

THE INVESTMENT STATE



The Social Democratic Party

Green Paper, April 2026



SDP

Social Democratic Party

“I cannot emphasise too strongly that, however we manipulate our trade or finance, whatever political system we follow, and whatever arrangements we make with other countries, the fundamental fact must always remain that our standard of living as a people will and must depend upon the volume of our own production, and nothing can give us a higher standard than we can support by our own efforts.”

Sir Stafford Cripps, Chancellor of the Exchequer (House of Commons, 1947)

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The Social Democratic Party offers its warmest thanks to Matthew Kirtley - author of The Investment State.



FOREWORD



The Investment State

About 50 years ago, Britain stopped investing in its future. Today's collapse in living standards is the bitter harvest of this error. Correcting this mistake is one of the most urgent priorities in British politics today.

This Green Paper charts the causes of this collapse in public investment, and how it has been papered over by an unprecedented multi-decade binge on entitlement spending. It then explores the stark costs of this shift to households and the nation. The results have been catastrophic. We estimate that this abandonment of public investment has made British wages, output and national income a fraction of what it might have been.

Our ruling elite became pathologically intent on spending rather than investment, keener on short-term gratification than long-term needs, and fonder of buying votes than actively pursuing the national interest. At times the voting public has been complicit in this cultural malaise - too quick to demand that some other citizen should pay their way.

The investment freeze and entitlement binge is inherently unsustainable. If we do nothing, then the bankruptcy that follows will cause untold damage for generations to come.

In this Green Paper, the SDP – the party of the patriotic state – presents the only feasible alternative. A deliberate course correction towards a new system of economic management. A system that will restore the damage from 50 years of underinvestment, and charge the state with directly fixing the bottlenecks facing the British economy.

As with any binge, the transition will be painful. Entitlements will fall. However, as we show in these pages, our approach will allow the country to finally fix some of its largest structural challenges - such as our chronic housing shortage. It will allow Britons to once again have confidence that the future will be better than today.

The SDP commends this Green Paper - and the vision of the investment state - to the nation.

William Clouston
SDP Leader

EXECUTIVE SUMMARY

Prior to the mid-1970s, British government spending on public investment roughly equalled that spent on entitlements and cash transfers to households, with each item constituting 6% of GDP. However, in the subsequent fifty years, successive British governments have averaged just 1.7% of GDP per annum on public investment, and 10.2% on entitlements.

This reallocation of government spending – what we call the shift to the **entitlement state** - has caused a long-term, secular reduction in British productivity growth. The cost of this long-term fall in productivity growth has been momentous. We estimate that British output per hour in 2024 would have been 90% larger had this shift not taken place, representing an increase in 2024's Gross Value Added (GVA) from £2,500bn to £4,900bn.

We argue for a reallocation of government spending towards a pattern that better resembles pre-1975 levels: at 6% of GDP per annum on public investment, and 6% on entitlements.

To avoid the patterns of economic mismanagement that derailed the pre-1975 system, we propose the creation of an overall body for national economic development called the **Department of Economic Planning (DEP)**. The DEP will pursue targeted five-year plans that use public investment to resolve supply-side constraints facing the British economy and create the conditions for long-term growth, such as infrastructure investment, housing, and industrial coordination.

We name this new mode of economic management the **investment state**.

To achieve the investment state, we will need to realise a significant reduction in current entitlement spending. To achieve this, we propose a ten-year “taper” period which will see spending on the state pension reduce by £4.9bn per annum, disability and incapacity benefit by £3.8bn per annum, and housing benefits by £3.7bn per annum.

To illustrate the power of the investment state at resolving structural crises in the British economy, we present three five-year plans by the DEP focused on housebuilding. Using half of the proposed entitlement savings, we detail a plan to expand national housebuilding capacity to build 4.3mn additional homes within fifteen years.

In total, we project that the higher productivity growth achieved under the investment state will increase national income significantly over a thirty-year period. By 2055, it will increase national income **by nearly fifty percent** – from £3,040bn under the current trend to **£4,440bn**.

PART 1

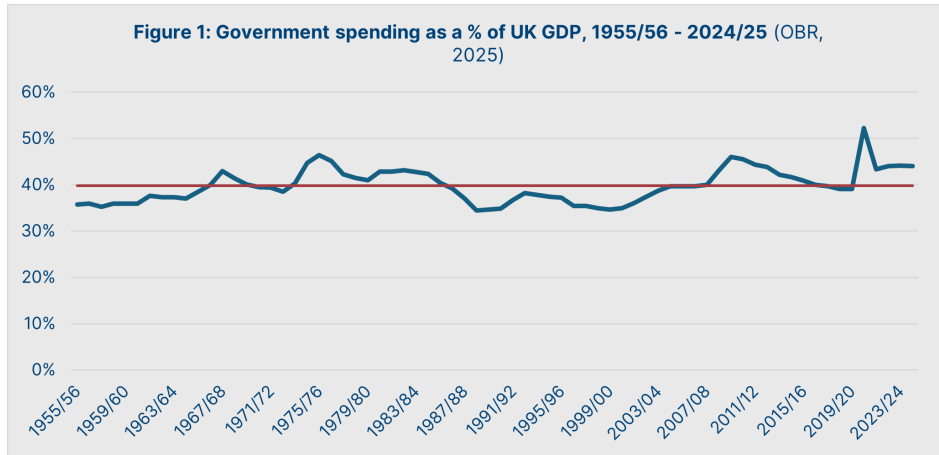


THE RISE OF THE ENTITLEMENT STATE

PART 1

THE RISE OF THE ENTITLEMENT STATE

Since 1955, British government spending has averaged 39.8% of a given year's Gross Domestic Product (GDP). As shown in Figure 1, government spending has remained broadly stable over the past 70 years: there has been no systematic growth or shrinkage of state spending in the long run.

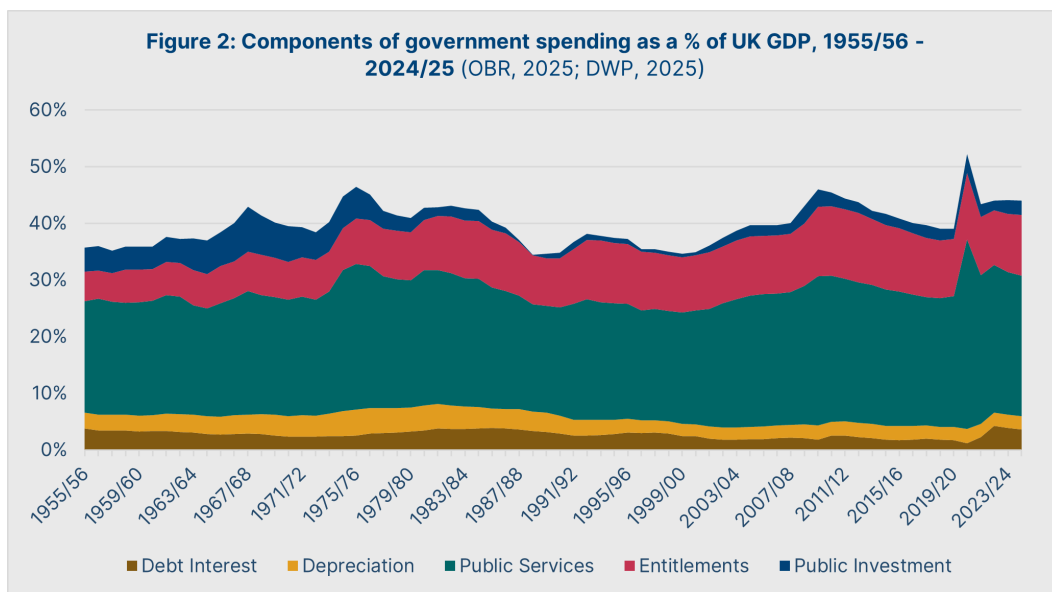


However, while total spending has remained consistent, what the government has chosen to spend money on has dramatically changed.

Broadly, government spending can be broken down into four parts:

- Entitlements, including benefits and pensions.¹
- Public sector net investment, for new buildings, infrastructure, and equipment.²
- Public services, for the day-to-day costs of the public sector.
- Depreciation and debt interest, for writing down old assets and servicing government debt.

The split between these four items since 1955 is shown in Figure 2.



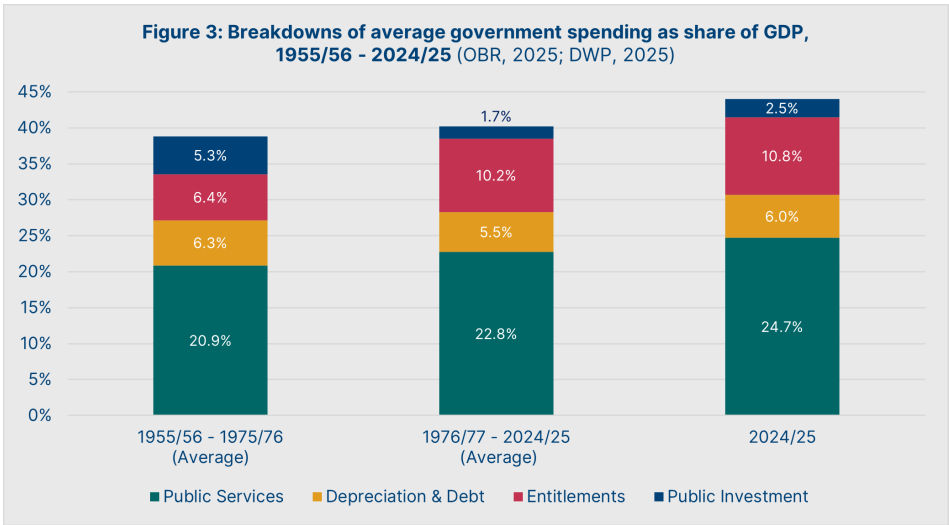
¹ From 2013/14, entitlement figures use the DWP's own recorded whole UK welfare spending data. Prior to this, data from 1978/1979 uses DWP GB welfare spending figures: to these, we have added 0.35% to account for Northern Ireland, reflecting average differential between UK/GB totals from 2013/14-2024/5. The same +0.35% modifier was added to the DWP's pre-1978 data of overall benefit spending, which only records spending by itself and its predecessors.

² For concision, we will use "public investment" as shorthand for "public sector net investment" for this Green Paper.

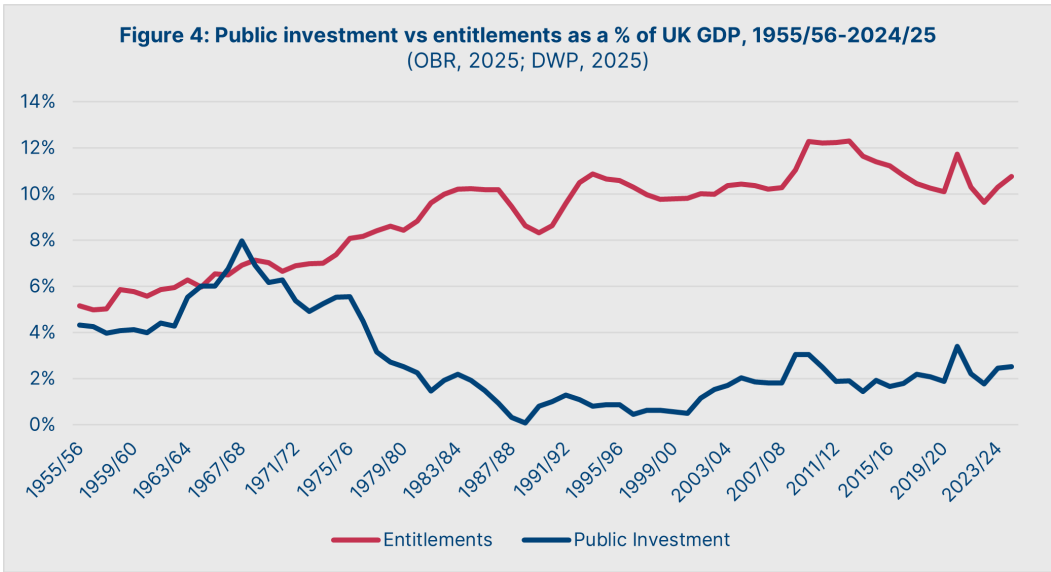
Over those seven decades, the amount spent on two of these items – public services and the combined depreciation and debt interest burden – has remained stable, averaging 22.2% and 5.8% of GDP, respectively. However, the same cannot be said for the other two parts.

As shown in Figure 3, spending on public investments and entitlements has experienced two distinct phases since 1955.

- A first phase ending in 1975/76 which saw spending on the two items roughly equal one-another, with entitlement spending averaging 6.4% of GDP and public investment averaging 5.3% of GDP.
- A second phase from 1976/77 until the present where this parity vanished. Spending on entitlements soared to an average of 10.2% of GDP, whereas public investment collapsed to just 1.7%.



As shown in Figure 4, the transition between these two phases – a fifteen-year period lasting from 1975 to 1990 – was marked by the large-scale cannibalisation of public investment by entitlement spending.



PART 1

THE RISE OF THE ENTITLEMENT STATE

This has had significant consequences for the wider British economy, as prior to 1975/76 public investment represented a major source of net investment. Net investment is essential for long-term economic growth – it represents growth in equipment, plant, and infrastructure that reduce the amount of time and labour we need to produce a given output. Growth in labour productivity is thus the main driver of growth in wages and living standards, and the size of an overall economy.

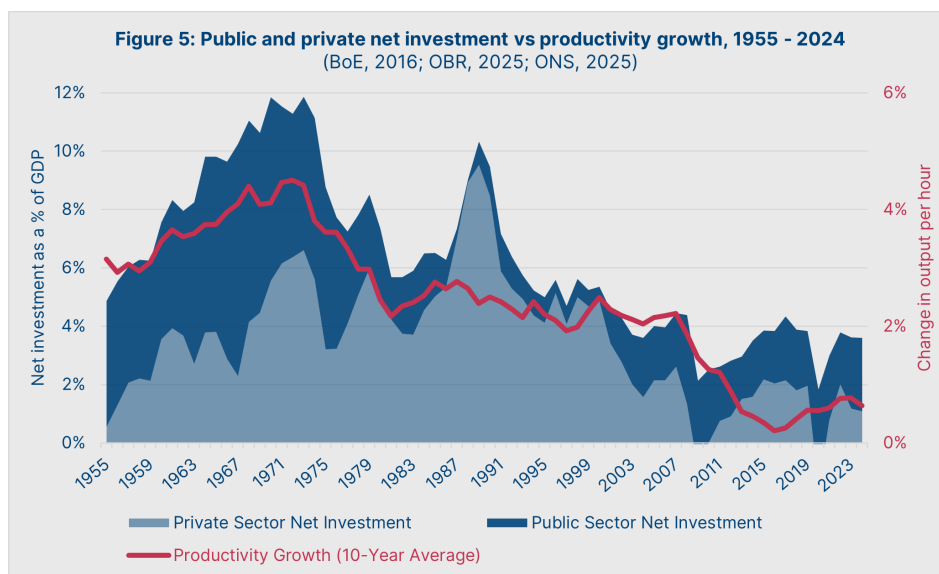
Both the public and private sectors are sources of net investment. So, conceptually, this means a collapse in public investment could be replaced with private investment, and thus net investment would remain unchanged. However, this is unrealistic in practice.

Public investment tends to increase productivity via investment in low-return or non-rivalrous infrastructure and services. These investments generate significant value across an economy – such as roads and railways allowing the movement of people and freight, electricity and gas networks enabling the use of a range of appliances and tools, or landfills allowing us to safely dispose of waste – but have traditionally proved difficult to monetise under private ownership without state incentives (which are, in practice, public investments).

These public investments tend to increase the return on capital for private investment. For example, public investment in power stations will reduce electricity bills for factories, improving their profitability and return for investors. Critically, it is this return on capital that drives private investment into an economy in the first place. Subsequently, a collapse in public investment will erode the basis for private investment over the long run.

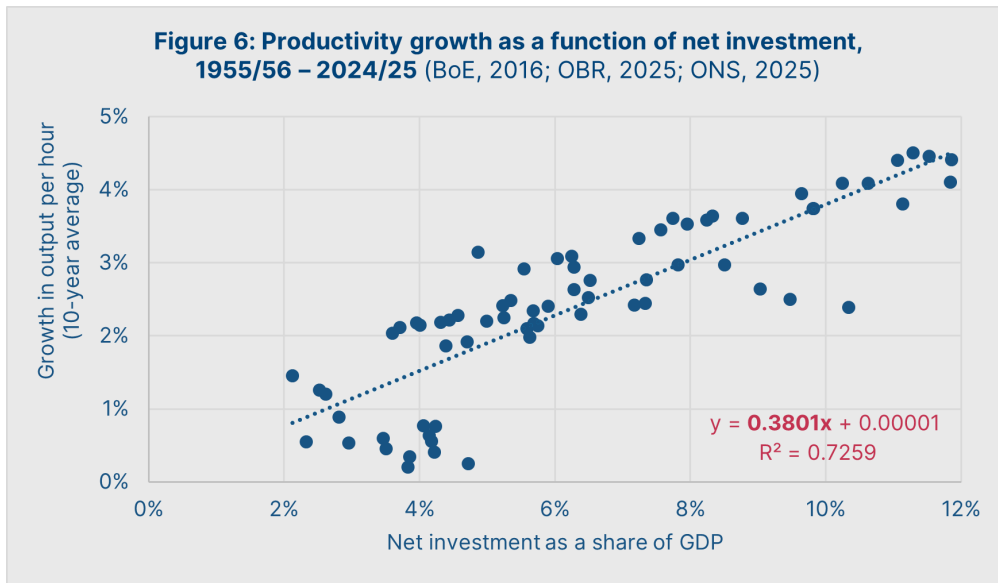
As a result, Britain's shift away from public investment has proved disastrous. Aside from a spike in the 1980s associated with the short-lived "Lawson Boom", private investment did not fill in the gap left by public investment following its collapse in the late 1970s. Instead, net investment has simply been systematically lower in the post-1975 period.

The result has been a secular fall in long-term productivity growth. This is shown in Figure 5.



