

THE NEW DEAL

DEMOS

CITIZENS ECONOMY

A NEW DEAL TO POWER
ECONOMIC GROWTH AND
REBUILD TRUST BETWEEN STATE
AND CITIZEN

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DEMOS

Demos is Britain's leading cross-party think tank. Our mission is an upgraded democracy, with a new deal to mend the broken relationships between the state, institutions, and citizens.

This paper sets out a new economic deal to power growth and rebuild trust between state and citizen. There is no credible answer to upgrading democracy without having an answer to the economic challenges of our times. This essay is part of the Demos "New Deal" series, setting out our strategy to tackle the democratic emergency via our four pillars: ***Everyday Democracy***, ***Public Service Reform***, the ***Citizen Economy*** and ***Resilient Information Ecosystems***.

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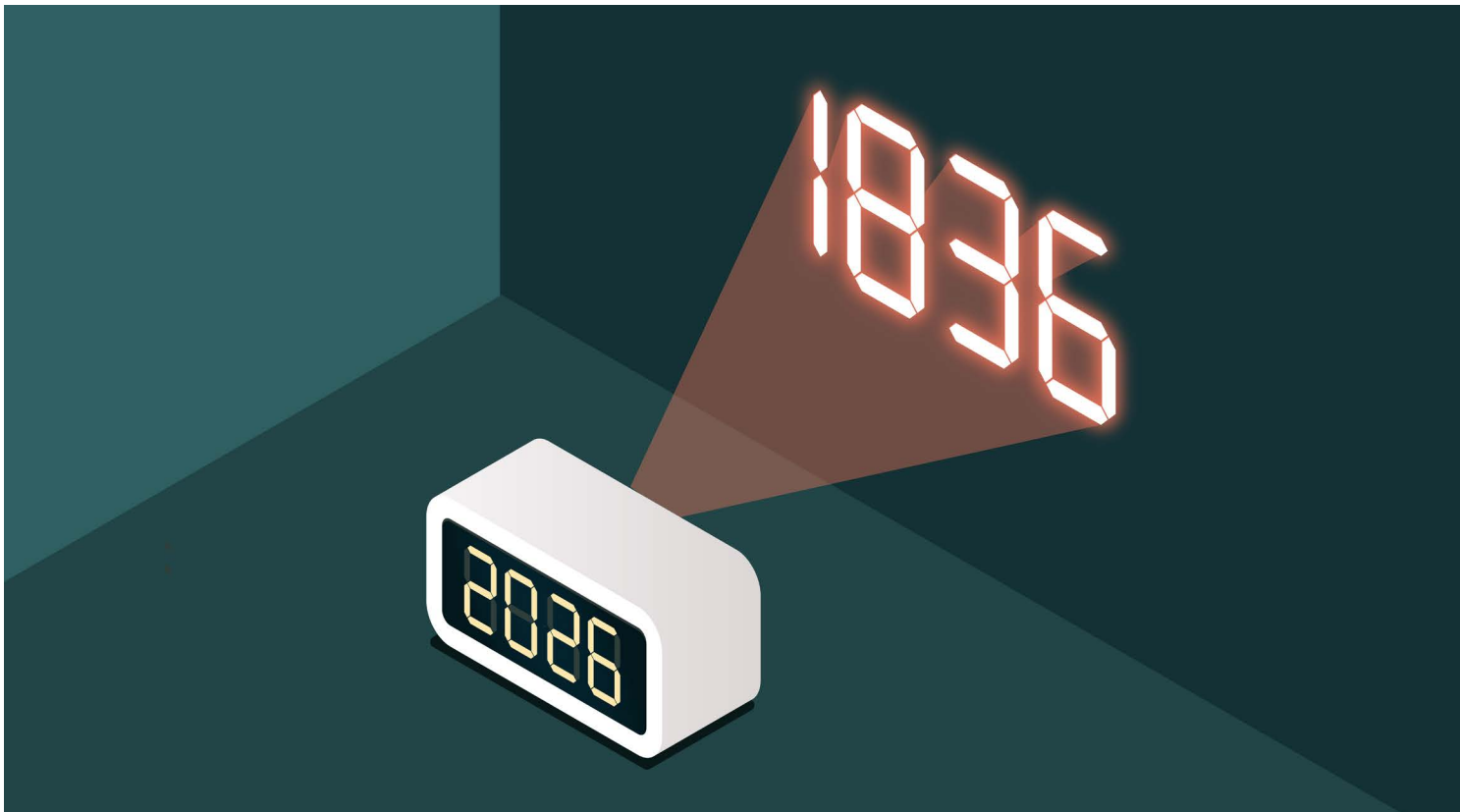
INTRODUCTION

AN OLD CRISIS IN A NEW FORM

The economy is stagnant. Citizens are angry. A second generation has now never known sustained, meaningful economic growth during their working lives. Citizens are increasingly distrustful, both of one another and in a state and an economy they feel they have no stake in. Faith in established institutions is waning just as interest in alternative systems of government waxes; democracy isn't delivering. The year is 1836.

