Spiralling cost of UK borrowing heralds sharp new attacks on the working class

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15 January 2025

The Labour government is planning to tighten the screws on the working class.

Prime Minister Sir Keir Starmer and Chancellor Rachel Reeves pledged to global finance ahead of last July's election that day-to-day government spending would not exceed tax revenues, and made it clear that they would implement only the most minor tax changes.

What this means is that the super-rich and the corporations can go on making a fortune, while vital spending on social services like health and education is squeezed.

One of the pressures on the state budget is interest payments on government debt—made to financial institutions like pension and investment funds, banks and insurance companies. In March 2024, the Office for Budget Responsibility estimated that the UK would pay £89 billion in interest payments in the financial year 2024-25: roughly 7.3 percent of total public spending.

But UK borrowing costs have risen sharply as the yield on its bonds has increased. The yield on a 30-year gilt—the interest rate at which the government pays back a three-decade loan—rose to 5.43 percent this week, the highest level in 27 years. The yield on 10-year gilts rose to its highest since the 2008 financial crash.

Reeves' budget last October gave the government a £9.9 billion leeway between its spending plans and the limit on spending set by Labour's pledge to the financial markets. This could be wiped out by the increased borrowing costs.

At the same time, OECD growth forecasts for next year are being revised downwards, from an already meagre 1.1 percent to 0.9 percent, meaning the expected tax revenues will also fall short.

Although the surge in borrowing costs has begun to ease, the crisis is severe enough that Starmer threw Reeves' future as Chancellor into doubt, forcing Downing Street to issue a statement insisting she would remain in post for the duration of the parliament. The government has also refused to rule out an emergency budget in the spring—rather than a simple fiscal statement as previously promised.

There are global factors driving bond yields higher in many countries, centring on market expectation of prolonged higher interest rates and the impact of US President-elect Donald Trump's trade war measures. These are exacerbated in Britain by the long-term impact of Brexit and its untenable position seeking to balance relations with Europe, China and the US. Underlying all these concerns is a push by the corporations to ensure that workers pay the costs via wage "restraint" and starved public services.

Labour plans to respond to these demands in Reeves' March 26 Spring Statement. Downing Street made clear last week that there is "no doubt about the government's commitment to economic stability", and that "meeting our fiscal rules is non-negotiable". Especially after the growling threats over October's employers National Insurance contributions hike coming from big business—already responding by slashing jobs—there is no chance of any significant tax rises.

Which leaves cuts to state spending. Multiple sources have already reported on discussions in the Treasury about how to do so. In the *Guardian*'s reporting, "Government officials have told the *Guardian* the chancellor is prepared to reduce departmental spending even more than planned, having ruled out increases to either borrowing or taxes."

Starmer reiterated in an interview Monday, "Yes, we will be ruthless, as we have been ruthless in the decisions that we've taken so far. We have got clear fiscal rules, and we are going to keep to those fiscal rules".

The same day, papers cited from a letter sent by Chief Treasury Secretary Darren Jones to cabinet members as early as December 12, before the cost of government borrowing began to rise so rapidly, insisting, “Spending Review 2025 cannot be a business-as-usual spending review,” and demanding “difficult decisions” and “ruthless prioritisation”.

Reeves’ October budget planned for real-terms public spending increases of 4.3 percent this year, 2.6 percent the next and just 1.3 percent for the last three of this parliament—the last figure lower than at any point under Tony Blair, Gordon Brown, or even Boris Johnson. Such low overall spending already guaranteed real-terms cuts in some departments, and that resources would fall further behind the needs of the population in all sectors.

The one exception will be the armed forces, which Labour is pledged to back with spending of 2.5 percent of GDP. It kicked this obligation down the road with a Strategic Defence Review, but this is due to report in the first half of the year—now amid demands on NATO countries by Trump to allot 5 percent of their GDP to the military—adding huge pressure to the budget.

Labour’s spending review will also take place in the context of a continued cost-of-living crisis, now being joined by the threat of increasing unemployment.

Annual inflation stood at 3.5 percent in December, having risen to 3.4 and 3.6 percent in the previous two months. Wage growth in the private sector is forecast to be 3 percent next year, and Labour has instructed pay review bodies that it will accept nothing more than 2.8 percent in the public sector. The number of advertised permanent vacancies, meanwhile, dropped last month to its lowest level in four years.

Both trends have roots in business’s response to the fractional increases in National Insurance payments and the minimum wage.

A British Chambers of Commerce survey of nearly 5,000 companies reported that over half were planning on increasing their prices in the first three months of the year. Oliver Faizallah, head of fixed income research at investment management company Charles Stanley, commented, “There is also the view that a higher living wage may result in a drop in hiring, higher unemployment”.

The capitalist class will not accept anything other than workers’ continued impoverishment. Investors are increasingly referring to the threat of “stagflation” in the UK—combined rising prices and low economic growth—which should be a warning to the working class: the capitalist response to the “stagflation” of the 1970s was Margaret Thatcher’s government, which Starmer and his cabinet have repeatedly praised.

Commenting on Reeves’ budget in October, the *World Socialist Web Site* described it as a “downpayment on its offensive against British working class”. We also noted that it was only with the spending review that followed its own first budget that the full extent of David Cameron and George Osborne’s brutal austerity agenda from 2010 began to be made clear. The same pattern is being followed by Starmer and Reeves.

After the October budget, the Resolution Foundation published a forecast of “real living standards” for 2025, combining disposable income (“post-tax wages + investment income + social security benefits, deducting housing costs”) and “the ‘benefits-in-kind’ that households get when they use public services”. The forecast showed the value of disposable income and benefits in kind flatlining for the median non-pensioner household, and moving by less than one percent in either direction across the whole distribution.

But that assessment was based on predictions for growth, inflation and public spending now already being upended for the worse. After years of grinding austerity—when one in six workers are already skipping meals to make ends meet, according to the Trades Union Congress—the working class faces a continued, catastrophic decline in its living standards at the hands of the Labour Party.

This will provoke a massive resurgence of the class struggle in Britain that the trade unions only restrained with difficulty ahead of Labour’s election—promising Starmer could be pushed to govern in favour of “working people”. A panicked John McDonnell, former shadow chancellor under Jeremy Corbyn’s Labour leadership, acting in his usual role as unheeded advisor to the Blairite cabinet, warned Tuesday that more cuts would be “politically suicidal”.