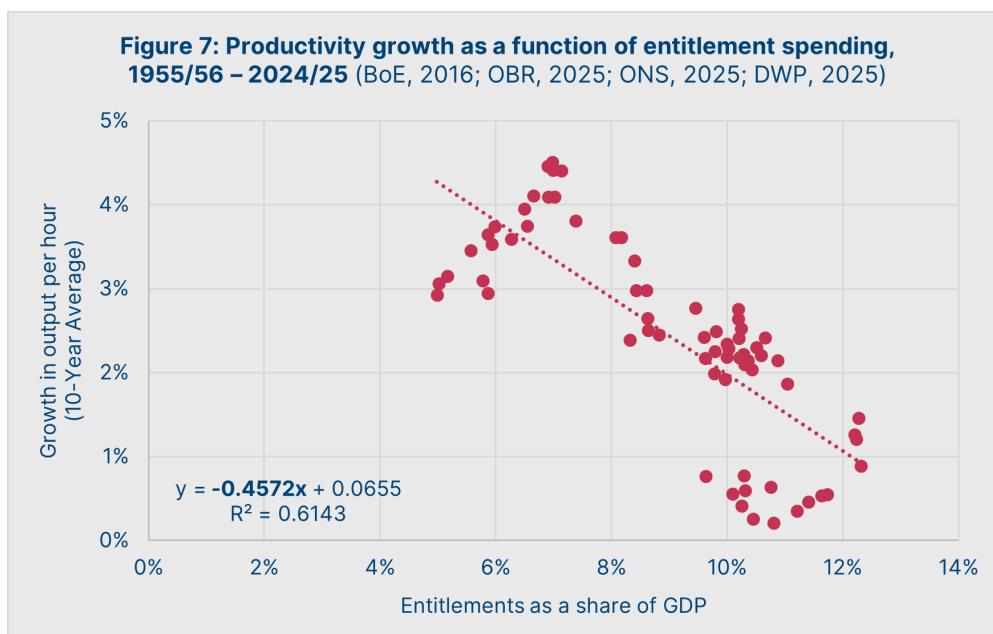
In our previous Green Paper, Energy Abundance, we covered one of the most destructive mechanisms by which this fall in public investment damaged productivity growth – the privatisation of the energy system and the later adoption of inefficient and ineffective renewable generation, which together have prompted a significant reduction in total electricity supplied via the grid. In that paper, we estimated that this had reduced Britain's annual economic output by £310bn as of 2024.

However, by looking at the secular reduction in productivity growth since the mid-1970s from reduced public investment overall, we can see that this £310bn per annum loss in output is just the tip of the iceberg. Figure 6 plots the trend between net investment and productivity growth during the 1955-2024 period, with the trend line implying that a 1% increase in net investment corresponds with a 0.38% increase in productivity growth. This relationship appears to describe most of the variation in productivity growth during the period, as indicated by a R-squared value of ~0.73.



As already noted, the 1955-75 period saw annual public investment average 5.3% of GDP, compared to just 1.7% during the 1976-2024 period – a fall of 3.6%. Using the statistical relationship derived above, this implies a drop in average annual productivity growth of **1.37%**.

By contrast, entitlement spending has a far more ambiguous relationship with productivity growth. As shown in Figure 7, a 1% increase in entitlements appears to correspond with a 0.46% fall in annual productivity growth. This relationship appears to have reasonable descriptive power, with an R-squared value of ~0.61.

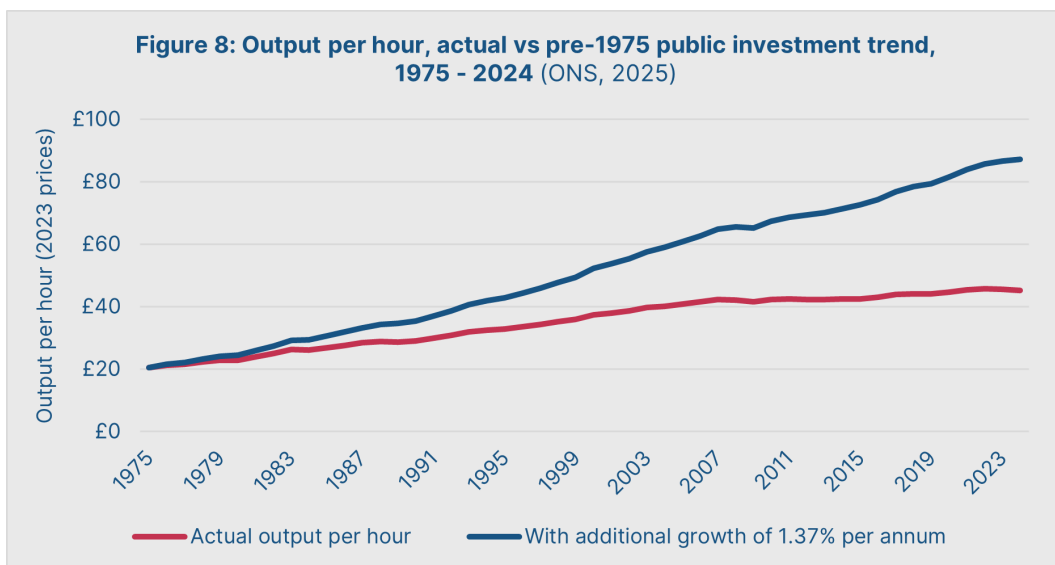


PART 1 THE RISE OF THE ENTITLEMENT STATE

In a best-case scenario, this suggests greater entitlement spending is productivity-neutral, aside from its role in cannibalising public investment – although there are reasonable grounds to believe there may in fact be a slightly negative relationship. For the purposes of our argument, we have no reason to assume that entitlement growth has had any role in offsetting the secular decline in productivity caused by cuts to public investment.

This means that we can reasonably estimate that, at a minimum, the combined impact on productivity growth by diverting public investment to entitlement spending is equal to the 1.37% calculated for the drop in public investment.

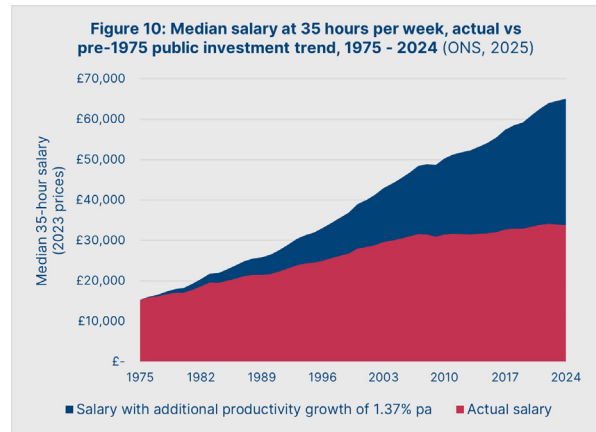
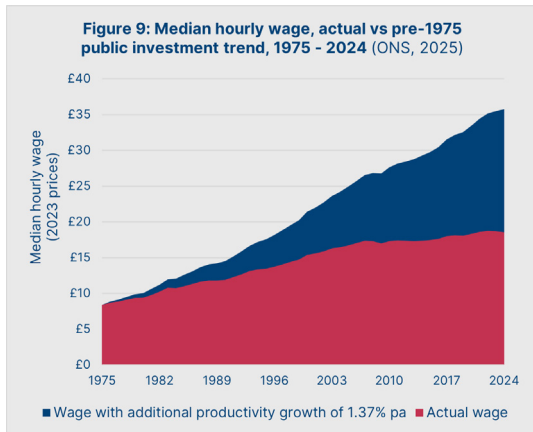
This 1.37% per annum drop in productivity growth represents a tremendous cost to the British economy. As shown in Figure 8 in 2023 prices, output per hour in 1975 stood at approximately £20.48 and rose to around £45.20 in 2024. With 1.37% higher per-annum productivity growth during this period, 2024 output per hour would have instead stood at around £87.11.



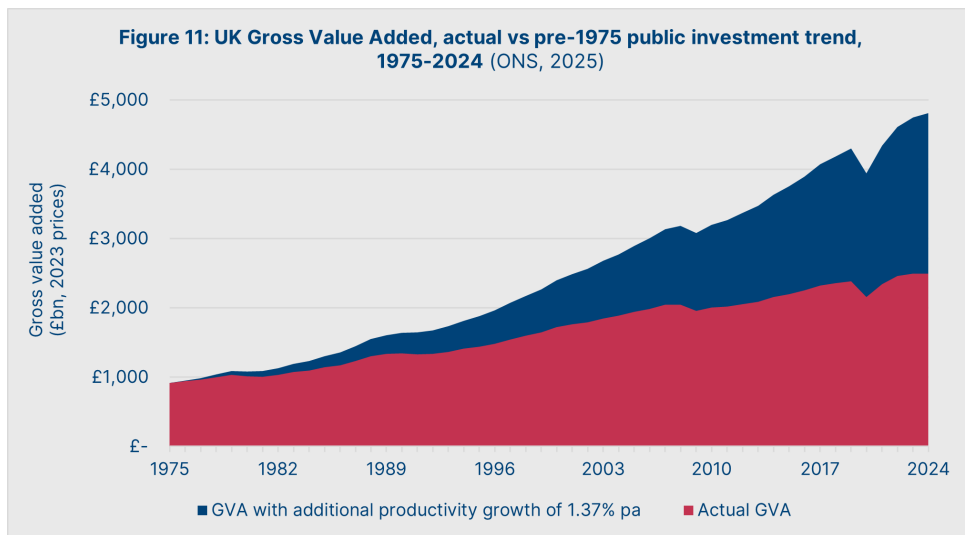
At an individual level, this near halving of output per hour compared to what would have transpired under the previous productivity growth trend is disastrous for income and living standards, since output growth is what drives wage and income growth.

In 2024, the median hourly wage for full-time workers stood at £18.66 per hour, which is around 41.2% of nominal output. (ONS, 2024) Holding this ratio constant, at the projected higher productivity growth under the pre-1975 regime, an output per hour of £88.30 would have meant:

- An increase in the median full-time hourly wage to £35.96, instead of £18.66
- An increase in the median full-time salary at 35 hours per week to £65,630, instead of £34,050



The starkest indication of the cost of the post-1975 fall-off in public investment can be seen in national output. Had average productivity growth been 1.37% greater during the 1975-2024 period, Britain's economic output³ in 2024 would have been nearly double the actual figure: £4,900bn, up from £2,500bn. Expressing it another way: Britain's economy would have been 90% larger in 2024 had public investment not collapsed from the 1970s onwards. This is illustrated in Figure 11.



Social democrats believe in advancing the real, material interests of the British people and nation. This post-1975 arrangement – which we shall henceforth refer to as the **entitlement state** – is not social democracy. On the contrary, it has been a fifty-year binge. As with all binges, it is unsustainable.

This Green Paper sets out our plan to end the binge of the entitlement state:

- In Part 2, we will set out a vision for a new, responsible British fiscal order that restores proper public investment in the context of strategic, multi-year plans by the government.
- In Part 3, we will discuss the necessary savings that must be made to entitlement spending to finance this transition to the new fiscal order.
- In Part 4, we will illustrate the power of this fiscal order to fix economic bottlenecks through a series of five-year plans. As an exemplar, we will present a costed sequence of plans to construct 4.3mn new homes within fifteen years.

³ This figure represents Gross Value Added (GVA), which differs slightly from GDP in that it does not account for the impact of taxes and subsidies on products – this means that the two metrics can be typically expected to diverge by around one percent each year.

PART 2



THE IDEA OF THE INVESTMENT STATE

PART 2

THE IDEA OF THE INVESTMENT STATE

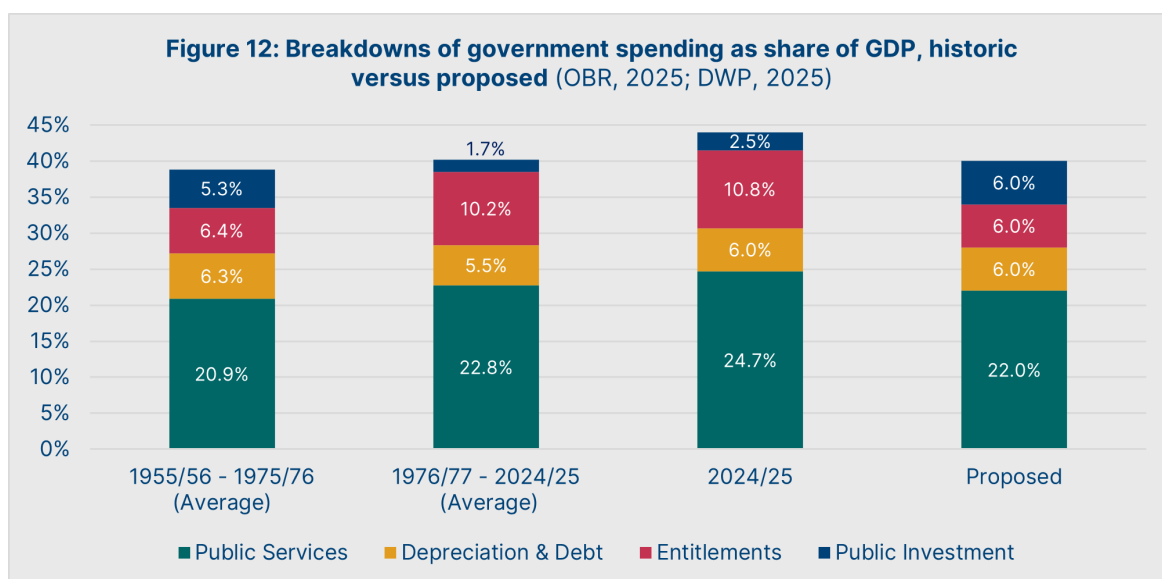
In Part 1, we explored why the abandonment of public investment in favour of the entitlement state has proven so costly to Britain's growth and national prosperity. In this part, we shall outline our vision for an alternative fiscal order that spends considerably more on public investment. Critically, however, we shall also ensure this new order avoids the pitfalls of pre-1975 economic management that cleared the way for the entitlement state in the first place. In contrast to the entitlement state, we shall call this new and balanced fiscal order the **investment state**.

Allocations of the investment state

As the name implies, the investment state is predicated on a higher level of public investment than the post-1975 norm. But how much should it invest?

As a guideline, we will take the pre-1975 allocations as a basis. There, the three items of entitlements, public investment, and debt/depreciation costs were roughly at an equal split. If we limit ourselves to the postwar average of 40% of GDP for government spending, this provides us with the following average allocation for spending items across an economic cycle:

- **40% of GDP** overall on government spending, reflecting the postwar average.
- **22% of GDP** on public services, a 3.5 percentage point reduction from the post-1975 average.
 - In the long-term, we aim for this to be achieved without disruption to output or service quality, owing to the additional productivity afforded by new public investments.
 - In the short-term, we will continue spending on public services at current levels until we begin to achieve secular productivity growth, and the immediate economic dislocation from our entitlement savings has passed.
- **6% of GDP on depreciation, debt interest, and repayment of debt principals.**
 - In the long-term, we aim for a balanced budget and a prolonged reduction in the debt-to-GDP ratio from present levels (and thus the interest burden).
 - During the upsides of an economic cycle, we will use any budget surpluses to engage in a gilt buyback programme from private markets and the Bank of England.
- **6% of GDP on entitlements, a 42% reduction from the post-1975 average.**
- **6% of GDP on public investment, a 333% increase from the post-1975 average.**



PART 2

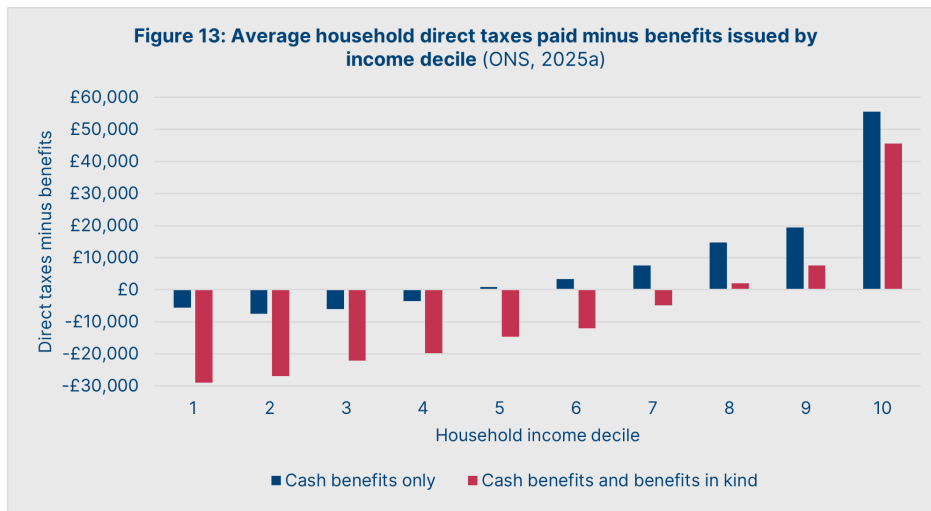
THE IDEA OF THE INVESTMENT STATE

Financing the investment state

As is shown above, the investment state will require significant reductions in entitlement spending and slight reductions in public services spending. Why do we do this, rather than raise taxes or government borrowing?

We reject raising taxes because we are at the ceiling of what can sustainably be taxed. As discussed in Part 1, total government spending is currently at 44% of GDP – towards the upper bound of its postwar range. The total tax burden has barely exceeded 40% of GDP since demobilisation in the late 1940s, so to finance a new wave of investments via taxes would require the introduction and normalisation of levels of taxation last seen when Britain was in a state of total war.

We regard this as dangerous, owing to a structural change that has occurred in recent decades, spurred on by the entitlement state: most of the population now receive more in benefits than they pay in taxes. After taking benefits in kind into account, only the top thirty percent of households by income are net taxpayers – and in practice, the top ten percent of households are playing an outsized role in propping up the system. A capital flight from this cohort would be disastrous.



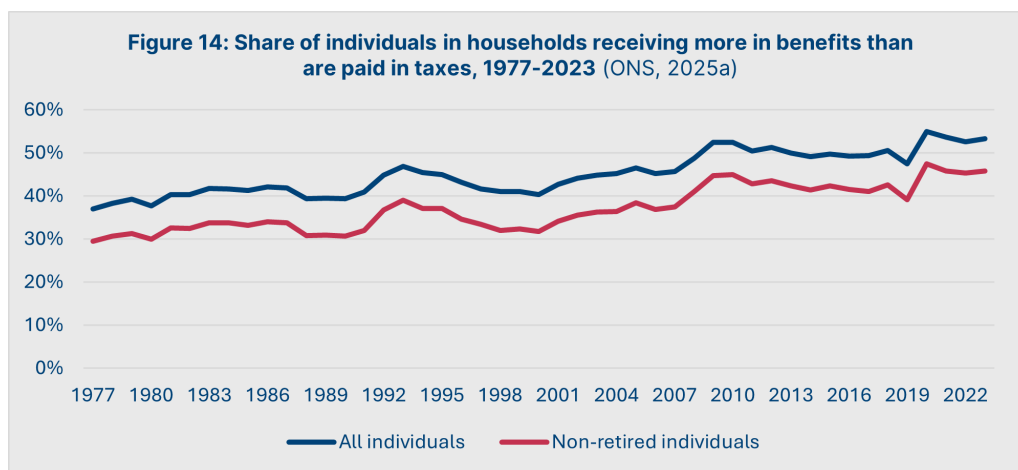
If tax rises are not on the cards, then should we fund public investment through continued borrowing? No. Britain's current government debt-to-GDP ratio is at a postwar high of approximately 100% of GDP, and servicing this debt is costing well over £100bn per annum. We have no opposition in principle to deficit spending and government borrowing, which are crucial tools during times of recession or depression. But at the current level of indebtedness, further deficits can only be justified to offset the most acute downturns.

