

Labour's Tax-Heavy Budget Risks Stifling Economic Growth

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Economic sentiment in the United Kingdom remains uncertain as Labour's October 2024 Budget draws increasing criticism for placing undue financial pressure on businesses and households. With sluggish private-sector growth and weakening consumer confidence, concerns are mounting over whether the government's fiscal approach is doing more harm than good.

Chancellor Rachel Reeves announced around £40 billion in new taxes in her first Budget, the largest comprehensive tax increase since 1993. The measures include increasing employers' National Insurance contributions to 15 per cent from April 2025, maintaining the freeze on income tax thresholds until 2028, raising capital gains tax, and broadening inheritance tax rules on rural estates valued above £1 million. The Institute for Fiscal Studies described the current tax burden as the highest on record and warned that the Budget offered little to stimulate growth. Even Reeves later admitted the Budget may not be one she would want to repeat, conceding it could restrict wage growth. The S&P Global Purchasing Managers' Index declined to 51.0 in July 2025, with firms citing falling demand, rising operational costs, and the steepest drop in staffing levels in five months. Confidence in the business community remains fragile, with many citing regulatory uncertainty and the rising cost of employer contributions as ongoing barriers to expansion.

Consumer confidence is also slipping. According to the GfK index, households are increasingly choosing to save rather than spend, a trend fuelled by expectations of further tax rises and the ongoing cost-of-living crisis. Retail and services firms, which form the backbone of employment and household consumption, are reporting continued weakness.

From a centre-right perspective, the dangers of overreaching fiscal policy are becoming clearer. Broad tax increases risk damaging the private sector's ability to invest and grow, at a time when public services and economic resilience depend heavily on sustained productivity. A more prudent course would involve targeted relief, simplification of tax rules, and regulatory reform to create the conditions for long-term recovery.

With public debt approaching 101 per cent of gross domestic product (GDP), international bodies such as the Organisation for Economic Co-operation and Development have urged the UK to avoid broad tax hikes and instead pursue balanced, growth-oriented fiscal reforms. Labour now faces the challenge of restoring economic credibility while not further undermining the confidence of businesses, investors, and working families.