Thomas Smith James Browne November 19th, 2025

UK Budget 2025 – growth first, the rest will follow

The 2025 Budget isn't going to be easy. The UK's public finances are not in great health, and the Chancellor is being pulled in many different directions. ***Thomas Smith*** *and* ***James Browne*** *make the case that, alongside some necessary tax raises, generating economic growth has to be the the main aim of the Government's Budget.*

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On 26 November, the Chancellor of the Exchequer will face one of the toughest Budgets in recent memory – and one that will define whether this government can chart a credible course to national renewal. A gap of around £20 to £30 billion has opened in the public finances, driven by global headwinds, two failed attempts to push through welfare reforms and a likely downgrade to productivity growth in the forthcoming Office for Budget Responsibility (OBR) forecasts. With weak business confidence, falling polling ratings and signs of division within her party, the chancellor faces a set of hard choices and very limited room to manoeuvre.

In this context, there is growing pressure from bond markets for a large tax-raising Budget that not only offsets the deterioration in the fiscal position but also rebuilds headroom to put an end to damaging speculation about future tax rises. Businesses, still bruised by last year's tax increases, want a clear signal that the government will prioritise enterprise, stability and delivery. Many within the Labour Party are calling for higher spending to ease social pressures and show fairness, including by lifting the two-child benefit limit in Universal Credit. And voters, after years of stagnant wages and overstretched public services, want to see progress in their own lives – not another squeeze on household budgets.

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The government cannot satisfy all these constituencies at once. The objective of this Budget should be to chart a course to national renewal that brings first markets and business, then the party and ultimately voters back onside. Achieving that will require tough, politically costly decisions that signal a clear change in direction and a move beyond the caution of the government's first year in office.

Fiscal credibility is non-negotiable, but growth must be the key objective

The starting point for this reset must be a move to shore up fiscal credibility. Tax rises will be required in the Budget. These should either be targeted to addressing distortions and inequities in the current system or be broad-based and temporary – with the aim to reverse them later in the Parliament when growth resumes. But this will not be enough to break the UK out of its economic stagnation. The real focus must be a step change in delivery – making growth the organising purpose of government policy and aligning every major decision with that ambition. Although there have been welcome reforms in some areas, such as planning, they have often been offset by contradictory measures elsewhere – for instance, the rise in employer National Insurance. The result is a strategy that still treats growth as one objective among many, rather than the core mission needed to restore economic and fiscal strength.

The Budget should therefore set out a bold pro-growth package.

First, the Chancellor should reform the tax system to remove the many inefficiencies and distortions that have been allowed to fester for many years, in a revenue-neutral way. This would boost growth by increasing investment and labour mobility. Investment could be increased by abolishing corporate tax reliefs that are failing to achieve their objectives and instead extending full expensing of investment expenditure to all asset classes. Labour mobility could be enhanced through reforms to property taxes: council tax should be based on up-to-date property values and stamp duty is moved closer to an annual property tax. Reforms along these lines are supported by economists across the political spectrum; there is no excuse for inaction.

Secondly, the Chancellor should act to protect the UK's flexible labour market – a key reason behind our relatively high employment rates and a driver of economic dynamism by making it easier to hire and fire. But this is under threat by the intention to move to "day one rights" against unfair dismissal: a change that would move the UK from one of the least restrictive regulations in Europe to one of the most restrictive. Immigration policy should aim to attract top talent rather than being exclusively focused on numbers. For example, the government could look to expand access to and reducing the cost of the Global Talent visa and introduce a new Tech Excellence visa to attract engineers, founders and researchers.

These reforms would show that the government is serious about growth, create the conditions for higher private investment and give confidence that tax revenues will grow more strongly than the OBR is expecting.

The government has made a good start on planning reform to speed up delivery of housing and infrastructure, but bolder action is still necessary. The UK should move to a more rules-based zoning system that provides certainty for developers and enables proposals that meet the criterion to be approved quickly. For example, a permissive "brownfield passport" could automatically permit higher-density housing around transport hubs – a policy that has significantly increased housing delivery and reduced rents in New Zealand. The government should also seek to accelerate AI infrastructure development in AI Growth Zones and the key Oxford-Cambridge Arc through compulsory-purchase powers to assemble land quickly and through integrated spatial planning to coordinate delivery.

There are of course other areas the government could examine to boost growth: for instance, tech-enabled business support through AI advisory tools and improved tax administration to help firms grow and reduce complexity and compliance costs. These reforms would show that the government is serious about growth, create the conditions for higher private investment and give confidence that tax revenues will grow more strongly than the OBR is expecting.

A Reimagined State could deliver more for less

But reform cannot only focus on raising tax revenues. Easing the UK's fiscal woes will also require reshaping the state to lower spending by tackling its structural drivers. Two priorities stand out.

> *By converting a recurring welfare cost into a results-based investment, the government could improve lives, reduce inactivity and strengthen long-term fiscal sustainability.*

First, welfare spending must be controlled. With spending on incapacity benefits reaching £30 billion a year, or 1 per cent of GDP the government should create a time-limited, outcome-based "preventative welfare" programme that uses planned future benefit payments to fund success in reducing long-term sickness and getting people back into work. By converting a recurring welfare cost into a results-based investment, the government could improve lives, reduce inactivity and strengthen long-term fiscal sustainability.

Secondly, AI-era technologies have the potential to improve public sector productivity in a way that has historically been elusive. Adoption of AI across the public-sector workforce could yield £10 billion a year by the end of the parliament, rising further over time. Moreover, these gains are not one-off windfalls. Because the technology is advancing so rapidly, they offer the basis for a sustained transformation in how the state operates – from automating routine tasks to redesigning entire services around citizens' needs.

Bold measures today can deliver progressive priorities tomorrow

This approach will not satisfy everyone immediately, but by delivering for business, turning policy into tangible results and signalling that Britain is once again a place to invest and grow, the chancellor can lay the foundations for national renewal – ultimately bringing voters and the party back onside. By the time of the next election, a clear record of action on growth and reform would give Britain its best chance of renewed prosperity, restored confidence and the fiscal space for lower taxes and better public services. To deliver progressive policies tomorrow, the government needs a pro-business plan today.

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About the author

Thomas Smith

Thomas Smith is Director of Economic Policy at the Tony Blair Institute for Global Change. Over the course of his career, Thomas worked as an international advisor to the Bank of England, deputy chief economist at the UK Foreign and Commonwealth Office, global oil market economist at BP, economic advisor to the Reserve Bank of New Zealand and deputy director of global strategy at the UK Department for Business and Trade.

James Browne

James Browne is a senior policy advisor on economic policy at the Tony Blair Institute for Global Chnge. His work explores how economic policy can drive prosperity. He recently advocated for a change in fiscal rules that was adopted by the chancellor. He has also examined how AI can improve public services and reshape the labour market.

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