



By: *Jim O'Neill*

Can the UK government deliver on its promise of long-term growth?



After becoming the first country to cut a new trade “deal” (or at least the framework of a deal) with the United States, British Prime Minister Keir Starmer’s Labour government is approaching its highly anticipated spending review and the publication of its ten-year infrastructure strategy.

This may be the last chance for a government that promised to make economic growth its highest priority to persuade the country that it is serious.

The government has been constrained not only by external circumstances, but also by its own timidity. Since last year’s election campaign, Starmer has nominally organized Labour’s strategy around five “missions,” the first of which is to achieve the fastest economic growth in the G7.

But soon after taking office last July, his government decided to focus on the United Kingdom’s fiscal challenges, which implied austerity and contradicted the spirit of the primary objective.

True, the government’s fall 2024 budget introduced a bolder fiscal framework and increased capital spending for schools and the National Health Service (NHS); but these are not growth-boosting, productivity-enhancing forms of infrastructure investment. The UK Office for Budget Responsibility **forecasts** no improvement from the pre-existing growth trend line.

What if, instead of piling more on to the NHS, the UK increased investments in preventing infections and other illnesses? I suspect most forecasters would see such outlays as more growth-enhancing over the long term.

Similarly, most would agree that investing in early childhood education and support services would have larger long-term multiplier effects than a new school cafeteria (though the latter might marginally improve the day-to-day educational experience).

Old favorites

In a speech this past February, UK Chancellor of the Exchequer Rachel Reeves aimed to show that the government is still prioritizing economic growth above all else.

She duly mentioned plans for a new runway at Heathrow Airport and an Oxford-Cambridge rail corridor (the “OxCam Arc”) to connect two of the country’s research hubs. But these are old favorites.

As far as I could tell, there were no major new projects in the works, nor did she mention the National Infrastructure and Service Transformation Authority (NISTA), the forthcoming infrastructure strategy, or a separate new fiscal rule that was supposed to increase borrowing for long-term investments.

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And whatever happened to this government’s ambitions for the country’s north? Reeves has only reiterated her commitment to existing projects, leaving many outside the London-Oxford-Cambridge nexus understandably irritated.

I sometimes wonder whether I imagined previous statements and policy changes from the past ten months. The new fiscal framework, strategic investment, and the forthcoming infrastructure strategy were supposed to be central. But when I talk to people about these topics, they react as though I’m from another planet.

Focus on the OxCam Arc

Reeves’s focus on the OxCam Arc is correct in spirit, and I personally wish Patrick Vallance, the minister for science and research, the best of luck with it.

But the project feels mostly like an effort to

find more space and affordable housing for those two crowded university cities. As such, I would prefer to see it go through NISTA's new transparent framework for proposed projects, where it would have to prove its worth alongside others.

After all, the counties around and between Oxford and Cambridge represent total gross value added that is on par with Greater Manchester's, and less than half that of the broader region (Manchester, Sheffield, Leeds, and Liverpool) targeted by the Northern Powerhouse initiative that I led for a few years after 2016.

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Connecting this region with what then-Chancellor George Osborne **called** HS3 – high-speed rail across northern England – would presumably yield significant growth multipliers.

Since Treasury officials surely looked into the business case for such a rail line long ago, it should already be on NISTA's list. But funding never materialized, because the project (like many others) did not satisfy previous Tory governments' fiscal rules.

Manifesto pledges

That could change now. NISTA has finally been established, and it has a new CEO. It will have inherited a list of projects from its precursor, the National Infrastructure Commission, and these presumably will now be subject to a transparent cost-benefit analysis. Such studies should anchor the broader spending review.

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Starmer's government could frame the latest crisis as a reason to take its manifesto more seriously, especially now that it has the levers it needs to achieve more sustainable long-term growth.

For example, it could present the UK as a welcoming place for entrepreneurs and innovators, both attracting many of those who no longer feel supported in the US and alleviating some of the tension from the rising UK inheritance tax.

Moreover, why not seize the moment to abandon the "triple lock" (an extremely burdensome guarantee to increase pension payments each year)? Doing so would allow for many more long-term projects that could dramatically improve the country's growth prospects and financial health.

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