

Funding the Future

Article URL

Published: January 12, 2026, 6:08 pm

The great hope I have for a Budget is that it economically adds up and delivers economic and social justice at the same time.

I [have already noted](#) that this was a profoundly unfair budget in which the greatest burdens will fall on those with lower pay, the young, and smaller businesses.

But does all that Reeves is doing make economic sense to justify this? The answer is a resounding no.

Ignore the fact that there is nothing in this Budget to stop universities and local authorities from going bust, as is thought likely to happen in both cases.

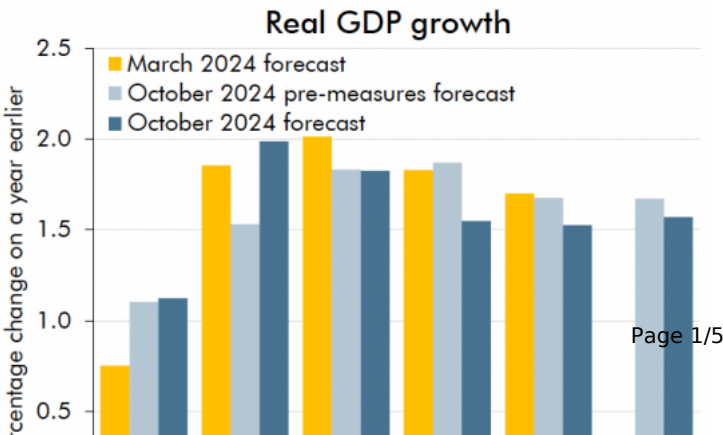
Ignore, too, that this budget has almost no green impact, but it actually makes things worse by promoting carbon capture and storage.

And ignore that much of the claimed investment has nothing to do with this government, and will instead be 'catalysed' (whatever that means) by Rachel Reeves' tiny national wealth fund.

Instead, let's look at some of the so-called facts included in the [Office for Budget Responsibility's budget report](#).

I say 'so-called' for a good reason. There is no chance things will work out as the Office for Budget Responsibility says. They have a disastrous track record of massively overestimating the benefits of anything any Chancellor has said.

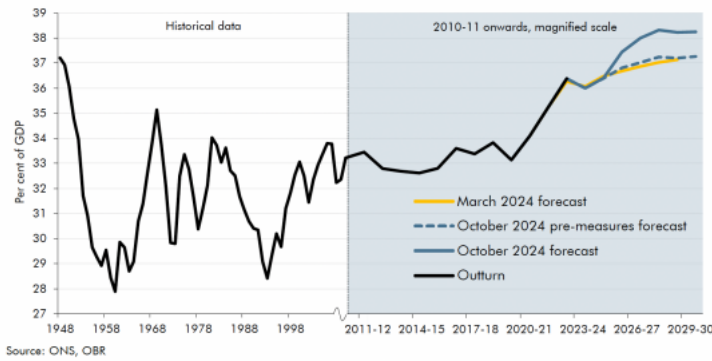
Let's start with growth in that case, which is Labour's great desire. This is the OBR forecast:



There are some supposedly short-term boosts from what Reeves said. Then things tail off. In fact, outcomes are worse than the OBR forecast in March - and ignore all the nonsense that they were not told facts. It was their job to ask. Overall, this ranks as a failure.

However, taxes will rise:

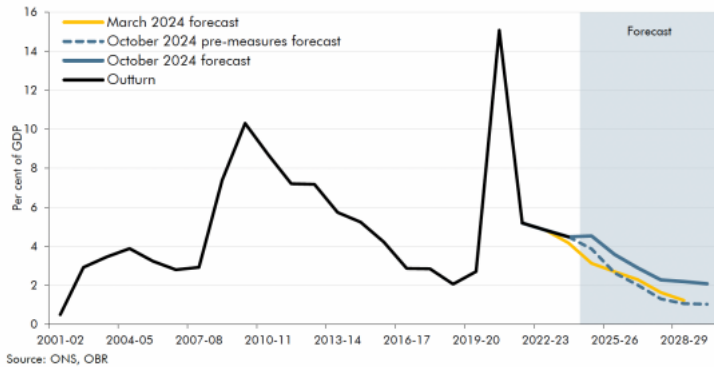
Chart 1.8: National Accounts taxes as a share of GDP



There is no way in which this will not be noticed: it will be.

