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Budget 2025 – financial tinkering, not economic transformation

The 2025 Budget has been characterised as a classic “tax and spend” Labour budget. However, Iain Begg points out that Labour’s supposedly flagship policy of “growth” was conspicuously absent from the Budget’s announcements. While the Budget’s financial tinkering and redistributive measures will appease parts of Labour’s constituency, they won’t ultimately aid the country’s economic transformation.

The build-up to the budget, as well as all the speculation about new taxes and whether Rachel Reeves would break the manifesto commitment not to raise income tax, suggested it could be a pivotal moment for the Labour government. Instead, the budget proposals announced on 26 November proved to be quite limited.

The widespread immediate criticism from many pundits that it is classic Labour Party “tax and spend” has substance to it, but it is a second-order concern. Much will be made of the share of taxes reaching a new postwar high of 38 per cent of GDP, but the £26 billion increase is small change for a £2.5 trillion+ economy.

The more forceful critique is that too much of the budget is about short-term fixes. Yes, the projected “headroom” against unexpected developments will be double last year’s, but it could very quickly be used up, as it was following the 2024 budget. Yes, the increase in tax will make adherence to the fiscal rules more likely, but the bigger question (which so many answer in the negative) is whether these fiscal rules are at all useful in guiding fiscal policy.

The growth challenge

Today, the greatest challenge facing the UK economy is **weak growth**. The latest projections from the Office for Budget Responsibility suggest things will be marginally better this year than

previously stated, but marginally worse next year. But these changes are small fractions of a percentage point, not rates of growth able to make a meaningful difference.

Lack of growth matters, not only because it inhibits improvements in living standards, but also because it is crucial for improving the fiscal arithmetic. Quite simply, low growth means the denominator of the debt to GDP ratio does not improve, while debt service as a share of public expenditure remains uncomfortably high.



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Raising taxes in the 2024 budget made sense because year one of a new government is typically when it is easiest to push through the most difficult policy measures. Whether loading much of the increase on to national insurance was the best option is debatable, given it added to the cost of employing staff, but it is not obvious what would have been a better option when cuts to public services were not politically plausible.

However, nearly a third of the way through this government's term, a much more strategic budget would have been expected. The Government has correctly identified some of the measures needed to kickstart the economy: easing planning controls, upgrading of infrastructure, house building and strengthening defence capabilities can all feed into better economic performance. However, they are taking too long and not much of substance was said about them in the budget speech.

Economic growth is also hamstrung by the rise in people not economically active, including far too many younger people. The government's climbdown on cutting welfare benefits to mollify restive Labour MPs was the story earlier in the year, but the real priority should be to ramp up welfare to work policies. They ought to be win-win, giving hope to those marginalised from the labour market and helping to ease fiscal constraints. Promises of more apprenticeships and a youth guarantee are highlighted in the budget, but they do not go far enough.

Manifesto promises kept?

Households will welcome the cut in the energy levy, the freezing of fuel duty and a handful of other "giveaways", but they will also be clobbered by the freezing of income tax thresholds. Reeves may

just be able to claim she has respected the manifesto commitment not to raise income tax, but so long as wages keep rising, more workers will be tipped over the threshold into paying income tax or paying it at a higher rate. She might not have raised the tax *rate*, but the future tax *take* from income tax is going to be higher.

Reeves can also claim still to be respecting her fiscal rules. The key rule is that public debt should be falling as a share in five years' time. In the short-term, the debt ratio can (and probably will) rise, then next year the fiscal horizon will be one year later, meaning achieving the target could take longer still. It also relies on projections of both growth and the public finances being accurate which they rarely, if ever, are. It's akin to trying to throw a triple twenty at darts with a throw from the other side of a football pitch.



Overall, this is not a game-changer of a Budget. It tinkers with the public finances, takes from some and gives to others, but not on a scale that will be transformative.



It can be characterised as a “small bites” Budget, with an assortment of measures yielding relatively small amounts of tax or putting a little money in the pockets of householders and certain businesses. Those with expensive houses (mansions is a misnomer) will have to cough up a little to raise the promised £400 million (yes that's all), albeit only by 2031. Electric car owners will now have to pay a bit for road use and those claiming tax relief of voluntary pension contributions will face a lower cap.

Smaller businesses in retail, hospitality and leisure will have their business rates reduced at the expense of larger commercial spaces: “Rachel to the rescue of our pubs”. Pensions will again be uprated on the basis of the triple lock, and the minimum wage for those aged 18-20 will go up by more than inflation. The end of the **two-child limit** is an undoubted win for larger families, and will have a commendable effect in reducing **child-poverty**.

Overall, **this is not a game-changer of a Budget**. It tinkers with the public finances, takes from some and gives to others, but not on a scale that will be transformative. It was **never going to be easy** for the Chancellor and she must now be hoping fervently that having probably done enough to avoid terminal attacks on her job, she can try again next year in more auspicious circumstances.

The esteemed Roman politician, Cicero, said “we should be careful that our benevolence does not exceed our means”. He could have been describing Reeves caution, but we can only speculate on whether he would have sympathised with the narrow room for manoeuvre she had.

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