach of tightening monetary policy to address inflation, lowering tax rates, deregulating markets and privatising assets was at times deeply unpopular, thanks to the huge transitional costs incurred. Faith at the top of government held because there was an accepted plan to endure political pain in the short run to pave the way to a stronger economy afterwards.

Setting out a clear direction does not mean blind rigidity: being blown off course usually demands some course correction. Many would accuse the Thatcher government of going too far in terms of short-term pain and causing serious long-term damage but charging ahead regardless.<sup>9</sup> The coalition government may provide a similar example. It was no small achievement to hold a government of two different political parties to the same fiscal approach through five years, but discipline came at a cost. Midway through the parliament, evidence was accumulating that neither investment nor labour productivity were improving as expected in response to the programme of fiscal discipline.\* Yet pro-productivity policies did not receive the prominence or resources that the problem demanded until the chancellorship of Philip Hammond, a year after the coalition ended.

### **Box 2 The single-mindedness of the coalition**

Under the Conservative–Liberal Democrat coalition (2010–15) there was a diagnosis of the economic challenge, agreed across government, that what mattered above all was to control the deficit. The government quite consciously ignored warnings that it could not achieve a reasonable level of overall GDP growth while also prioritising deficit reduction. At the beginning, with borrowing above 10% of GDP, long-term interest rates above 4%, and growth expected to return to 2.5–3.0%, they felt there was a strong case for the strategy. Its sheer simplicity helped to drive its acceptance in departments, where the hard work of spending control was done. As a co-ordinating device, “do your bit to lower the deficit” was easy to follow, and the 2010 spending review provided the mechanism.

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\* A George Osborne speech in 2009, while he was still shadow chancellor, mentioned research that associated fiscal austerity with higher net exports and business investment.

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The clarity of this strategy held the government together around it, even as growth appeared to falter, the deficit reduction schedule stretched out, and voices calling for another approach grew louder. Overall, its proponents can claim that it worked – the deficit came down, there were no serious cabinet-level revolts, and the coalition lasted the parliament, with growth restored enough to re-elect the lead partner in David Cameron’s Conservatives in 2015. They were right that it was possible to oversee a growing economy while also trying to reduce the deficit, though some still claim that growth could have been even higher.

The downside of such single-mindedness is narrowness and inflexibility. Although there was a restoration of growth, it was soon apparent that there were serious problems with productivity and that the economy was being run too cold; interest rates half of their level of 2010, wage growth weak and labour productivity flat over those five years. The case for a more balanced focus strengthened – yet debt and deficit control remained just as dominant as ever in setting policy, with productivity at best a point of secondary emphasis.

Internal doubts about the approach were frowned upon and seen as encouraging external critics calling for a ‘Plan B’. Whatever the merits of being resolute on the deficit, its narrow focus does little to tease out all the other trade-offs and choices involved in growth. “Our number one priority is the deficit” does not answer questions about the role of industrial strategy, the approach to be taken to economic regulation, regional growth policy or a myriad other matters.

Long after it became obvious that productivity was weak and was not going to be solved simply by tackling fiscal risks, it was hard to discern a government-wide view on the right way to address it, or a particular sustained focus on the question. For every mention of productivity in budget documents, “debt” or “deficit” was found 10 times, compared to 2–3 more recently. Departments that had done their bit on the deficit were under nothing like the same pressure to join in with growth initiatives. As discussed in *Treasury ‘orthodoxy’*, an underpowered No.10 was in no position to challenge this single-mindedness and broaden the focus.

## **Don’t try to cover everything at once**

Just as repeating over and over again that the government is ‘going for growth’ can undermine a more targeted strategy, trying to cover too much in that strategy is similarly unhelpful. Governments have long been guilty of this, and this one is certainly a prime example. Most Labour spokespeople, asked what its approach towards growth is, will know to repeat the mantra “stability, investment, reform”. It is a good outline of the government’s broad approach to growth. Minted during the 2024 general election campaign, this works both as a slogan and is a reasonable high-level organising device for many of its measures. Yet being so high-level, it needs to be unpacked if it is to serve as a strategic framework that translates into useful action.

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In the October 2024 budget the government set out its 'seven pillars' framework, a potential response to those demanding it make clearer its model for growth.

### Box 3 **The seven pillars of growth**

- **Economic and fiscal stability:** Macroeconomic and fiscal stability, fiscal sustainability and policy certainty
- **Investment, infrastructure and planning:** Higher public and private investment, improved infrastructure and transport, and planning reform
- **Place:** Regional growth through investment, devolution and reform and support for housebuilding
- **People:** More people in good jobs, improved employment prospects, skills and productivity
- **Industrial strategy and trade:** An industrial strategy and a trade strategy to bolster growth-driving sectors and free, open trade
- **Innovation:** Support for scientific breakthroughs, R&D and the diffusion of technologies, including AI
- **Net zero:** Net zero delivered in a way that supports growth and captures economic opportunities.

If "stability, investment, reform" is high-level, the problem for the seven pillars is a comprehensiveness so complete that it makes it no clearer where the choices are being made. There is nothing wrong in it as a list, nor even much that is missing. But as a tool for explaining trade-offs and shaping priorities, the pillars are not useful or even coherent. An overlapping combination of growth drivers and desired outcomes, the pillars individually also contain co-dependencies: for example, place depends on investment, as does industrial strategy – which is itself a key means of achieving policy certainty, a key part of the stability pillar.<sup>10</sup> Net zero is both its own pillar and, through clean energy, a sector in the industrial strategy.

These pillars certainly show the government to have 'covered all the bases'. But their comprehensiveness feeds an impression that Labour has no framework of specific choices in mind, as if it means to outperform its predecessors simply by driving through growth measures more effectively, everywhere and all of the time. The pillars show that being in favour of growth says little, when it means so many different things. Diligently pursuing everything connected to growth is not a strategy.

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Moreover, even if the pillars were meant to be a statement of the government's priorities, the evidence it consistently follows through on that prioritisation is not obvious. To prioritise something means to deprioritise something else, but nothing in the pillars can tell us what other competing considerations are to be set aside.

Just like any government, this one also has multiple objectives: as well as stronger long-term growth it wants higher living standards, lower poverty, improved security and restored public services. Low energy bills are a goal, but so is net zero, with the huge investment needed potentially coming *from* consumer bills, at least in part. Control of immigration is a key aspiration, but that clashes with a desire to make Britain attractive for global talent. Universities labouring under new burdens impeding the recruitment of overseas students might ask if higher skills and boosting key export industries are really a key objective of the government.

Growth is a much-stated goal of this government. It is not always the revealed preference whenever it makes a policy choice.

#### Box 4 **Labour's regulation missteps**

Initially clumsy messaging around regulation demonstrated the costs of an unclear plan. In a combative speech in October 2024, Keir Starmer vowed to "rip up" the rules impeding investment. Language like "we will make sure that every regulator in this country, especially our economic and competition regulators, takes growth as seriously as this room does" implied that regulators needed to be reminded forcefully of its importance.<sup>11</sup> But the result was considerable alarm about the government's intent, particularly in the wake of a row about merger enforcement the year before (when the CMA temporarily blocked Microsoft's acquisition of Activision Blizzard).<sup>12</sup> Officials and business alike were unsure of the intended message about the importance of competition enforcement – was it just bureaucratic obstruction? Did the government mean to suggest it would take business's side, no matter the issue? Months later, it was not obvious that a coherent plan underlay the rhetoric, beyond an awareness of how businesses liked to complain about regulation, and a plan to make fierce noises about it to put the government on their side.

At the heart of the confusion was tension between competing principles: well-regulated markets with strong anti-trust laws are good for growth, but so is avoiding unnecessary delay, uncertainty or arbitrariness in their enforcement. Being responsive to business is valuable but so is keeping an objective distance and not being seduced into 'regulatory capture' by the need for approbation from high-powered executives. Rather than acknowledging the tension and navigating it, the government appeared to be clumsily taking one side, without establishing that it was necessarily the better option for growth.

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## 2. 'Stability, investment and reform': how does the current approach score?

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As well as needing more unpacking to be practically useful, there have been failings in how stability, investment and reform have been pursued.

### **Stability is not for just the Treasury alone**

The promise of greater stability has always been central to Labour's strategy – both as an outcome in itself but also as a way of improving other economic outcomes. Their policy documents have consistently and correctly argued that political and fiscal instability has led to unreliable policy, helping to explain the recent lack of progress on supply-side reform. Yet 'stability' somehow became a weakness rather than a strength in Labour's first year.

