

Funding the Future

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I just posted this on Twitter:

Most budgets end in tears for Chancellors within days of being delivered.

The trouble is that even if Chancellors understand economics, and few do, they do not understand the real-world consequences of what they propose.

I think, based on what we know already, that the backlash on this one will be on employer's NIC increases.

A 2% increase, as expected, will hit all employers, and especially small ones, really hard.

If they realise government departments have been compensated for this cost and they are not going to be the result will be severalfold.

First, there will be anger. The press will feed on this.

Second, some will have no choice but pass on the cost - which is going to be inflationary, which is utterly bizarre for labour to do.

Third, some will go bust. Hospitality is already having a bad time.

Couple this with the increase in the minimum wage - which does make sense, but not in combination with an increase in NIC on the same employees - and unemployment, especially among young people, will go up. That is crazy.

And once more, expect businesses to give up.

Where will the crunch points be?

Nursery care will be one. An increase in employer's NIC plus an increase in the minimum wage, which most young carers are paid, will lead straight into price

increases that few young families already hit by staggering rent or mortgage rises will not be able to afford.

There is going to be a lot of anger about that.

And expect the same in social care - where the same situation arises and the costs will have to be passed on to those already struggling.

Rachel Reeves might think this increase is a really useful way of getting around her manifesto commitments. The reality is that Labour will be hitting the chances of lower-paid employees hard by reducing the number of jobs available to them.

And it will be hitting some very hard-pressed families very hard.

This is not going to go well for Rachel Reeves. Unless that is, someone has told her to abandon the NIC increase - but she won't balance her books without that, and that, of course, matters much more than nursery care, social care, vulnerable businesses and the chance of employment for young people.

I hope I am wrong, but it looks like Labour has this very wrong.

POST BUDGET UPDATE at 16.50:

Having now heard the Budget and having had a chance to think about it, I believe that my forecast made above was too generous.

Rachel Reeves only increased employers national insurance by 1.2%, to 15%, but because she reduced the point at which this contribution becomes payable from £9,100 of annual equivalent salary, to £5,000 of annual equivalent salary, the marginal impact on those on low pay will become very much more significant and as a result all the consequences that I foretold will, I think, come about, and be worse even than I expected.

The backlash on this will be big.

The consequences for employment, growth and inflation are all bad.

I have to conclude that Rachel Reeves really did not know what she was doing when proposing this change.