The Condition of England crisis consumed a generation of activists and politicians. The nation that emerged from the 1840s was of a different character than the one that entered them. Responding to rapid industrialisation, the relationship between state and citizen was progressively transformed by a series of Acts that redrew the terms of labour, protected the freedoms of the market and trade, and established the state's duty to safeguard the health of its citizens. Taken together, these reforms formed the backbone of a new economic and political compact: one in which the state reconceptualised the role of individuals in an evermore urban, free-market, industrial economy, and transformed its own role to unlock the economic renewal that might otherwise falter.

The year is 2026 and Britain today is equally restless.



Our economic compact is broken. Once growing by 22-32% per decade, productivity has grown by just 5% in the two decades since 2008, and a typical full-time employee's earnings are now even slightly lower.^{1,2,3} Unemployment is at a five-year high and almost one million young people are not in education, employment or training, whilst those entering the work force face a career ladder being pulled up in front of them.⁴ Britain remains one of the most unequal countries in the developed world, and some gaps are growing.^{5,6} In the absence of growth, resources have become a zero sum game that sets citizen against state, and citizen against citizen.

While claims that Gen Z are hankering to replace democracy with authoritarian systems are overblown, the data does suggest a now endemic dissatisfaction with the current status quo.^{7,8}

The country is hungry for a new compact. Multiple governments have tried new approaches and failed. Factions and parties across the political spectrum are increasingly competing on bold new economic agendas. We saw the same with the unemployment and destitution of the 1930s, before Attlee's government was bold enough to build a new consensus. We saw the same with the stagflation in the 1970s, before Thatcher faced down the trade-offs and built a new consensus again.

The question for us today is: who will be the first to get serious about the hard problems the country faces, and be bold enough to tackle them long-term? Until that happens, economic compacts will continue to be tested and continue to fall.

But the conditions are hardening. While economic compacts in the past were rendered obsolete by geopolitical events, or the advent of new technology, or political fragmentation, our current economic settlement is being buffeted by all three. Citizens are navigating a world beset by geopolitical instability, in the foothills of an industrial revolution and a newly fragmented political ecosystem.

It will not be enough to double down on the same explanations: low investment, skills gaps, regional inequality. These are real and absolutely critical, but they are not just symptoms of poor policy design. They are the product of a model of political economy that fundamentally misunderstands the nature of the citizens it is there to serve, and who form the fabric of the economy itself.

Building the new economic compact demands reimagining how we conceptualise citizens as agents within the economy. **We need a Citizen Economy.**

1 This takes all decades between 1960 and 2000

2 ONS. Output per Worker: Whole Economy. 19 May 2026. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/timeseries/a4ym/prdy>

3 ONS. Earnings time series of median gross weekly earnings from 1968 to 2025. 23 November 2025. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningstimeseriesofmediangrossweeklyearningsfrom1968to2022>

4 Masud F. UK unemployment hits highest rate for nearly five years. 17 February 2026. <https://www.bbc.co.uk/news/articles/c117pedyzjeo>

5 Morrin M. A modest proposal for the restoration of neighbourhoods. ResPublica. February 2026. <https://www.respublica.org.uk/wp-content/uploads/2026/02/RP-Report-A-Modest-Proposal.pdf>

6 UK Parliament. Written evidence submitted by IPPR North (RDE0080). <https://committees.parliament.uk/writtenevidence/105375/html/>

7 Duffy B and Morini P. Do Gen Z really want a dictatorship? Policy Institute and King's College London. February 2025. <https://www.kcl.ac.uk/policy-institute/assets/do-gen-z-really-want-a-dictatorship.pdf>

8 National Centre for Social Research. Trust and confidence in Britain's system of government at record low. 12 June 2024. <https://natcen.ac.uk/news/trust-and-confidence-britains-system-government-record-low>

WHY THE CURRENT ECONOMIC COMPACT HAS FAILED

OUR ECONOMY IS CONSTRAINED BY TWO PATHOLOGIES THAT BLOCK URGENTLY NEEDED REFORM

Failure to drive the economy forward has not been for want of trying. From austerity, to levelling up, to the current Chancellor's 'stability, investment, and reform' agenda, multiple governments have tried to redefine the UK's economic model.