There are two broad aspects to this promised stability: steady macro-economics, particularly in fiscal management, and predictable, consistent micro policy making. Ever since the inflationary convulsions of the 1970s, politicians vowing to achieve stability have generally meant the macroeconomic part. But policy uncertainty, such as a sudden change in a tax or spending line, or uncertainty around the direction of laws and regulations, can be just as damaging to investment intentions. Abrupt policy change – or even the mere threat of it – can add an uncertainty-premium to the cost of capital.\*

Macro instability was meant to have been 'solved' over the past few decades and governments: with inflation targets, an independent central bank and fiscal rules overseen by an Office for Budget Responsibility.<sup>1</sup> This government has struggled with the fiscal aspect. Although there is good evidence that using fiscal rules can work to overcome deficit-bias, they can be a source of policy instability if designed or executed badly. Since borrowing is the residual in an equation including taxation and spending, and the rules target *forecast* borrowing, even a moderate deterioration in economic forecasts can put tax or spending policy at the whim of external events, like a sharp change in bond yields.

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\* There is a large literature on this: a good recent survey is "Costs of Rising Uncertainty" by authors from the US Federal Reserve, [www.federalreserve.gov/econres/notes/feds-notes/costs-of-rising-uncertainty-20250424.html](http://www.federalreserve.gov/econres/notes/feds-notes/costs-of-rising-uncertainty-20250424.html)

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Good design of the rules and management of policy ought to head off the risk of this causing serious disruption. Under the coalition, a mid-period slowdown in forecast growth was absorbed by pushing out the date by when balance would be achieved (which was allowed in the rules).<sup>\*</sup> It helped that interest rates were very low, which made the financial cost of forestalling tough decisions much lower.

## **The problem of macro-instability remains**

The same is not true now. Events in spring 2025 show what happens when a lack of such flexibility collides with adverse events. Poor public finance figures and a worsening of future borrowing costs – coupled with the fact the chancellor had retained very little ‘headroom’ against her fiscal rules – led the government to unveil some hastily put-together welfare cuts at its spring statement in an attempt to save £5 billion and remain on track to hit its target.<sup>2</sup>

The cuts proved unpalatable to Labour backbenchers, and the subsequent sight of the government being forced into a retreat cast a harsh light on how low its ‘pain point’ for tough decisions had fallen, unnerving bond markets. All in all, *neither* kind of stability were well served by how the fiscal rules were operated: a considered, longer term approach to reforming welfare appeared to be set back in favour of a quick win, while the resulting U-turn did not leave the government in any better standing with the bond markets.

Poor execution continued in the run-up to the November 2025 budget, which saw numerous tax measures floated in informal briefings, including heavy hints that the government would break its promise not to raise the main rates of income tax. Many of these floated measures, including on income tax rates, were subsequently not pursued, but the long period of speculation undermined business confidence.<sup>3</sup>

The Institute has argued that these mishaps cannot be blamed on the existence or formulation of the fiscal rules themselves, which are generous compared to earlier ones. The fault lies in how policy was conducted within them. The most important mistake was to risk running the public finances with too little headroom against the limits imposed by the rules. Like a shock-absorber, a bigger buffer would have prevented small in-year shifts in the forecast from automatically transmitting pressure through the rest of tax and spending. The £9.9bn buffer achieved in budget 2024, out of a spending total above £1.2 trillion, was much too little – it should have been at least twice that.

In the 2025 autumn budget, the lesson appeared to have been learned: the Treasury targeted around £22bn of headroom for the year 2029/30, a higher figure cautiously welcomed by the bond market. However, it was achieved only by promising tougher measures like extra spending restraint in the final years of the forecast – when the next election is most likely to be called – so is a not entirely credible approach, given how hard that restraint has been in practice.

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<sup>\*</sup> In 2010, the government’s fiscal plans anticipated the debt/GDP ratio to be falling from 2013/14; by the end, this was not achieved until 2017.

## A single forecast could offer greater stability

Another IfG recommendation is to adjust policy in response to a new forecast just once a year, which would have lowered the temperature on the Treasury in early 2025 and given it more time to formulate a considered response, including a political strategy for handling backbenchers. As argued by Gita Gopinath, recently chief economist of the IMF, a single significant fiscal event per year is normal practice internationally, and “allows governments to focus on medium-term planning rather than short-term firefighting”.<sup>4</sup>

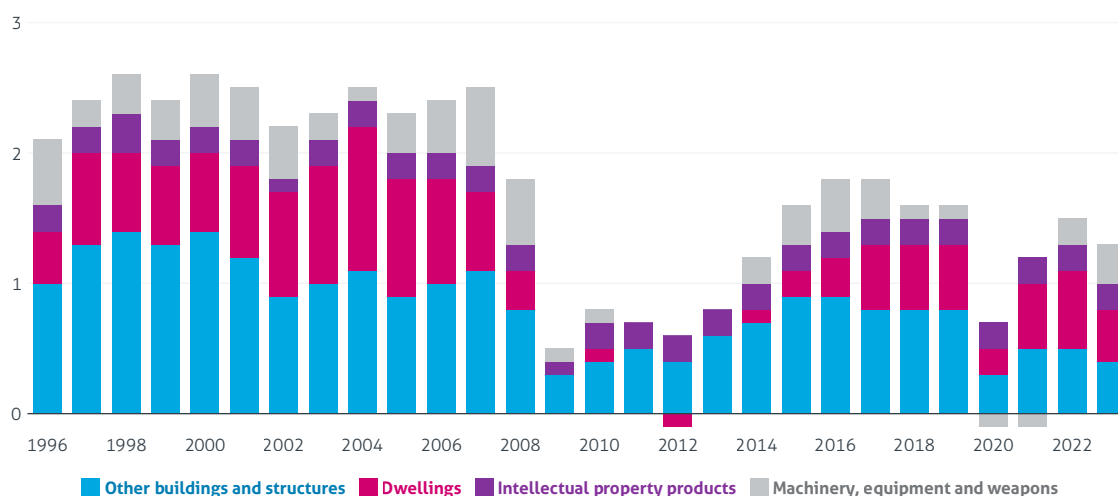
A lasting resolution to fiscally induced instability is another example of where the proactive involvement of No.10 would be helpful. Encouraging the Treasury to target greater headroom – and hold on to it against other departments’ lobbying – takes political courage, given all the other competing considerations to be fended off. It is also only No.10 that can insist the Treasury respond only once a year to shifts in economic circumstances: every fiscal moment is an opportunity for the Treasury to assert its grip over the domestic agenda, which it may be loath to give up. It might also fear that *not* responding will only see pressure build during a period of adverse news.

All of this makes the case for strategy concerning the fiscal rules not being something the Treasury is left alone with. Joint ownership of the economic strategy, with the stability aspect understood more expansively than in the narrow fiscal sense, may have headed off the disorderly and ultimately failed attempt at welfare cuts.

## Investment is undermined by wavering commitment to long-term thinking

Investment is a consistent theme of the government’s growth strategy. In speeches the chancellor has been clear on the priority she gives investment and has backed the words with solid action in terms of a change in the fiscal rules to allow more.\* Weak investment is a long-standing problem for the UK economy, and one that has got worse at the same time as productivity growth has been so disappointing.

Figure 2 Percentage growth in UK capital stock, 1996–2023



Source: Institute for Government analysis of ONS data.

\* Rachel Reeves has said “if growth is the challenge, then investment is the solution” and changed the target of the fiscal rules specifically to allow more investment. It is also a strong feature of the industrial strategy, <https://businessleader.co.uk/insights/article/rachel-reeves-on-growth-it-means-working-with-business>

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The sustained focus on investment is a strong element of the government's agenda, one that it deserves credit for sticking to; despite all the pressure it was under, the Treasury maintained and increased public investment plans in the 2025 budget. But reversing such a long-standing problem for the economy<sup>5</sup> takes a sustained political strategy. Commitment to investment means determinedly long-term thinking – the need for present-day sacrifices in exchange for benefits long in the future is intrinsic to investment as a concept.

The government understands this: one of the analyses most influential on Labour, the Resolution Foundation's *The Economy 2030 Inquiry*, is very clear about the political challenge:

**"In time, higher investment will create higher living standards, not to mention a greener economy. But only in time. A new economic strategy backing higher investment needs to confront the more immediate consequences with an unflinching eye: it requires higher savings (lower consumption) at home, or more borrowing from abroad."**<sup>6</sup> (Author's emphasis.)

