

Labour's first budget a downpayment on its offensive against British working class

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UK Chancellor Rachel Reeves' first budget came with the declaration by the Labour government that it marked the end of austerity. This is a lie.

After pushing through £1.4 billion in cuts to 10 million pensioners, including 2 million of the poorest, and declaring that more savage austerity must follow, the government had to change tack slightly in finalising the budget.

Sections of the ruling class insisted that the government find some necessary funding for investment and not simply ram through more cuts. This was expressed in op ed-columns and commentary from the *Guardian* to the *Financial Times*.

This has nothing to do with largesse on the part of the ruling elite. There was genuine concern that too savage cuts would undermine global confidence in the UK economy, given the evisceration of much of its essential infrastructure.

Politically most important, after backing Labour to take office from a deeply unpopular Conservative government which had carried out 14 years of relentless austerity, there was the fear that a too swift deepening of this offensive would spark massive opposition in the working class. It had taken almost two years to quell the strike wave demanding an end to austerity that erupted in 2022, even with the best efforts of the trade union bureaucracy—in large part consisting of a promise that a Labour government would bring some relief.

The winter fuel allowance cut for pensioners, coming together with Labour's refusal to scrap the Tory government's vicious two-child cap on benefits payments, saw a collapse in Labour's and Prime Minister Sir Keir Starmer's already weak popularity ratings. Having won the July general election with a 10 percentage point lead over the Tories, by the time of the budget a *Times* poll showed a tie between Labour and the Tories on 27 points and the extreme right-wing Reform UK on 21 points.

Starmer had trailed a budget that would be "painful", with Chancellor Rachel Reeves speaking of "difficult choices" and "discipline on spending" to "restore fiscal and economic stability".

As late as Monday, Starmer was still saying, "It's time to embrace the harsh light of fiscal reality" and to run "towards the tough decisions because ignoring them set us on the path of decline."

Just two days later, Reeves proclaimed in her speech, "I said there would be no return to austerity, and that is the choice I have made today."

But beneath a few meagre concessions, Reeves put forward £40 billion in tax rises and spending cuts alongside announcing that the way debt is measured would be recalibrated to allow for investment in the economy over the Parliament of around £100 billion.

Reeves claimed that "Working people will not see higher taxes in their payslips" and that instead there would be an increase in the rate of Employers' National Insurance by 1.2 percentage points to 15 percent from April 2025. There would also be a reduction in the threshold level at which employers start paying national insurance on each employee's salary—down from £9,100 per year to £5,000. Reeves said these measures would bring the Treasury £25 billion per year.

The chancellor also announced increases in some taxes affecting the wealthy, including tax trusts used by non-domiciled residents; private equity tax; capital gains tax, and inheritance tax (which will collectively raise around £7 billion a year).

These headline measures are meant to conceal the fact that Labour has already saved the corporate super-rich a fortune ahead of the budget by capping Corporation Tax at 25 percent for the next five years.

Claims now are that employers have just been hit with a £25 billion increase in national insurance taxation. But as was made clear by the Office for Budget Responsibility (OBR) in 2021, the "economic incidence of the tax is passed through entirely to lower real wages in the medium term." What this means is that businesses will seek to pass on this cost entirely to their workforce.

This assessment was echoed by the Institute for Fiscal Studies, whose head Paul Johnson commented following the

budget: “These tax rises partly explain why the OBR has downgraded its projections for real household income growth over the next few years. Somebody will pay for higher taxes—largely working people”.

And the slight increases in the minimum wage announced by Reeves to £12.21 an hour for a full-time worker, and just £10 an hour for 18-20 year olds, will just as surely be eaten up by any widely anticipated downturn in the global economy produced by a deepening turn to trade and military war.

Every other announcement made by Reeves kept public spending to a minimum, with each extra penny listed as a concession to “working people” also having a major downside.

Reeves made clear that a £22.6 billion increase in day-to-day spending, plus £3.1 billion for capital spending, for a National Health Service (NHS) brought to the brink of collapse would, as Health Secretary Wes Streeting warned ahead of the budget, be conditional on “vital” reforms, i.e., attacks on the workforce, so that there could be “two percent productivity growth next year.”

With much of the money set to be absorbed by NHS staff pay increases and the increased cost of care, Siva Anandaciva, chief analyst at the King’s Fund health thinktank, predicted, “The health spending announced today is unlikely to be enough for patients to see a real improvement in the care they receive.” The capital spend is set against a maintenance backlog of £13.8 billion.

Education spending was also kept to a minimum, with Reeves announcing £6.7 billion in capital investment for next year, claiming this was a 19 percent real-terms increase on the previous year. Like the NHS funding announced, this will fail to even touch the sides.

The £2.1 billion specifically allocated for the schools rebuilding programme, for example, represents an actual increase of just £550 million on what the Tories planned. Just 50 schools will be fixed each year. The £2.3 billion increase for core schools funding represents a measly 1.6 percent increase per pupil.

Even the Starmer-supporting *Guardian* noted, “School leaders welcomed a £2.3bn increase in core funding for schools, including a much-needed £1bn boost for special needs. However, experts said the additional investment was likely to be used mainly to plug existing deficits, while the special needs system would remain in a ‘perilous’ state.”

Reeves declared that since coming to office Labour had been “driving efficiency and reducing wasteful spending” throughout the public sector and had already “made £5.5bn of savings this year. Today we are setting a 2 percent productivity, efficiency and savings target for all departments to meet next year”.

Reeves announced that she would also implement welfare benefits cuts devised by the Tories, centred on making the work capability assessment more restrictive to deny benefits to hundreds of thousands of disabled people.

The chancellor announced that military spending had to be maintained, handing the Ministry of Defence a further £2.9 billion for the next year, “ensuring the UK comfortably exceeds our NATO commitments”. But the figure means defence spending is now slightly down as a percentage of GDP because of updated growth forecasts.

Reeves was unable to say when military spending would increase more dramatically because the economic and social impact of an immediate hike to pay for deeply unpopular wars would be so severe and provoke opposition. Labour is instead conducting a Strategic Defence Review to be published next year that will “set a path to spending 2.5 percent of GDP on defence at a future fiscal event,” Reeves said.

More than any other measure, this retreat was considered impermissible by Britain’s ruling elite. Pressure is already being piled on to demand Labour ditch this timeline and name a date for when the armed forces are handed tens of billions more.

Speaking in the House of Lords this month, crossbench peer and former Chief of the Defence Staff Lord Stirrup insisted, “Investment in defence needs to be above 3 percent of GDP, not the 2.5 percent that the government say that they aspire to but for which they have not so far set out a firm plan.”

Further IFS analysis published Thursday concluded that Reeves’ budget means this parliament set to be second worst for household incomes for 75 years.

However, Labour’s decision to leave military spending only at standstill levels confirms that this budget is only a downpayment on the massive onslaught on the working class to come in the next few months. Labour is up to its neck in backing Israel’s genocide in Gaza and the war against Russia, with Reeves confirming Labour’s pledge to hand at least £3 billion a year over to the NATO proxy regime in Ukraine.



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