They have all failed. Citizens today are no richer than they were in 2008. Jobs are less secure, people's family wealth matters more relative to their income, and the link between hard work and the ability to provide for yourself or your family has been broken.

Failure is not because these models have focused wholly on the wrong things. Fiscal responsibility, regional investment, stability and planning reform are, in the right context and done in the right way, vital elements of the economic change we need. Instead, failure lies in two pathologies which have undermined the ambition and effectiveness of any political economy model:

- 1. Short-term tactics over long-term strategy.** Citizens can accept short-term personal costs for long-term national gains. But they need a narrative or vision that can justify the trade offs they are being asked to make.

Politicians, public officials and economic institutions have lost the ability to get the public on board with a narrative that describes a world of tomorrow and thereby justifies the trade offs necessary today.

Public acceptance of short-term personal costs for long-term national gain can only be secured where the public have confidence in the long-term judgement and delivery of the state, and hold concern for both the communal and national interest alongside their own.

Where that is lacking - as we see today - the public will default to policies where the benefits to them personally are tangible today, spreading short-termism, NIMBYism, and sticking plaster politics.

The government, responding to this self-interest, fuels the economic myopia by defaulting to short-term tactics, which sure up their support today, by pushing trade-offs into tomorrow rather than take the risk of developing a long-term strategy that they feel citizens place no stock in.

2. Simple tactics over complex system-change. In a bid to grip the economy and render the complex legible, economists and stewards of the public purse have stripped individuals of their social, moral and political complexity. Economic policy is then analysed in terms of how individuals respond to material incentives, overlooking the critical role of relationships, morale, place, local coordination, community, social status, culture and the nation in our economy.

In 1944, Polanyi described how “economic activity was isolated and imputed to a distinctive economic motive” separated from the social and political realm.⁹ This is the legacy of neoclassical economics and its conception of individuals as homo-economicus; abstract rational agents defined in terms of quantifiable rational preferences.

The result is that economic policy objectives are not designed to deliver citizens’ pluralistic values, nor are the policy tools designed to manage the social risks or opportunities. This manifests in siloed economic policymaking and tinkering at the edges. It means economic decisions end up having narrow benefits or unforeseen side-effects. The response is policy layering - new regulations and bodies added to manage new symptoms - which compounds the tinkering.

Lost in this process is the capacity for the holistic system-building which is needed to create a new model of political economy.

The consequences of tactics-and-levers economics is written across recent policy history:

	POLICY EXAMPLES	OUTCOME	REASON FOR FAILURE: short-term tactics and lever
Fiscal responsibility	Reductions in public capital investment (by 26%, 2009-16) ¹⁰	Contributed to historic low investment, undermining the foundations of the economy ¹¹	Capital spending cut to meet short-term fiscal rules; while negative system impacts of a stop-start investment cycle and public service degradation were underweighted.
	Closure of Sure Start Centres	A system whose long-term benefits far outweighed costs was cancelled ¹²	Sure Start treated as a transactional service to cut for short-term gain, not a preventative investment reducing costs across the system long-term.

9 Polanyi, K. The Great Transformation. 1944

10 Zaranko B. Public investment: what you need to know. Institute for Fiscal Studies. 25 April 2024. <https://ifs.org.uk/articles/public-investment-what-you-need-know>

11 Dibb G and Jung C. Rock bottom: Low investment in the UK economy. Institute for Public Policy Research. 18 June 2024. <https://www.ippr.org/articles/rock-bottom>

12 Carneiro et al. The short- and medium-term effects of Sure Start on children’s outcomes. Institute for Fiscal Studies. 22 May 2025. <https://ifs.org.uk/publications/short-and-medium-term-effects-sure-start-childrens-outcomes>

	POLICY EXAMPLES	OUTCOME	REASON FOR FAILURE: short-term tactics and lever
Regional investment	Levelling Up Fund	Just over 10% of promised funds spent and making a difference, with no compelling examples of delivery ¹³	Government favoured shovel-ready projects for short-term gain over more impactful options long-term, and failed to account for local readiness to deliver projects. ¹⁴
Stability, investment and reform	Employer NICs rise, 2024 Budget	Business confidence hit, contributing to five-year high in unemployment ^{15,16}	Government prioritised Employer NICs over Income Tax or Employee NICs due to political benefits, and underweighted the social impacts on business confidence and trust.