The political rhetoric of the government initially reflected this, with both the prime minister and chancellor keen to emphasise, in the former's words, that "frankly – things will get worse before we get better".<sup>7</sup> In this regard, they echoed both the coalition and Thatcher governments with their strategy around pain now, gain later. Although it went down badly with business, the chancellor's first budget epitomised this: it contained a great deal to upset people in the present, notably tax rises, but with measures to raise the productive capacity of the economy in the future.

But within six months the fabric of this strategy was beginning to fray, unsurprisingly around the 'pain' part of the bargain.\* The chancellor unwisely encouraged hopes that just one tough budget might prove enough to put the finances back on track. In the face of growing disquiet about the taxes raised in budget 2024, the government started talking about a target to raise living standards in every part of the country – generally the fruit of growth, not a driver of it.

After attempting to push through cuts to the winter fuel allowance and welfare, the government very publicly backtracked, despite there being no fiscal relief to make this affordable. The budget afterwards confirmed the fiscal cost of these measures – more than £7bn for the welfare cut, winter fuel allowance reversal and abolishing the two-child limit on universal credit, and almost £4bn for other cost of living measures like the removal of renewable subsidies from energy bills and an endless fuel duty freeze. In the mordant words of one columnist, one result has been an all pain, no gain strategy.<sup>8</sup>

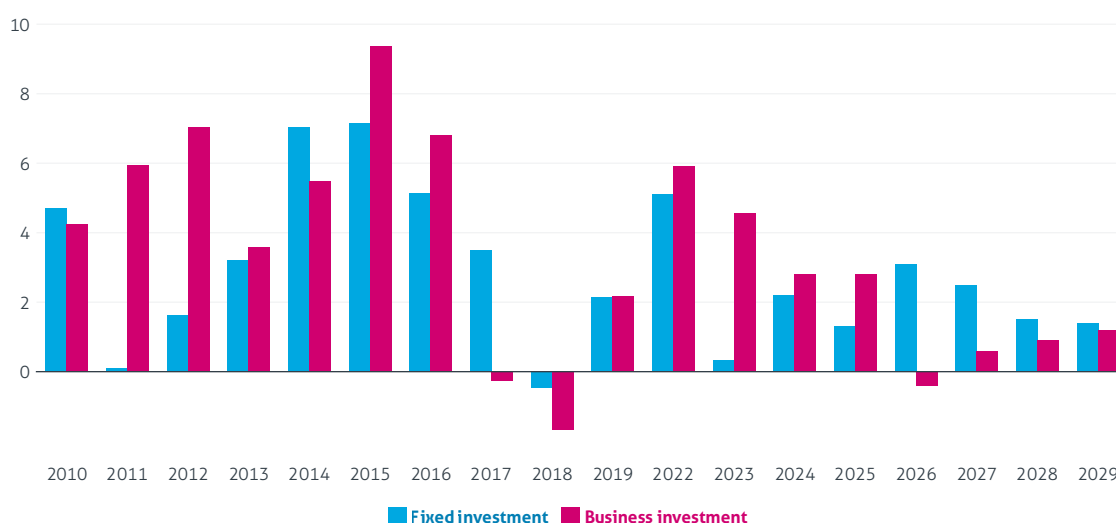
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\* "After entering office it promised short-term pain for long-term gain... Some, including cabinet ministers, were sceptical of this strategy from the start. But it was at least coherent. It pointed towards several tax-raising Budgets and fiscal restraint before a midterm or pre-election loosening. Yet now the government finds itself in a political no-man's land." Eaton G, 'Morning Call: Labour's muddled message', *The New Statesman*, 5 June 2025, <https://morningcall.substack.com/p/morning-call-labours-muddled-message>

In macro-economic terms, this loss of nerve undermines the investment push. Efforts to boost immediate living standards mean the economy will be driven to a greater degree by consumption – household and government – than otherwise. If growth is no higher, then, all things being equal, less of it will come from investment.

OBR forecasts confirm this. Although total capital expenditure in the economy is forecast to grow a little faster than household consumption, it will do so by no more than the coalition government achieved, for all the latter’s austerity-minded policy making. Moreover, the business investment component, which is where the real problem lies, is set to grow anaemically – at around 1.5% a year on average (2024–30), compared to more like 6.0% for pre-referendum Conservative/coalition governments.<sup>9</sup>

Figure 3 **Annual growth in total economy investment and business investment since 2010**



Source: Office for Budget Responsibility. Notes: Pandemic years 2020–21 excluded.

The difficult truth is that higher investment means higher savings, which means lower consumption from the government and ordinary voters. This is understood within the Treasury, but with every attempt to supplement the growth agenda with measures that target living standards the government adds to the impression that it does not want to face up to it. It is understandable that the government should evince such concern about the cost of living, which regularly tops polls of public concern. But unless it can also explain how addressing this can happen at the same time as greater investment is funded, this failure to acknowledge the tension does not bode well for the success and longevity of its investment strategy, nor for the government’s ability to arbitrate other difficult issues coming down the road.

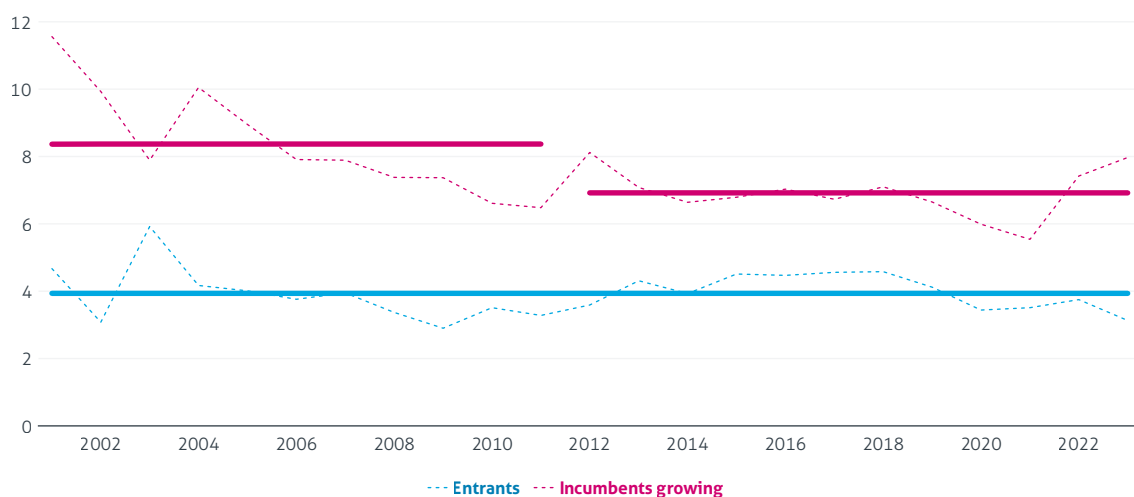
### **Reform requires far more focus on economic dynamism**

The reform part of the government’s mantra is meant to address the lower-level inefficiencies and blockages that stop people and businesses from reaching their potential. This ought to be an area with great promise, but it risks being a weakness in the government’s strategy, because of an unwillingness to confront politically unattractive aspects of the agenda.

The dynamic behaviour of businesses, capital and labour is the great invisible force pushing the economy towards greater productivity. It is how economic change happens – workers moving between businesses, capital shifting from one use to another, businesses trying new techniques and markets. Dynamism generates growth and productivity. As the consultancy group McKinsey writes: “Firms increasing their productivity level matters for growth, but an equally important channel is the exit of unproductive firms and moves of employees (and capital as well as customers) from less productive to more productive enterprises.”<sup>10</sup>

For all the talk of the ever-quickening pace of change, the truth, perhaps counter-intuitively, is that economic change of this kind has slowed markedly. As set out in a report from the Resolution Foundation, *Ready for Change*, the financial crisis of 2008 ushered in a period when hiring and firing stopped responding as sensitively to firms’ productivity.<sup>11</sup> The pace at which resources shifted from one sector to another slowed, as did the tendency for workers to choose to move jobs. As a phenomenon hitting the entire economy, the effect on growth is huge – several percentage points, potentially thousands of pounds per worker.\*

