

## Labour cannot cut its way to growth

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I have published this video this morning. In it, I argue that although Rachel Reeves seems to think otherwise, it's a simple economic truth that no government can create growth by cutting its spending. That's because, without exception, the government's spending is someone else's income, and so by cutting its own spending, a government always reduces the income in its economy.



The [video can be watched here](#).

The audio version of this video is here:

[https://www.podbean.com/player-v2/?i=qnbsg-168dbd8-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo\\_link=episode\\_page&btn-skin=ff6d00](https://www.podbean.com/player-v2/?i=qnbsg-168dbd8-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00)

The transcript is:

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You cannot cut your way to growth. That is a simple economic truth. And I have to say to Rachel Reeves, you really need to learn it because right now, what you're doing is completely contrary to your stated ambition for the UK economy, which is that it should grow.

How do I know it won't? Because Rachel Reeves has already said in advance of any budget that she's going to announce in October that she will cut major road schemes, like the tunnel under Stonehenge. She's going to cut hospital building. She's going to cut the amount of rail reinvestment she's going to make. And at the same time, she did, even before she got to office, cut the investment that she planned in the Green New Deal and what she's planning in GB Energy and the British National Wealth Fund, or whatever she calls it, is not going to make up for these things.

Why? Because those are private equity funds that will simply invest in the shares that are highly speculative in nature.

Now, let's take a simple, straightforward statement of fact.

The way in which our economy works is that our national income is not just made up of what we consume, but also what we invest. And if you cut investment, you are therefore going to cut our national income. It is as clear as night is day, that that is the consequence of doing what Rachel Reeves has decided.

She will, in effect, be putting a large number of people out of work. The people who were going to work on those roads, on those railways, on those hospitals and so on, will not be doing so. And we aren't just talking about the builders here, we're talking about all the ancillary trades and all the suppliers and all the investment that the private sector was going to make to provide services to deliver that project as well to deliver those projects. So, it's not just her spending that will be cut, it will be the private sector's too.

Now, if she had a programme for putting those resources to use somewhere else in the economy where she thought they would be of more use, for example, in delivering a Green New Deal - in building better flood defences, and in greening the energy transmission systems of the UK, then I would say, yep, that's a good thing, because we need those things more than we definitely need a road under Stonehenge, or we need some of the other things that she might have thought about cutting, like aspects of HS2.

But, that isn't what she's saying. She's just saying she's going to cut it. And the consequence is that she makes her own goal of delivering growth impossible.

She won't be spending into the economy. The people she would have spent money with will not be spending to fuel consumption. And the private sector won't be investing to deliver the innovations that she would demand if she did these investment programs.

Add that all up, and she's shot herself in the foot when it comes to the policy of delivering growth. She cannot do that by cutting. It is impossible. But, apparently, she doesn't understand that. She seems to think that if she cuts government spending, the private sector will mysteriously come in and fill the void.

It doesn't. It never has. It won't. Because it has no incentive to do so. And the reason why is very simple. The government is the biggest customer in the UK and when the biggest customer in the UK isn't spending then the private sector gets the message that there is no need to invest because there's no one to buy.

That's it. You cannot cut your way to growth.