While the recent surge of proposals for a new political economy is exciting - from the left to right of politics, and across new and old think tanks - any model will falter in delivery without the public legitimacy to manage long-term trade-offs or the grasp of social complexity needed to drive true system change.^{17,18,19,20,21}

13 Public Accounts Committee. Levelling Up: No compelling examples of delivery so far as delays hold back spending. 15 March 2024. <https://committees.parliament.uk/committee/127/public-accounts-committee/news/200377/levelling-up-no-compelling-examples-of-delivery-so-far-as-delays-hold-back-spending/>

14 Ibid.

15 CIPD. Looming National Insurance changes prompt widespread plans to cut hiring and increase redundancies, new CIPD research finds. 17 February 2025. <https://www.cipd.org/uk/about/press-releases/winter-labour-market-outlook-2025/>

16 Cominetti N and Slaughter H. Labour Market Outlook. Resolution Foundation. 15 December 2025. <https://www.resolutionfoundation.org/publications/labour-market-outlook-q4-2025/>

17 Haigh L and Yang Y. Renewal Volume 43. 18 June 2026. <https://renewal.org.uk/articles/introduction/>

18 McVitie M. An Honest Day: A new economic settlement for Britain. May 2026. <https://static1.squarespace.com/static/66fd9818a5894458fff7a30e/t/6a012b4e521e30628c04f994/1778461519001/AnHonestDay.pdf>

19 Blair T. The Labour Party Is Playing With Fire Over Its Future and the Future of the Country. 26 May 2026. <https://institute.global/insights/politics-and-governance/the-labour-party-is-playing-with-fire-over-its-future-and-the-future-of-the-country>

20 Diver T. Jenrick: My plan to save the economy. The Telegraph. 16 June 2026. <https://www.telegraph.co.uk/politics/2026/06/16/jenrick-my-plan-to-save-the-economy/>

21 Proper UK. Policy Hub. https://www.prosperuk.com/policy_hub

BOTH PATHOLOGIES SHARE A COMMON ROOT: A REDUCTIVE UNDERSTANDING OF THE INDIVIDUAL

Britain's many recent economic policy failures are not isolated incidents.

They are underpinned by a political economy which has reduced individuals to mere consumers and workers; simplified and passive beneficiaries of the economic settlement, who can be sated by evermore technocratic tweaking of a failing model, rather than multifaceted and active participants, rooted in their communities and belonging to a national identity, with values that can't be captured in restrictive cost/benefit analytical frameworks.

This reductive view of the individual leads to a failure to prioritise the right outcomes, and so fails to deliver effectively.

The current model focuses on maximising consumer utility, and assesses that as something which is strictly quantifiable and which can be aggregated across individuals. It therefore focuses largely on material rather than social outcomes, because the latter are inherently hard to quantify and often exist at a community rather than individual level, so cannot be aggregated. The toolbox deployed to shape the economic model largely consists in shifting material incentives. It underweights the critical role that the public plays in legitimising or delegitimising an economic agenda (in turn shaping economic decision making) and in mediating economic policy through their social, moral and political behaviour.

This is not the product of a particular political project. Politicians and commentators across the political spectrum frame individuals as fundamentally asocial and driven simply by their own material gain. This cynical world view is both damaging and flawed. Many of the defining moments of our nation's history are founded on citizens sacrificing personal short-term gain for a greater national purpose.

A New Deal demands, across the political spectrum, a more developed conception of individuals in the economy and the social systems in which they operate.



BUILDING A CITIZEN ECONOMY

CITIZENS, NOT CONSUMERS: A DIFFERENT ACCOUNT OF ECONOMIC ACTORS

Restoring faith in our economic compact demands a New Deal, underpinned by a reimagining of the individual's role in the economy: this is the Citizen Economy.

A Citizen Economy recognises the role that citizens can and should play as rule makers, not just rule-takers, and as an active part of shaping the economic compact between the state, markets and themselves and informing acceptable terms of employment. A Citizen Economy sees citizens as fundamentally being situated within their families, friendships, communities, neighbourhoods, workplaces, culture, history, discourse and nation. It brings into frame the complex social, political and moral beliefs which those relationships generate.

This reconceptualisation of the individual is key if the state is to build long-term strategy and system-change.

FROM TACTICS TO STRATEGY: HOW CITIZEN LEGITIMACY ENABLES THE STATE TO MANAGE HARD TRADE-OFFS

A Citizen Economy builds trust and legitimacy to unlock long-term reform:

- It prioritises economic policies which build trust and generate public legitimacy to manage hard long-term trade-offs.
- It designs policy in ways that manage the risks and opportunities for public trust
- It builds narrative and strategy for economic change which conveys its purpose.

In doing so, a Citizen Economy creates a virtuous cycle of more effective long-term economic delivery and more trusting and less divided citizens.