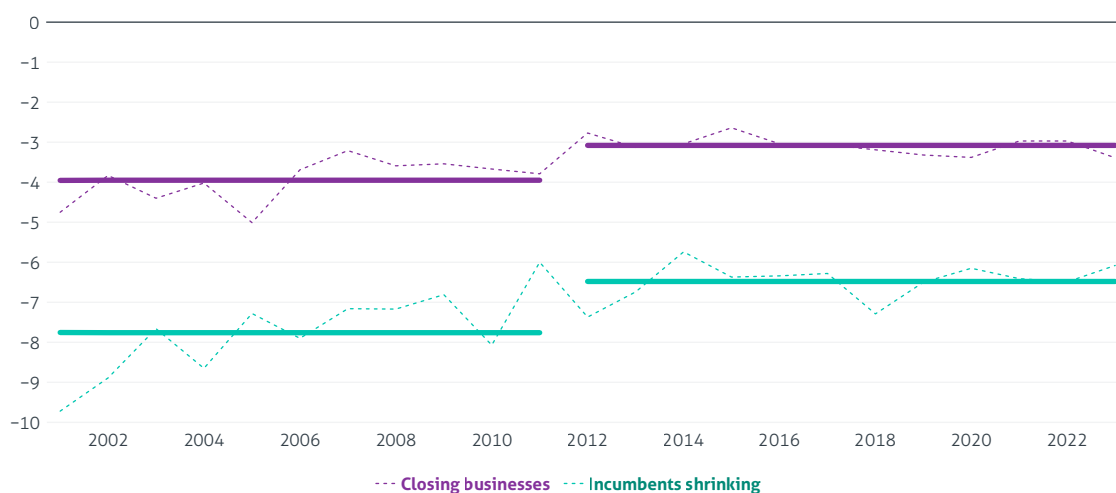
Figure 4 **Job creation since 2001**



Source: Institute for Government analysis of ONS data. Notes: Horizontal line = average.

\* Resolution Foundation calculations: “If half of the missing reallocation between firms moves would have moved lower-productivity firms up two productivity deciles – e.g. from the 30th to the 50th centile – average productivity would be 4.5 per cent higher today, enough to boost wages by £1,500 a year.”

Figure 5 **Job destruction since 2001**



Source: Institute for Government analysis of ONS data. Notes: Horizontal line = average.

Interest in this topic has only gradually climbed the UK agenda. In 2012 a speech from Ben Broadbent of the Bank of England pointed to evidence of misallocated capital between sectors of different productivity – a possible early consequence of a less efficient financial sector after the banking crisis.<sup>12</sup> An NIESR report in 2015 showed how more productive firms were no longer growing faster than the rest.<sup>13</sup> In *What should the UK learn from “Bidenomics”?*, co-written for Harvard by the former UK minister Ed Balls, the authors argue that higher dynamism in the US after the pandemic may explain its stronger recovery compared to Europe or the UK.\* Lower dynamism also helps explain the hit to productivity from Brexit.<sup>14</sup>

The ‘reform’ part of Labour’s agenda is broad and includes public sector reform, regulation, new planning rules and even a better relationship with Europe. The reason that dynamism deserves specific attention, however, is not just its raw economic importance, but because it occupies a weakness in this government’s economic approach. Labour’s industrial strategy mindset does not sit happily with the harsher, Darwinian implications of the dynamism agenda, which welcomes job moves, firms closing and fierce competition – including from overseas. Reeves’ ‘Securonomics’ is premised on the hope that *lower* economic volatility will help the economy, perhaps encouraging firms to invest or workers to train – a classic win-win. But the value of dynamism suggests this benefit may be at best double-edged.

This renders dynamism a politically difficult topic, which requires the government stands firm against those resisting change, and is why leadership from the top is needed. The policies the government has proposed to restore dynamism mostly stray only into areas that involve little political pain, such as the encouragement of new and

\* People are discomfited by the idea that the US approach of allowing more company failure and job loss, but with support for the unemployed, may have worked better than the UK’s furlough scheme. The Balls et al. paper quotes Jared Bernstein, a left-of-centre thinker. “As Bernstein observed, “nobody I knew at the time said, ‘it’s good that we’re doing it this way because there’ll be occupational upgrading and better matches’. But that is what happened.” In retrospect, this combination of strong aggregate demand and generous support during transition underwrote a period of intense ‘creative destruction’ in the Schumpeterian sense, one which accelerated labour reallocation across firms and sectors and brought a series of unexpected but important macroeconomic dividends.” [www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/Final\\_AWP\\_252.pdf](http://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/Final_AWP_252.pdf)

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growing businesses, technologies and sectors. But the new and cutting-edge is only a small part of any attempt to improve dynamism. Growth comes from every sector, not just the exciting new ones.<sup>15</sup> Moreover, what has most failed in the past 15 years is the job destruction part of the dynamism story.

A wholehearted pro-dynamism agenda would force the government well beyond its comfort zone of higher security and boosting the new. Example topics might include:

- A determined effort to root out subsidies and tax distortions that favour self-employment and micro businesses
- More scepticism towards attempts to rescue failing companies
- Support for activities like mergers, acquisitions and the restructuring work facilitated by private equity
- A promise to keep employment law reforms and steep rises in the national minimum wage under review against the risk of their seriously undermining labour market dynamism
- Continued reforms to UK bankruptcy law that make it quicker and easier to restructure failing companies, along the lines of the 2020 Corporate Insolvency and Governance Act (CIGA) but with a commitment to go further if needed.

Above all, taking dynamism seriously means being squarely pro-competition. Policy towards the CMA cannot just mean demanding that the competition regulator be nimbler, but also taking seriously its insights into where markets are not working. A particular concern is cumbersome government procurement and how this may be affected by uncompetitive behaviour.<sup>16</sup> Ultimately, the government should recognise competition as key to growth and lean on the CMA for advice.\* It needs, decisively, to refute the early impression that it sees competition enforcement as a problem.

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\* Martin Wolf in the *Financial Times* sees this as one of several areas where the government appears to have reverted to an Old Labour mindset sceptical of markets, [www.ft.com/content/b88e6cce-f2f4-46fb-9278-65497ab540cd](https://www.ft.com/content/b88e6cce-f2f4-46fb-9278-65497ab540cd)

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## 3. Five key trade-offs the prime minister must confront

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Beyond the large agendas described in the chapter above, the prime minister's stated commitment to growth means he must force through myriad other trade-offs that are relevant to it in the year ahead. Here are five key areas that could benefit from clearer leadership.

Individual departments represent competing considerations and are expected to pursue them single-handedly. When they come into conflict with one another, or with the broader topic of growth, they must be escalated towards the centre of government. A system of cabinet committees and write-round processes is in place to arbitrate everyday differences, after which the principle of collective responsibility is expected to apply. But for the most acute and impactful disagreements one should not expect an enduring resolution without the insertion of political leadership, usually in the form of No.10, the Treasury or both.

Under the coalition a Reducing Regulation Committee (RRC) was set up to support the deregulatory drive. Disputes were meant to be elevated to the RRC when pro- and anti-regulation arguments around processes like 'one in, one out' could not be settled.<sup>1</sup> But the experience of many insiders was that this system struggled against an ingrained tendency to use regulation as a first recourse.<sup>2</sup> Subsequent accounting supports this intuition – measured business impact actually rose before the one in, one out process was abandoned.<sup>3</sup> Political incentives did not support deregulation: for most cabinet ministers that did not have economic growth as a goal, overcoming the obstacles to regulation was nothing to be ashamed of. It was a case of other competing considerations winning out.

When matters were elevated to the RRC, it was unheard of for a top-rank politician to come under threat for their red-tape-loving ways. The government did not proactively acknowledge tensions between objectives like immigration control and lowering red tape. Hence it is little surprise that when the Centre for Policy Studies examined a decade of deregulatory effort, it found the impacts to be unimpressive.<sup>4</sup>

There are lessons to take from this. First, the political heft of the centre is vital if competing considerations are to be arbitrated and a department's normal incentives overturned. Second, a well-functioning system may still struggle if it is purely reactive. Even if both the prime minister and chancellor had joined the business secretary in scrutinising over-regulatory actions and hauling cabinet colleagues before the committee, the very fact of this being the final hurdle for the department to cross does raise the political cost of stopping them. A strategic approach would instead anticipate the trade-offs likely to emerge and set direction on them early, rather than hope to stop them at the end.

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The list of issues will vary – but to illustrate the sort of dilemmas governments face, and where No.10’s intervention is required to resolve in a coherent fashion, here are some of the decisions confronting the government in 2026.

## Financial regulation

The government’s Regulation Action Plan is largely about making regulation less administratively burdensome, in terms of the time needed for following and enforcing rules. But to effect large changes in the economy regulators would need to go further and may require they risk one aspect of their mandate to favour another. For this a political steer is needed, or even legislation.

