UK Political Parties

WHAT CAN WE LEARN FROM LABOUR'S FIRST BUDGET FOR 14 YEARS?

Summary: On 30th October 2024, Chancellor Rachel Reeves delivered the first Labour Budget for 14 years. The 2024 Budget is a useful example when discussing the extent to which the main parties agree or disagree on economic policy. The Institute for Government argued that the Budget's tax rises, increased borrowing and higher public spending marked "a clear break" from the previous Conservative Government. However, the Institute for Fiscal Studies saw the Budget as "a continuation" of the last Government's "sharp increase in tax and spending", which had already led to "an extraordinary increase" in the size of the state.

What is the Budget?

The Budget is a statement, made to the House of Commons by the Chancellor of the Exchequer, that summarises the state of the nation's finances, and outlines the Government's taxation plans for the coming year. These tax reforms are then included and approved in a 'Finance Bill' - a special type of Bill that, under the Parliament Acts of 1911 & 1949, cannot be amended or rejected by the House of Lords.

A Budget is usually presented to Parliament each year, partly because many taxes - such as income tax and corporation tax - must be reauthorised annually through new legislation. The previous Conservative Government delivered its final Budget on 6th March 2024. However, following a General Election, it is common practice for the new Chancellor to present a fresh Budget to outline the new Government's priorities and financial plans.

The Budget is also an opportunity for the government to outline its spending and borrowing plans. Chancellors usually announce how much the government intends to spend on public services, like healthcare and education, as well as planned investments in infrastructure projects. This proposed spending is later approved through the passage of separate Supply and Appropriation Bills.

Since recent governments have usually run a deficit - spending more than they raise in taxes - the Budget also explains how much the government will need to borrow from investors. This borrowing adds to the UK's national debt, which is gradually repaid each year, along with interest payments.

What did Labour announce in the 2024 Budget?

Taxation - Labour Chancellor Rachel Reeves announced a total tax increase of £40 billion. The bulk of this is set to be raised by changes to employer National Insurance Contributions. The rest is set to be raised by a range of tax increases targeting capital gains, second homes, inheritance & private school fees.

Employer National Insurance Contributions - National Insurance is a tax on earnings that is paid by employees (deducted from wages) and by employers (on top of the wages they pay). Eligibility for some benefits, including the state pension, depends on National Insurance Contributions (NICs). Previously, businesses paid a NI rate of 13.8%, on an employee's annual earnings above £9,100. However, Labour's budget increases this rate to 15%, and lowers the threshold to £5,000.

Inheritance Tax - Inheritance tax (IHT) is a tax applied to money, property, and other assets (collectively worth over £325,000) that someone leaves behind when they pass away. Traditionally, pensions were excluded from IHT, allowing pension funds to pass to heirs tax-free. However, from April 2027, pensions will count towards the £325,000 IHT threshold. Similarly, while family-owned farms were previously exempt from IHT when they were passed on, only the first £1 million of farm assets will be exempt from April 2026 - any farm assets over this limit will face a 20% tax.

Capital Gains Tax - Capital Gains Tax is applied to profits made when selling assets like investment properties, shares, or valuable possessions (excluding your main home). Labour's Budget increases CGT from 10% to 18% for Basic Rate Taxpayers (those with a taxable income up to £50,270) and from 20% to 24% for Higher Rate Taxpayers (those with a taxable income over £50,270).

Private Schools - Two changes will affect private schools. Firstly, business rate relief will end in April 2025. Business rates are taxes paid by businesses on the property they use, similar to council tax for households. Previously, because many private schools are registered charities, they paid greatly reduced business rates. However, they will now be subject to full rates from April 2025. Secondly, private school fees were previously exempt from VAT (Value Added Tax) - a 20% tax added to many goods and services. However, school fees will now be subject to VAT from Jan 2025.

Stamp Duty Surcharge on Second Homes – Stamp Duty is a tax paid when buying property or land. For second homes, there is an extra tax (a surcharge) on top of the usual rate. The Budget increases this surcharge from 3% to 5%.

Non-Domiciled Residents (Non-Doms) – The Budget removes tax advantages for non-domiciled residents (non-doms) - individuals who live in the UK but claim their permanent home is abroad. Previously, non-doms could avoid tax on money earned outside the UK. However, from April 2025, all UK residents who stay in the UK for over four years will pay the same tax on their foreign income and gains.

