

WHAT IS COLLAPSING FASTER, THE UK LABOUR PARTY OR THE ECONOMY?

This article is being written in preparation for the fateful forthcoming British Budget in late November where a bankrupt government headed by a lame duck Prime Minister is desperately flailing around trying to balance an impossible budget in a sagging world economy.

On Friday the 14th of November the opening shots leading up to the budget were fired when [bond vigilantes](#) expressed concern about a report in the [Financial Times](#) that the Chancellor had “ripped up” earlier proposals for income tax rises which would make the Treasury more reliant on borrowings. These proposals contradicted pledges made by Labour in their Manifesto, and according to the *Financial Times* report, the beleaguered Starmer’s tenuous hold on power could not weather generalised tax rises on personal income. The result was Treasury bond yields rose while Sterling weakened.

The estimate for the budget hole is between £20 billion and £30 billion. In the world of smoke and mirrors the outlook for the actual expected hole depends on the prediction for the trend in productivity by the OBR. Higher productivity will reduce the hole, while lower productivity will increase it. It all depends on the *Office for Budget Responsibility’s* (OBR) forecast which will be issued shortly before the 26th of November, or earlier if a crisis erupts. Given the OBR’s patchy record, it’s more a case of the Office for Budget Regret.

The most recent OBR data, their [October Public Finance Databank](#), reveals a narrowing fiscal deficit outlook for 2025/6, because while tax receipts are expected to have risen by 5.2%, expenditure has risen by only 1.4%. Consequently, the cyclically adjusted deficit fell from £70.3 billion in 2024/5 down to £25.6 billion in 2025/6 the second lowest figure since 2018/9. This yields a deficit of under 1% of GDP, certainly not excessive. Net borrowing however works out to 4%. This latter figure which includes refinancing and interest payments is the more important from a market perspective.

However, it must be understood that these are preliminary projections, because October only represented the midpoint for the fiscal year which extends from the 6th of April 2025 to the 5th of April 2026. There is a more representative set of statistics which can be annualised, monthly data on tax receipts. I find tax data to be the most reliable set of data when analysing what is happening in the economy. One of the advantages in Britain is that the *Office for National Statistics* (ONS) issues monthly tax and spending data. The latest release covers September or the first 6 months of the fiscal year. Using this data, it is possible to compile a running annual total for both sides of the exchequer’s T account – receipts and spending.

I have used the ‘*Worksheet Time Series: Public sector receipts, UK, not seasonally adjusted*’ as my source for tax receipts. (Published 15th of October) I have taken the period October 2024 to September 2025 and compared it to the period October 2023 to September 2024 which voids the need for seasonal adjustments, as both periods incorporate similar seasonal variations. I have focused on the Production Taxes collected which includes VAT. I have not incorporated Income Taxes or National Insurance payments as the freezing of thresholds in the former has increased the tax take due to an increase in nominal salaries and I have excluded National Insurance because the rates have been changed. Both of these taxes are therefore not representative of the course of the economy because of the changes in how they are collected.

Upon examination, VAT receipts rose by 3.8% and total production taxes by 3.7%. I then used the [Retail Price Index](#) to deflate these receipts over the same period. Here the annual deflator was an average of 5%. (Source: *RPI: Percentage change over 12 months - All Services*) I used the RPI as it is biased towards goods and therefore production. (The broadest deflator, the [GDP deflator](#) is only available up to June 2025 and it averaged 4.1%)

Why are production taxes so important. Take VAT. It amounted to £206.42 billion for the year ended September 2025. This represented £1230.5 billion in sales as VAT is 20% on most items but lower in some cases, so I have used 6 as the multiplier. £1230.5 billion is close to half of GDP, because when merchants pay VAT on their sales, they first deduct the VAT they paid out on their purchases. Thus, the figure is *net* making it capable of being compared to GDP. Total production taxes vary in percentage terms as it includes tobacco, alcohol and vehicle excise duty. But if we were to add them all up, it is likely that total Production taxes converted to sales, yields a sum greater than half of GDP. (It makes no material difference using either VAT or Production taxes when evaluating the economy.)