Risk aversion in financial regulation, for example, may well impede growth.<sup>5</sup> Financier and former Bank of England adviser Huw van Steenis has written: “In seeking to eliminate risk, Britain has inadvertently stifled opportunity”, and called for a more pro-growth mandate akin to what guides US regulation.<sup>6</sup> But what happened in the US required an act of Congress to achieve. Other potential adjustments, such as a re-examination of how consumer duties weigh on innovation, need political cover.\*

## The pace of net zero

At one point, Labour’s commitment to net zero was the clearest foundation of its economic strategy. The Green Prosperity Plan that Keir Starmer launched in opposition promised tens of billions in investment and hundreds of thousands of jobs. A vow to decarbonise power generation by 2030 is regarded as extremely ambitious.

But the government was often warned that a fast timetable risked a heavy cost in terms of higher bills, at least in the short term.\*\* Low prices are in tension with environmental and energy security goals (the so-called energy trilemma<sup>7</sup>). At every recent fiscal event, high electricity prices have been near the top of businesses’ worry list. Yet the government appears to veer between acknowledging this, with a commitment to tackle uncompetitive energy costs a centrepiece of the industrial strategy, and downplaying it: the occasional insistence that its policy is meant to take £300 off typical household bills appears to deny the dilemma at all.<sup>8</sup> Lack of a clear line will impede any efforts to confront and tackle this problem.

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\* There is already some evidence that this works, with a change in guidance towards risk assessment having boosted mortgage availability, in response to pressure from the government. Lex, ‘One of the UK’s growth-boosting reforms is actually working’, *Financial Times*, 19 October 2025, [www.ft.com/content/033e38fe-07e2-4a40-bd88-86adefd7c3ee?shareType=nongift](https://www.ft.com/content/033e38fe-07e2-4a40-bd88-86adefd7c3ee?shareType=nongift)

\*\* See, e.g. the Tony Blair Institute for Global Change, *Cheaper Power 2030, Net Zero 2050* report, <https://institute.global/insights/climate-and-energy/cheaper-power-2030-net-zero-2050-resetting-UK-electricity-strategy>. “The UK now needs more than a decarbonisation plan. It needs a full-spectrum energy strategy built on growth, resilience and abundant clean electricity. This means prioritising cost, flexibility and long-term stability – the real building blocks of electrification – not just short-term emissions cuts.”

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## Drug pricing

Policy towards what the NHS pays for drugs is entangled with efforts to attract capital into life sciences. In 2025, the loss of some high-profile investments from pharmaceutical multinationals<sup>9</sup> led to a swift reaction from UK ministers and a likely shift towards paying more to improve the commercial environment.<sup>10</sup> This is a clear case where political input proved necessary to address a tension between competing priorities, in this case immediate costs to the NHS and investment attractiveness.\*

The government's swift response reflects a relatively agile approach from ministers, one that was probably better than taking no action. After all, the problem was not entirely of their own making and it is more of a criticism of past governments that had not already identified the tension between fiscal pressures on the NHS procurement budget and investment attractiveness. Businesses are more likely to develop confidence in the investment climate if they think there is a settled strategy behind the government's approach, rather than just a sharp reaction to cancelled investments.\*\*

## Tax reform

The November 2025 budget was preceded by calls for Rachel Reeves to use the opportunity to make the tax system more growth-friendly.<sup>11</sup> Within technical circles there is as strong a consensus on tax reform as on any topic – it is the archetype of the kind of agenda that is uncontroversial to experts but a daunting political headache for policy makers. Any controversy is not a left–right issue: a recent report, *Tax Reforms for Growth*, was co-written by thinkers from across the political spectrum.<sup>12</sup> As Helen Miller of the IFS wrote:

**“Experts have been setting out for decades what a coherent, efficient and equitable tax system would look like. The problem is not a lack of informed offerings of such a vision.”**

Miller's suggestions share much in common with others from tax expert Dan Neidle and economist Jonathan Portes.<sup>13</sup> Popular ideas include a shift away from transaction taxes like stamp duties; efforts to update property taxes to current valuations (current council tax banding is pegged to property prices in 1991); a plan to shift road tax away from fuel and towards usage; gradual replacement of national insurance with incomes taxes; closure of the many loopholes that riddle VAT.<sup>14</sup>

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\* A deal was announced on 1 December that lifted some of the US-specific risks to UK life sciences, in return for a higher price paid for new medicines, at a cost estimated to reach £3bn a year. [www.theguardian.com/business/2025/dec/01/uk-us-agree-zero-tariff-pharmaceuticals-deal](https://www.theguardian.com/business/2025/dec/01/uk-us-agree-zero-tariff-pharmaceuticals-deal)

\*\* This is not a complaint about this government: demonstrated in the evidence of Lord Vallance, science minister, to the Science and Technology Select Committee, who recognised that there has been a problem building for a decade. Vallance: "There has been a 10-year decrease in performance there, which we have a clear ambition to reverse. We have some opportunities around things like health data, which is all laid out very clearly in the Life Sciences Sector Plan. The real crunch issue is the appropriate uptake, access and payment on medicines, which is causing an environment that the industry is finding difficult in the UK and is leading to many of the reactions we are seeing." <https://committees.parliament.uk/oralevidence/16478/html>

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The problem is that every type of political difficulty comes into play when tax reforms are on the menu: as the IfG put it: "Tax reform is too difficult because the measures would be complex and create too many losers."<sup>15</sup> The 2025 budget largely continued this trend, although the chancellor has made some initial steps in areas like property tax reform and road tax.

But if Reeves was put off reforming taxes by the threat of unpopularity, failing to do so has worked no better; few outside policy circles exactly congratulated her on her second budget. The problem was, and is, the attempt to enact reform with neither a strategy nor a clear story to explain the unpopular aspects to the public, and bargain with the worst-affected interests.<sup>16</sup> A strategy would help explain the rationale: setting out how the tax system was intended to support the main objectives of the government – including growth, industrial strategy and agendas like net zero.

### **Artificial intelligence and copyright**

The rapid development of artificial intelligence and its ravenous appetite for content – text, music, images and more – has led to a fierce debate over the rights of copyright holders. On the AI side are those who picture a technology where the UK could attract significant investment and that will dwarf all others in its effect on growth. Any impediment is deemed Luddite and regressive. The UK Day One think tank argues, albeit controversially, that the cost of restrictive access to copyrighted material is £182bn per annum lost output in 20 years.<sup>17</sup> Against this, many copyright holders see a predatory infringement of their property rights and would like AI firms to be forced to negotiate for access to creative material.

Crossing departmental and sectoral boundaries (culture, business, and so on), weighing different interests and values and companies against one another; this is another classic in the genre of growth-related controversy that demands direction from the leadership.

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## 4. How No.10 can change to deliver a good growth strategy

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The trade-offs inherent to a strong growth strategy are genuinely hard so require leadership from the very top. But No.10 is not currently set up to help the prime minister in this as well as it could be. This chapter looks at how the Downing Street operation can be improved to help deliver a strong growth strategy.

“A more strategic centre would only do the things it could add value by doing, supporting delivery and maintaining oversight without getting in the way.” – IfG’s Commission on the Centre of Government, 2024

No.10’s place within government is to sit above its regular processes, monitor progress and intervene strategically where needed.\* It should not directly deliver or co-ordinate policy but sit above and outside those functions. As well as setting strategic direction, such higher systems come into play when those beneath are under-performing or affected by unanticipated changes in circumstances. Sitting above the demands of immediate day-to-day operational delivery, a well-resourced team in No.10 has considerable choice as to how it operates from day to day.

### **Time and effort must be ruthlessly prioritised**

The question constantly before the team in No.10 is where they should put their efforts: how to focus the scarce (and often deteriorating) political capital available to the prime minister. The input of No.10 into growth policy can make a positive difference: clarifying the government’s overall strategic direction, helping departments work together, getting on the front foot for the big political decisions, and looking out for topics that are neglected or failing to be addressed. But it cannot do this everywhere.

The challenge is especially acute with growth, which is so encompassing. On any one day, half the topics in the news might be linked to growth, from a public finances release, a trade dispute with the US, a failing infrastructure project or a new technological breakthrough to a report on the skills system, a business lobby about taxes or a cyberattack on a bank.

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\* Borrowing roughly the conceptual framework deployed in *The Unaccountability Machine*, the leadership of government is a ‘higher system’. From Davies D, *The Unaccountability Machine: Why Big Systems make Terrible Decisions and how the World lost its Mind*, Profile, 2024.

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In this author's experience, the most natural and yet most draining mode of operation is to let circumstances set the daily agenda, rather than the dictates of a plan. This is a great way to keep busy – and to gratify the numberless counter-parties trying to get their foot in the famous black door – and yet the result is often to end the day having made no progress towards chosen objectives. No matter how well-resourced, it is neither possible nor wise to make Downing Street 'Growth Central', where everything growth-related is sent for deciding.