FROM LEVERS TO SYSTEMS-BUILDING: HOW CITIZEN COMPLEXITY ENABLES SYSTEM CHANGE

Individuals do routinely reject self-interested 'economically rational' choices in favour of altruism and civic spirit. Models informed by a homo economicus understanding of the individual are unable to capture that. Crucially, citizen values or attitudes are not static. As Michael Sandel observes: "Altruism, generosity, solidarity, and civic spirit are not like commodities that are depleted with use. They are more like muscles that develop and grow stronger with exercise".²²

Economic thinking has developed. And economists are more readily addressing social complexity in recent work. Behavioural economics has evidenced the ability to nudge individuals into action. Research on social capital has evidenced the importance of trust and social interactions for economic activity.²³ These are welcome changes.

A Citizen Economy goes further, treating social, political and moral beliefs as core to the economic change, not externalities to be managed. Bringing together the range of partners across the economy - from community organisations and anchor institutions to financial institutions and the state - it enables citizens to flex the 'muscles' of altruism, solidarity and civic spirit. It mobilises citizens to actively contribute to economic systems - rather than just react to incentives - and build complex systems of change that align with their interests, be it through new institutions, place-based transformation, culture change or shifts in the Overton window.

HOW TO EMBED THE 'CITIZEN' IN ECONOMIC POLICYMAKING

The interactions between the economy and citizens' trust or legitimacy, or their social, political and moral beliefs, are highly complex. To understand and adapt to this, a Citizen Economy draws on three key principles:

First, economic systems which are geared to think 'citizen'. Economic institutions - be they in central or local government, the financial sector, business networks, public bodies, or anchor institutions - must begin to account for the complex role that citizens play in the economy, be it through the legitimacy citizens provide or the social behaviour they respond with. HM Treasury's Green Book for example - critical in shaping government funding priorities - considers the strategic, financial, commercial, economic and deliverability cases of a proposal. This suborns all citizen values to a single cost/benefit analytical frame. In a society characterised by low trust and political fragmentation, the lack of a social or ethical case is increasingly hard to justify.

²² Sandel M, What Money Can't Buy: The Moral Limits of Markets. 2012

²³ Haldane A and Halpern D. Social Capital 2025: The Hidden Wealth of Nations. Demos. January 2025. <https://demos.co.uk/research/social-capital-2025-the-hidden-wealth-of-nations/>

Second, economic systems with citizen contribution at the core. Rather than designing policies to apply consistently across the country and over time, the government must build systems which citizens can shape and adapt. Demos's concept of 'economies of coordination' reflects this. It recognises that a centralised skills policy cannot adapt to the complex nuances of local economies and developments in policy, supply chains, and labour markets, particularly given coming AI disruption. Instead, the government must embed resilience into skills systems by strengthening coordination between local actors. Beyond clustering, we need active coordination between businesses, educators, community organisations and anchor institutions to pool their insights, learning, data and reach.

Third, public participation. By engaging with the public on economic policies, decisionmakers can understand how those policies will affect citizens' trust and interact with their moral and political beliefs. Demos's tax project is a clear example. We engaged with citizens to understand how different proposals aligned with their values and concerns. A mansion tax stood out as a clear trust-builder, aligning with citizens' concerns about wealth inequality. We proposed it - and it was implemented with broad public support.²⁴

MODEL	CURRENT ECONOMIC PARADIGM	CITIZEN ECONOMY
Perspective on individuals	Individuals are passive beneficiaries of an economic settlement which they have no real hand in setting	Individuals are active 'citizens' - complex social and moral agents, with community ties and a national identity, contributing to the economic settlement to deliver what matters to them.
Economic analysis	The economy is analysed in terms of consumer utility, while social complexity in the economy is managed through behavioural economics and nudges.	Alongside individual utility, the economy is analysed in terms of citizens' trust, and their moral and social beliefs. Social complexity in the economy is managed through citizen participation and reform of institutions and systems to effectively represent citizens' long-term interests.
Operating principle	Tactics-and-levers economic policy	Strategic and system-building economic policy

24 YouGov. How Have Britons Reacted to the 2025 Budget?. 26 November 2025

DEVELOPING THE KEY ELEMENTS OF A CITIZEN ECONOMY

Building a new economic compact fit for today's citizens requires a fundamental reimagining of four key elements of the economy: the workforce, capital, the fiscal contract, and local and regional economies.

Our ambition is not to tinker at the edges, but to draw the blueprint for a new economic compact fit for today's social complexity, geopolitical volatility and political fragmentation.