This will supposedly help balance the books as borrowing as a proportion of GDP is forecast to fall:

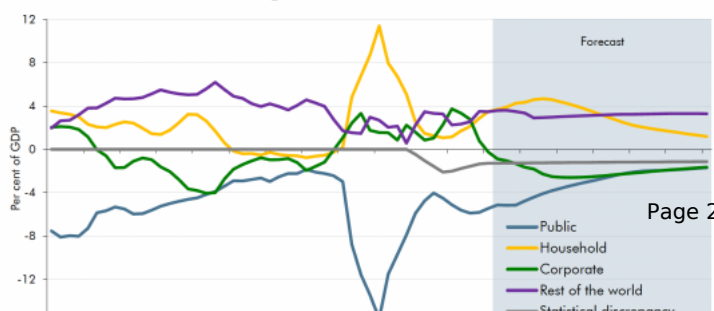
Chart 1.6: Public sector net borrowing



In fact, so bizarre is her plan that she will actually be taking more tax out of the economy than she will be spending into it on current expenditures quite soon. That is economic madness and directly recessionary.

Unsurprisingly, households will save less as a result, as the sectoral balances show:

Chart 2.17: Sectoral net lending



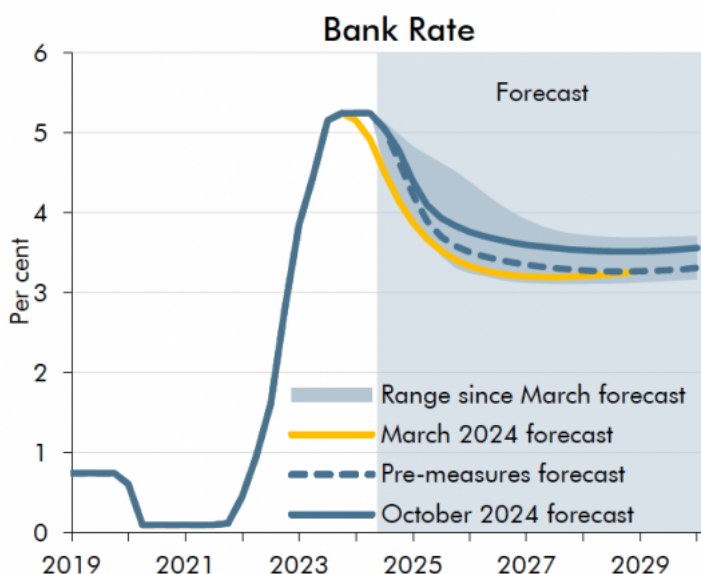
That yellow line implies households will be feeling worse off.

Then, note the assumption that businesses will borrow heavily, for which there is no evidential support, but supports my suggestion that most of the investment Reeves thinks will happen will be paid for by business, even though the economy is going to be fairly stagnant.

And, bizarrely, it is assumed that the overseas sector will save more in the UK, for which there is no evidence at all.

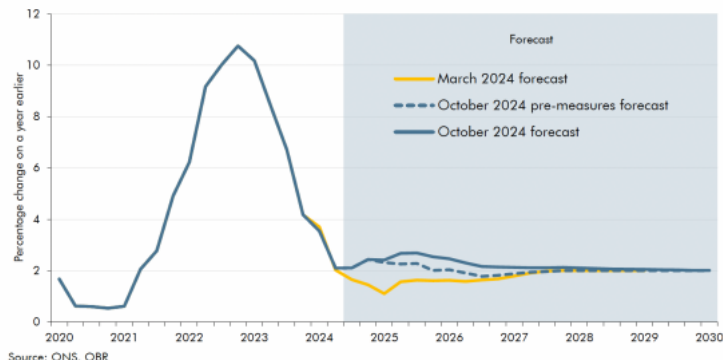
The clearest possible message from this chart is that Reeves' plan makes no sense.

