# Time bomb from Rachel Reeves leaves Andy Burnham in a bind

*The former chancellor forecast higher growth and higher tax revenues, alongside reduced public spending. The new PM must choose between work and welfare*

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As Andy Burnham prepares for the return of parliament in September, his team are buoyed by the sense that he has transformed the fortunes of Labour. Voters who had been lost to the Greens are returning and Burnham's style of upbeat, vibes-led soft left populism has cheered the party after two years of Starmer-Reeves miserabilism.

But vibes are not enough. The mood may have changed but the underlying economic realities have not. This summer, British politics has seemed to me at times to be in the grip of fantasy. As Burnham toured the country, the Conservatives were largely silent, while Reform UK increasingly inhabits a parallel universe with its ever more audacious policy proposals, from sending the Royal Navy out to stop the boats in the Channel to promising to slash welfare spending by £50 billion, "just like that", as Tommy Cooper used to say.

Meanwhile, the economic outlook darkens. A rise in energy bills has pushed inflation up to 2.9%, well above the Bank of England's 2% target. Unemployment is 4.9%, close to its highest level for five years, with those aged between 16 and 24 particularly badly affected. In July, the government ran an unexpected borrowing deficit of £1.8 billion, driven in part by higher spending on benefits.

And it gets worse. Public sector net debt is now approaching £3 trillion, equivalent to around 94.1% of GDP. Debt interest costs are running at around £110 billion a year — nearly as much as the entire education budget.

Growth remains anaemic and the overall tax burden is growing even as public services are deteriorating. At the same time, astonishingly, a quarter of the working-age population is classified as having some form of disability. The welfare bill, including the rising cost of personal independence payments (Pip) and of maintaining the pensioners' triple lock, looks increasingly unsustainable.

One admires Burnham's energy and sense of propulsion, so different from Starmer's cold, hesitant legalism. But for all his rhetorical positioning on ten-year plans, greater devolution, No 10 North and his desire to break the Treasury's monopoly on growth policy, Burnham must know his premiership will be defined by the economy. Can Labour halt the runaway welfare train and make the hard, necessary trade-offs that Starmer avoided?

Talk to Labour insiders and they say everything depends on the new chancellor John Healey's budget on October 28. Yet first Healey must find his way out of a trap inadvertently set for him by Rachel Reeves, his predecessor. Let's call it the Reeves timebomb.

Under Reeves's fiscal plans, the forecasts for the second half of the parliament were for higher growth and higher tax revenues, alongside reduced public spending, especially in 2028-29, in the run-up to the general election. More fantasy politics.

The problem is obvious. As one former senior adviser to No 10 puts it: "Rachel front-loaded the good stuff: higher NHS and welfare spending, higher public investment, but the difficult choices were pushed into the future. Her forecasts for the final two years of the parliament were for fiscal tightening. So everything nice going up and then reality kicks in. It's reverse George Osborne economics. Not what you want if you are Andy Burnham."

Healey insists he is committed to Reeves's fiscal rules not to borrow for day-to-day spending and to reduce net financial debt as a share of the economy. And he has said that Labour would honour the 2024 manifesto pledge not to raise income tax, VAT or employees' national insurance. But something must give. Otherwise, it will be a case of continuity Starmer, only with a northern accent.

That is a huge risk for Burnham, whose pitch for the leadership was as the anti-Starmer: a leader who has a political vision and knows how to do politics, build alliances, change the mood of the party, bring the country with him. But optimism is the easy part when you are spraying money around, pledging to cut VAT on electricity bills, end rough sleeping by the end of the year, and capping bus fares. A day scarcely passes, let us note, without Burnham mentioning buses.

A reckoning cannot be avoided, however, when the government is estimated to be spending £1 billion a day on benefits.

This summer, I've been writing a short book on Clement Attlee, Labour's greatest prime minister, and I keep returning to the moment in 1951 when the Attlee government, under pressure to fund the cost of rearmament during the Korean War, introduced charges for false teeth and spectacles under the NHS.

The charges split the party. Aneurin Bevan, a hero of the left who, as health minister, had led the creation of the NHS, resigned from the cabinet in protest alongside a young Harold Wilson. Bevan believed that prescription charges betrayed the founding principles of the NHS: that healthcare should be free to all at the point of use.

Attlee and Hugh Gaitskell, his chancellor, believed rearmament was necessary to defend the western alliance against the communist threat and demanded painful choices. In the event, they hugely increased the defence budget while capping health spending. They were prepared to act even at the expense of party unity. It was a case, to borrow an old Starmer phrase, of country before party.

Trade-offs matter in politics, never more so than today, when Britain is so heavily indebted, and when state failure and a sense of mass disaffection are powering the rise of the populist right.

So here's the challenge for Burnham: what will be his equivalent of Attlee's prescription charges? If he won't rewrite Reeves's fiscal rules or raise any of the three major taxes, is he prepared to radically cut public spending? The alternative, as the left are urging him, is to tax wealth and so-called static assets — land, property. One prominent economist who opposes higher wealth taxes is Lord (Jim) O'Neill, a crossbench peer and Goldman Sachs alumnus, who was informally advising Burnham but will not now be taking a government role. O'Neill wants Burnham to cut welfare spending and end the triple lock.

Burnham should ask himself this: what kind of party does he want Labour to be — a party of welfare or a party of work? And how will Healey, now chancellor, fund the defence shortfall, estimated to be £4.7 billion, over which he resigned as defence secretary, let alone increase defence spending to 3.5% of GDP by 2035?

The economic position is precarious. There are hard choices to be made. Can Burnham make them? At present, he is on a kind of extended victory tour — call it a lap of the country — enjoying the adulation of Labour Party activists relieved that Starmer and Reeves have gone. But fantasy politics can only last for so long. The bond markets will make sure of that.