A CITIZEN-POWERED WORKFORCE

We are on the precipice of an industrial revolution that will fundamentally reset the role human capital plays in our economy. The career ladder for young people is being pulled up, while established workers find their skills becoming obsolete with little warning. But we head into that storm in a precarious state, with a crisis of rising economic inactivity alongside skills shortages in key industries, stalling housing and infrastructure projects.²⁵

The state is slowly waking up to the scale of disruption on the horizon and the need for change, but substantial risks remain.

New bodies like Skills England have been formed, but come atop a highly fragmented ecosystem, ranging from the Job Centres and Youth Hubs to Business Board Networks and Industrial Strategy Councils. The government wants more young people in apprenticeships, but risks facing the same fate as the many who have tried over the past decade, which saw apprenticeship starts amongst young people drop by 40%.²⁶ Devolution provides opportunities to build local skills resilience, but will falter if our young people continue to exit school with little exposure to work, their local economy or business ecosystems.

Any credible state response must do three things simultaneously. It must address the fragmentation of the current system. It must articulate and deliver the system-change needed to unlock the opportunities of technological disruption while mitigating the scale of economic and social scarring. And it must be prepared to handle the painful trade-offs that delivering on both will require.

A citizen-powered workforce can meet that need. It will build resilient systems that connect citizens with their local markets, economic institutions and national strategies. It will tackle the social aspects of workforce strategy head-on, from the status-related barriers to apprenticeship uptake to sector deals that balance fair employment rights with economic dynamism. It will articulate the muscular role the state can play in managing AI-related disruption, and how to build legitimacy for managing the trade-offs involved.

²⁵ Places for People. The UK construction skills shortage: causes, challenges, and solutions for the industry. <https://www.placesforpeople.co.uk/pfp-thrive/insights-tools/the-uk-construction-skills-shortage/>

²⁶ May, C. The graduate crisis: hundreds of thousands sign on to welfare. City AM. 26 January 2026. <https://www.cityam.com/the-graduate-jobs-crisis-hundreds-of-thousands-sign-on-to-welfare/>

CITIZEN-STEWARDED CAPITAL

Addressing Britain's historic investment deficit to deliver long-term growth demands that we effectively mobilise our domestic capital, which is chronically underutilised and suboptimally deployed.

Low investment in Britain - the lowest in the G7 for 24 out of the last 30 years - is central to the UK's productivity lag since 2008.²⁷ The investment that does happen is overly reliant on foreign capital. As British assets and debts are sold abroad, the financial returns, alongside ownership and control, flow out of Britain. There is also little support from patient investors domestically. Unlike Australia, our pension funds rarely invest in domestic equities. Unlike Norway we don't have a large sovereign wealth fund.²⁸

It is no surprise that eight in ten publicly-owned firms see pressure for short-term shareholder returns as deterring investment.

The failure of Britain's investment landscape has two key roots:

1. UK households save very little compared to other countries - around a third the rate of France).²⁹
2. UK household investment is not effectively directed towards citizens' long-term interests. Our domestic pension assets often support US tech megafirms over the economy in which those pensioners live.³⁰ Much of our savings sit as cash, deteriorating in value due to inflation.³¹ Much else is locked up in housing, including landlords' capital in the PRS.³²

We need to build up capital in the UK's patient institutional investors, and ensure they are geared to invest in line with citizens' long-term interests. Doing so demands short-term costs for long-term gains, and systems designed with citizen interests at heart.

A Citizen Economy is key to delivering this.

Short-term consumption may need to fall, as citizens save more for the long-term. Short-term financial returns may take a hit as investment is redirected towards long-term national renewal. A Citizen Economy will ensure that policy is designed to account for citizens' values and concerns, to build the public legitimacy for these hard decisions.

Institutions will have to be reformed to better reflect the needs of citizens across the country. Germany's system of regional banks embedded in local economies and with long-term business relationships reflects one way to do this.³³ A Marshall Plan for Civil Life is another.³⁴ A ramped-up, democratic sovereign wealth fund or business bank offers more possibilities. A Citizen Economy will unlock this system-change by centering the social complexity in economics.

27 Institute for Public Policy Research. Revealed: Investment in UK is lowest in G7 for third year in a row, new data shows. 18 June 2024. <https://www.ippr.org/media-office/revealed-investment-in-uk-is-lowest-in-g7-for-third-year-in-a-row-new-data-shows>

28 Thinking Ahead Institute. Global Pension Assets Study. February 2025. <https://www.thinkingaheadinstitute.org/content/uploads/2025/02/GPAS-2025.pdf>

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30 Department for Work and Pensions. Pension fund investment and the UK economy. 27 November 2024. <https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy>

31 JP Morgan. The UK's savings opportunity. June 2025. <https://am.jpmorgan.com/gb/en/asset-management/adv/insights/market-insights/market-updates/the-uks-savings-opportunity/>

