

Rachel Reeves' disastrous budget

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I would have loved to say that Rachel Reeves took me by surprise and got everything right yesterday. But she didn't. In a budget dominated by her obsession to balance her books she got most things wrong. And that's bad news for Labour, the economy, and us all.

<https://www.youtube.com/watch?v=1VJ8hZZLtK0?si=3ATLp496-YRRADtE>

As will be obvious to those who follow the link, there is no video of me in this YouTube. I was in a hotel room when I made this, and the hotel's wifi reckoned it would take some time into next week to transfer the video file for editing, so we had to settle for audio alone. Apologies for that.

This is the audio version of this file:

https://www.podbean.com/player-v2/?i=p5rzn-1724768-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Was the budget the one that Rachel Reeves promised? The answer is a very simple and straightforward, no, it wasn't.



Was it a good budget? The answer is a very simple and straightforward, no, it wasn't.

Was this a budget that will go down in history? Well, yes, but if it does, it will be for all the wrong reasons. And in particular, it might go down in Labour history. as the most unfriendly budget towards the employment of young and lower paid people that a Labour Chancellor has ever been responsible for.

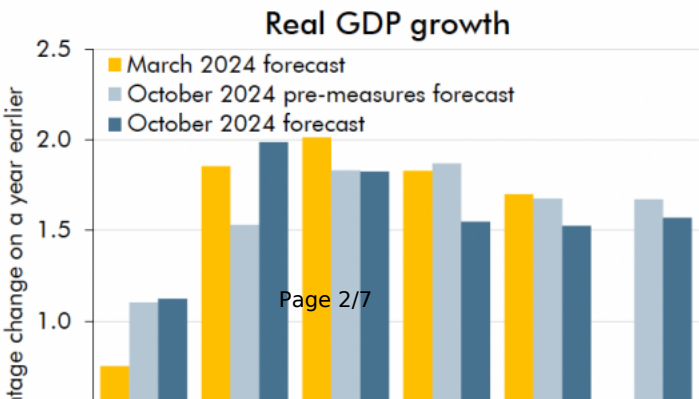
Let's just stand back for a moment and look at what this Budget was meant to deliver. Rachel Reeves said that it was going to be about investment, investment, and investment. And the truth is, that yes, there is some additional investment in here, but it is not of spectacular amount.

There is no doubt that the NHS is going to get extra funding and there is no doubt that education is also in line for an increase as well - although the claim that it's going to get a 19 per cent real-term increase that I have seen reported seems to be wildly overinflated because the sum in question is just £6.7 billion and that is most certainly not a 19 per cent real terms increase in investment in education.

There is also some extra spending on housing. £5 billion is forecast. But stand back for a moment and realise that's just 20,000 houses - a tiny proportion of the additional housing that is required in the UK each year at present and hardly making a scratch on the surface of the number who are searching for a genuine home in which they can have a long-term secure future. And so, this is not going to solve the social housing crisis.

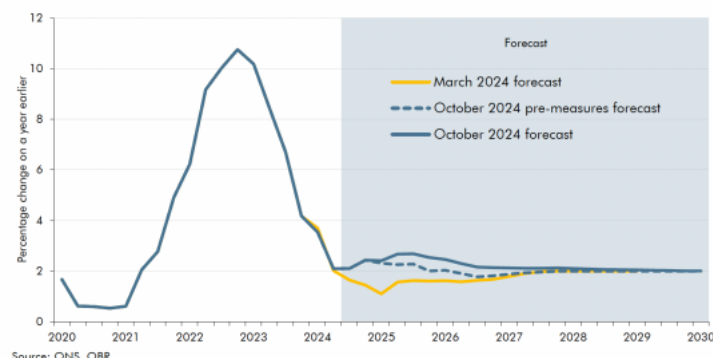
In fact, it's fair to say that almost nothing said today by Rachel Reeves will solve the crisis in any government department's budget, including, by the way, the NHS, because the sums offered are not that significant in real terms, when it is known that the real rate of inflation of medical costs is some 4 percent per year, and that is the rate by which the funding must increase just for the NHS to stand still, and this is not going to be met by this budget.

So, in terms of growth what we know is that this budget is not going to deliver. And in fact, the Office for Budget Responsibility has told us that. They have forecast growth for five years, which is about as useful an exercise as forecasting who will be top of the Premier League for the next five years to come, which no one knows. And the answer is that they are saying that the rate of growth in the UK will not exceed 2 per cent in any year and, in fact, will struggle to be much above 1.5 per cent in any year, which in overall terms, if your goal is growth, is pretty disappointing.

