

The Alternative Budget 2025, Part 3: Creating a new fis...

Published: January 13, 2026, 4:22 am

The Alternative Budget 2025

Part 3

Creating a new fiscal framework

Rachel Reeves will be presenting her Budget on November 26, [if the Labour government of which she is a part lasts that long](#).

I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it will be addressed in parts over the next week or so, leading up to Budget Day. This third part sets out some of the institutional reforms required to consign the curse of neoliberalism to history.

A new fiscal framework

Having [now explained the proper roles of tax and what has been called, incorrectly, government borrowing](#) within our economy, and our duties with regard to the money supply and inflation, I will now explore the implications of those understandings for our financial institutions.

A new mandate for the Treasury

If the new fiscal framework that I am creating is to work, the Treasury itself must

change.

For too long, the Treasury has been guided by a worldview that treats money as the limit on government action rather than the means by which government enables society to function. It has been an institution committed to restraint rather than leadership, and to shrinking the state rather than stewarding the economy.

I make it clear to the House, that era is over.

The Treasury's new mandate is to manage the nation's real resources, whether they be people, skills, infrastructure, energy and the environment are used to best effect so that the potential of this country can be realised. Its role is not to appease markets. Nor is it to meet arbitrary ratios. It is most definitely not to deny the scale of need. The job of the Treasury is from now on to help marshal all the resources available in this country to enhance well-being.

This requires new ways of working. It requires new people. And it requires a break from the "Treasury view" that has dominated British public life for more than a century.

This new goal will, of course, require practical interpretation.

Fiscal rules based on reality

This government will retain fiscal rules, but not the ones we have now.

Our rules will be anchored in real constraints — the availability of labour, materials, skills, productive capacity, and environmental limits. They will require the Treasury to assess these resource constraints alongside every Budget. They will require the Treasury to consider whether those resources are now used to best effect in our economy. I am not sure I agree with the analysis once presented that suggested half of all jobs in our economy are Bullshit Jobs not worth doing, but the fact is that the market sector has demeaned work, and deskilled many jobs to the greatest possible degree meaning that many skills and people are not being used to best effect, and a great many of the people involved know that. No wonder they are fed up.

Past governments have been intent on pushing people to work, whether meaningful or not. We are intent on creating an economy where all work adds value and rewards those engaged in it to the greatest degree possible. That, we are quite sure, is the easiest way to resolve the so-called mystery of low productivity in this country, which is no mystery at all if only you have eyes to see, as we have.

This task will require a considerable expansion in the role and understanding of the Treasury, whose current skill set is too limited to deliver this outcome. We will be recruiting those with skills who understand how the real economy – and not just finance and the City of London – works.

The change will take time. It will require transparency on the impact of fiscal decisions on public well-being, inequality, and climate targets. They will require that when resources are available, which is an issue I address later in this speech, investment follows.

The purpose of these rules is simple: to make government effective, not inert. The outcomes will be:

- * Higher rates of employment
- * Increased rates of investment across all businesses
- * Developing employee skills
- * Reducing inequality
- * Better governance in both government and all other sectors
- * More sustainable business
- * Reduced business failure
- * Better distribution of work across the country, recognising the role of devolved governments to achieve this.

Ending the failed experiment of central bank independence

The proposed fiscal framework is inseparable from the monetary one.

For the past 25 years, we have lived under the dogma that independent central banking is the best, indeed the only, way to manage inflation and stabilise the economy.

This experiment has failed.

It has not delivered price stability.

It has fuelled asset inflation and turbocharged inequality.

It has prioritised market sentiment over democratic choice.

It has created a parallel government in Threadneedle Street with extraordinary power and almost no accountability.

That must change.

The Bank of England will return to democratic oversight, working in close association with the Treasury, to whom it will report, and will work to a new mandate centred on full employment, financial stability, and support for fiscal policy and not the narrow and counterproductive goal of hitting an arbitrary inflation number through often harmful

interest rate adjustments.

This being said, the Bank of England will retain its role as a regulator, but we are aware of the conflicts of interest that are sometimes perceived to arise in this role, and we will keep a watchful eye on them.

A new approach to interest rates

If monetary policy is to be rebalanced, interest rate policy must be as well.

Interest payments are, in effect, a tax on households and businesses, transferring income from the real economy to the financial sector. They are a blunt, unreliable and inequitable tool for controlling inflation. They work slowly, unpredictably, and almost always by increasing hardship.

So we will use them sparingly.