32 Savills. Value of Britain's housing stock reaches new peak of £9.18 trillion. 16 February 2025. <https://www.savills.co.uk/insight-and-opinion/savills-news/387877/value-of-britain-s-housing-stock-reaches-new-peak-of-%C2%A39.18-trillion>

33 Daams, M., Mayer, C. and McCann, P. Regions, cities and finance: the role of capital shocks and banking reforms in shaping the UK geography of prosperity. Fiscal Studies. May 2025. <https://ora.ox.ac.uk/objects/uuid%3A886612ce-e50b-4760-9df7-a6c1414a7754/files/rq237ht715>

34 Plunkett J and Curtis P. A Marshall Plan for Civic Life. 9 June 2026. <https://medium.com/@jamestplunkett/a-marshall-plan-for-civic-life-65d03d86eb58>

A CITIZEN-LEGITIMATED FISCAL CONTRACT

Our fiscal contract - our tax and welfare systems - are facing a triple crisis.

First, structural pressures - an ageing population, rising economic inactivity, the costs of the climate transition, and Baumol's cost disease - are rendering the current settlement increasingly unaffordable. Second, after decades of low growth but rising wealth, alongside a system that benefits the elderly more than the young, the fiscal contract is failing to deliver a fair deal across widening generational and wealth divides. Third, the system is riddled with anti-growth defects: an overly complex and poorly targeted tax regime, and a welfare system not designed to encourage work. These challenges will intensify as AI disrupts labour markets.

But this is as much a crisis of legitimacy as it is of affordability, efficiency, and fairness.

The underlying defects are well known. The triple lock is unsustainable in the long-run. The benefits system only gives around one in five young NEETs meaningful employment support.³⁵ Council tax is outdated, regressive, and inefficiently taxes land value. National Insurance has an unjustifiably narrow base, excluding rental and partnership income. Capital gains tax taxes inflationary gains too much but other gains too little, while allowing many people to disguise employment income or avoid the tax entirely. Low-productivity and unequally shared wealth - often within inheritances or Britain's inflated housing market - is taxed far less than work. Successive governments have also proved unable to raise broad-based taxes even when needed.

These problems all persist partly because of one key barrier: governments have been unable to build the legitimacy for change, whether from the public or key constituencies.

A Citizen Economy will tackle that barrier head-on. Rather than repeating calls for reform, it would set out how legitimacy can be built to enable reform.

Three approaches are key.

First, assessing the fiscal system in the round. Public attitudes to tax are shaped by perceptions of welfare, and vice versa. In a fragmented political landscape, these questions must be addressed together, grounded in a shared understanding of what citizens owe one another.

Second, engaging deeply with public and stakeholder values. Concerns about the impacts of reform - on farmers, founders, landlords, or the wider public - must be understood and incorporated into policy design.

Third, identifying the fiscal narratives that can build legitimacy, and designing policy to support those narratives, be it hypothecation, targeted reliefs, or the methods of communication.

Only reforms to the fiscal contract built with citizens rather than imposed upon them can command the legitimacy that makes it both politically durable and socially sustainable.

³⁵ Department for Work & Pensions. Young people and work: interim report. 8 June 2026. <https://www.gov.uk/government/publications/young-people-and-work-interim-report/young-people-and-work-interim-report>

PLACE BASED ECONOMIC RENEWAL

Britain's economic topography is dangerously uneven.

Compounded by Britain's rapid deindustrialisation in the 1980s and over extreme reliance on professional services, the UK is now reliant on the 9 million people in London for almost a quarter of its economic output and almost a third of exports.^{36,37} Average weekly pay in the North East being about a fifth that of London.³⁸ Strip London out of the national figures entirely and UK living standards are below Mississippi.³⁹

This concentration of capital, talent, and opportunity in a single region is a national weakness - economically and politically.

Economically, London's economy, and to an extent that of the nation at large, is heavily weighted towards services which are highly exposed to AI-driven disruption. An economy that depends on one city, in one sector, just at the moment when the long term viability of said sector is under question is not a resilient one. On the other end, deserts of opportunity fall into cycles of decline, with talent and capital flowing away.

Politically, a declining neighbourhood rids citizens of the sense that the economy works for them. It is a foundation of hopelessness and mistrust in the state.⁴⁰ For young people growing up in those places, seeking meaningful careers too frequently requires uprooting oneself from family and community to chase opportunities in a scattering of geographies - embedding the sense of being 'left-behind'.

The Citizen Economy offers a framework for rebalancing the country; not through redistribution or top-down industrial strategy, but by building the conditions for genuine economic dynamism within regions, cities and neighbourhoods across the country.