Spending - The Budget included plans to increase Government spending by around £70 billion a year. Around a third of the additional spending will be spent on investments in transport, housing & research and development. The remaining 2/3 will fund increases in the Government's day-to-day spending.

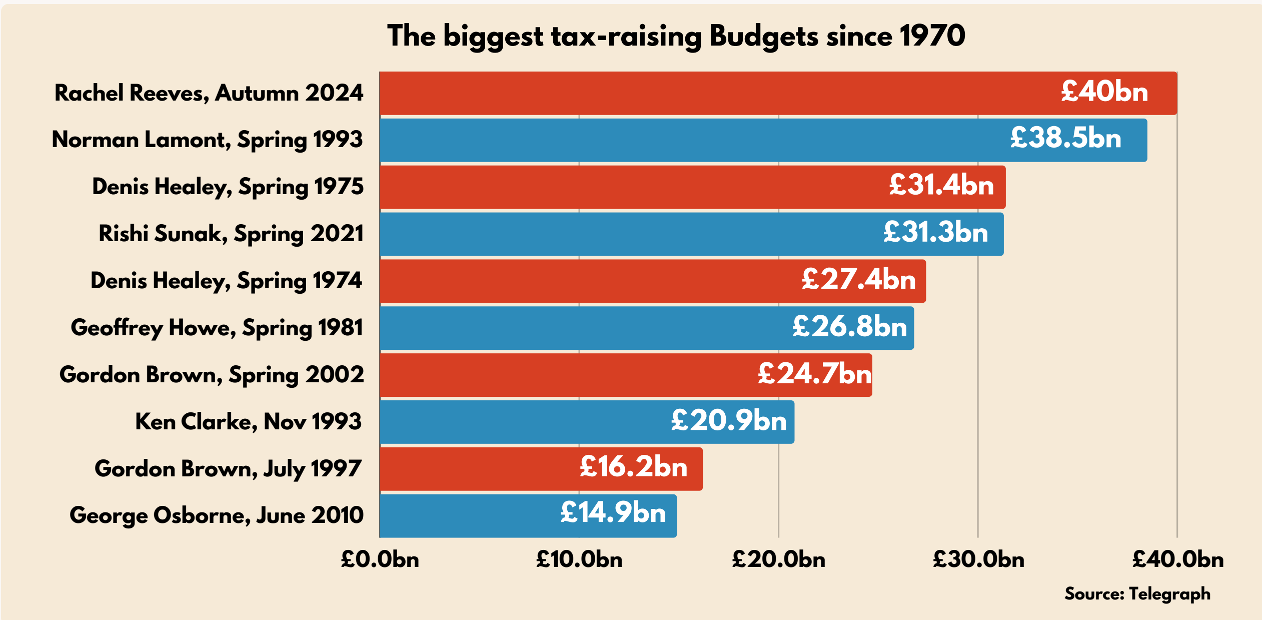
Key spending initiatives include:

- **National Health Service (NHS):** £22.6 billion extra for day-to-day spending to reduce waiting lists and improve services.
- **Education:** A £2.3 billion boost to core school budgets, enhancing funds for staffing, learning materials, and facilities.
- **Infrastructure Investment:** £100 billion to upgrade roads, railways, schools, hospitals, affordable housing, and renewable energy.
- **Social Care:** £5 billion for workforce wage increases, training, and support for local adult social care and unpaid caregivers.
- **Climate and Energy:** £125 million for renewable energy projects, plus £163 million to improve industrial energy efficiency.

Wage and benefit adjustments include:

- **National Living Wage:** From April 2025, the National Living Wage (paid by employers, but set by the government) will rise by 6.7% for over 21s, by 16% for 18–20 year olds, and by 18% for under 18s/apprentices.
- **Universal Credit and State Pensions:** Both will be increased in line with inflation, with state pensions set to rise by 4.1%.

Borrowing - As the £40bn of tax increases will not cover the £70bn of additional spending, the Government will borrow £142bn more between 2024/25 & 2029/30 than previously forecast. The Office for Budget Responsibility described this as one of the largest "fiscal loosenings" of any Budget in decades.