This leaves cuts to entitlements and public services. While our average allocation does call for a cut in public service spending of 2.7% of GDP from its 2024/25 levels, we are inclined to hold back on this for several years until our investments bring about productivity growth. While there is much room for rationalisation and new efficiencies across the public sector, significant reductions in the provision, availability, or quality of public services at present will hurt society-wide productivity in the short-to-medium term and undermine our agenda.

We believe the time to pursue efficiency savings in the public sector will be after the first generation of new public investments comes online and public sector productivity rises along with that of the wider economy, allowing us to reduce operating costs without damage to service delivery. Public service reform would be deliberately phased to take advantage of productivity effects downstream from our programme, ensuring quality of services is maintained.

This leaves cuts to entitlements as the main mechanism to finance raised levels of public investment. Along with being the best choice available in a fiscal sense, we also regard such a reallocation to be necessary in a civic sense.

A democracy in which most of the electorate are net beneficiaries is one which is extremely vulnerable to a death-spiral of entitlement inflation: the short-term economic incentives of most of the electorate will be to maintain or expand their entitlements, even if this at the expense of the long-term stability of the nation. The longer that most of the population are net beneficiaries the harder it will be to course-correct, as expectations on entitlements and what people are “owed” become more culturally entrenched.



We expect there to be considerable popular and institutional resistance to a major reduction in entitlement provision. This means that, to succeed, a shift away from the entitlement state must be locked in swiftly and early on by a government that has a strong and immediate mandate. If a government takes its time with piecemeal entitlement reductions over time, it will almost certainly suffer a death from a thousand cuts via attritional battles with the opposition, pressure groups, and dismayed members of the public.

In Part 3, we will explore such a programme of entitlement savings. However, before analysing these cuts, it is equally important to consider the regime of economic management our spending reallocation will take place in.

Lessons from the past

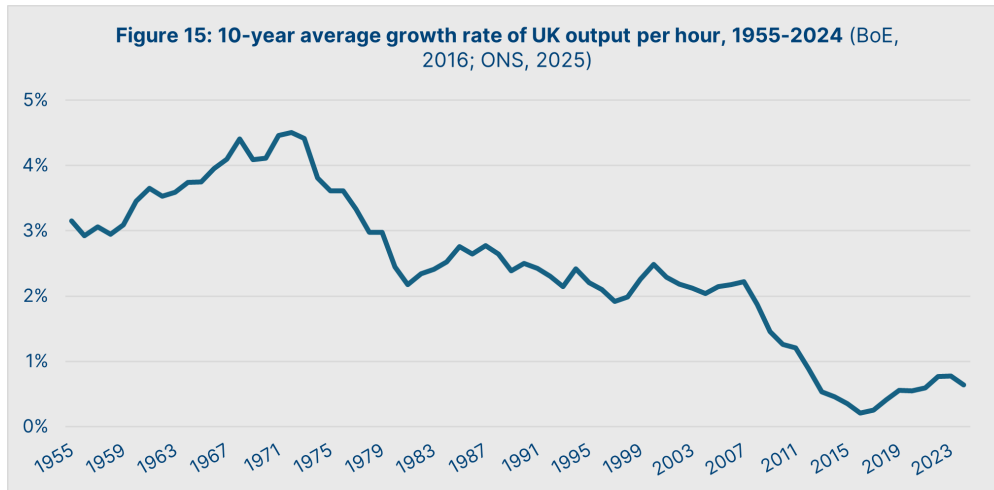
The investment state, as we conceive it, is not merely a reallocation of government spending. Instead, we believe it will comprise a wholesale change in the assumptions that underpin national economic management. To understand what we mean by the preceding sentence, and what it entails, we should examine why the pre-1975 pattern of government spending was abandoned – and what we can learn from it.

For Conservative and Labour governments since 1979, the consensus has been that the system that came to an end in the mid-1970s was inherently unstable. According to this conception, state interventionism – including public investment – had broken the ability of markets to do their job properly. Operating under the idea that markets tend to be more efficient than the state at allocating resources, cuts to state spending as a share of GDP enacted under the Thatcher government – primarily through reduced investment and public services – freed Britain up from decades of misallocation of capital and labour to projects that were politically salient but of low value.

PART 2

THE IDEA OF THE INVESTMENT STATE

However, the trend in productivity growth from 1955/56 until present undermines this narrative. As a 10-year average, productivity growth peaked at 4.5% in the early 1970s and has never risen above 3% since 1979, or 2% since 2008. To the contrary, it has been systematically lower.



Instead, we argue that the breakdown of the pre-1975 system lay in a failure by the British state to pair its elevated levels of public investment with effective medium- to long-term economic planning. Whereas our closest competitors – such as France and Germany – treated public investment as an integral part of “dirigiste” economic strategies that sought to direct economic activity over the long run to improve output and productivity, Britain instead used public investment mostly as a reactive tool to maintain a fine balance between employment, growth, inflation, and our foreign exchange reserves.

To understand why Britain fell into this pattern, we must first look to the aims of one of the architects of the postwar economic system, Stafford Cripps.

Between 1942 and 1945, Cripps had served as the Minister of Aircraft Production, where he had overseen the transition from fighter to bomber production. Cripps, with an acute awareness of the economic importance of the strategic bombing campaign in shortening the war, had doubled deliveries of bombers through a relentless focus on productivity and efficiency gains. This was in-character for Cripps, who believed fervently that real economic growth was intrinsically tied up with questions of productivity.

As President of the Board of Trade from 1945 to 1947, Cripps had already focused most of his energies on developing a state planning capability to consistently deliver such productivity growth. This continued with even more vigour when he served as Chancellor of the Exchequer from 1947 to 1950, which can be seen in many of the speeches he made to the House of Commons:

“I cannot emphasise too strongly that, however we manipulate our trade or finance, whatever political system we follow, and whatever arrangements we make with other countries, the fundamental fact must always remain that our standard of living as a people will and must depend upon the volume of our own production, and nothing can give us a higher standard than we can support by our own efforts.”

“In order to get this increased production, we must carry out our planning in an orderly way. We must secure raw materials and sources of power first of all for producing things like coal, steel, transport, agricultural production, and those primary things that are the basis of the whole of our industrial life, and, having secured a sufficiency of those primary things, we can then turn to the semimanufactured goods of importance, and finally to the completely manufactured goods.” (Hansard, 1947)

In practice, Cripps remains the only holder of the Chancellorship since 1945 to focus principally on improving secular productivity and production via medium- to long-term economic plans. Critical to his vision was a continuous flow of public investment, made in the context of alleviating bottlenecks and restrictions on such productivity growth.

Far from being tactically targeted at securing short-term economic wins within an individual project or industry, Cripps treated public investment as a component of a wider system of controls, taxes, subsidies, and indicative planning via forecasts and output targets for the private and public sectors. The goal was to improve underlying labour productivity in the long run, rather than simply react to the ups and downs of the economic cycle.

Unfortunately, Cripps was unable to bring about widespread acceptance of this way of thinking and thus it failed to outlive his time in office. The Labour Party – particularly the unions – resented Cripps's willingness to hold down wages in controlled industries if there was no productivity growth recorded.

At the same time, the Conservative Party was averse by nature to the "overreach" that came with Cripps's system, and also rankled at unpopular moves Cripps saw as necessary for his system – particularly devaluation, with Cripps having cut sterling's fixed exchange rate by 30% in 1949.

And, despite Cripps having patronised the Treasury and overseen the creation of a new planning department called the Department of Economic Affairs, there was general institutional reluctance in the Civil Service to assume this new planning function without Cripps's insistence and oversight.

A year after Cripps retired on health grounds, Labour was out of government. Upon returning to power, the Conservatives found themselves willing to accept the world of high allocations of public investment they inherited. However, far from productivity growth being the justification for such public investment, the Conservatives were primarily focused on maximising electoral viability following the trauma of their electoral defeat in 1945: this for them meant high employment, low inflation, and a valuable pound became ends in of themselves.

The result was the development of a system of reactive economic management, which later became derided as the "stop-go" system owing to the frequent changes in the economic weather it produced.

Under stop-go, governments aimed to maintain near-full employment and low inflation while maintaining a fixed exchange rate.

- During a "**go**" phase, governments sought to stimulate demand by cutting taxes, increasing spending, and slackening the bank rate and credit controls.
- Inevitably, the inflationary pressure combined with the fixed exchange rate would see foreign exchange reserves run down over time during the go phase.
- When the reserves were sufficiently run down to threaten the flow of imports, governments then entered a "**stop**" phase where taxes were re-raised, spending was cut, and the bank rate and credit controls tightened.

Unsurprisingly, this gave rise to a pattern of uneven growth rates, which swung from negligible in one year to peaks as high as 6% of GDP in the following year.

PART 2

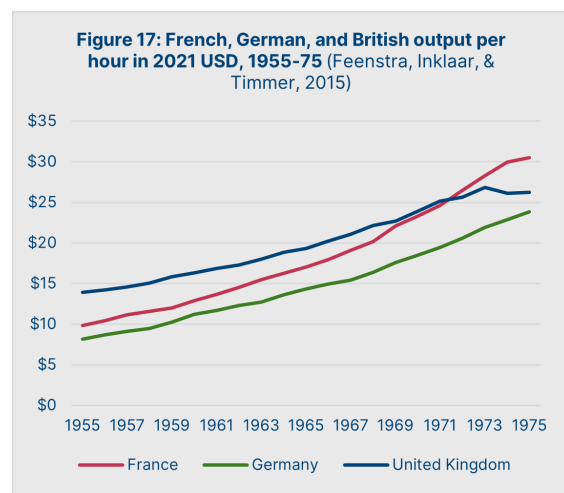
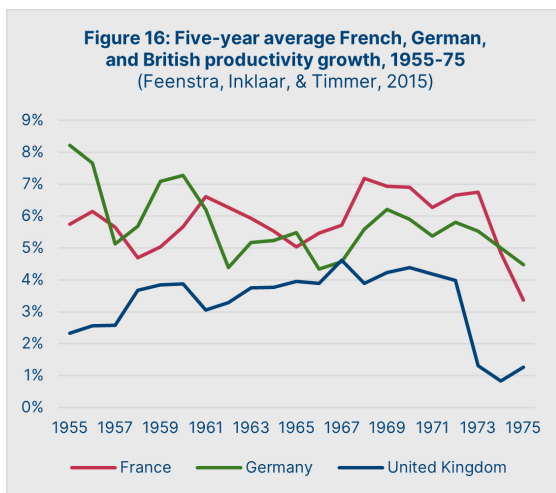
THE IDEA OF THE INVESTMENT STATE

Economic management was thus relegated to a reactive exercise, based around keeping the growth rate and foreign exchange levels within a “fine-tuned” threshold. Whereas Cripps had believed in the long-term pursuit of productivity growth based on multi-year strategies to make concentrated investments in bottlenecks to production and output – with rationing and austerity accepted when needed – the stop-go policy used only the lens of demand-side analysis. Its focus was on pre-empting the unpopularity a government would have to face if unemployment or inflation rose too high, or if the pound was devalued.

Productivity growth was thus simply not of interest, and indeed it was often subordinated to other concerns via the commitment to maintaining the valuation of sterling. In reviewing the 1951–73 period, the economic historian Jim Tomlinson observed that the lack of interest in productivity growth was one of the most damning failures of the time, noting:

“Intractable [during this period] was slow growth — basically a problem of low industrial productivity. The reasons for this will probably be debated as long as economic historians draw breath. But (with hindsight) it is striking how little this problem was seriously investigated by policy-makers in the long-boom period. Slow growth was an important concern from the mid-1950s, but it cannot be said that the sophistication of the analysis of the problem matched the intensity of concern. Simplistic explanations tended to dominate — too low investment, poor industrial relations and simple policy answers pursued — e.g. industrial concentration, investment grants. Industrial policy became more and more important over the period, but was not crowned with much success.” (Tomlinson, 1990, p. 275)

From the late 1950s onwards, it was noted that British productivity growth was typically only two-thirds that of France and often considerably lower than Germany’s – concerns that became particularly acute once French output per hour passed Britain’s in the early 1970s.



Unlike Britain’s policy, restricted to its reactive demand-side paradigm, the dirigiste French and German models proved far more able to realise heightened year-on-year productivity growth. However, despite concerns about Britain’s poor competitiveness becoming widespread domestically and internationally, political parties of the era resisted departure from the stop-go paradigm as it was held to be a necessary tool for electoral success. As Tomlinson notes:

“Politically, this pattern of policy implied a close tie between the management of the national economy and the popularity of government. This opened up the possibility of government regulating the level of economic activity in order to gain political advantage. This was a possibility unlikely to be forsworn by parties involved in a close two-party competition, and in fact the 1950s offer the most unambiguous cases of expansionary pre-election budgets followed by post-election slow-downs; in the 1960s such stratagems were more difficult because of the tightening constraint of the balance of payments.” (Tomlinson, 1990, p. 258)

This politically cynical dimension to stop-go, completely divorced from productivity growth, came to a head during the Heath government. Keen to produce the most impressive surge in growth on record ahead of elections anticipated for 1974/75, Heath's chancellor Anthony Barber delivered a budget in 1972 that targeted a growth rate of 10% per annum. Despite ambient British productivity growth being only around 4% per annum, Barber's budget had no measures to increase the actual amount of output produced per hour. Instead, Barber simply sought to turbocharge consumption through a dramatic liberalisation of bank lending and wave of tax cuts. (McIvor, 2022)

By targeting a growth rate 2.5 times that of on-trend improvements in productive capacity, and by pursuing it purely via demand-side consumption, Barber ended up presiding over what became the highest years of postwar inflation on record: by 1973, inflation was recorded at 9.2%. Barber was already playing with fire, but the late 1973 global energy crisis then caused input and energy costs to skyrocket. CPI inflation surged to 16% in 1974, and 24.2% in 1975.

This utterly broke the premise of the stop-go system. While much of the world struggled with high inflation, the inflationary premium from Barber's 1972 measures meant that Britain's foreign exchange reserves were depleted far faster than anticipated and a "stop" was urgently needed – one that was more severe than any that had come before. As part of the conditions for an IMF loan to stabilise the pound's value, the Labour governments of Wilson and Callaghan were forced to make significant cuts to public investments and services, and negotiate with unions to suppress wage hikes. With the unions declining to collaborate on this wage suppression – culminating in the "winter of discontent" in 1978/79 – Labour fell at the 1979 election.

Rather than diagnosing the cause of the 1970s crisis as economic management focused on headline income growth rates with little consideration for productivity, the Thatcher government chose to make what were supposed to be temporary cuts by Wilson and Callaghan into permanent ones.

A generational effort to shrink the state – with, as we have seen, the near-elimination of public investment resulting in terrible consequences for productivity – followed, with entitlements being used to paper over the economic dislocation brought about by this policy. Over time, entitlements thus transitioned from being expediencies to expectations, resulting over time in the entitlement state.

Planning the investment state

Today, we are free of one constraint that limited economic management in the pre-1975 period – a commitment to a fixed exchange rate. But to succeed over the long run, the investment state must avoid the other trap of the postwar period: the treatment of public investment as simply a tool for managing demand. The risk always remains in the future that more cynical or indolent governments would return to treating investment simply as a cyclical tool to boost demand for electoral favour. Solving this problem is key to realising the concept of the investment state.

We believe that public investment must be used as part of an overarching programme to improve productivity, both by improving efficiency across the whole economy, and by driving the growth of high-value industries and sectors. Such programmes must comprise multi-year economic plans that spell out a government's proposals for spending and investment, along with a programme of incentives and targets for the public and private sector.

The ideal length for such plans should be that of a Parliamentary term, five years, to allow a plan to be executed in full within an electoral cycle – although during the transition to the model of the investment state, some accommodation would be needed for up-front priming of the first such plan.

PART 2

THE IDEA OF THE INVESTMENT STATE

Such a system of economic planning would mark a major departure from current fiscal policy, which is subject to priorities that privilege year-to-year spending efficiencies at the expense of overall economic development (“Treasury brain”). Currently, the only multi-year authorities on fiscal policy are intermittent spending reviews, which do not feature material or time-bound objectives.

Critically, to avoid a repeat of the pre-1975 failures we described above, the Treasury must be limited to a role of executing such five-year economic plans. Their formulation must be in the hands of a body that will engage in medium- to long-term economic planning and development, sitting above the current departments.

To this end, we propose the creation of a new department to oversee a resurrection of public investment: the **Department of Economic Planning (DEP)**.

The DEP will combine the audit, actuarial, statistical, and forecasting capabilities currently distributed throughout government into one body. It will assume control over functions, services, and professional networks such as the:

- National Audit Office
- Office for National Statistics
- Office for Budget Responsibility
- Government Actuary’s Department
- Government Economic and Social Research Service
- Government Operational Research Service

We regard these analytical functions to be critical to good governance, and believe in preserving their operational independence. By bringing them under the DEP and increasing their resourcing, we will ensure they can continue their existing work throughout government whilst also providing a central analytical, statistical, and forecasting capability to assist in the two core functions of the DEP: the development and execution of economic plans.

The first DEP function, plan development, will originate from political leadership. When a government comes to power, it will provide the DEP with a plan outline that contains its overall objectives, key indicators they wish to monitor, and a desired allocation for the Whole of Government Accounts (WGA) for the ensuing five years. This plan outline would ideally be pre-signalled in the form of an annex to the party’s manifesto, and further elaborated with the DEP during the first days of government.

Within a month of a government’s election, the DEP should complete a full review of the outline and develop a detailed five-year economic plan, which provides:

- a final set of measurable objectives for the plan
- timelines and assignments of responsibility to various government departments throughout the plan
- mechanisms to collect data on the progression of the plan’s progress and success
- in-depth forecasts for departmental capital spending and whole of government accounts throughout the plan period, covering both plan-specific activities along with routine spending

Critically, the DEP’s plan is to be approved not by the Chancellor or the Treasury, but by the Prime Minister directly in the capacity of First Lord of the Treasury. Once the DEP’s plan is approved, its staff will move to its second function: plan execution. To enforce and execute the plan, the DEP will be at liberty to second its staff and agents anywhere in the public sector – these agents will have the authority of the Prime Minister to ensure execution of the plan.

With due statutory checks and balances, the DEP will have the authority to override the remit of any other public sector body, including the Treasury, to ensure planning and decision-making happens with swiftness. In practice, we would expect the DEP to provide a resolution to problems associated with Civil Service productivity, departmental competition, and frequent noncompliance by individual civil servants. By providing a direct, top-down mechanism to solve problems of policy, coordination, and organisation, the DEP will ensure that the execution of the national plan is not disrupted by the vested interests or procedural obfuscations of any individual department or quangos.