Interest rates will be set at the minimum necessary to ensure a functioning payments system. Inflation will be controlled at source — through fiscal measures, price regulation where needed, taxation where appropriate, and structural intervention when markets fail. This will be transparent and democratic, unlike the technocratic opacity that currently characterises monetary policy.

To be clear: decisions on interest rates will now be mine to make, but I will be advised by a new Interest Rate Advisory Board, which will include in its membership a minister and representatives of:

- * The Treasury
- * The Bank of England
- * Banks
- * Large business
- * Small and medium-sized businesses
- * Trade unions
- * NGOs, and most especially those with an interest in climate change
- * Academia
- * Pensioners
- * Public sector organisations.

No longer will interest rates be set by and for bankers alone.

Reform of other fiscal institutions

A new fiscal framework also requires reformed and new institutions.

The **Office for Budget Responsibility** will continue to exist, but its role will change. It will no longer act as a gatekeeper, limiting government ambition. Instead, it will provide independent analysis grounded in real-resource constraints and distributional impacts.

The **Debt Management Office** will be reconstituted as the National Savings Management Office, dedicated to providing safe savings products and to managing the government's savings liabilities efficiently — recognising them for what they are: deposits, not debt. I will refer later in this speech as to how the funds deposited with it might be used.

The operational independence of **HM Revenue & Customs** will continue, but the changed perception of the role of tax that I have already outlined clearly requires a change in its management and function.

If this Budget is to rebuild the UK's shattered public realm, we must be honest about one thing: our tax system is not doing the job Parliament intends.

We do not know the real scale of the tax gap, but we know it is costly. Current official estimates suggest the loss is more than £40 billion a year, but many parts of the methodology used suggest that this figure might be seriously understated.

We do not properly scrutinise tax reliefs or their impact.

We certainly do not properly investigate the impact of our tax system on income and wealth distribution in this country.

We do not hold HMRC to account for whether it has the resources to enforce the law, and quite bizarrely, we have treated it as a cost centre rather than as a revenue centre when appraising its performance.

And Parliament has almost no independent capacity to evaluate the effectiveness of the tax system, and how it might be improved.

To be candid, these oversights have been acts of gross irresponsibility on the part of past governments. That is why we need an Office for Tax Responsibility.

The model is simple. Just as the Office for Budget Responsibility will now provide an independent assessment of the government's management of resources, spending and forecasts, the OTR would provide an independent audit and oversight of the tax system itself.

It will be a statutory body, funded on a long-term basis so that future ministers cannot

starve it of resources.

Its accountability will be to Parliament, and specifically to the Public Accounts Committee.

It will not be staffed by secondments from HMRC or the big tax advisory firms. Independence must be real, not cosmetic.

The OTR's duties will be clear.

First, it will publish an annual, fully transparent assessment of the UK tax gap, tax by tax, using methodologies that reflect economic reality rather than political convenience.

Second, it will review major tax reliefs as if they were spending programmes, reporting who benefits, what they cost and where abuse occurs. Distributional impacts and alignment with other government policy goals will be central to this analysis.

Third, it will assess HMRC's capacity to enforce the law, including whether it has the staffing, skills and systems required.

And fourth, it would evaluate the interactions between taxes – the so-called tax spillovers that mean inefficiencies in one part of the system undermine another.

A modern economy cannot run on wishful thinking about taxes. An Office for Tax Responsibility would give Parliament the tools to demand a tax system that is fair, efficient and fit for purpose.

Why do these changes matter?

First, all this matters because democracy requires that elected governments, not markets, set the direction of economic policy.

Second, because the crises we face — from climate breakdown to failing public services — cannot be solved by institutions designed to block action.

Third, because this country's future depends on investment: in people, in infrastructure, in care, and in sustainability. Austerity starved all of these. A new framework must feed them.

Fourth, because inequality must be tackled at its source, and monetary policy has been one of the most powerful engines of inequality we have ever created.

Fifth, because security comes from stability in everyday life and not from meeting the expectations of rating agencies.

To achieve these goals, the reforms I outline are essential. We need a fiscal

management framework fit for the twenty-first century, and that is what I am proposing.

What comes next

In the next part of this Budget, I will turn to the future of the UK's essential public services. The fiscal transformation I have outlined today gives us the tools to rebuild. The next section sets out how we will start to use those tools to restore public services to the standard that a civilised society should expect.

Other posts in this series:

- * [**The Alternative Budget 2025 - The Background**](#)
- * [**The Alternative Budget 2025, Part 2: Understanding tax and 'borrowing'**](#)

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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