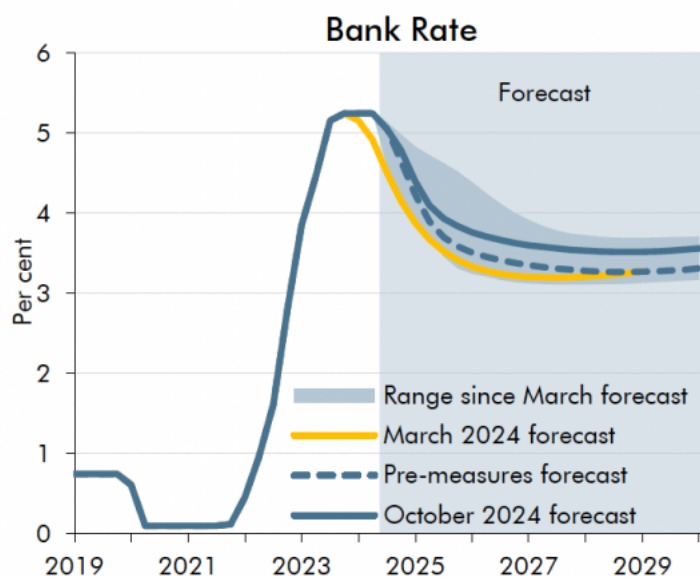


In terms of inflation, the forecasts are as disappointing. Only in 2029 will inflation reach 2%, which is the supposed Bank of England target, which Rachel Reeves reconfirmed today, and implicit in that is a code that interest rates are, therefore, going to remain high.

Chart 1.4: CPI inflation



At the time of making this video, I have not had a chance to look at what the Office for Budget Responsibility is forecasting on that issue, and I suspect it's not good.



Let's talk about tax, though, because, overall, most of the announcements in this budget were foretold by Keir Starmer in a speech on Monday this week, but the tax ones weren't. And on tax, this is a very disappointing budget indeed.

It is very friendly towards those on higher incomes overall, in comparison to the way in which those on lower incomes are penalised. Let's have a simple example of that.

I was looking forward to the prospect of having capital gains tax rates equalized for those on low and higher income.

Well, for those on low income, that has almost happened. Their capital gains tax rate has been increased from 10 per cent to 18 per cent, which is now only 2 per cent less than the income tax rate that those who used to pay 10 per cent paid. were paying before this budget. So, equalization has almost happened for those earning less than £50,000 a year in the UK with regard to capital gains tax.

But what happened for those who are earning above £50,000 a year and who have capital gains? The rate has increased from 20 per cent to 24%. So, the increase was lower and the rate of tax that might be paid by people in this situation is 16 per cent less than their top rate of income tax whereas for those on lower levels of income, the differential in capital gains tax and income tax rates is just 2%.

And in fact, that differential could be even higher because for those on 45 per cent rates of tax, the differential is 21 per cent. In other words, this was an incredibly friendly budget to those on high incomes with capital gains. And almost everybody who does have a capital gain happens to be on high income.

What about other areas? The non-domicile rule is going. But we don't know how. The details are still to come. Why haven't they worked that out?

Inheritance tax rules are going to change, but some of the details are not yet known. But we know that some of the allowances and reliefs are going to be changed, so that, for example, with regard to agricultural property relief and business property relief, which have been the most extraordinarily generous reliefs to those with very large estates will be cut so that the tax rate on these will kick in when £1 million of relief has been given, but the tax rate will be reduced from 40 per cent to 20%.

In other words, there's still a massive bias towards the wealthy in this system compared to the situation that applies with most estates that actually pay inheritance tax, which are those who tend to be more middle class in their orientation where the property in the estate is very largely made up of a family home. This once more shows Rachel Reeves' clear bias towards wealth.

But this isn't the area that I am most worried about with regard to this Budget. This Budget has done something particularly stupid.

I welcome the fact that Rachel Reeves has increased the minimum wage. That, for most people, has gone up to 12.21 an hour, which is still less than the Living Wage Foundation says it requires to be paid for somebody to be able to live independently. And for young people, it has been increased to £10 an hour. And, of course, I'm pleased that this measure has taken place. This is a move in the right direction.

But, this move, coupled with an increase in national insurance charges for those employers who are in particular employing a lot of people on low wages, will see a massive increase in their tax burden, and that is going to have a serious knock-on

effect for the employment of young people and the employment of people on low levels of income.

The fact that national insurance will now be paid at £5,000 of income for a person in a year, pro rata, against the previous level of £9,100 means that £4,100 of their income is now going to come into subject to a national insurance charge. And that means over £600 extra tax will be paid by the employer of a person on a very low level of income each year, which is a massive disincentive to employ young people and those in more marginal employment situations where this is going to be really serious.

The fact that at the same time wages will have gone up and that above the level I'm talking about there will be a 15 per cent charge all means that there will be three reactions.