To monitor the plan over its duration, the DEP will issue 20 quarterly reports to the public that indicate the achievements of the prior quarter, what will be required in the coming quarter, key metrics and statistics on the plan's overall performance, and any adjustments that may be needed to the plan to keep it on course – or in response to changed external circumstances. The DEP will also work closely with the Treasury and Bank of England to ensure that fiscal and monetary policy are aligned with the plan.⁴

Through the DEP, the Prime Minister will have to hand a meritocratic and technocratic cohort that both augments and circumvents traditional Civil Service structures, as needed. Complementary to the analytical functions that will be integrated under the DEP, it will consist of a cohort of several hundred planners, departmental liaison staff, and specialists brought in from industry. This smaller “delivery” cohort of the DEP will be expected to comprise highly motivated, high-productivity individuals rewarded with enhanced remuneration and significant incentives for success via bonuses based on individual and plan-level performance.

The yields of the investment state

Higher levels of public investment under the investment state will secure average gains in productivity growth well in excess of the 1.37% per annum lost since 1975. We believe this for two reasons. The first is because this public investment will explicitly pursue productivity growth as its central objective, rather than intermediate measurements like job creation, thus meaning that the projects undertaken will be more effective in improving productivity. The second is because our system guarantees a long-term continuity of public investment, thus allowing for complex multi-year projects to be undertaken without the extra costs imposed by uncertainty or mid-project budget changes.

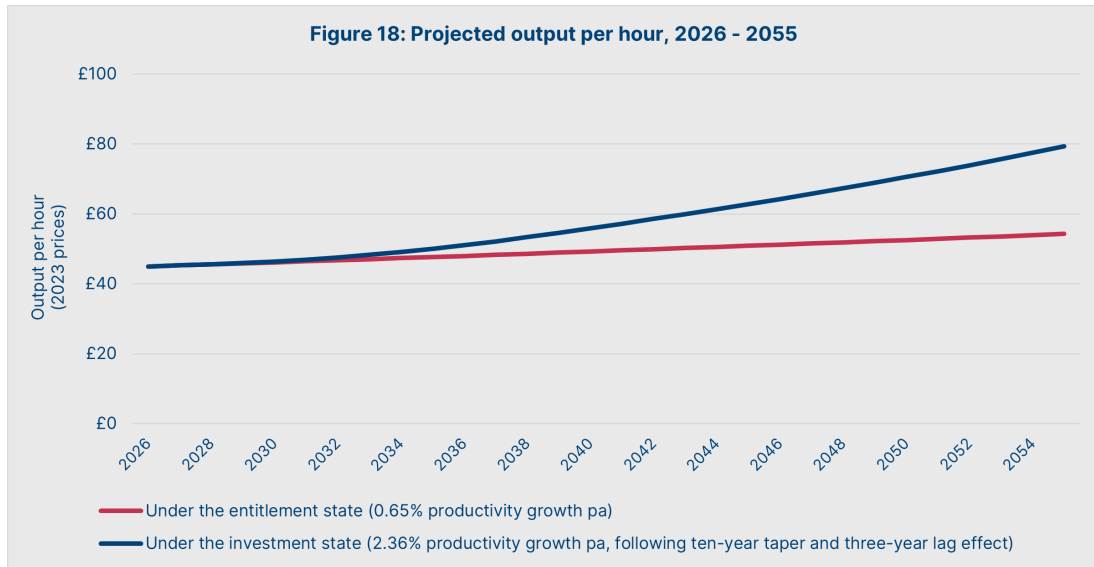
For these reasons, we believe the investment state will make public investment 25% more effective at generating productivity growth. As a result, we believe we can achieve an average rate of extra productivity growth of 1.71% per annum over the subsequent 30 years.

Between 2015 and 2024, average annual productivity growth has been approximately 0.65% per annum. (ONS, 2025) If we assume our additional 1.71% in productivity growth is added to this, then our programme would raise overall productivity growth to 2.36%.

To minimise the economic dislocation from our plans, we will linearly taper the transition from the entitlement state to the investment state over the course of ten years. If we hold this to be true and assume that there exists, on average, a three-year lag effect between an investment and its resultant productivity growth, then we can develop a long-term estimate of how much the transition to the investment state will raise output per hour between now and 2055. This is shown in Figure 18.

⁴ Additionally, if the prescriptions of the SDP's Energy Abundance Green Paper are pursued, such high-level economic decision-making organs must also include Central Energy, the state's energy generation and transmission monopoly. This is because our proposal for the “energy credit” regime – the institution of a permanent nominal electricity price fix of 10p per kWh – would inextricably tie energy policy up with matters of fiscal and monetary policy. For reasons beyond the scope of this Green Paper, we believe that the interaction between the DEP and the energy credit regime will be integral to the former's viability as a long term organ of economic management.

PART 2 THE IDEA OF THE INVESTMENT STATE

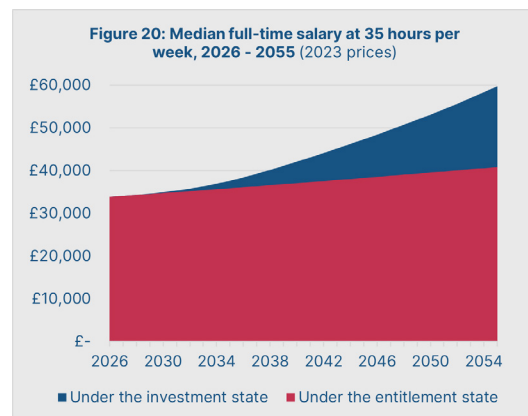
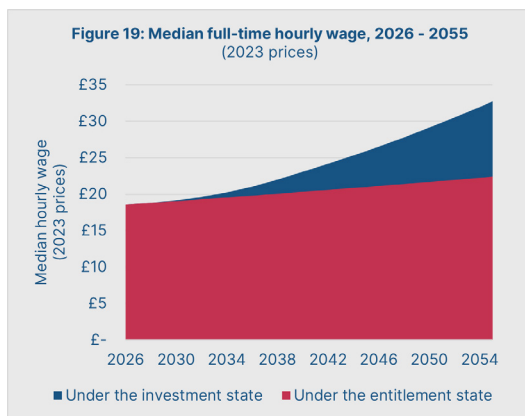


Under the entitlement state, following the 0.65% per annum trend in productivity growth, British output per hour will grow to just £54.23 by 2055. By contrast, under the investment state's 2.36% per annum trend in productivity growth, British output per hour will reach £79.25 by 2055. If total hours worked were to remain constant, then compared to 2024's GVA of £2,500bn:

- The **entitlement state** would increase Britain's GVA to £3,040bn by 2055
- The **investment state** would increase Britain's GVA to £4,440bn by 2055

Taking the wage-to-output ratio of around 41.2% mentioned in Part 1, then the transition to the investment state would:

- Increase the median hourly wage to £32.72, instead of £22.39 under the current trend
- Increase the median 35-hour salary to £59,700, instead of £41,160 under the current trend



The remainder of this Green Paper will explore in detail our envisioned transition to the investment state. In Part 3, we shall describe how reductions in the entitlement state will be achieved. In Part 4, we shall illustrate how this new machinery will work in action, via an indicative series of five-year plans based on mass housebuilding.

Both parts will contain, in of themselves, resolutions to many of the enduring challenges facing British governance. However, their value in this paper are as instrumental tasks in the creation of the investment state. It is this ultimate benefit to the British people, via a secular increase to the nation's productivity growth, that justifies the radicalism and necessary sacrifices that must be made in the name of our project.

PART 3

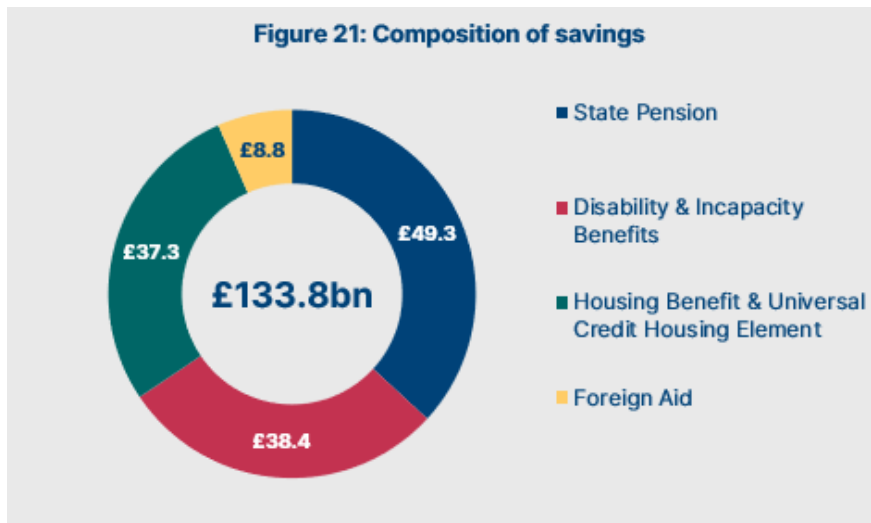


ENDING THE ENTITLEMENT STATE

PART 3 ENDING THE ENTITLEMENT STATE

As outlined in Part 2, the main route we shall pursue to finance a permanent programme of public investment will be via reductions in entitlement spending to an average of 6% of GDP. According to the DWP (2025), entitlement spending in 2024/25 constituted 10.8% of GDP or £288.4bn. This means our programme will require around £128.2bn in reduced entitlement spending.

In this section, we will outline a series of four major changes to Britain's entitlement burden to produce these savings. These four areas of savings have been selected because they contribute little to productivity growth, have been permitted to rise rapidly in recent decades, and often introduce perverse incentives for the broader economy. In total, the programme of savings we propose in this section will save £133.8bn per annum.



To prevent excessive economic dislocation and ensure these cuts are politically viable, we will gradually draw them down over the course of ten years. Starting with a "Day Zero" cut of £8.8bn from the foreign aid budget, we will then pursue a tapered reduction in the entitlements burden of £12.5bn per annum.

Every year for the subsequent decade, we will reduce:

- Spending on the State Pension by around £4.9bn
- Spending on Disability & Incapacity Benefits by around £3.8bn
- Spending on Housing Benefit by around £3.7bn

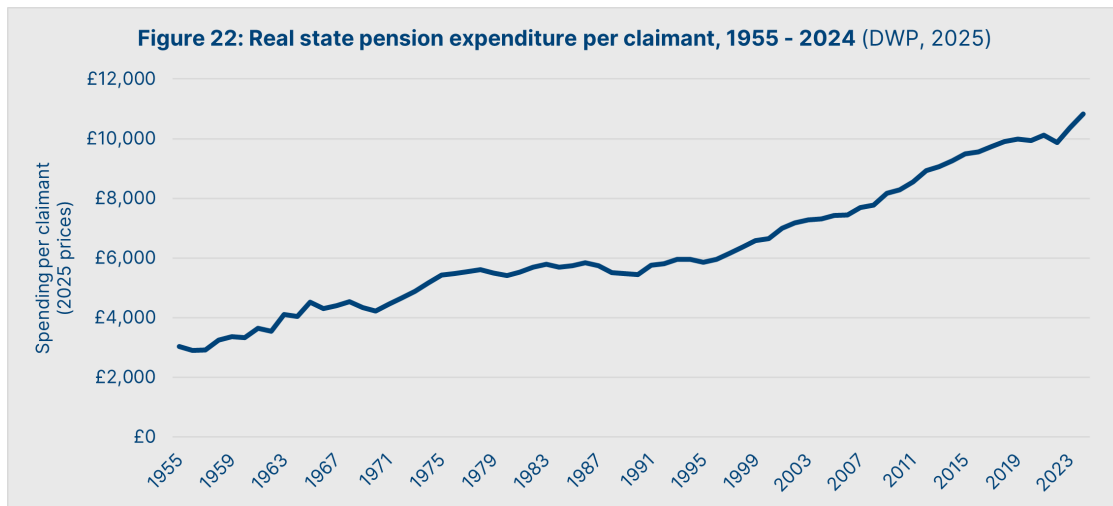
In this section, we will explore our rationale and approach in making each of these savings. At the end of this section, we will also explain how such savings will ultimately be of a temporary character, with secular productivity growth allowing real entitlement spending to rise alongside national income in the long run.

As emphasised in the first two parts of this Green Paper, these savings do not constitute an attempt at fiscal austerity. Instead, they are a reallocation of state spending. Every entitlement saving will be matched as it is made by a corresponding rise in public investment, with overall levels of government spending remaining unchanged. In Part 4, we will explore in detail what this heightened level of public investment may entail during this transitional period.

Saving 1: State Pensions (£49.3bn)

Between 1955 and 2024, the population of state pension claimants grew from 4.6mn to 13mn. In response to this trend in recent decades, successive governments have pursued a dramatic rise in the amount paid out under the state pension.

Since 1997, this amount has soared in real terms by over 80% to £10,800 per annum. As a result, the state pension costs the government a total of £140.6bn per annum – making it the single largest spending item in the budget.



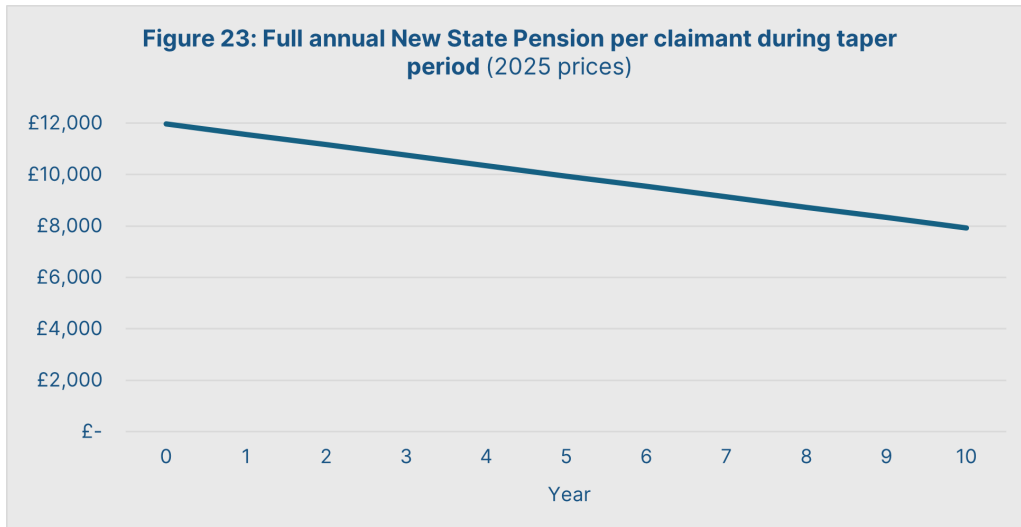
According to the Department of Work and Pensions, the median pensioner now enjoys an income of £21,160 after housing costs. (DWP, 2025a) This continuous increase in the state pension has created an historic anomaly of pensioners experiencing a lower 'absolute poverty' rate of 16%, compared to 18% for the general population. (DWP, 2025b)

In its 2025 Pensions Review, the Institute for Fiscal Studies estimated that a full New State Pension brings in an income equivalent to 30.2% of median full-time earnings. (Cribb, Emmerson, Johnson, Karjalainen, & O'Brien, 2025) This is well above the average equivalent value of the state pension throughout the late 20th century, which typically hovered at around 20% of median full-time earnings – with the exception prior to the 2000s being a brief spike in the 1970s.

To this end, we propose a straightforward mechanism to reduce the pension bill: recalibrating a full New State Pension to 20% of median full-time earnings in line with its historic average, or a third lower than it is today. Future increases in the state pension will be bound by a "single lock" mechanism indexed to median full-time earnings growth. All other state pensions schemes will be pro-rated to reflect this new allocation.

Compared to the 2025/26 full New State Pension of £230.25 per week (£11,973.00 per annum), this will reduce the state pension to £152.48 per week (£7,929.14 per annum). As mentioned above, this saving be tapered over the course of a decade – meaning that every year for ten years, the full New State Pension will be reduced by around £7.80 per week (£405.60 per annum). This is shown in Figure 24.

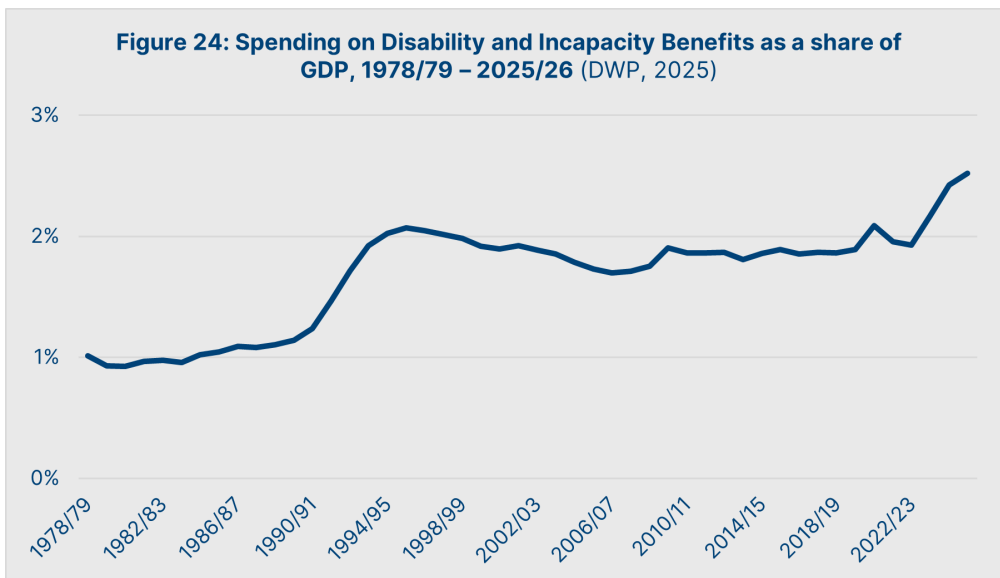
PART 3 ENDING THE ENTITLEMENT STATE



As a result of our changes, we will reduce spending on state pensions from £146.1bn in 2025/26 to £96.8bn. This will represent a saving of £49.3bn.

Saving 2: Disability & Incapacity Benefits (£38.4bn)

In recent decades, disability and incapacity benefits have grown rapidly to become one of the largest items of government budgets. In 1978/79, spending on supporting those with disabilities or long-term health conditions that prevented them from working was 1% of GDP. By 2025/26, this had increased to 2.5% and is projected to stand at 2.8% by 2030/31. (DWP, 2025)



We consider it a mark of basic humanity to provide care for those who cannot support themselves. Indeed, one of the greatest achievements of the social democratic state is the protection it has afforded to those with profound physical and mental disabilities. Thus, we embrace the provision of disability or incapacity benefit to those who depend on it.