What arguments were made for/against the Budget?

	Labour's argument	Conservative counter-argument
	Filling the "black hole": Tax increases are necessary to cut the deficit and fill a £22bn fiscal "black hole" — spending that Labour claims was hidden by the Conservative Government & only discovered after they took office.	**Labour's spending:** Labour added to this "black hole" with substantial pay increases for striking public sector workers. Additional borrowing increases the deficit and burdens future generations with greater debt.
	Investing in public services: Substantial investments are needed in public sectors such as healthcare and education, to reverse the damage caused by years of austerity, and improve underfunded, struggling services.	**Public sector reform**: Funding increases will be wasted without significant reform. Inefficiencies, especially in the NHS, must be addressed if additional spending is to actually deliver meaningful improvements in public services.
	Stimulating economic growth: Greater borrowing & investment in infrastructure, skills, and green technology is necessary to boost sluggish economic growth, improve productivity, and address regional disparities.	**Growth risks from tax hikes:** A reliance on higher taxes will harm growth - it will drive businesses and high earning individuals abroad, reduce the incentives to expand, invest and innovate, and discourage entrepreneurship.
	Fair taxation: The 2024 Budget complies with Labour's manifesto pledge to not increase taxes for "working people". Increased taxes on businesses & wealthier individuals ensure that the tax burnden is distributed more fairly.	**Tax on workers:** Many "working people" run small businesses, which will bear the brunt of higher taxes. Business taxes will inevitably be passed on to consumers and workers through lower wages and higher prices.
	Avoiding austerity: It is important to avoid a return to austerity policies, focusing instead on strategic investments to drive growth and improve public services without resorting to significant spending cuts.	**Shrinking the state:** A degree of austerity is necessary to reduce public spending to pre-COVID levels - the tax burden is at a 70-year high (36.3% of GDP) and public spending is now 44.7% of GDP (up from 39.8% in 2019/20).

Exam focus: How similar/different are the main parties' economic policies?

EDEXCEL: POLITICAL PARTIES - 2.2 ESTABLISHED POLITICAL PARTIES
AQA 3.1.2.3 POLITICAL PARTIES

Labour's Budget can be seen as a continuation of the tax and spending increases that began under the previous Government

The 2024 Labour Budget can be used as evidence that, in recent years, the economic policies of the main parties have converged in many ways. When Boris Johnson became Prime Minister in 2019, he promised to move on from the austerity era - which prioritised cuts to public spending and borrowing to reduce the national deficit and debt - and instead allow higher spending and investment to "level up" left-behind regions. Following the outbreak of the COVID-19 pandemic, the UK's national deficit reached 14.5% of GDP - the largest since WWII - as the Government borrowed to fund an unprecedented degree of economic intervention, shutting down much of the economy and paying the wages of workers unable to work.

Labour's 2024 Budget arguably continues along this path, embracing higher public spending and investment. It does not propose the sweeping tax cuts that Conservative Prime Minister Liz Truss briefly argued were necessary to kickstart growth in 2022. Nor does it match the scale of state intervention called for by former Labour leader Jeremy Corbyn, who advocated for extensive nationalisation, significantly higher borrowing, and increased income and wealth taxes.

Labour's Budget can be seen as a decisive change in direction and evidence of a growing divide between the main parties

However, the 2024 Labour Budget can also be used to highlight a re-emerging left-right divide in economic policy. Former Prime Minister Rishi Sunak defended his pandemic-era spending as a necessary response to an extraordinary crisis and has since argued for greater fiscal restraint to return the state to its pre-pandemic size. In his response to the Budget, Sunak argued that, instead of raising taxes by £40 billion, Labour could have prioritised measures to reduce welfare spending, noting that simply returning working-age welfare spending on people with a disability or health condition to pre-COVID levels would reduce public spending by up to £30 billion. By contrast, Labour's Budget frames higher public spending as essential for addressing inequality, deteriorating public services, and to drive long-term growth.

Both parties claim that growth is a priority, but they arguably advocate for different strategies. Labour places more emphasis on state-led investment, funded by higher taxes on businesses and the wealthy. The Conservatives emphasise tax cuts and market-driven reforms, arguing that business taxes hurt workers through lower wages and/or higher prices, and that taxing the wealthy risks driving them abroad.