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## Rachel Reeves's Budget missed a golden chance to reduce inequalities – and the UK will suffer as a result

*In her first Budget as the UK's Chancellor of the Exchequer, Rachel Reeves announced some progressive changes to the Government's tax and spending plans. Overall, though, it fell a long way short of seriously engaging with the UK's gaping inequalities, writes Faiza Shaheen.*

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What does Labour's first budget in 15 years mean for inequality? This is a fundamental question that is barely being asked – and by not asking it, we are failing to measure this budget against a crucial benchmark.

The huge wealth, income, regional and class inequalities in this country are holding back our economy, eroding our democracy, stopping social mobility, undermining our wellbeing and creating fertile ground for the far right. As such, had the Labour government made reducing inequality a driving policy objective, they would have demonstrated that they are serious on delivering on the changes they promised ahead of the July election. It would also show they are breaking from the economic ideology of not just Tory austerity but also "trickle down" **neoliberalism** more generally (as well as Tony Blair and Gordon Brown's "**third way**" economic approach, in which inequality was largely sidelined). Today, the Chancellor did not mention the word inequality at all. This in itself tells us a lot, but was it there hidden in her package of new measures?



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Looking across the headline policies and figures in the Budget, it looks like a huge missed opportunity. The expected changes at the top to inheritance tax and capital gains tax were far smaller than some expected. Meanwhile, we still have the two-child benefit cap which, if Reeves had ended it, would have lifted **over half a million children out of poverty**. On public spending, the figures read out equate to an increase of around 1.5% per year after 2025-26 – hardly generous, especially after 14 years of cuts. Special needs education, for instance, won an additional £1 billion from the Chancellor, but local authorities are **projecting deficits** in their spending of £2.9 billion due to special educational needs.

This is not to say there were no progressive measures – in particular, the change in the fiscal rules to free up billions of pounds for capital investment over the next 5 years is a welcome and much needed change, as was the increase in the minimum wage (the National Living Wage).

Taken together, however, this was not a budget for equality....

## Key headlines from an inequality lens

### *(i) Wealth relatively safe for those at the top*

Changes to capital gains tax amounted to minor tweaks to the rates, and according to our colleagues at the **Centre for the Analysis of Taxation (CenTax)**, will continue to be easily avoidable by those with the means to do so. Inheritance tax changes also came with sizeable reliefs, and so will fail to raise much more (the rich are notoriously good at working around loopholes). Even when adding in other tax changes such as stamp duty on land, most of the new taxes announced today will be raised from employment rather than wealth. Perhaps this reluctance to tax wealth shows this government was worried by the pushback on Starmer's definition of "working people" as those that don't earn money from stocks and property?!

### *(ii) A fudge for those at the bottom*

The minimum wage increase will make a difference to the pocket of the 3 million workers on low pay, but the increases we've seen to the cost of living – in particular energy and water prices, and increases in social rents – means this is unlikely to make those at the bottom feel materially better off overall. This, alongside the lack of new money for welfare spending, means that the poorest are still left extremely vulnerable and poverty is set to rise.

### *(iii) Only modest pledges to address regional inequalities*

The regional investment plans need to be looked at in detail, and transport spend will be particularly welcomed. But again, the numbers announced were small compared to what is needed. £100 billion over five years is a start, but back in 2021 when appraising Boris Johnson's Levelling Up agenda, the think tank Centre for Cities **estimated** we would need £2 trillion to close the North-South divide.

## The case for an inequality-centred approach: the “what” but also the “how”

Taking an inequality-centred approach would not just change the headline policies, but also how we would do things. For instance, it is a relief to see that much more money will be going into the NHS to reduce waiting lists. But if this is delivered by the private sector, then it will be done in a way that maximises the profits of private healthcare companies. We heard a lot today about “guardrails” to ensure that money is well used, but it would have been useful to also introduce methods to ensure that new capital investment projects are chosen on the basis of their ability to create high quality non-graduate jobs and address regional inequalities.

At the heart of the problem, here, is the failed mantra of economic growth. In the lead up to the election and since, senior Labour figures have spoken at length about their promise to deliver growth. The language is rather dated: after the financial crisis in 2008, many policymakers around the world switched to talking about the need for **inclusive** and **sustainable** growth. The evidence tells us again and again that growth, by itself, doesn't necessarily deliver for the majority and that unlimited growth could be catastrophic for the planet. Sure, some of these terms to do with inclusive and sustainable growth were poorly defined, but their use was a sign that *the shape and distribution of growth across the population as a whole* was starting to factor into policymaking. Think about all the money that went into building shiny new city centres during the 2000s: it generated headline growth, but largely left the poorest residents in a similar economic situation as before, only now feeling excluded from the new-found prosperity enjoyed by others in their cities.



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Under Reeves, this language that qualifies the type of growth we want hasn't been adopted. Are we going to have to learn the same lessons all over again? Worryingly for her, the Office for Budget Responsibility does not forecast higher growth because of her budget today. And this is the most concerning thing – if Reeveconomics fails to deliver despite increasing taxes, those on the political right who are ideologically opposed to any redistributive measures to help address our country's gaping inequalities will argue that since growth isn't higher, the case can be made for lower taxes and lower public spending.

But all hope is not lost. A cross-section of MPs, as well as some millionaires themselves have been **calling** for a 2% tax on wealth that could raise up to £24 billion per year. If we can add to this chorus of people calling for a wealth tax over the next year, we might finally see years of rising inequality reversed.

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### About the author



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Faiza Shaheen is an economist, political commentator and activist, and a Distinguished Policy Fellow at the LSE's International Inequalities Institute. She is the author of a range of publications on topics including inequality, austerity, immigration and social mobility. Her book, "Know your place: How society sets us up to fail and what we can do about it" was published in 2023. Faiza ran as a Labour then Independent candidate in her home seat, Chingford and Woodford Green, in 2019 and 2024.

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