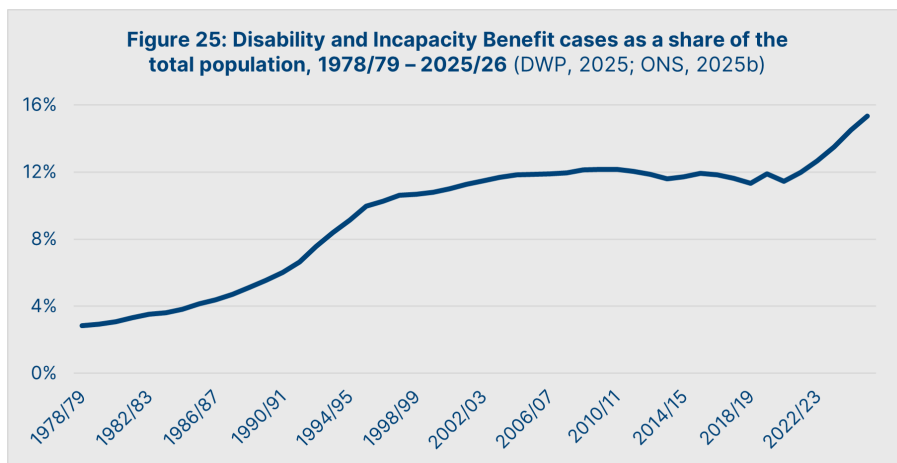
However, owing to the nature of disabling conditions – which we regard as those conditions that preclude a person from independently sustaining their basic needs – we should only expect them to afflict a small minority of the population. Any definition or taxonomy of a disabling condition will necessarily be incomplete and imperfect, but we may begin by looking at two proxies for disability:

- **Intellectual disability** which is defined by clinicians as possessing an IQ below 70. (NICE, 2025) With an average IQ of 100 and a standard deviation of 15, this would represent 2.3% of the population.
- **Physical disability**, which can be approximated by the number of registered users of NHS wheelchair services. In England, this totalled 657,000 in July-September 2025, which is approximately 1.1% of the English population. (NHS, 2025)

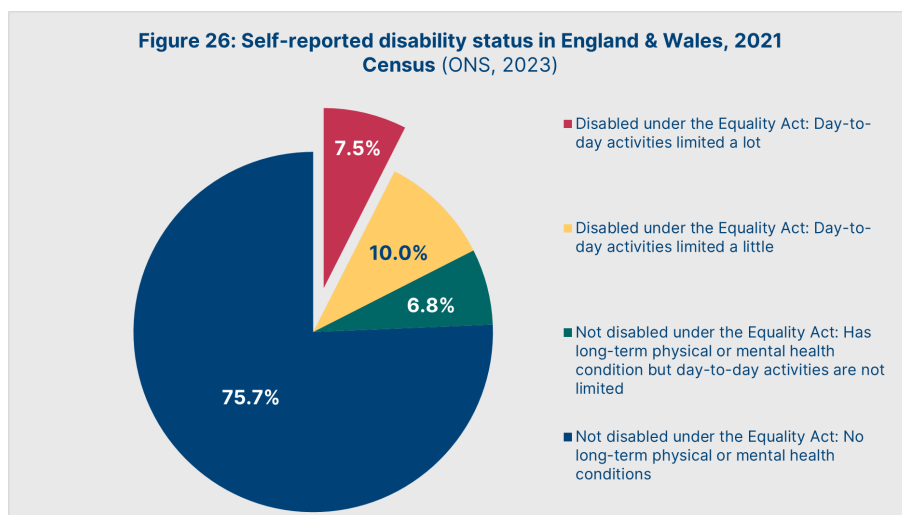
Both these proxy metrics are deeply imperfect. There are clearly those who fall under both labels who are capable of independently sustaining their basic needs. By contrast, there are also those who do not fall under the umbrella of these metrics who are incapable of meeting their basic needs.

However, by using as them a foundation, we can approximate the share of the population that we should expect to need state support owing to disability. If we assume this 3.3% share of the population is equivalent to somewhere between 50% and 66% of those eligible for disability benefits, then we should expect claimants to constitute between 5% and 7% of the British population.

However, the share of the population now claiming disability or incapacity benefits significantly exceeds this range. In 2025/26, it is forecast there will be 10.6mn claimants out of a population of 69.5mn, or 15.3% of the public. (DWP,2025)



This represents a quintupling of claimants as a share of the population since 1978/79. Indeed, this 15.3% share of the population is well over double the number of those who are recorded as disabled and significantly limited in their activities in the 2021 Census – a figure derived from survey self-responses that are already likely to be inflated.



PART 3

ENDING THE ENTITLEMENT STATE

As a fundamental position, we do not accept that hardship alone constitutes disability. Rather, we believe that disabilities must be understood as conditions which actually preclude a person from supporting themselves.

We acknowledge the hardship and pain that come with many physical and psychiatric conditions that constitute disabilities under the current system. However, these do not constitute disabilities unless they correspond with a literal incapacity to engage in social and economic activity.

Given the ballooning in assessed eligibility over the past three decades, our solution is a pragmatic, two-step approach. Firstly, we will for the first time institute a budgetary cap on DWP spending on disability and incapacity benefits and instruct the DWP to adjust eligibility criteria every year to ensure that it does not surpass this cap. For every year during the taper period, we will reduce this cap by 0.125% of GDP per annum, or around £3.84bn in 2025 prices.

Our ultimate vision is for the DWP to focus its efforts and resources on supporting the 5% of the population who are categorically incapable of self-support due to their disability. To this end, we will converge towards a final long-term cap at half of current spending levels: a maximum of 1.25% of GDP to be spent on disability and incapacity benefits.

This will produce a saving of £38.4bn, to be realised primarily by reduced caseload as the eligibility criteria are tightened towards the target of 5% of the population, with claimants in that grouping benefitting from more intensive support on a per capita basis overseen by clinicians. Self-assessment will be abandoned, and schemes that have proven particularly susceptible to abuse will be scrapped.

In summary, we will require the DWP to overhaul its operations to focus on delivering resources to the 5% of the population we estimate to experience true intellectual or physical disabilities. The DWP will be required to abandon programmatic, checklist-based systems of assessing eligibility. Instead, a system of triage and close cooperation and collaboration with clinicians, family members, and care providers for the disabled will be used to source and verify new claims and thereby reduce ineligible claims. This will also ensure that the DWP can personalise its aid to have the greatest possible material impact on the quality of life for disabled people.

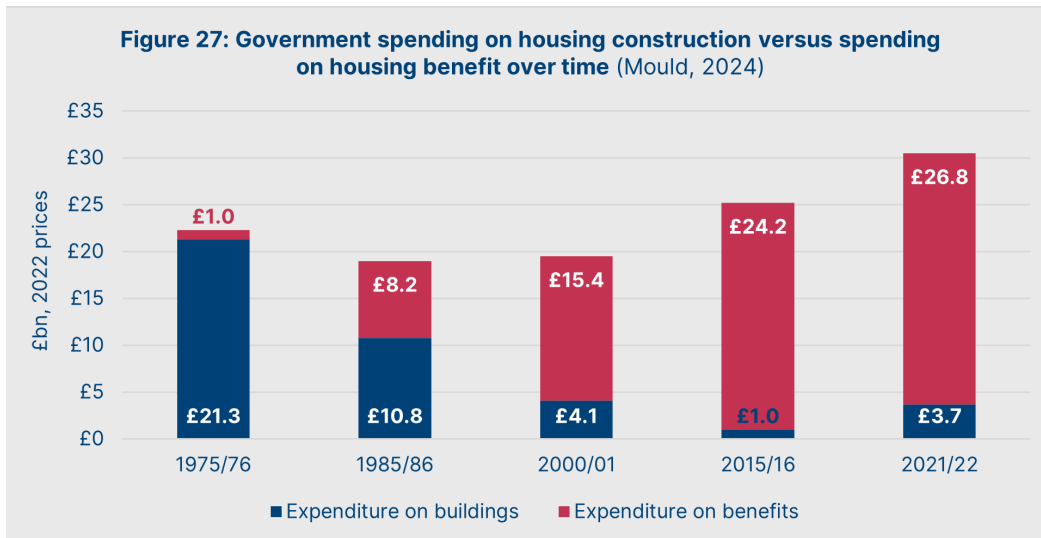
Saving 3: Housing Benefit (£37.3bn)

The rise of Housing Benefit – currently being supplanted and replaced by the Universal Credit Housing Element – began under the Thatcher governments of the 1980s. As these governments brought to a permanent end the postwar era of state housing expansion, they introduced housing benefit to guarantee affordable housing for the poor – with a belief that market forces would make most efficient use of government spending previously allocated to supply-side expansion of the housing stock. By the turn of the millennium, housing benefit had replaced most government spending on housing.

This can be seen in the split between government spending on social housing stock and buildings versus the amount spent on housing benefit. As shown by Mould (2024), the share spent on buildings fell from 95.5% in 1975/76 to just 12.1% in 2021/22. This is expressed in real terms in Figure 27.

In retrospect, this transition can only be looked at as a policy blunder.

Through their cultivation of an oligopolistic private housebuilding sector, successive governments have created a market which has no interest in seriously expanding the housing stock – British homes per capita



have barely increased in decades. Into this market where supply is constrained, the rise of housing benefit has simply caused more money to chase it – inevitably, the result has been house price and rent inflation.

One attempt to quantify the relationship between housing benefit and house price rises comes from Braakmann & McDonald (2020). They found that every 1% increase in claimants pushed up prices by between 0.2% and 0.6%.

If we assume that a 1% rise in the number of people receiving housing benefit increases prices by 0.5%, we can calculate the general costs of housing benefit to the public. According to 2022 data from Shelter, 34% of private renters claim housing benefit: if so, that means that housing benefit is responsible for inflating house prices by 17% in the private sector. Assuming a median national private rent of £1,300, this means housing benefit alone is responsible for around £220 of the total.

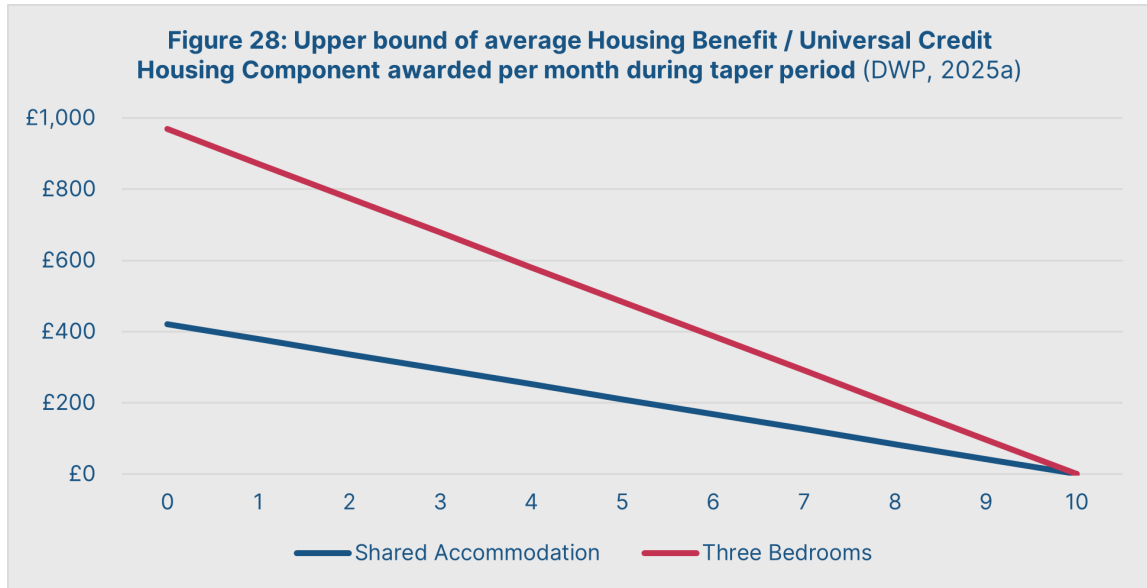
Along with proving ineffectual for its recipients in securing affordable housing in the long run, housing benefit has thus spurred a general wealth transfer from renters and homebuyers to landlords and property owners by encouraging widespread inflation of property prices and rents. This means it is not just a wasteful item of spending, but a tool that actively drives the immiseration of the non-propertied.

All these problems could be remedied by once again growing Britain’s social housing stock. Providing more affordable housing will reduce the need for housing benefit in the first place. Further, any benefits or discounts offered to occupants of social housing do not inflate rents by increasing demand in the private rental market. This is all in addition to the sheer increase in supply of the overall housing stock, which will necessarily exert downward pressure on rents overall.

By focusing on reactive demand-side measures, housing benefits have contributed to house price inflation and cost far more in the long run than simply building social housing. To this end, and for reasons to be made obvious in Part 4, we will entirely cease Housing Benefit and the Universal Credit Housing Element. Altogether, this saving will total approximately £37.3bn. (DWP, 2025)

As Housing Benefit has evolved into a complex system that is split between two benefits – the classic Housing Benefit and Universal Credit’s Housing Element – we will achieve these savings by gradually tapering down the Local Housing Allowance (LHA), which is used at a local authority level to determine the upper bound that can be awarded to a claimant. Throughout the ten-year taper period, we will reduce the LHA for every local authority by 10% of its original value per annum until it reaches zero. This is represented as an average across all local authorities in Figure 28.

PART 3 ENDING THE ENTITLEMENT STATE



Saving 4: Foreign Aid (£8.8bn)

Millions of Britons have been conditioned to live in the entitlement state. Through the actions of cynical and short-sighted politicians, many have come to expect a future in which wealth transfers will make up a significant part of their income.

Whilst we consider our actions to be necessary, we are not blind to their consequences. The transition to the investment state will see significant economic dislocation: pensioners who have been reassured that the state pension will never go down will have their retirements disrupted, sufferers of legitimate but non-disabling illnesses will find their support withdrawn, and those who rely on housing benefit will find themselves forced to relocate. There will be hardship.

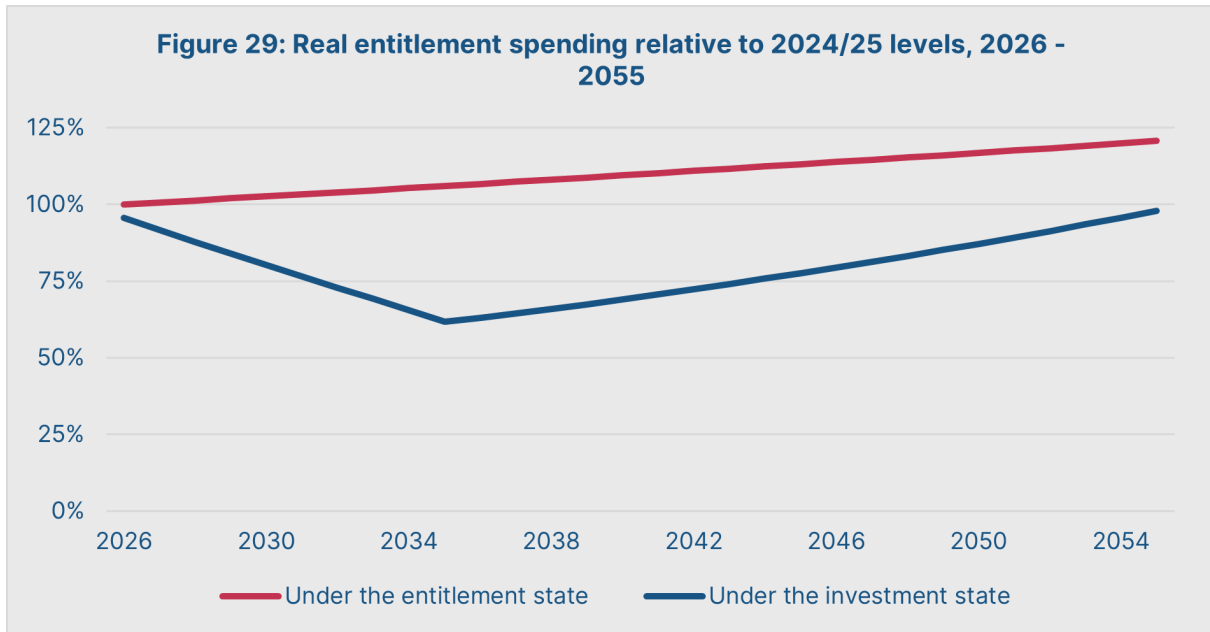
In this regard, we accept the burden of leadership and shall not apologise for what must be done. But neither shall we treat those whose livelihoods we disrupt with contempt, or deny that they are paying a price. We will respect their dignity by telling them the truth.

However, to inflict such economic hardship on the public in the name of Britain, we need to make it clear that the interests of Britain are our only consideration of significance. Although insubstantial compared to the total sums saved through other measures, it is logically and politically untenable to immiserate millions of Britons during the transition to the investment state while still maintaining a multi-billion foreign aid budget.

The abolition of foreign aid is key to ensuring that those who lose out from the transition from the entitlement state know that we are acting in their long-term interest. It is key to the credibility of the investment state. To this end, we will simply abolish foreign aid as a budgetary item. From 2027, it will represent 0.3% of GDP. The OBR (2025) estimated that 2024/25's GDP stood at approximate £2,900bn, meaning that elimination of foreign aid would save £8.8bn overall.

Entitlements in the long run

After ten years of reductions at £12.5bn per annum, entitlements under the investment state would rebound from the mid-2030s onwards. Although representing a lower level of national income – 6% rather than the 10.8% of 2024/25 – in real terms, the investment state will ironically enable more to be spent on entitlements in the long run, due to higher levels of economic growth under this regime. This trend is shown in Figure 29.



Owing to the significant increase in the income and quality of life of the median Briton that we will create under the investment state, we envision that many who currently depend on the entitlement state will simply have no need of its services by the mid-2050s.

This will mean that this new phase of entitlement spending will provide concentrated help for the most vulnerable, while providing a truly reliable and robust safety net for all Britons. This harkens at our principles as social democrats: a just and sustainable welfare state that can be passed on to future generations.

PART 4



BUILDING THE INVESTMENT STATE

In Part 2, we detailed our vision of the Department of Economic Planning (DEP) as a new organ of economic management that works with political leadership to set and deliver five-year plans to improve national productivity. The results were profound. Following the current trend, the entitlement state as we know it will only grow the economy from £2.5tn in 2025 to around £3tn in 2055 – by contrast, the investment state will grow the economy to £4.5tn.

Now, in this part, we will explore how the DEP will use public investment to deliver such productivity growth. To do this, we will present a fully costed sequence of three five-year plans to inaugurate the DEP. In the process, we will show in detail how the DEP will be able to deliver the sort of output growth we explored towards the end of Part 2, by leveraging the power of the state to resolve structural bottlenecks in economic activity.

We will assume the first DEP plan will follow an eighteen-month period wherein the government of the time ensures that all necessary laws are passed, personnel are recruited, and departmental relationships restructured so as to ensure the plan's success.

While the first two plans of the DEP will operate with reduced budgets compared their sequels, decades of underinvestment will provide them with ample opportunities to deliver enhancements to productivity. For our initial sequence of five-year plans, we will assume a large portion of the DEP's investments will be allocated to key infrastructure projects – such as transport networks, electricity generation and transmission, defence and the military-industrial complex, and new hospital and school buildings. In addition, we assume that the DEP will invest significantly in developing national industrial capacity in high-return or strategically critical sectors.

In total, we will assume that at least half of the inaugural DEP budgets will be spent on infrastructure and industrial development. In this section, we will set out a programme that uses the other half of these inaugural DEP budgets to resolve one of the great structural constraints to British productivity growth: housing.