Other elements are also troubling, like this chart on forecast Bank of England base interest rates:



Something around 4 per cent is here for good, apparently. That is profoundly recessionary when inflation is forecast as follows:

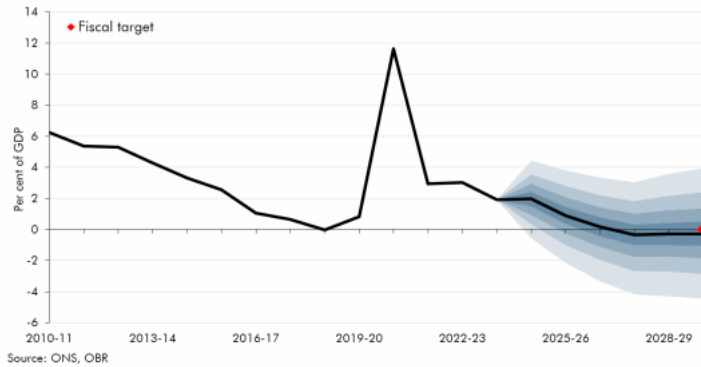
Chart 1.4: CPI inflation



This is apparently also fixed, but at about 2 per cent less than the Bank of England interest rate - which means we are going to live with net positive interest rates for the first time for a long time, and when net negative rates did not deliver growth we can be quite sure net positive ones will not do so.

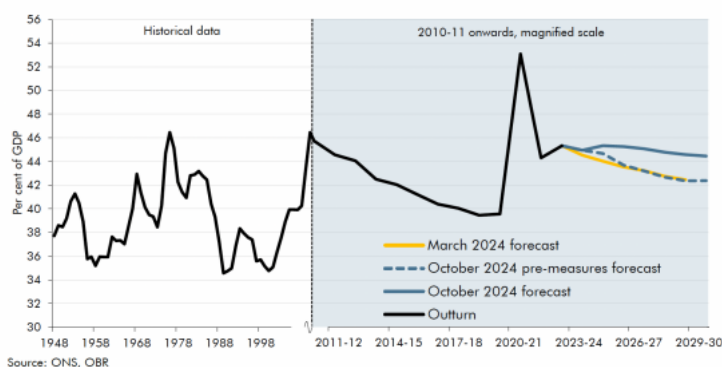
And what does this do for the deficit? This is the forecast range:

Chart 1.11: Current budget deficit



That deficit supposedly disappears. However, public spending as a proportion of GDP is high:

Chart 1.9: Public spending as a share of GDP



This is because of supposed government investment, and yet the forecast is that this will not deliver growth.

So what is wrong?

Is the forecast for the benefit of investment wrong? It might be.

Is Reeves simply not doing enough - because nothing she is doing is going to do much to improve any public service? That is obviously arguable. The drain on poor public services remains in place as a result. That is a very good reason why GDP will remain low - and hence this ratio will be high.

And maybe the OBR, dedicated as it is to short-term views, has got everything wrong.

Or, Reeves has got it wrong by hitting the poorest small businesses and the real economy hard in this budget whilst leaving the rich, speculators and the City very largely alone.

Of these options, the last is most plausible to me. Reeves has tinkered rather than show her faith in the ability of the country to actually deliver, but only if its public sector is in good order.

Instead, the only possible explanation for what she has done is to prove she can create and supposedly deliver a fiscal rule. The figures I have noted only makes sense if it's appreciated that she started off with the goal of doing those two things, and everything works backwards from that point. Then her figures do make sense - but only to her, because no one else gives a damn about her rule or whether she complies with it or not, because they already know she won't.

But we're going to pay a mighty large price in terms of economic failure purely to serve her economic vanity as it is at this moment.

And that is why this Budget will fail. It is offering limited new money for services, higher taxes, continued high interest rates, the risk of growing unemployment, the possibility of a recession and, at best, low growth, and all so Reeves can balance her books. Rarely will an obsession have been so costly.