This makes production taxes a powerful representer of what is happening in the economy, particularly whether the economy is growing or not, and how fast or not. It is also a way of testing GDP data. If we use the RPI to turn taxes into volume or real growth, at least half the economy is contracting by 1.3% and if we use the GDP deflator it is still contracting but in this case by only 0.4%. However, when we examine real GDP growth in the year to September using [official ONS data](#) we find that it grew by 1.1%, comprising a growth in services of 1.0%, construction 0.07% while production fell by 0.5%. (There are rounding off errors.) However, our data shows a 1.3% fall in production as against the official 0.5%. If this is the case, then the economy grew by only 0.3% not 1.1%.

This difference of at least 0.8%, when translated into Pounds Sterling amounts to £21 billion, equal to Reeve's black hole and bigger than the productivity estimates. I consider that the difference of 0.8% is the minimum difference not the maximum difference because some of the production taxes apply to the service sector as well, given that VAT, alcohol and tobacco duties, are found in the retail, wholesale and leisure sectors all of which are large sectors, but which are counted as part of services. The real question is this, which set of data feeds into the fiscal equation. If the economy is weaker than the official GDP data suggest, then it will be harder to raise the additional tax revenues needed to bridge the deficit, the fiscal hole will be larger and less surmountable.

I would suggest the tax figures tell the real story. Total central government taxes rose by 6.3% because of increases in income taxes due to frozen thresholds and National Insurance due to changes in the bands there. On the other hand, [total expenditures](#) rose between 5.5% or 7.8% depending on the method used to measure these expenditures, yielding a deficit of £47.4 billion when using the larger number. (The 7.8% rise is the operative one. Incidentally a rise in expenditures of 7.8% suggests inflation is higher than official figures.) These tax figures are more supportive of the nearly [+£160 billion](#) (up 13.1% from the previous year) the Treasury will be borrowing this financial year, based on annualising the data up to April 5th 2026. This £160 billion is equal to 6.0% of GDP.

In my estimation the tax data, especially when based on running annual totals or real time comparable information, is more precise than the official GDP data or the OBR estimates. On this basis, amidst a sagging global economy, the fiscal outlook is more dire than the OBR is bound to report. Even if the OBR trims the deficit outlook it does not change reality and if they underestimate the deficit, it will only mean that in Spring 2026 the Chancellor will have to face Parliament with an emergency budget.

Adding to the woe of the Chancellor and the public debt is the crisis unfolding in the privatised economy particularly the water industry. The Prime Minister and Chancellor are not only welded to neo-liberalism, but they also face the embarrassment that reversing privatisation is unaffordable. [Thames Water](#) is carrying at least £16 billion in debt plus around £0.5 billion in equity. However, according to its latest balance sheet [total liabilities stand at \\$21.1 billion](#). To put this in perspective, in the year up to September 2025, the Treasury borrowed an average of £13.5 billion p.m. It borrowed £20.2 million in September alone. Adding another £21.1 billion in debt would have increased the monthly average by twelve and a half percent. And Thames Water is only one company in distress.

But it seems rescuing Thames Water is unavoidable because it could rupture as a result of privatisation encouraging the diversion of money which should have been used to overhaul plants built in the 1960s despite problems being identified for over a decade. In the words of this [Financial Times](#) article: *“Thames Water’s main treatment works in the north-east of the capital is so vulnerable that just one system failure could leave millions of Londoners without running water. Mass evacuations, with the military on standby, could be triggered in the event of a failure at the crumbling Coppermills works in Walthamstow, according to people with knowledge of the site. Water outages for millions of people across the twin financial centres of Canary Wharf and the City of London could be prompted by a single fault, according to documents seen by the Financial Times.”* Cash which should have plugged leaks [has instead leaked](#) into the City of London and tax havens around the world.