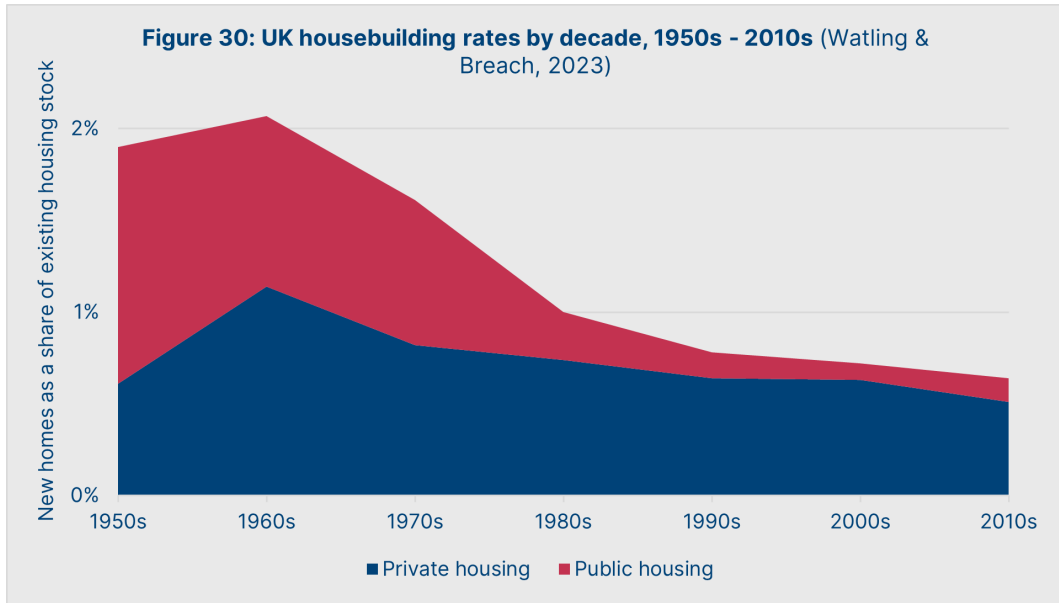
The housing supply crunch

Why is housing the best candidate for such an intervention? To understand this, we need to briefly survey British housing policy in recent decades.

As detailed briefly in Part 3, Britain has embarked on a catastrophic experiment in recent decades: money that was once spent on building new houses has instead been redirected to housing benefit. This has exacerbated a longstanding problem of housing undersupply that has resulted in a crisis of housing affordability nationwide, but especially in London and South-Eastern England.

Watling & Breach (2023) argue that Britain's housebuilding deficit can be traced back to the early postwar years, owing to a lack of "bricks and mortar" subsidies for private housebuilding compared to the norm on the European continent. As a result, the postwar growth in Britain's housing stock was heavily driven by social housing with relatively anaemic growth in private housebuilding.

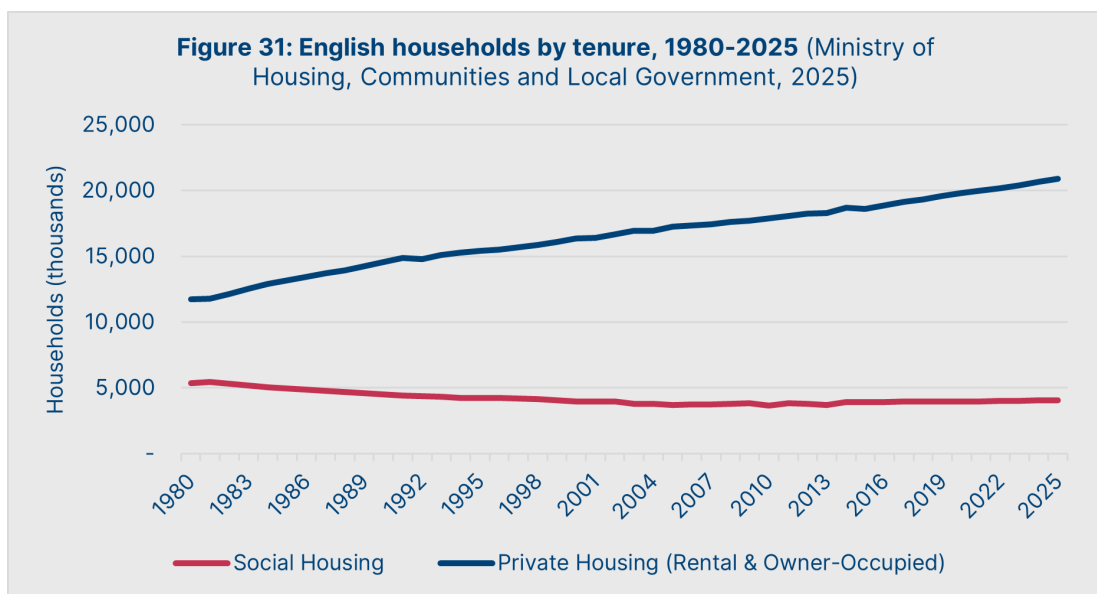
PART 4 BUILDING THE INVESTMENT STATE

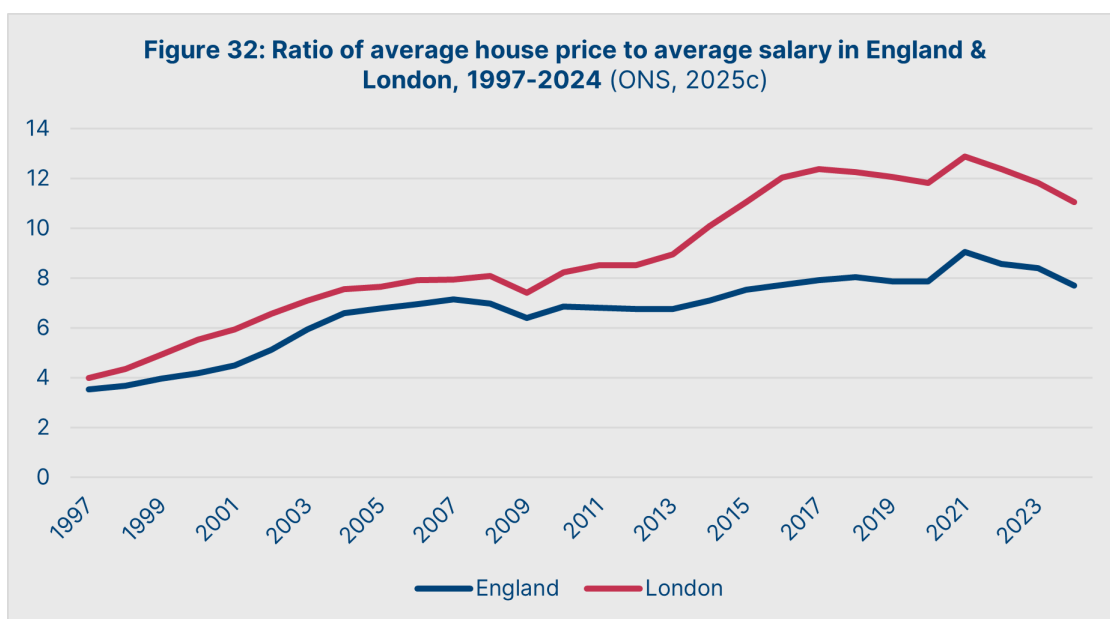


This dependence on social housing to drive increases in housing supply meant that the collapse of social housing construction from the 1970s onwards – a symptom of the permanent reduction in public investment – would have dire effects.

These effects took some time to manifest themselves. Until the late 1990s, the discounted purchases of social housing stock under Right to Buy were able to hold down housing prices and rents. However, by 1997, a shortage in remaining social housing stock prompted governments to start to impose limits on Right to Buy. These limits arrested the decline in social housing tenancies, but they also meant that the ongoing drip-feed of cheap housing stock into the private market came to an end – all while private housebuilding had remained stagnant for decades.

The result, inevitably, was a supply crunch and a housing price spiral. The average house price-to-salary ratio doubled from four to eight in England between 1997 and 2024, with tripling from four to twelve in London.





As explored in Part 3, this supply crunch was exacerbated with demand-side stimulus provided by Housing Benefit. Many who would once have enjoyed an affordable social housing tenancy required government cash subsidies to secure a private rental property. The result was more money and demand flooding a private housing market characterised by stagnant supply, further pushing up house prices and rents for the wider market.

The affordability crisis of British housing is a supply crisis that has been worsened, as we have noted, by demand-side factors. Hopkinson (2025) reports that, on a per capita basis, Britain's housing supply has lagged behind European levels for decades – it currently sits at 446 per 1,000 people, versus the European average of 542. To match the European average, Britain would need 6.5 million additional homes.

And while Britain has experienced an unprecedented wave of immigration since 1997, this only partially explains Britain's poor level of housing stock per capita. If the post-1997 migration surge had not happened, Britain would have 475 homes per 1,000 people – still requiring the construction of 4.5 million new homes to meet the European average.

Realistically, then, fixing Britain's housing supply shortfall will require between five and six million new homes. Under the current government, the total housebuilding rate is around 150,000 units per annum – meaning that plugging the housing gap will take up to 40 years. Even at the government's annual housebuilding target of 300,000 units per annum, a volume that has not been achieved in decades, it would require up to 20 years to plug this gap.

The opportunity costs of delaying this housebuilding are significant. In regions which are particularly short of housing, such as London and the South East, it is estimated that a 5% increase in the housing stock would increase productivity by 3.1%. (Ministry of Housing, Communities and Local Government, 2025)

With this in hand, we can calculate that if five million new homes were built nationally, and two-thirds of these new homes were built in the above two regions, productivity gains from housebuilding in London and the South East would stand at around £250bn per annum. This is shown in Table 1.

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Table 1: Additional gross value added from 1,666,000 new homes in both London and South East England
(Ministry of Housing, Communities and Local Government, 2025; ONS, 2025d)

Region	2023 housing stock	Proposed new units	Increase in housing stock (%)	Productivity growth from new housing (%)	2023 region gross value added (£bn)	Annual value-add from raised productivity (£bn)
London	3,754,000	1,666,000	44.4%	27.5%	£577bn	£158.7bn
South East	4,045,000	1,666,000	41.2%	25.5%	£354bn	£90.3bn
Total additional gross value added per annum						£249bn

Assuming an average cost of £200,000 per home, the costs of such a programme would be £666.4bn – which means that such an investment would be paid off within three years of construction, assuming that it was done instantly. £250bn of new output per year is not a mere fiscal abstraction – it is a representation of the reduced costs for housing that would be enjoyed by ordinary Britons, the greater economic and social mobility such affordable housing enables, and significant increases in disposable incomes.

Needless to say, however, such a programme cannot be done instantly. Housebuilding requires time, labour, materials, and land. This means we cannot promise instant results – but by coordinating industry, state, and society, the DEP can dramatically reduce the time it will take to deliver these homes – all while maximising their quality and value to the British public.

For the remainder of this section, we will detail the first three five-year plans of the DEP and their role in correcting Britain’s housing supply crunch.

Plan 1: Years 1-5

In the crudest sense, three inputs are required to build a house: materials, land, and labour. While securing the first two inputs presents some considerable challenges, the main constraint facing the DEP in increasing the housebuilding rate is labour.

The Home Builder’s Federation (2024) approximates that to increase the housebuilding rate by 10,000, the industry will need to recruit 30,000 people. Since it takes time to train workers – especially specialists such as bricklayers, carpenters, and electricians – expanding housebuilding capacity in of itself presents a considerable logistical task and investment.

As it stands, the British construction sector employs 2.25mn people. Table 2 shows that increasing this number by 10% per annum for five years – representing a growth in the construction workforce by around a quarter million each year – would result in an increase in the construction labour force of around 1.4mn people. This would raise the housebuilding rate by 457,883 units per annum, and over this period around 1.3mn homes would be built.

Table 2: Growth in construction workforce and housebuilding rate during initial DEP five-year plan

Year	1	2	3	4	5
Change in housebuilding workforce (%)	10%	10%	10%	10%	10%
Workers at start of year	2,250,000	2,475,000	2,722,500	2,994,800	3,294,200
Annual increase in workforce	225,000	247,500	272,250	299,475	329,423
To-date increase in workforce	225,000	472,500	744,750	1,044,225	1,373,648
Annual increase in housebuilding rate	75,000	82,500	90,750	99,825	109,808
Houses built per annum	75,000	157,500	248,250	348,075	457,883
Total houses built during plan	75,000	232,500	480,750	828,825	1,286,708

Labour availability

Before exploring how we can achieve a 10% year-on-year increase in the construction labour supply, we should first examine whether there is the spare labour available in the first place. Currently, there are several pools of underutilised labour that are strong candidates for recruitment. These are:

- 1,800,000 unemployed people (ONS, 2025e)
- 580,000 under-24s who are economically inactive and classed as not in employment, education, or training (ONS, 2025f)

In addition, as explored in Part 3, we believe that cuts to disability and incapacity benefit will likely increase the labour force by means of those rendered ineligible for benefits but sufficiently able-bodied to work. Currently, the share of the working age population that is economically inactive stands at 21% - or 9.1mn in total. (ONS, 2025e) Assuming that this were reduced to 18% of the population, this would represent an increase in the labour supply of 1,400,000.

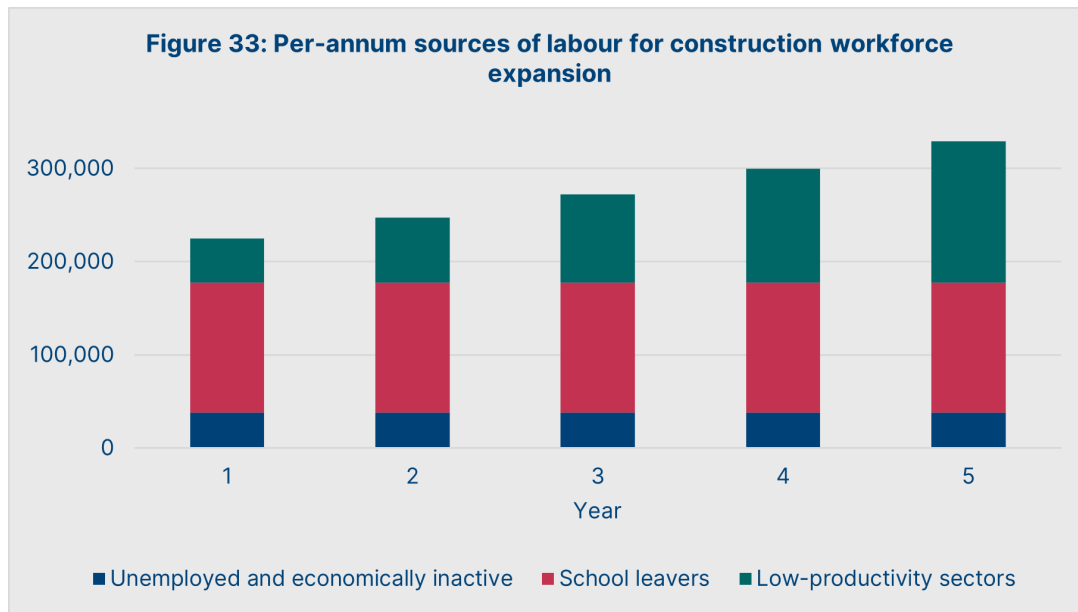
In total, this “wasted” labour pool stands at 3,780,000. In practice, we assume that around 5% – 189,000 workers – will be recruitable for housebuilding. Assuming these new labourers are evenly spread out over the five years of the plan, this represents 37,800 new workers per year.

Additionally, we believe that sufficient investment in apprenticeship and training schemes – along with significant increases in compensation paid to apprentices and trainees – will realistically be able to entice approximately 20% of the population of 16-year-olds each year to enter the industry. This represents 140,000 new labourers per annum.

After all this, there remains around an additional 485,000 workers to source over the course of the plan, with demand concentrated in the later years. To meet this, the DEP can work with industry to source a significant amount of jobs in low-productivity sectors. A recent working paper for The Productivity Institute by Martin & Taylor (2025) found that several sectors had per-head productivity that was at least 20% lower than that of the construction sector. Two of the largest were accommodation and food, and administration and support, two sectors which collectively employ 5.5mn people. (ONS, 2025e)

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As productivity is ultimately what determines wages and incomes in most occupations, workers in these industries have a clear economic incentive to transition to construction. Assuming that just these two sectors were targeted, this would represent a reduction in their total workforce of 8.8%. We believe that this is a manageable quantum – in fact, we would welcome this contraction, as it could help break these sector's addictions to cheap, low-productivity labour and encourage them to invest in labour-saving technology. On these bases, the breakdown in the sources of new construction labour is shown in Figure 33.



Allocating investment

Now that we have confirmed that there exists the labour to execute the first DEP five-year plan, we must now examine how this labour can be economically sourced, trained, and used to deliver the 1.3mn homes that their recruitment entails. In practice, we will require private housebuilders to take on much of this task. This means the DEP will need to offer private housebuilders an opportunity to build a large tranche of new homes at considerable profit to finance this growth in the industry.

To organise this, the DEP will split England – the nation where the housing shortage acutely exists – into twelve regional units. Each region will be granted an equal share of the annual housebuilding target to achieve in their territory – the boundaries of the region will be drawn so that:

- four of them exist in London
- four of them in the wider South East
- four are spread throughout the rest of England

Potential boundaries of the regions that reflect this are shown below in Figure 34. The annual housebuilding targets – nationally and for each DEP region – are shown in Table 3.

