

Reeves' choice

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Over the [weekend, the FT noted](#):

Rachel Reeves has vowed to act if her fiscal plans are blown off course by turmoil in the gilt market, as she announced a deal with China intended to boost Britain's stagnating economy.

The UK chancellor, speaking in Beijing on Saturday, insisted she would meet her fiscal rules that have come under pressure after UK 10-year borrowing costs last week rose to the highest level since the global financial crisis.

This is nonsense, of course. Reeves cannot meet her fiscal rule. There are numerous reasons.

The economy is flatlining. Despite being given every incentive that they have demanded, the private sector is not delivering growth in this country. They are out of ideas. The full expensing of their capital expenditure has not incentivised them to spend more. There is no technological innovation to encourage them to do so. There is no demand in the economy to make them think it is worthwhile investing. There is, then, no prospect of any economic change or growth coming from private sector activity. Reeves' ridiculous imposition of an additional employers' national insurance charge only made that prospect of growth worse, particularly amongst smaller businesses.

Second, Reeves is doing nothing for the public sector economy. The NHS might have a little more money, but demand is outstripping that additional resource. The defence sector might also have additional money, but it's a notoriously hopeless as a driver of economic growth. Elsewhere, we are already suffering state sector stagnation. Nothing that she is doing there can drive growth. She is just not spending enough to make any difference.

Third, desperate flights to China change nothing, particularly when Trump will, inevitably, be starting trade wars very soon if he is to have any credibility with his

electorate soon after coming into office. I think we can forget expecting to see exports as a source of growth in that case.

Fourth, interest rates are too high in the UK. Add together inflation and growth, and the combination is still somewhat less than the interest rate, meaning that if Reeves is crazy enough to continue with her fiscal rule (and she might well be), she cannot balance her budget because her cost increases will rise faster than currently planned taxes, meaning debt will increase contrary to her fiscal rule, which she says is essential (even though it isn't) meaning she must either increase taxes, particularly on the wealthy (which she says she will not do) or impose austerity (which is very likely). which will only make things worse and drive the UK economy into a downward spiral.

Commentators have a choice at this point. They can agree that either Reeves is right about the need for a fiscal rule and so must stick to it, or they can suggest she's wrong on this issue but she will stick to it anyway. Many go no further. This was, disappointingly, where Gary Stevenson [got to in a video yesterday](#). His conclusion was that the markets will beat Rachel Reeves and that austerity is inevitable as she will not tax the rich.

I do not accept this. There are many more options.

First, Starmer might topple Reeves.

Second, Labour ministers might topple Reeves.

In either case, an alternative policy could be created, hopefully with no fiscal rule at all.

Third, as I discussed here last week, Reeves could tell the Bank of England to end quantitative tightening, which is why our interest rates are so high.

Fourth, she could force the Bank to reduce rates.

Fifth, she could spend more to deliver growth, but as importantly, to meet the real demand that exists in the economy.

Sixth, she could read the [Taxing Wealth Report](#) and take her pick of necessary tax reforms.

Seventh, she could reform ISA and pension tax reforms to fund real state-driven investment to meet needs (see [chapter 14 of the Taxing Wealth Report](#))

Eighth, she could redistribute income and wealth to increase multipliers.

In summary, to pretend the only options are to increase taxes or have austerity is completely wrong. There are choices. But will Rachel Reeves choose to avail herself of them? That is a completely different question, to which the answer is she would if she

wants a high-level career for much longer.