Allied to the issues in the bond market are issues in the foreign exchange market. The combination of a fiscal deficit and a balance of payments deficit is always difficult to manage unless you are the issuer of the world’s de facto reserve currency – the Dollar. For the last two years, the UK has been running a 3% deficit on its [balance of payments account](#) with the rest of the world. This means the UK needs to borrow roughly £78 billion each year to remain solvent. Thus, the total borrowings on the fiscal and balance of payments account is nearly 10% of GDP or £238 billion which is unsustainable in the long run.

Part of the crisis in the economy and trade is Brexit. [This report from the OBR](#), really a compilation of private sector and economists’ findings, reveals that Brexit in the long run will have reduced productivity by 4% due to additional tariffs, trade by 15%, with an overall impact on the economy equal to a negative 8%. Truly a case of an economy which could not afford Brexit voting for it.

Conclusion.

The UK is not alone nor is it an aberration. It’s simply one of the worser cases of inequality garrotting public finances. The rise of inequality, where more and more money has been flowing into fewer and fewer pockets with these pockets paying less and less tax, has ravaged society in every over-mature capitalist economy. When we update the original [Public and Commercial Services Union funded 2014 study into tax dodging](#) it amounts to £150 billion in today’s money. All of it being lost to the country. Had even half of that been collected since 2010, austerity would have been unnecessary and the public sector debt would be manageable.

Instead, the rich, with their accountants and lawyers, and with their mobility and golden passports, have got away with financial murder. If ever there was a cry for internationalism, the fight against inequality demands it. Inequality cannot be solved in one country or country by country because the rich are like fleas, jumping from one country to another to preserve their unearned wealth. Even the

bourgeoisie know this to be true, which is why the Biden Administration supported a uniform 15% rate for corporate tax on multi-nationals in 2021 with the backing of an additional 129 countries.

On the other hand, the only national solution available to reduce the fiscal crisis is to cut spending. So, while the Government will tinker with tax rates and will balk at reducing interest payments on bank reserves (up to £40 billion p.a.), it's main effort will go towards axing services. And the most vulnerable will pay as they always do.

These cuts will come on top of 15 years of cuts since 2010 when austerity first kicked in after the financial crisis of 2008/9. Spending per head in the UK in real terms had already fallen 18% by 2023/4 compared to 2010. The cut in spending on [local council services](#) has been higher at 27% but this average masks the fact that the cuts have been worse in deprived areas. These cuts in council spending, the heart of the welfare state, which add up to £700 per head p.a., is due to a [halving in central government grants](#) partially offset by higher council taxes, itself a growing burden on the working class.

The capitalists class seeks to rule by consent; through ballots rather than bullets. They know that co-operation is more productive than coercion. But rule by consent requires concessions being made and living standards raised. When the opposite occurs because they have become unaffordable, when concessions must be clawed back and living standards attacked, then rule by consent fractures. The major parties become discredited and exhausted, fringe parties with their easy solutions and false enemies proliferate and the whole election circus begins to unravel.

We are approaching that point. The *Conservative Party*, the most successful electoral party in history is ruined. The *Labour Party* is digging its own grave, and the forthcoming budget will be an additional spade. *Reform* whenever it is in power is in shambles as their rhetoric and false promises are shredded by reality. The *Your Party* founders, underestimating the enormity of the historical tasks facing workers and obsessively tripping over their own factionalism and careerism, are opportunistically destroying what could have been. While the economic ground is shaking, politics remain paralysed.

This is the perspective as we approach Budget Day. The estimation of the state of Public Finances in this article suggests the economic situation is much more dire than Reeve's, after negotiating and probably strong arming the OBR, will admit to. Part 2 will be written once the Budget details are revealed in Parliament to MPs who should be praying rather than braying as she delivers her budget.

Brian Green, 16th November 2025.