Figure 34: Potential boundaries of the DEP regions for housebuilding

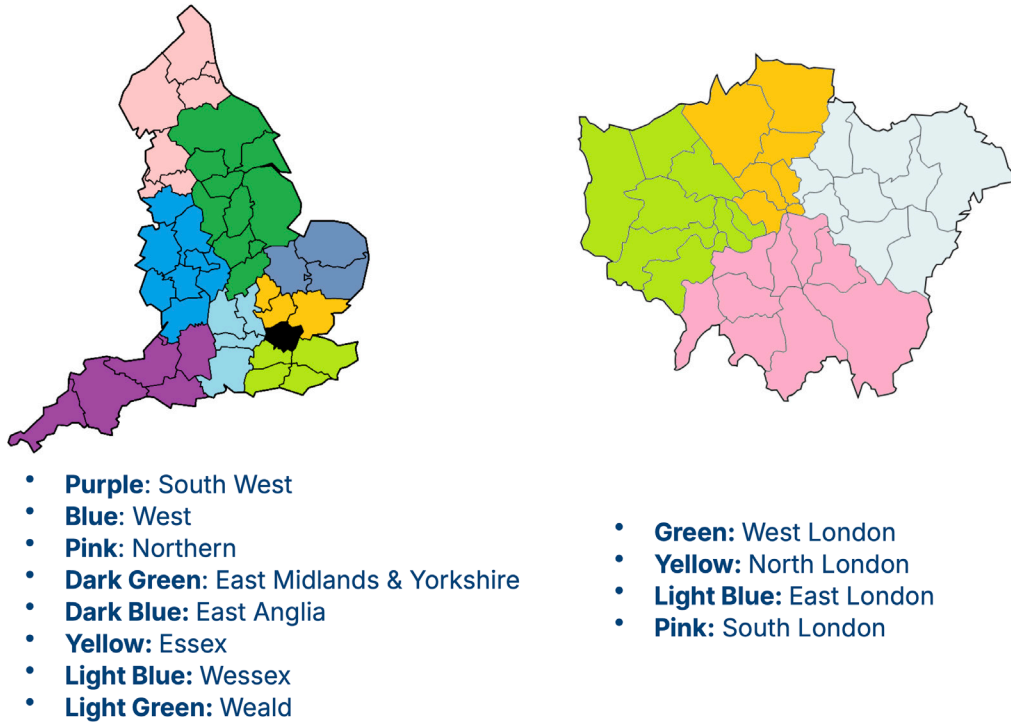


Table 4: National and region-level housebuilding targets during first DEP plan

Year	1	2	3	4	5
Houses built nationally	75,000	157,500	248,250	348,075	457,883
Houses built in each DEP region	6,250	13,125	20,688	29,006	38,157

On establishment, the DEP regional divisions will then oversee the formation of County Housing Corporations (CHCs) – the organisations that will deliver the plan at the level of the individual county, town, and city. Owing to the unique geography of each region, the average size of each CHC will vary considerably and each region will have a unique number of CHCs within their boundary.

The DEP will issue each CHC an interest-free loan to establish a headquarters, handle administration costs, and competitively hire teams of planners, surveyors, and land agents with expertise in their area. The CHCs will then be tasked with delivering regular county housebuilding plans that meets their respective housebuilding targets, with key criteria being the building of homes in areas of the most acute demand and in maximising the connection of these developments to the regional economy.

For each development within the plan, the CHC will choose from standardised set of architectural designs created by the DEP. These standardised designs will mostly consist of:

- Two-storey detached and semi-detached houses, for rural and suburban developments
- Three-storey detached and semi-detached townhouses, for suburban and urban development
- Three- and four-storey flat buildings, for urban development

These standardised designs have a critical role to play in the plan. Firstly, by being centrally created by the DEP, national and regional planners will be able to have a record of raw material requirements per development – bricks, mortar, cabling, roof tiles, etc. Secondly, these standardised designs drive a corresponding standardisation of quality, since individual CHCs and housebuilders can be directly compared with their peers and best practice can be assessed. Finally, these templates allow all the buildings constructed under the plan to avoid wasteful and aesthetically unpleasant designs.

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For the first two years of the plan, reflecting the smaller number of homes required, each CHC will issue two annual plans for approval by their DEP regional division. For the third year, two half-year plans will be presented for approval. For the final two years, four quarterly plans will be issued to the DEP for approval per annum.

Once a CHC's housebuilding plan is approved by the DEP, it will then purchase the land earmarked for development. This land will be purchased at a fair price using interest-free government loans.

Depending on the year of the plan, each CHC will auction a share of these sites to private housebuilders via new mechanism that we dub "development contracts". A development contract will contain planning permission for a respective plot of land, the right to sell it to the market on completion at any price, and a grant equivalent to 25% of the projected cost of developing the site.

On average, per-home development costs are estimated to stand at £200,000 – meaning that this 25% grant will average out at £50,000 per home. This generous grant will allow the housebuilder to make greater profit on the development compared to a traditional site, providing the necessary incentive for the sector to embark on the expansion we require of it for the five-year plan.

However, development contracts will come with obligations. The housebuilder will be obliged to finish construction by a certain date and to a certain standard, or risk of losing their development grant. They will also need to exactly comply with the architectural design plans set out within the development contract.

On sale of a home constructed under a development contract, the housebuilder will also need to pay the CHC back the land cost for the site, half of the land value uplift created by development, and a percentage of the development's final profit. It is the final figure – the profit share of the development – that will be the subject of bidding during the auction phase.

Along with repaying DEP loans for land, the CHC will use these returns to invest in utilities, amenities, services, and infrastructure to service their new developments. A small amount of this income will be used to fund a performance-based remuneration scheme for CHC employees, baking in a clear incentive for CHCs to ensure the public are getting the best value for money from developments. At the same time, since the CHC's ability to purchase land is contingent on DEP support and approval of its plans, its continued existence depends on pursuing the quantity of housebuilding demanded by the five-year plan.

Table 5: Private housing construction during first DEP plan

Year	1	2	3	4	5
Share of houses for private market	100%	90%	80%	70%	60%
Houses built in each DEP region	6,250	13,125	20,688	29,006	38,157
Development contracts per region	6,250	11,813	16,550	20,304	22,894
Per-region cost of development grants (£mn)	£313	£591	£828	£1,015	£1,145
Houses built nationally	75,000	157,500	248,250	348,075	457,883
Development contracts nationwide	75,000	141,750	198,600	243,653	274,730
National cost of development grants (£bn)	£3.8	£7.1	£9.9	£12.2	£13.7

The system of development contracts will offer a generational opportunity for housebuilders and their shareholders, and give them an unprecedented incentive to expand the construction labour force. This labour force will be critical to a growing component of the long-term plan of the DEP: the growth of social housing stock.

Social housing will make up a growing share of the new units built as the plan progresses. For these homes, CHCs may choose to either build sites themselves or issue contracts for construction.

Social houses will use the same designs that are used for the private housebuilding initiative, although unique designs will occasionally be permitted if there is economic, aesthetic, or cultural merit. This will allow many housebuilders involved in the private housing programme to serve as contractors for social housing units, and provide a means to convert labour trained up by the private sector into a tool to provide social housing. In addition, the use of shared designs will also allow these projects to be assessed in terms of efficiency and quality to their private counterparts.

While the capital costs for social housing are significantly greater for CHCs and the DEP - £200,000 per home versus £50,000, before factoring in land costs and profit shares - in the long run it provides a highly cost-effective investment for the state. On completion, these social housing units will have a rental yield of around 3.5% on their development costs. For a £200,000 home, this would translate to a rent of approximately £7,000 per annum, or £580 per month.

A fifth of this rent will be used to cover the maintenance and repair of these homes, with the remainder used to pay down the debt taken out for land acquisition. For example, if the land cost for a £200,000 home were 20% of its value at £40,000, the CHC would pay back the DEP's interest-free land loan within six years.

In the long term, the rent of these social properties will permit an organic expansion of the social housing stock without significant new investment. Nationally, the 352,976 social housing units built under this plan would generate £2.47bn in income per year once they have paid off their interest-free land loans. Four fifths of this income - £1.98bn - will be available to thus finance the construction of around ten thousand new social homes every year.

Reviewing the plan

Table 6 contains the totals to be spent on the expansion of housebuilding capacity during the first plan of the DEP. It also contains the total houses to be built during this period: approximately 930,000 private homes, and 350,000 social homes.

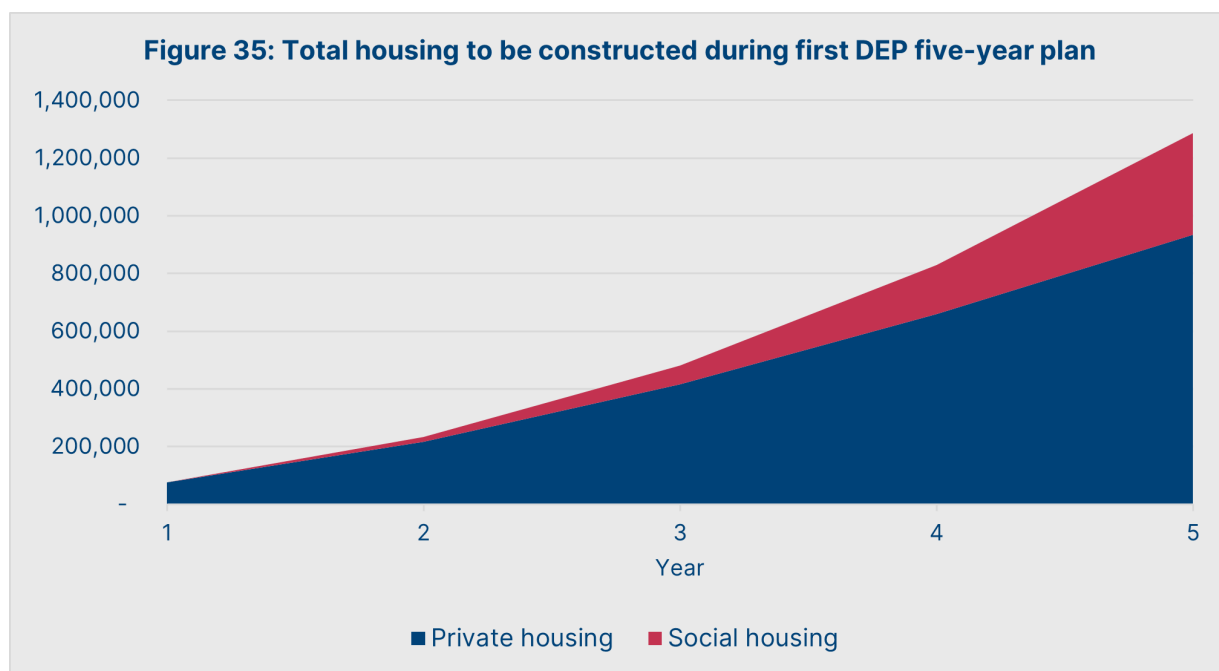
It also demonstrates that the plan will be solvent for its duration on just half of the tapered entitlement savings explored in Part 3. Only the final year posts a relatively small deficit of £1.5bn that cannot be covered by cash reserves from earlier years, meaning that it would require a temporary increase in its share of the year's entitlement savings from 50% to 52.2%.

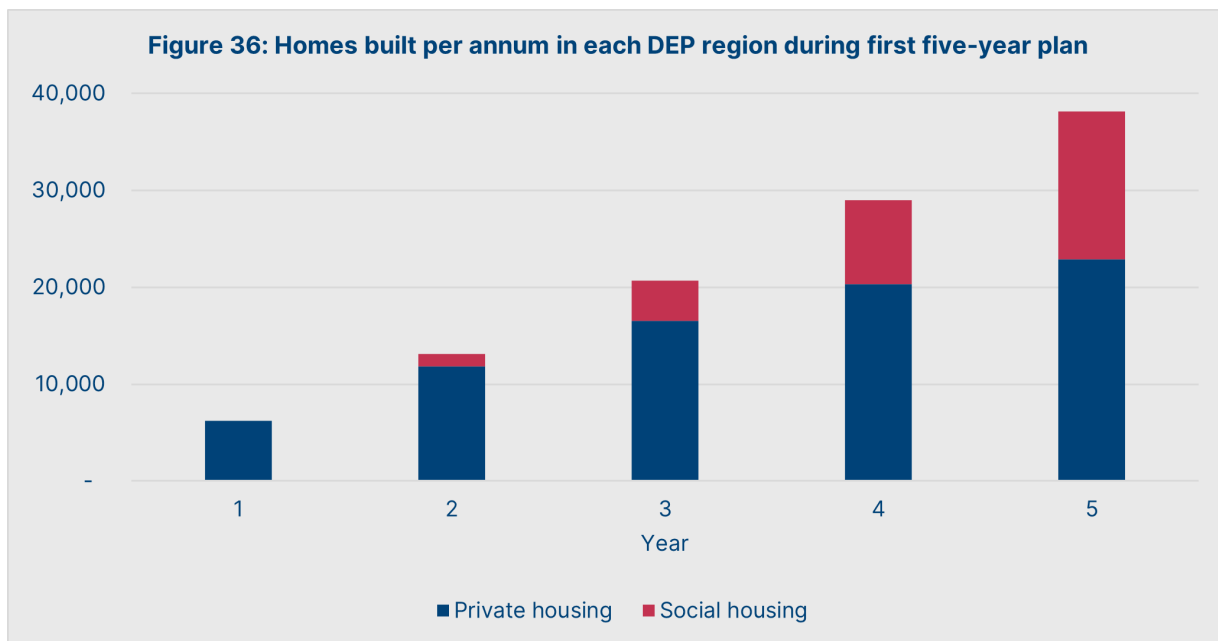
Figure 35 estimates the total housing that will be produced over the course of the first DEP plan at a national level, and Figure 36 shows the per annum housebuilding to take place at the level of each individual DEP region.

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Table 6: Summary of the housebuilding programme of the first five-year plan of the DEP

Year	1	2	3	4	5
Annual entitlement savings (£bn)	£21.3	£33.8	£46.3	£58.8	£71.3
Budget for housebuilding programme (£bn)	£10.7	£16.9	£23.2	£29.4	£35.7
Change in housebuilding workforce (%)	10%	10%	10%	10%	10%
Construction workers at start of year	2,250,000	2,475,000	2,722,500	2,994,750	3,294,225
Increase in workforce	225,000	247,500	272,250	299,475	329,423
Cumulative change in workforce	225,000	472,500	744,750	1,044,225	1,373,648
Change in housebuilding rate	75,000	82,500	90,750	99,825	109,808
Houses built per annum	75,000	157,500	248,250	348,075	457,883
...of which to enter private market	100%	90%	80%	70%	60%
Private houses built per annum	75,000	141,750	198,600	243,653	274,730
Private subsidies issued (£bn)	£3.8	£7.1	£9.9	£12.2	£13.7
Social houses built per annum	-	15,750	49,650	104,423	183,153
Social housing spending (£bn)	£-	£3.2	£9.9	£20.9	£36.6
Cumulative houses built	75,000	232,500	480,750	828,825	1,286,708
...of which are social houses	-	15,750	65,400	169,823	352,976
Costs of Plan 1 housebuilding (£bn)	£3.75	£10.24	£19.86	£33.07	£50.37
Balance of Plan 1 housebuilding (£bn)	£6.90	£13.56	£16.85	£13.19	-£1.53





In total, we can estimate the economy-wide returns of the inaugural five-year plan using relationship between housing stock expansion and productivity growth. Taking:

- the earlier relationship established in London and the South East, where every 5% expansion of the housing stock producing 3.1% productivity growth, and
- a much lower relationship in the rest of England, with a 5% expansion of the housing stock producing just 1% productivity growth

We can thus estimate the annual value-add from the plan, which is shown in Table 7.

Table 7: Additional gross value added from first DEP five-year plan (Ministry of Housing, Communities and Local Government, 2025; ONS, 2025d)

Region	2023 housing stock	Proposed new units	Increase in housing stock (%)	Productivity increase from new housing (%)	2023 region gross value added (£bn)	Annual value-add from raised productivity (£bn)
London	3,754,000	428,900	11.4%	7.1%	£577bn	£41.0bn
South East	4,045,000	428,900	10.6%	6.6%	£354bn	£23.4bn
Rest of England	16,926,000	428,900	2.5%	0.5%	£1,182bn	£5.9bn
Gross per-annum value-add from plan						£70.3bn

Assuming the full possible budget of £115.8bn is consumed during the plan, this means that its full costs will be recouped economy-wide within 1.7 years of the plan's conclusion at latest. If 40% of this value-add is captured as taxable income, then the increased tax revenue will cover the state's expenses within 4.1 years of the plan's conclusion at latest.

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Plan 2: Years 6-10

The second five-year plan of the DEP will inherit a construction labour force of unprecedented size. The goal of the second plan will be to use this labour force to conclude the initial progress made in plugging Britain's housing supply gap and construct 2.8mn additional homes. This will bring total homes built over the course of the first and second plan to around 4.9mn, representing a serious inroad into the 4.5-6.5mn housing supply deficit identified above.

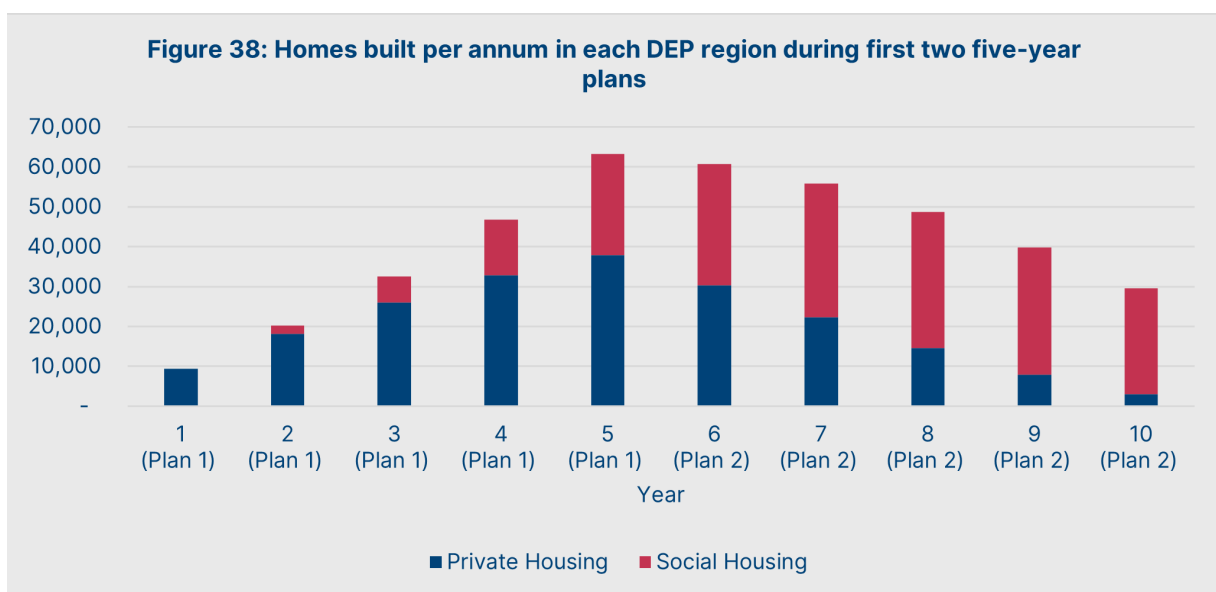
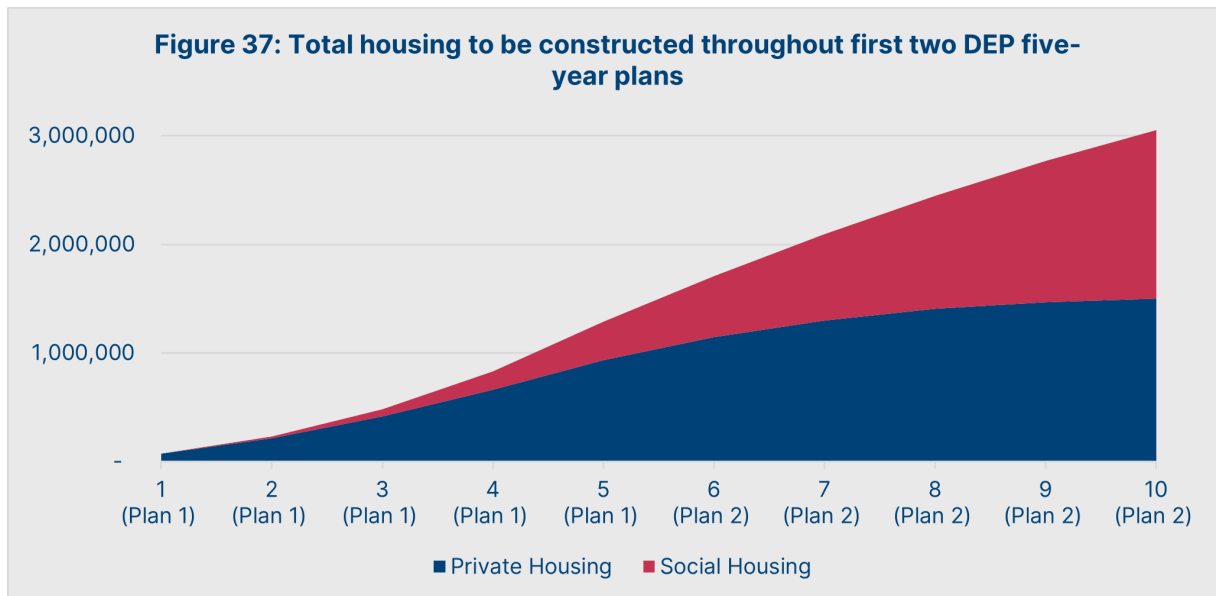
The first plan will have deliberately inflated the construction labour force to highs never seen before in British industry. While key to ensuring that the housing supply could be normalised in good time, this labour force will need to be gradually wound down to a level consistent with the medium-term target for continued housebuilding. In total, the reshaping of the labour force to meet a slow cooldown of the DEP's housebuilding programme will require around 512,000 workers to change occupations.