First of all, some companies are simply going to give up. They will not be able to afford to recover these costs.

So, some young people and others who are on low pay will not be getting the jobs that they want, and that is a disaster, particularly for the young, but frankly for everyone.

And thirdly, the obvious consequence is that in some of the more marginal sectors inside our economy, and here I'm talking about care homes, and nurseries and the hospitality industry in particular - who employ very large numbers of people on minimum wage - will see their wage costs increase significantly.

The consequence of that is glaringly obvious. If those wage costs increase significantly, either costs have to be passed on in the form of higher prices, which means that those payments will be required from people who are very often already stretched to their limits to pay care home fees and nursery fees, or they simply won't be able to afford to go out, which is serious for the whole of the economy, or there will be a reduction in the level of employment.

Either way, this is really bad news for the economy as a whole, and also really bad news on inflation. Supposedly, inflation is going to be under control, according to the Office for Budget Responsibility. Well, I will forecast now that this change will seriously fuel inflation in the UK.

Is there any other good news?

Some minor improvements with regard to transport investment? I agree.

Some improvements with regard to investment in schools and hospitals? I agree.

But again, they are marginal.

And the spending, for example, on education is really weird. £2.1 billion, I should

correct that, £2.1 billion on repairs amounts to about £70 odd thousand pounds per school. And if you understand how much it costs to maintain a school, and I used to be a chair of governors of a school, that's not a lot to deal with the backlog of repairs that exist in many schools right now.

And £1.4 billion for school building is not, I suspect, going to deal with the whole problem that we have with buildings literally falling down.

The same with hospitals. There isn't enough money being offered.

So, at the end of the day, standing back, it's unsurprising that there's going to be limited growth because Rachel Reeves simply isn't spending enough. And in fact, this is how the markets are going to react to this.

We know that there is going to be an increase in borrowing. She has said so, although according to the forecast, that will be under control before the parliament is over. But the truth is, there's going to be remarkably little to see for that. And this means that it's quite hard to understand what parameters she's put in place.

There's going to be limited growth.

There's going to be limited investment.

So, what is there going to be?

Yes, she's balanced her books. In fact, she's done worse than that. She's actually trumpeting the fact that from a couple of year's time, she is going to run what she calls a current budget surplus. In other words, every year, if we take investment out of account, and we should do, she is actually going to take more out of the economy by way of tax than she is going to spend into the economy by way of government spending to provide us with services. She will in fact be reducing the size of the economy by choice as a consequence of her enormous desire to bring down the level of government debt.

Now, this is crazy. She is choosing to go for recession rather than for growth. And I do mean recession quite wisely because I believe that by the time we take the pressure from continued high interest rates, which the Bank of England are going to maintain on the basis of this budget, and that policy of reducing the amount of money paid into the economy by Rachel Reeves because she plans to run a budget surplus, and the relatively paltry sums that she's putting into investment, I can't see how we are going to avoid recession overall.

And that will be fuelled by her increase in the cost of employing large numbers of people in the economy in low and marginal employments in situations where it will be all too easy for employers to give up, such as in the hospitality industry.

Does this, therefore, create the foundation for growth, which she claimed her first budget would do? No.

Is this a transformational budget? No.

Is this going to provide the long-term vision for Britain that she said she would deliver? No.

Is this, therefore, an epic budget? No.

Is it a fail, as far as I can see? Yes.

And let's mention some other areas where it fails.

Oh, she did just about mention carbon capture and storage when it came to the environment, but otherwise, this appears to be a non-issue. She has no concern for it. And carbon capture and storage is not an environmental policy. It is a policy for the maintenance of carbon emissions and, therefore, a fail again.

Was there any significant mention of devolution of funds to the countries of the UK? No, she said she was going to talk to them. That's not enough. There was no indication that there was going to be a real devolution of powers.

Is there anything, therefore, to celebrate in this? Look, I wish there was. I really, really would love to be able to say Labour's done something right, but I'm afraid to say I just don't get that feeling from this budget. I believe this is all going to unwind horribly, and national insurance charges are going to be where it's going to unwind horribly most of all. Because as for the rest of it, look, the rich will moan, and they always do, but they've done really well. Everybody else will feel aggrieved about the fact that she appears to be incredibly in favour of supporting the rich and is not delivering for everybody else.

And this will mean that Labour is actually helping to divide our society. Nothing in here solves any problem that we face at all. And nothing in here will actually deliver improved public services when overall, she's looking for savings from most government departments, which she claims will be covered by AI and other technology improvements, which is a load of nonsense because that is not how things work in the real world.

Rachel Reeves and the real world are apparently unrelated to each other, and this budget proved it.