



The Right Honourable Rachel Reeves MP
Chancellor of the Exchequer
1 Horse Guards Road,
Westminster,
London.
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19th June 2025

Dear Chancellor of the Exchequer,

Issuing up to £20 billion a year of research and development bonds to accelerate economic growth

I applaud the government's approach to research and development in the Spring Statement and the spending review. As you know, I have been working closely with Professor Paolo Surico of London Business School on the use of public research and development, especially in defence spending to address productivity issues in the UK economy.

I was delighted that the government adopted Professor Surico's research in the Spring Statement on turning defence spending into an engine for growth through public R&D. The government increased the long run GDP multiplier on defence spending to 1.6 and GDP by £11bn per year as a result.

However, unfortunately, as we heard on the Treasury Committee this week from Professor Surico, public R&D as a whole is not increasing materially in the Spending Review, and will remain at around the same share of GDP as it had before the Spending Review; this is less than £20bn in real terms and below the US and EU government-funded R&D as a share of GDP. Public R&D spending, accompanied by crowding in of private R&D is the most effective way to raise productivity and drive GDP growth in the long run. It appears unlikely therefore that the government will succeed in ending the productivity crisis that has crippled the British economy since 2008 of higher taxes, debt, crumbling public services and low growth.

Professor Surico testified however that, if the UK increased public R&D investment in the range of £5bn-£20bn per year and crowded in additional £10- £40bn from the private sector (which is the same multiplier of £2 of private R&D for every £1 of public R&D used in the Spending Review), then the UK would match US (extra £5bn pa) or South Korean (extra £20bn pa) levels of R&D as a share of GDP. If implemented correctly, this could indeed result in a revolution of UK economic performance with the UK sustainably becoming one of the fastest growing advanced economies on a four-to-ten-year view. If the bulk of this R&D was allocated to defence R&D it would have the further benefit of enabling the country to push defence spending above 3% of GDP now at a time of intense national security challenge.

To maximise growth, I believe this hypothetical extra R&D should be financed by government borrowing. To the extent that the growth rate resulting from the increase in R&D is higher than the interest rate on the debt, borrowing for R&D should not increase the UK's debt to GDP ratio over the long run, but should



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reduce it. Since this borrowing would be outside the current budget, it should be permitted within the fiscal rules. At typical level of interest rates, there is no specific limit in economic theory to government debt to GDP ratios, what matters is what the debt is used for. Argentina defaulted at 60% to GDP, while Japan is sustaining a 263% debt to GDP ratio. In the short to medium term, provided capital markets are confident the debt is being used for productivity enhancing investments rather than day-to-day government spending, neither should it increase inflation or interest rates. To reassure capital markets on this point, I recommend that the government consider issuing research and development bonds that are contractually explicitly restricted to spending on research and development and pilot a lower level of issuance first.

In 1962 President John F Kennedy triggered stunning increases in US productivity and economic growth from the spillovers of the public R&D of the Apollo programme. I believe the government needs to show a similar level of vision now to turn the British economy around after almost twenty years of stagnation.

I look forward to asking the Chief Secretary to the Treasury about research and development bonds when he appears before the Treasury Select Committee next week.

Yours faithfully

Chris Coghlan

Member of the Treasury Select Committee

Liberal Democrat MP for Dorking and Horley