This demands a disciplined approach to where the team in the centre operates – conscious choice over its field of action, worked out systematically. The process we recommend is a simple 'triage' applied to the components of the growth strategy, to focus No.10 on where it can make the most difference.

This triage should have three components:

- **Diagnosis:** how important is this factor in the growth challenge?\*
- **Potential:** is this an area where there is some conceivable improvement to outcomes that make it worth the effort?
- **A political filter:** since the unique attribute of No.10 is not technical but political, is this an area where political effort specifically can make a difference?

This is a process that a beefed-up No.10 team ought to be able to lead but not perform on its own: even with far greater resources, it would be unwise for a single team to decide on its own the highest potential areas for prime ministerial involvement. It is an opportunity to co-operate. Departments that are expected to follow the priorities set by the leadership will more happily do so if involved in the work that develops them. At the least, No.10 should work with the Treasury and DBT, bringing in other departments as the policy issue demands.

On the question of diagnosis and potential for improvement, much of this triage should reflect the work that already went into the process of developing the government's strategic plan for growth. As argued above, the bare bones are in the seven pillars but there is much more analysis needed to set out *how* important each are. Any such analysis need not be very precise; it could be as simple as giving each factor a score of 1 to 5, from low to highest impact.

This should not demand a big pause for thought or the collection of new evidence, of which there is plenty already. The task is simply to provide the prime minister and his team with enough material to provide an informed answer a simple question: "If the UK were to improve its performance significantly, what factors where the prime minister can make a difference will prove to have mattered the most?"

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\* The economist Tyler Cowen gave an example of this when sketching out what he felt to be the major causes of the UK growth shortfall. His answer: 50% having the wrong specialisms, sectorally; 20% Brexit; 15% anti-planning Nimby's; 10% expensive energy; and the last 5% "the general decrepitude of the population", <https://marginalrevolution.com/marginalrevolution/2024/04/apportioning-the-causes-of-the-uk-growth-shortfall.html>

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Nor is it a precision exercise; it can be eclectic in its approach. For example, the team might consider the degree of confidence that the government knows the answer; the timescale over which progress might be seen; the inherent riskiness of policy solutions; and the prospect of failure. The prime minister's own instincts about where he sees potential must come into play. The point is to provide some rational basis for determining where No.10 should deploy its time, rather than just let circumstances dictate.\*

The political filter is again key. The commitment to put growth first is essentially political. As we have argued, the authors of any growth strategy must assume that there are political costs to following through on any of the good, high-potential ideas. The key skill of the economics team around the PM is to combine their technical knowledge with appreciation of the political constraints – and put this into the analysis of the growth strategy at the outset, not as a last-minute hurdle to be cleared.

Crudely, the leadership needs to know where it is worth placing its political chips. A unique blend of economic and political savvy is needed – an ability to 'see round corners' from the inception of a policy idea to the political problems that may derail it, or at least need preparation to address. The point is not for this sensitivity to stifle ideas at creation, but to plan better for the political challenges so identified.\*\*

## Do no harm

No.10 can only help the growth agenda if its involvement is calibrated to enhance the positive rather than the destructive role that politics can play. Absent this, the hope that a more influential No.10 will naturally lead to better, more pro-growth policy is a non sequitur. Left to its instincts the political centre of government can ricochet between two unhelpful modes – blind delegation on the one hand, randomly directed micromanagement on the other. Conversations with frustrated insiders often reveal a yearning for the occasional involvement of higher placed politicians, but only where they can make a difference. Too often they instead experience a barrage of requests and directions from above, with little sense of a guiding principle.\*\*\*

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\* The industrial strategy has demonstrated that this exercise is possible at a more granular level. Although its calculations are not publicly available, the methods were published in the Technical Annex. Frontier industries are selected based on their growth potential, strategic alignment and connectedness, and policy opportunity, based on barriers to growth and identified policy levers. If DBT and the Treasury were able in a few months to choose 37 industries from many dozens, then something similar is surely possible for the government's overall growth mission.

\*\* The IfG has [written](http://www.civilserviceworld.com/in-depth/article/making-policy-on-policy-making) before on the danger of "self-censoring" civil servants, and the need for robust discussion earlier in the policy making process, [www.civilserviceworld.com/in-depth/article/making-policy-on-policy-making](http://www.civilserviceworld.com/in-depth/article/making-policy-on-policy-making)

\*\*\* A case study of one such instance – a haphazard attack on employment laws under the coalition – was covered in *The Unelected Lynchpin*, a 2014 IfG report, [www.instituteforgovernment.org.uk/publication/unelected-lynchpin-why-government-needs-special-advisers](http://www.instituteforgovernment.org.uk/publication/unelected-lynchpin-why-government-needs-special-advisers)

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### Box 5 **How No.10 intervention can hinder rather than help strategy**

Regrettably, there are countless real-life examples of the most unhelpful sorts of intervention from No.10, garnered from personal experience and insider conversations, which include:

- **Being reactive and thin-skinned.** An influential adviser hears that a new anti-tax avoidance measure is 'killing the spirit of entrepreneurship'. He briefs the media against the Treasury's attempts to bring it in.
- **Faddishness.** The prime minister's technology adviser reads about the potential of the hyperloop (a futuristic mode of travel through vacuum tubes) and asks the Department for Transport to shift its focus from railway planning towards it. The recalcitrance of DfT officials is viewed as insubordination or a lack of imagination.
- **Top down, micro-managing.** A special adviser given responsibility for industrial strategy demands a fortnightly meeting to grind through updates on every one of its interventions. A gigantic spreadsheet is created and maintained, drawing considerable effort from staff in the business department.
- **Being overly tactical or media driven.** The team in Downing Street focuses its efforts around Tech Week on finding some announcements for a prime minister's speech, paying little attention to whether they fit within the government's overall tech strategy. DSIT sets aside resource for rebadging existing plans as new.
- **Politically weakness.** After allowing a long process of planning reform to reach near-maturity, the political operation around the prime minister panics on news of a backbench rebellion by rural MPs, and orders a pause.

The big mistake is to believe that high status within government confers equal expertise, and that the reactive views of those closest to the top should therefore trump all else. Working at the centre guarantees none of these. Ideas emanating from the centre of political power are in fact at risk of being low quality, owing to a lack of challenge from similarly powerful voices. Being close to the centre of power, having access to the most powerful business voices and most senior government staff still does not grant a superior insight into what the economy or business wants.

These are misapprehensions common to a centralising mindset. Top-down control has its place, as in an emergency like the financial crisis of 2008–9 or the pandemic, when swift, decisive cross-government action might be essential. But it is a terrible method of stewarding any strategy meant to be delivered by other departments, arm's length bodies or business.

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## **The team and the prime minister must be indivisible**

The special attribute of the centre is not policy expertise but its grip on politics, its unique ability to speak for the prime minister. The No.10 operation should be where political aspects of well-worked up policies are evaluated. Given the range of the prime minister's responsibilities, it needs advisers and officials not just to help it make decisions, but to speak for him, deploying his authority widely.<sup>1</sup> Writing about the coalition in 2014, this author observed that

**"The prime minister, chancellor and deputy prime minister need large teams to handle the policies thrown up by the entire government. Within those teams are the most powerful advisers, necessarily operating with considerable autonomy, and with political masters so elevated that an independent check on their detailed views is very difficult."**<sup>2</sup>

A good team around the prime minister can render them far more effective, multiplying the places where their 'steer' can operate. But those interacting with it need to know the team is speaking with the genuine authority of the prime minister, neither abusing it to pursue its own agenda or claiming political authority of their own. This appeared to happen during the 16 months that Dominic Cummings worked for Boris Johnson, where he appeared to assert his own precedence above those of secretaries of state, including sacking their advisers without consultation.<sup>3</sup>

Those close to the prime minister have authority because they are meant to know the mind of the person elected to lead the UK government. The piece cited above talks of how No.10 during the coalition "became a veritable factory of spasmodic, impressionistic policies too fast-moving to receive a sense check". Those ideas did not feel like a reflection of what the prime minister of the time, David Cameron, himself thought. The result was No.10 as a disruptive force, and its authority ultimately weakened.

## **Treat business engagement as both a risk and an opportunity**

A strong business relations team with experience of working with industry is an asset to No.10, given how many interactions need to be planned and how often the prime minister is expected to respond on questions concerning business. Often the best way to get the government's message across is to have it delivered by the prime minister straight to a corporate audience.