A key focus of the DEP will be to ensuring transferability of labour, and finding opportunities to leverage the experienced labourers and tradespeople created during the first plan to transition to non-residential construction or non-construction occupations that can draw on their skills. Owing to the pre-planned nature of this shift and the great potential for state-industrial coordination, we believe this transition can be managed with minimal disruption to the wider labour market.

To this end, we will continue to taper down the volume of private development contracts during the period of the second plan. At the same time, social housebuilding will remain relatively stable during the plan period, and will account for most of the housebuilding completed over this period. The overall summary of the housebuilding programme of the second five-year plan is presented below in Table 8. Figure 37 shows the cumulative change in the housing stock nation-wide by the end of the second plan, with Figure 38 showing the per-annum construction patterns for each DEP region.

Table 8: Summary of the housebuilding programme of the second five-year plan of the DEP

Year	1	2	3	4	5
Annual entitlement savings (£bn)	£83.8	£96.3	£108.8	£121.3	£133.8
Budget for housebuilding programme (£bn)	£41.9	£48.2	£54.4	£60.7	£66.9
Change in housebuilding workforce (%)	-3%	-3%	-3%	-3%	-3%
Construction workers at start of year	3,623,648	3,514,938	3,409,490	3,307,205	3,207,989
Change in workforce	-108,709	-105,448	-102,285	-99,216	-96,240
Cumulative change in workforce	-108,709	-214,158	-316,442	-415,658	-511,898
Change in housebuilding rate	-36,236	-35,149	-34,095	-33,072	-32,080
Houses built per annum	421,646	386,497	352,402	319,330	287,250
...of which to enter private market	50%	40%	30%	20%	10%
Private houses built per annum	210,823	154,599	105,721	63,866	28,725
Private subsidies issued (£bn)	£10.5	£7.7	£5.3	£3.2	£1.4
Social houses built per annum	210,823	231,898	246,681	255,464	258,525
Social housing spending (£bn)	£42.2	£46.4	£49.3	£51.1	£51.7
Total houses built	421,646	808,143	1,160,544	1,479,874	1,767,124
...of which are private houses	210,823	365,422	471,142	535,008	563,733
...of which are social houses	210,823	442,721	689,402	944,866	1,203,391
Costs of Plan 2 housebuilding (£bn)	£52.71	£54.11	£54.62	£54.29	£53.14
Balance of Plan 2 housebuilding (£bn)	-£10.8	-£6.0	-£0.2	£6.4	£13.8



If we assume that each region builds the same amount of houses and also use the same estimates used to calculate gross value added from the first plan – a 5% increase in the housing stock of London and the South East increases regional productivity by 3.1%, and the rest of England by 1% - we can estimate the value added to the wider economy by the second plan. This is shown in Table 9.

Table 9: Additional gross value added from second DEP five-year plan

Region	Housing stock after first plan	Proposed new units	Increase in housing stock (%)	Productivity increase from new housing (%)	Regional gross value add at plan start (£bn)	Annual value-add from raised productivity (£bn)
London	4,182,900	589,000	14.1%	8.7%	£618bn	£53.8bn
South East	4,473,900	589,000	13.2%	8.2%	£377bn	£30.9bn
Rest of England	17,354,900	589,000	3.4%	0.7%	£1,188bn	£8.3bn
Gross per-annum value-add from plans						£93.0bn

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If the full £272bn budget is used for housebuilding during the second plan, then its full costs will be recouped economy-wide within 2.9 years of the plan's conclusion at latest. If 40% of this value-add is captured as taxable income, then the increased tax revenue will cover the state's expenses within 7.3 years of the plan's conclusion at latest.

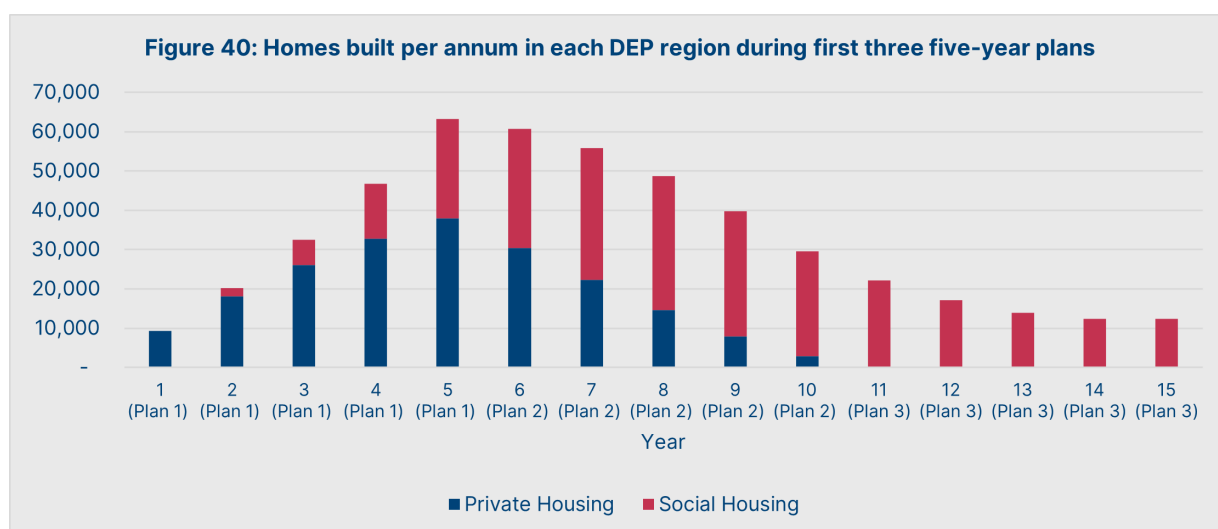
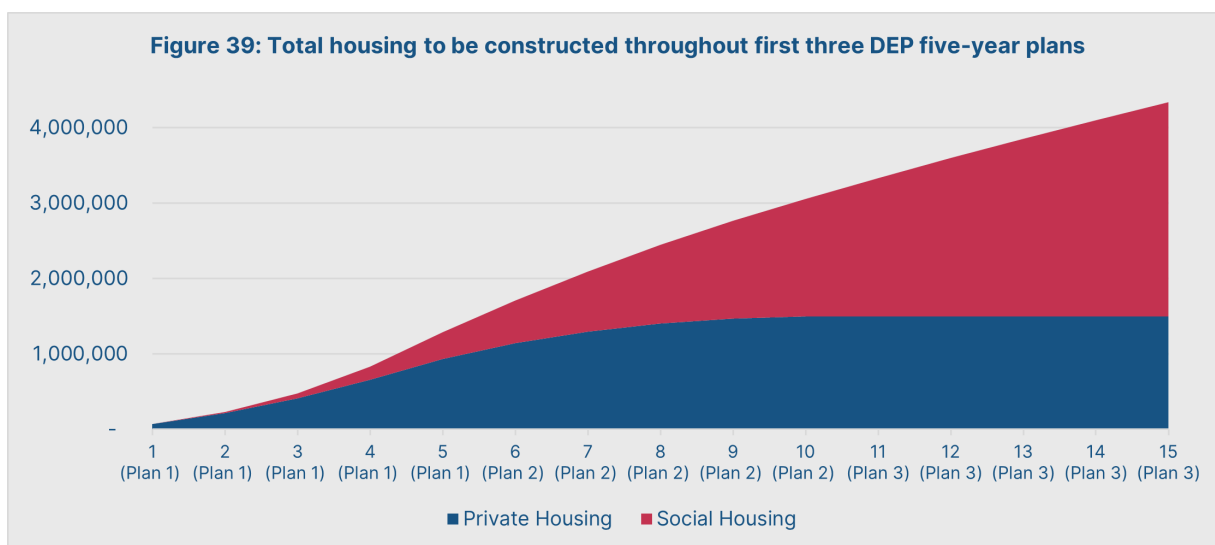
Plan 3: Years 11-15

The third five-year plan of the DEP will see a slow final fall of the construction labour force down to a new ambient steady state. All housebuilding during the third plan will be on social housing stock, with the cessation of further private development contracts via the CHCs.

By the end of the plan, the DEP will be spending £47bn per annum to produce 236,000 new social houses nationally – an amount that can sustainably be invested in for perpetuity for future plans. This, in addition to the revenues from existing social housing stock, will ensure a strong base of social housing for generations to come. This is shown in Table 10. Figure 39 shows the cumulative change in the housing stock nation-wide by the end of the second plan, with Figure 40 showing the per-annum construction patterns for each DEP region.

Table 10: Summary of the housebuilding programme of the third five-year plan of the DEP

Year	1	2	3	4	5
Annual entitlement savings (£bn)	£133.8	£133.8	£133.8	£133.8	£133.8
Budget for housebuilding programme (£bn)	£66.9	£66.9	£66.9	£66.9	£66.9
Change in housebuilding workforce (%)	-1%	-1%	-1%	-1%	-1%
Construction workers at start of year	3,111,749	3,080,632	3,049,826	3,019,327	2,989,134
Change in workforce	-31,117	-30,806	-30,498	-30,193	-29,891
Cumulative change in workforce	-31,117	-61,924	-92,422	-122,615	-152,507
Change in housebuilding rate	-10,372	-10,269	-10,166	-10,064	-9,964
Houses built per annum	276,877	266,609	256,442	246,378	236,414
...of which to enter private market	0%	0%	0%	0%	0%
Private houses built per annum	-	-	-	-	-
Private subsidies issued (£bn)	£-	£-	£-	£-	£-
Social houses built per annum	276,877	266,609	256,442	246,378	236,414
Social housing spending (£bn)	£55.4	£53.3	£51.3	£49.3	£47.3
Total houses built	276,877	543,486	799,928	1,046,306	1,282,721
...of which are private houses	-	-	-	-	-
...of which are social houses	276,877	543,486	799,928	1,046,306	1,282,721
Costs of Plan 3 housebuilding (£bn)	£55.38	£53.32	£51.29	£49.28	£47.28
Balance of Plan 3 housebuilding (£bn)	£11.5	£13.6	£15.6	£17.6	£19.6



Using the same estimates for previous plans, we can estimate the gross value added by the third five-year plan. This is shown in Table 11.

Table 11: Additional gross value added from third five-year plan

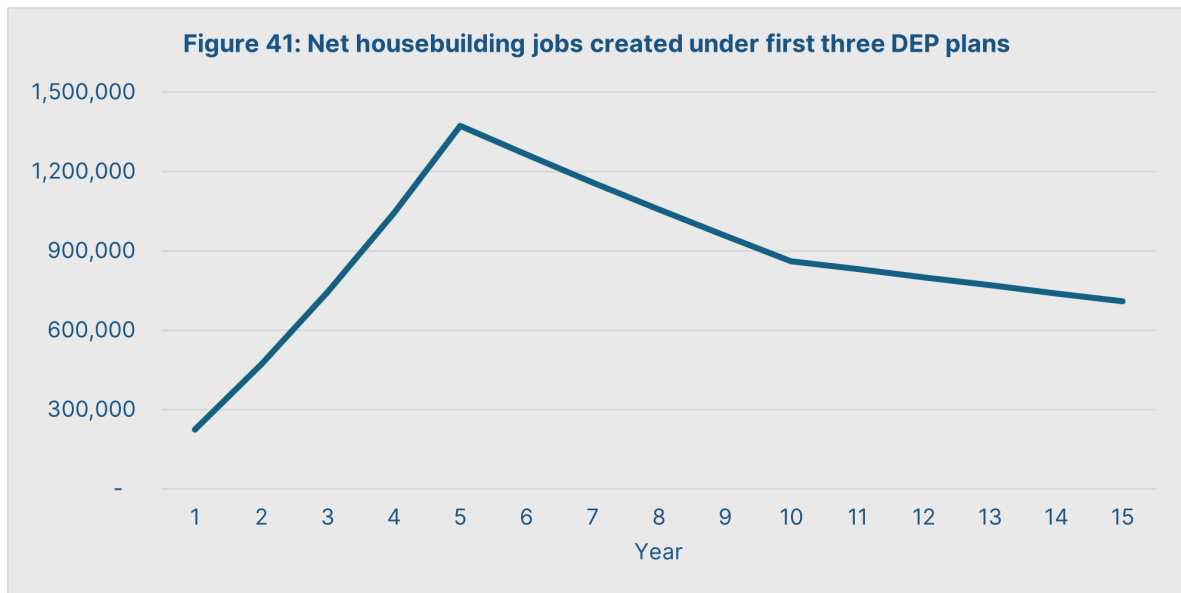
Region	Housing stock after second plan	Proposed new units	Increase in housing stock (%)	Productivity increase from new housing (%)	Regional gross value add at plan start (£bn)	Annual value-add from raised productivity (£bn)
London	4,771,900	427,000	8.9%	5.5%	£672bn	£37.0bn
South East	5,062,900	427,000	8.4%	5.2%	£408bn	£21.2bn
Rest of England	17,943,900	427,000	2.4%	0.5%	£1,196bn	£6.0bn
Gross per-annum value-add from plans						£64.2bn

Assuming that £335bn is spent on housebuilding during the third plan, the plan's full costs will be recouped economy-wide within 5.2 years of the plan's conclusion at latest. If 40% of this value-add is captured as taxable income, then the increased tax revenue will cover the state's expenses within 13 years of the plan's conclusion at latest.

PART 4

BUILDING THE INVESTMENT STATE

Having previously leveraged the profit motive to rapidly expand British housebuilding capacity and deliver the required new homes in record time, the slow wind-down of the previously steep growth in the housebuilding workforce will mark a 'soft landing' for the sector. New workers will have been given ample time and opportunity to transition to areas of construction outside the remit of the DEP's construction programme, or to bring their skills outside of construction. This will ensure that the 'demobilisation' of these workers will not present an abrupt demand shock to the wider British economy.



With around 2.8mn new social homes being built during the three plans, and assuming an average home value of £200,000 for every home with a 3.5% rental yield, the CHCs will bring in £19.6bn of new revenue per annum. Assuming 20% of this revenue is reserved for maintenance of current social housing stock, this will grant the CHCs an income of just over £15.7bn per annum. This is enough to invest in 78,500 new social housing units per annum in perpetuity.

After a given unit of social housing reaches its tenth year of life, the CHCs will be allowed to sell them to their occupants. Unlike previous attempts at right-to-buy, the CHCs will be obliged to ensure every sale corresponds with the construction of a new unit of social housing.

Moving forward

In total, across the three five-year plans, the DEP will have:

- Built 4.3mn new homes, consisting of 1.5mn private homes and 2.8mn social homes
- Restored social housebuilding capacity, with a self-sustaining budget of 80,000 new social housing units per annum
- Employed and trained 1.4mn people for the housebuilding programme, with 700,000 still engaged in building 240,000 homes per annum by the end of the third plan

Through improvements in productivity by alleviating the housing bottleneck, this will increase national output by £227.5bn per annum – all at a total cost of £722.9bn in public investment.

By the later years of the second plan, as we have indicated, the DEP will have built the confidence and capability to taper down the attention given to the inaugural housebuilding programme. By the third plan, most of the entitlement savings we have realised will go to sectors beyond housing.

The DEP will be an engine to harmonise the activity of the market and society. Through planning and investment, the true economic potential of Britain – the promise of the social democratic state – can be realised. The five-year plans will serve as a vehicle to achieve long-term productivity growth, leveraging the ingenuity of the British people to deliver real, tangible prosperity that we can inherit and pass on to the next generation. Finally, after eighty years, we will be able to realise the far-sighted vision of Stafford Cripps.

In future work, we may explore the opportunities unlocked by this new approach to economic management. If realised, the work done thus far will appear but a stepping stone to something far greater. Whether it be infrastructure, industry, or technology, this new era of long-term planning will open opportunities for us to turn our firms into global champions, to raise our standard of living to unprecedented heights, and to restore our collective confidence in our economic destiny.

The true work of the investment state will have only just begun.

CONCLUSION

In this Green Paper, we have reframed the terms of British fiscal policy. The British state did not “shrink” in the 1980s or 1990s, but it instead abandoned its natural role as the foundation of economic life.

In a complex modern economy, the institutions and infrastructure provided by public investment are critical tools to raise the return on capital for industry, maintain productivity growth in the public and private sectors, and ensure that a nation is competitive. The past several decades have seen a widespread ignorance of this by civil servants and the Treasury, the media class, and political leaders.

The post-2000s collapse in British productivity growth has been the final consequence of this great error. The result has been the gradual immiseration of this country, papered over by unsustainable entitlement hikes to artificially stimulate consumption and prevent excessive economic dislocation. But in the end, this has just been subsidy of demand without a meaningful increase in productive capacity.

We can no longer continue with this binge. We must accept the need to sacrifice many of the entitlements we can no longer afford, so we can deliver to the next generation a society that is more prosperous and secure. Only this can prevent the dissolution of British social democracy, preserve the dignity of the British worker, and ensure that we remain an independent economic and political power by the end of this century.

Each generation is called on to ensure the next can enjoy greater material conditions, and cultivate the societal inheritance it was granted. It is the call to protect the hard-won gains of Britain’s social democratic movement. It is the call to preserve what is exceptional about Britain – our land, culture, science, and economic heritage – and make it greater than that which came before.

This is the call of the investment state.

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