That means ensuring entrepreneurs outside London can access patient capital and skilled workers. It means coordination between those with a stake in local prosperity - from local businesses and community organisations to educators and anchor institutions - to collectively raise productivity and opportunity. It means designing economic systems around the assets, relationships, and institutions that already exist in place, rather than applying uniform solutions from the centre.

Countries with strong second cities demonstrate what is possible. Germany's distributed model of regional economic centres, each with deep sectoral strengths and institutional roots, offers a contrasting picture to Britain's hub-and-spoke geography. A Citizen Economy builds towards that model: local economies with the resilience to absorb disruption, attract long-term investment, and retain talent; supported by a devolution settlement with genuine ambition behind it, not just administrative responsibility without the tools to deliver.

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CONCLUSION

THE TERMS OF AN ECONOMIC NEW DEAL

Britain's economy will only succeed if it is powered by, and operates in the interest of, its citizens. Growth is more than a line on a chart. It represents the agglomeration of countless interactions across the economy, but also politics and society. It must also serve a purpose, translating into the lived experience of citizens, secured without contravention of citizen values.

The New Deal that we need does not sit on one side of the political spectrum. Economic agendas from left to right have been undermined by short-termism and siloed, lever-based policymaking - and that risk will remain. But a new generation growing up with two decades of economic stagnation and a deepening polycrisis ahead are alive to the scale of the challenge. They are alive, too, to the need for radical change. Policymakers continuing to neglect our economy's underlying defects will not command their confidence, and will not restore hope.

The Citizen Economy sets out a different approach. It builds the foundations of renewal: an economy for, with, and by citizens, that delivers prosperity, sustainability, and legitimacy. This is not a utopian prospectus. It is the most realistic path to progress. The alternative is not the status quo. It is the democratic doom loop.



HOW DEMOS IS GOING TO BUILD A CITIZEN ECONOMY

The Citizen Economy builds upon a substantial body of historic Demos work, each strand of which has, in its own way, been animated by the same conviction: that an economy works best when it is built with citizens rather than imposed upon them.

On the workforce, we put forward the idea of a [Universal Work Service](#) - a new relational and universal approach to work services subsequently adopted, adapted, then rolled out by the government. It reflects complex system change with citizen-led resilience at heart.

On capital markets, our ongoing project with Kinship Works, the [Marshall Plan for Civic Life](#), proposes the development of sustainable, innovative funding models for civic infrastructure, including through community shares, local levies, social investment, procurement and place-based value capture. It embodies the Citizen Economy's ambition for a new deal in which the citizens collaborate with the state, the private sector and civil society for national renewal.

On the fiscal contract, our multi-year tax programme worked to develop economically essential tax reforms embedded in citizen values. We worked to de-stigmatise reform of inheritance tax by showing public support for a well-designed approach. We [reviewed international systems](#), ran [public deliberations on policy design](#), and [analysed narratives to do so](#). Inheritance tax was subsequently reformed. We then explored [wider options](#) for fair, pro-growth tax reforms that align with citizen and business priorities. The subsequent introduction of the mansion tax, tax on rental income and increased gambling taxation aligned with our proposals. It demonstrates how building reforms with citizen legitimacy at heart can enable the state to navigate trade-offs.

On place-based economic renewal, our [Social Capital 2025](#) series demonstrates how the relationships, networks and trust that bind local communities together are a critical factor in economic growth and social prosperity. The numbers are not trivial: raising UK trust to Nordic levels could be worth over £100bn a year. This is precisely the kind of value that a cost/benefit frame built for homo economicus cannot see. Our work on [Economies of Coordination](#) then put forward a place-based policy agenda to unlock the strength of local economies. Recognising that many local businesses face inherent challenges in scaling precisely because they lack economies of scale, 'economies of coordination' offers a novel strategy for raising the productivity of local firms. Going beyond traditional cluster strategies, it highlights the role of coordination infrastructure that actively enables and incentivises businesses to pool learning and resources. These projects highlight the often overlooked but critical role that citizen-centred, place-based strategies can play in economic change.

Taken together, this work forms the foundation on which the Citizen Economy is built. The development of a New Deal for the economy will sit at the heart of the Demos Citizen Economy pillar in the period ahead.

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At a crossroads in Britain's history, we need ideas for renewal, reconnection and the restoration of hope. Challenges from populism to climate change remain unsolved, and a technological revolution dawns, but the centre of politics has been intellectually paralysed. Demos will change that. We can counter the impossible promises of the political extremes, and challenge despair – by bringing to life an aspirational narrative about the future of Britain that is rooted in the hopes and ambitions of people from across our country.

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