Labour has put great emphasis on better engagement as a way of improving policy. Anyone who has tried to navigate the thickets of Whitehall and inevitably faced a long menu of competing departments, arms' length bodies, political and non-political staff, will know how frustrating the process is. In part this is down to the UK's habitual institutional inconsistency, and the relative newness of many of the institutions involved.

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The Office for Investment is only a few years old, while other engagement bodies seldom lasted a decade. Trade was nestled within Business, then made a standalone department, then folded in with Business again.<sup>4</sup> A more predictable system is an aspiration shared with the Conservatives, who, in 2023, commissioned Lord Harrington, a former business minister, to report on how to improve the UK's investment offer. Harrington criticised "government systems that are too often disorganised, risk-averse, siloed, and inflexible" – an analysis Labour was supportive of even before coming to power.<sup>5</sup>

More structured engagement can improve policy, but there are reasons for caution. The first concerns special interests: policy makers must distinguish between good policy and what makes a business happy. The two overlap but are not the same. Even when the state can be accused of behaving in a way that 'chills' investment, it does not always follow that something is wrong: investment can be motivated by anti-competitive considerations, say, or excessive charges on consumers. There is no straightforward way to hit the right balance; staff engaging with business must have the judgment not to become naive advocates for whatever they are lobbied for.

Second, too much engagement can be paralysing or a waste of time. If a minister is nervous about embarking on any policy until they have checked all is fine with business, the result might be nothing happening at all. On a simple practical level, interactions for no other purpose than staying in touch can be time-consuming and it was a regular complaint during the Starmer government's first year that 'opportunities' for engagement were sought that have no real purpose, beyond spreading the government's message.\* Businesses have felt they were consulted just to blunt the edge of public criticism, as if constant communication is sufficient compensation for justified complaints about bad policy.

The first threat is of particular importance to No.10. What the top of government hears directly from a business representative is just one piece of 'anecdotal'. But lodged in the brain of the most powerful actors in the Whitehall system, it can cause considerable damage if not checked against other sources. A well-connected businessperson with a direct line to someone in power can cause havoc, if willing to push aggressively for what they want. Some companies, frustrated by the procedures involved in working with government, will try to do an end run around the whole system and get straight to 'whoever is in charge'. This is to be expected, but what No.10 learns from the voice of business is an embarkation point for further investigation, not the final word on anything.

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\* The complaints are not all one way: sometimes, the government relations functions of companies can seek meetings just to 'be on the radar' of busy officials or advisers, with little practical point to the engagement beyond that.

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## Get stuck into making cross-departmental cooperation work

Collaboration between departments is important across public policy.<sup>6</sup> It has special significance in the delivery of industrial strategy, which is seldom about actions entirely within the purview of DBT. Sector sponsorship often lies outside the principal economics departments, as do the key horizontal levers – skills in DfE, science in DSIT, business environment in DBT and so on. A lack of ‘join up’ is a standard complaint for businesses trying to work with an industrial strategy. Departmental structures and cultures, accountability mechanisms and ministerial and civil service incentives can all get in the way of effective joining up.

Most inter-departmental co-operation must take place without the active involvement of No.10, through bureaucratic means; for example, the industrial strategy ‘sector plans’ divide the responsibilities for specific interventions between various senior responsible owners. But when these methods fail the problem is often political, as are the solutions.<sup>7</sup> The author’s first observation in government was that there wasn’t one, just a collection of departments determinedly refusing to interact with each other, who would often call on special advisers to fix problems of obstruction and non-communication.<sup>8</sup>

If delivering the strategy is a prime ministerial priority, No.10, with the support of the Cabinet Office, has a critical role in countering those centrifugal pressures that risk undermining it. The combination of the prime minister and their team is often the only way of ensuring coherence and consistency through time, as other ministers may move, their priorities may shift and the immediate may crowd out the long term.

This takes considerable energy and effort. Having finite resources, No.10 cannot expect to be constantly monitoring whether everyone is getting on well, and its first recourse is at the appointment phase of government. It should ensure at the outset there is a ministerial team that understands and shares the objectives and approach of any cross-governmental agenda like growth or industrial strategy. As noted above, a strongly understood, well-articulated approach from the centre is a useful co-ordination tool – and indeed the lack of this arguably scuppered the industrial strategies of 2011–15, seen as the policy of Vince Cable and not the whole government, and of 2016–19, regarded as Greg Clark’s.\*

Labour has seemingly avoided this to date, on both growth and industrial strategy. But it would be naive to expect departments with diverging interests always to come into line automatically. No.10 must still be prepared to intervene and must plan where it is willing to do so carefully, reflecting the priorities that its analysis thinks are most worth this effort.

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\* Author’s recollections, having worked as a special adviser on each.

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## Delegate and devolve power

That business hates uncertainty is a complaint verging on a cliché. This does not stop it being true. In industrial strategy, tax policy, skills, regional devolution and more, frequent and unpredictable policy has followed changes of government, prime minister or even just a swapping of ministerial chairs. A corporate audience will regularly chide ministers or officials about shifting policy, reminding them that a typical business investment lasts many years longer than a parliamentary term, let alone the duration of a ministerial posting.

Departments have their permanent focus to anchor them, but No.10 is expected to pivot towards whatever is most important at the time. This leads to one of the paradoxes of political leadership: while it falls to the top of government to determine strategic direction, it is not the place to manage progress towards that goal. Leadership from the centre is not the same as constant direction from there.

This means a key skill of No.10 is knowing how to ensure the right ownership of policy delivery, be that in a department, devolved or arm's length body.\* Foremost is to select cabinet ministers who share their goals and will stick at them – something not always seen in the last 15 years of policy making.\*\* The Institute for Government has documented the egregiously short average period in many cabinet posts, which undermines good policy in numerous ways, in particular how it “cripples efforts to deliver long term reform”.<sup>9</sup> It is not possible for the government to avoid reshuffles from time to time, but they should not prove the occasion for an unintended and wholesale change in policy. A good idea discussed in IfG work is for there to be more formal ‘handovers’ between departing and incoming ministers.

## Look to institutions, and science, for examples of success

What exceptions there are to this pattern of policy inconsistency have been found where institutions have been core to policy delivery:

- Consistent support for aerospace and automotive sectors, through institutions such as the Aerospace Technology Institute/Automotive Propulsion Centre
- The Low Pay Commission and its role helping to introduce and then underpinning a widely accepted national minimum wage<sup>10</sup>
- A predictable framework for renewable energy investment with contracts for difference
- Organisational success stories like the British Business Bank or the technology-focused Catapult Centres

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\* “... a confident and well-organised centre should be able to set direction for its own priorities, understand how those are reflected in the varying powers and responsibilities at different levels of government, and ultimately get out of the way of delivery in local and devolved government.” [www.instituteforgovernment.org.uk/publication/power-with-purpose-centre-commission](http://www.instituteforgovernment.org.uk/publication/power-with-purpose-centre-commission)

\*\* Our conclusions link past failures to a lack of long-term planning at the centre of government, which leads to regular, piecemeal changes, [www.instituteforgovernment.org.uk/article/explainer/churn-levelling-policies-uk](http://www.instituteforgovernment.org.uk/article/explainer/churn-levelling-policies-uk)

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- Persistent cross-party support for the life sciences industry through tax breaks, institutions like the Office for Life Sciences and Medical Research Council, as well as support from the private sector such as through the Wellcome Trust and charities
  - Continued cross-party backing for pensions auto enrolment
  - The roll out and increasing public support for mayoral combined authorities.<sup>11</sup>

These durable policy ventures share a certain pattern: although some took considerable political effort to create at their inception, their delivery was entrusted to mechanisms, institutions or bodies that did not rely on constant political encouragement to persist. Once they exist, the support around them has built and created its own staying power. The special interests and inertia that build around them provides a defence against meddling and inconsistency – if the policy is initially well-conceived, that can be a positive. They have survived changes of government and several fiscal crises.

Many of the most enduring successes of the last 20 years touch on science and R&D. Those close to where government and science overlap relate a simple but compelling reasoning for this: spending on R&D generates a significant economic return, established with diligent analysis. Politicians are reliably convinced by the case thanks to accessible story-telling by the science community – it is not just a matter of numbers in a Treasury spreadsheet.<sup>12</sup> Crucially, the funding is not simply doled out but channelled through highly respected institutions: foremost, long-established universities that compete on the international stage for talent.

A reasonable balance is struck between autonomy of science organisations and oversight of how public money is spent. It is still the government's decision how much overall fiscal resource is sent towards science, and the balance between tax measures and different ways of spending money (competitive project by project grants versus institution-centred funding based on past quality, for example). But the arm's length 'Haldane principle' that keeps politicians out of specific funding decisions still applies.

Science policy is not immune to politics and nor should be the way government deploys funds towards science be immune to criticism. There are fierce arguments about whether the balance of spend between tax breaks and grants is right, for example, or if place-blind spending that prioritises excellence also serves to exacerbate regional inequalities.<sup>13</sup> There are also well-founded concerns about whether the funding model underpinning UK universities (at least, outside Scotland) is sustainable.<sup>14</sup> But the UK's enduring excellence in higher education and science nevertheless exemplifies an area of relative success and stability, that other areas of policy will want to emulate.

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\* The author credits valuable conversations with academic and innovation experts at Imperial College for some of these points.

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## Downing Street needs more of the best staff available

It should be clear by now that, to lead a much more effective growth strategy, there needs to be a much larger team at the disposal of the prime minister.

In the final report of the IfG's Commission on the Centre of Government, the case was made for No.10 to have a much stronger economic function, led by a "heavyweight adviser to the prime minister", supported by both official and political expertise. The IfG is not alone in pushing in this direction, and indeed for the prime minister to have their own department (the IfG commission recommended a Department of the Prime Minister and Cabinet): Lord Maude's 'Independent Review of Governance and Accountability in the Civil Service' suggests an Office of Prime Minister and Cabinet as the strategic centre of government, and the Future Governance Forum has called "for giving the Prime Minister his own department: a properly resourced office built around his agenda, with levers that work and including the capacity to appoint junior ministers within it".<sup>15</sup>

For the growth agenda, the other insights of this report would have little value if the No.10 team lacks the clout to keep the government in line with the prime minister's priorities. Those against the idea that the prime minister needs more support will observe that for centuries the prime minister could call on the Treasury if he or she wanted economic advice, and that a small, diligent Policy Unit can commission advice from other departments for other kinds of analysis. However, relying on other departments puts the prime minister in a poor position to provide challenge to the view elsewhere in government, rather than just to take lines from them. Ultimately, if economic skills are insufficiently strong outside the Treasury, the finance ministry will set direction by default, even if it does not actively seek this influence.<sup>16</sup> Even though No.10 and 11 today co-operate much better than during some periods in the recent past, it is not a good basis for a robust relationship for one party to have so much more expertise than the other. The roles described above – setting a whole of government strategy, arbitrating inter-departmental disputes and taking ownership of key political decisions – cannot be substantially shared by the department that is also wrestling with fiscal and macro-economic policy, and oversight of the financial sector.

In the last quarter of 2025 No.10 set about reinvigorating its economic and political staff, installing a new principal private secretary from the Treasury, a chief economic adviser and a leading politician, Darren Jones, into the new position of chief secretary to the prime minister.<sup>17</sup> The intent behind these moves is welcome, but it should be only a start. There is no science to saying what the right number of such staff is, but it is much more than is currently normal.

In recent years, it has not been unusual to hear of the number of economically qualified staff in support of the prime minister numbering just two or three, forcing No.10 to rely on help from the Treasury. This is much fewer than any department might have in its strategic function. In the US, it has not been unusual for future Nobel Laureates, Ivy League professors and central bank chairs to be helping the president.\*

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\* Examples include: Alan Greenspan, Janet Yellen and Ben Bernanke (all chairs of the Federal Reserve, and Bernanke a Nobel Laureate), Paul Krugman (Nobel), Lawrence Summers (chief economist of World Bank and President of Harvard).

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As the Commission on the Centre of Government reported, it is normal for the White House to have three top academics supported by more than 20 economically trained staff. And in Europe, the German chancellor has around 900 staff to help in setting and managing the strategic direction of governments, of which a few dozen may be economically focused.

No.10 should have a fully staffed economic function of 20 or more helping the prime minister set growth strategy. They would need a variety of skills and backgrounds and be a mixture of political and official – Treasury experts, people with familiarity with the party, sector and policy specialists. They need to be of sufficient seniority to be able to stand up to the powerful politicians around them, including the prime minister himself.

Whatever limits are preventing the prime minister having exactly the staff needed, be they pay rules, space constraints or artificial rules about adviser numbers, they should be discarded entirely. These are extremely consequential jobs, and the team should have all the resources it needs to have the candidates it wants. The people staffing this function need more than just skill or experience – they must possess the kind of heft that can stand up to the other pressures that will inevitably be pushing the prime minister in directions away from the economic strategy.

The absence of a proper strategy function in No.10 will not simply mean the Treasury taking over, reluctantly or not, but the predominance of other, worse instincts of Downing Street. As one official put it, “if you do not have a proper strategy function then that space gets filled by comms”, which, however necessary, tends to be the very opposite of strategic.

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# Conclusion

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The Labour government's ambition to raise UK GDP growth is important, difficult – and entirely achievable. There is plenty of potential for the country to improve and no intractable mystery about the characteristics of a more prosperous country. The government has a steady understanding of policies it should pursue, one that it shares with most of its predecessors. If there is a puzzle, it is why it has so often proven difficult to follow through on what is needed.

We argue that the organisation of the leadership of government holds many of the answers. The politics of growth is invariably difficult, which is why political leadership is key to making any progress. The teams in No.10 and the Treasury ought to be capable of articulating a well-understood growth strategy, which is the best means of ensuring all of government is working towards the same broad goal. This strategy must break down the objective of growth to the priorities that the leadership is willing to put its shoulder behind: the choices it means to make, the costs it is willing to take.

Relentless reiteration of the importance of growth does not achieve this. Nor does publishing a long list of growth-relevant ideas, like the seven pillars of growth, and implying that they will all be pursued with equal vigour. Other governments with a more widely accepted growth strategy, such as Margaret Thatcher's or David Cameron's, were clearer about where they intended to take present-day pain for future gain. This government has been much less resolute.

At a high level, the government's mantra of "stability, investment and reform" could provide a good framework for its growth strategy. Endemic instability at both the macro and micro level has certainly been a problem for the UK, which it should be possible to address. A sustained lack of investment is another long-standing weakness, which has led to a cumulative shortage of economically useful capital that may run into the trillions. There are always opportunities to reform the country's institutions and rules.

But the government risks fumbling all of these. While it is welcome that the Treasury has put more headroom between the forecast and its fiscal rules, longed-for stability will never be secure if the difficult cuts and 'economies' to be found are always a few years into the future. Investment will not boom when constantly in competition with immediate living standards for attention and resources. The reform agenda will be incomplete if the government does not face up to the harder trade-offs in the dynamism agenda: an uncomfortable topic for Labour governments that generally value economic security as an end itself.

There are other key interdepartmental disputes where a stronger line is needed from the centre to pursue the growth agenda with more force – from financial regulation, the pace of net zero, the AI-copyright dispute, to drug pricing policy and tax reform. There will be others.

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As well as being well-resourced, key to a successful Downing Street economic operation is a sensible discrimination over how it operates. The team in No.10 must use its own time and capital strategically, according to a plan that weighs issues by their importance, potential and political salience; an overpowered team trying to interfere wherever its attention alights will be a drain on everyone's time and resources, and a source of uncertainty and short-termism.

The people there need to speak clearly for the prime minister, not develop their own separate agendas. They need to see themselves as part of the whole government, build relationships across Whitehall, and therefore be well-placed to ensure departments are working together. They must be open to the influence of business, but have the nous to judge properly what they are being lobbied for, and treat what they hear as the start of the analysis, not the last word. No.10 is there to provide leadership on the topic of growth, but it has to recognise that it cannot directly manage all the processes involved – sensible delegation and devolution is key.

Above all, the resources at the disposal of the prime minister need to be much greater. The leader of a country of some 70 million citizens, generating more than £3trn in economic output, currently relies on a handful of economically qualified staff to produce a strategy capable of tackling the political challenges of growth; few comparable countries would do it this way. There should be multiples more, with a wide range of skills and experience, knowledgeable of how both government and business works, and robust to the challenges that drive relentlessly governments from the right path.

Borrowing from the Treasury does not work when it is the Treasury that sometimes needs to be challenged. No.11 Downing Street already has enough on its plate. The team around the prime minister should be where the difficult politics of growth are understood and tackled.

It is true that no number of brilliant personnel can make up for a bad strategy, inconstant leadership or political weakness. It is the prime minister who has declared growth to be the top priority of his government. He must be able to make the decisions needed to deliver on this – but he needs the tools to do the job.

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