

Brown drops a clanger

THE SUNDAY TIMES, JAN 22, 06

When I make a mistake, it's a beaut," said Fiorello



The chancellor has saddled Britain with a bloated public sector that is sucking the oxygen out of the economy, says **Irwin Stelzer**

LaGuardia, the successful mayor of New York City some 70 years ago. Gordon Brown, were he given to introspection and New York vernacular, might say the same thing.

Like LaGuardia, Brown has a substantial record of achievement. He has contributed to economic stability by granting quasi-independence to the Bank of England — only "quasi" because he has reserved to himself the setting of its inflation targets and the appointment of the majority of the members of its monetary policy committee. He saw that the nation's infrastructure needed shoring up, and was willing to face voters' opprobrium by raising taxes to pay for it.

He recognised that vigorous competition was essential to economic growth, and braved the wrath of the business community and the indifference of his cabinet colleagues by pushing through legislation that criminalises cartel behaviour. He opposed the

replacement of the pound by the euro in the face of Tony Blair's pressure to take Britain into a monetary zone that specialises in double-digit employment.

But, like the former mayor of New York, the mistake he has made is a beaut. He has saddled Britain with a large, inefficient, productivity-destroying public sector that is sucking the oxygen out of the private sector, and that has moved the country towards the continental European model that has brought a decade of double-digit unemployment to residents of its major economies.

Brown sings the praises of America's market economy, but moves steadily away from it and towards that of Europe.

The chancellor, after a few years of flirtation with Prudence, decided to let it all hang out, and take

42.5% of the income created by the nation's wealth creators, compared with 39% in 1997. He has financed this expansion with a series of tax increases, some stealthy, some painfully obvious.

That alone would create a problem by making it less attractive for businesses to invest, and reduce the incentive of people to work hard.

Worse even than the disincentive effect of high taxes is the fact that much of the money collected is being wasted. It is, of course, difficult to measure productivity in much of the public sector, but pinpoint accuracy is not required to see that output in the NHS has not kept pace with the flood of money that has descended upon it.

True, some sectors have improved, waiting lists are down for some procedures, and the emergency services are generally credited with

and everybody feels it

doing a good job. But wards are closing: some hospitals are so deep in the red that they are forcing doctors to postpone operations into the next fiscal year, regardless of the impact of these delays on patients' health and comfort.

This wasteful profligacy has serious consequences for the private sector. By increasing wage rates and pension rights for public sector workers, the government has raised the rates that the private sector must pay to compete for staff, a chore made more difficult by the greater security of employment offered by the public sector. No prospective public-service employee seriously believes that he or she might some day be made redundant. And if such a quiver of doubt assailed him, all he has to do is look at the difference between the chancellor's pledge to reduce the public sector workforce, and his failure to do so.

The relatively rapid expansion of the public sector, with its low productivity, bodes ill for Britain's ability to achieve the chancellor's goal of becoming an economic

power in a globalised world.

The added cost of attracting staff only partly explains why the growth of small business start-ups has stalled. Potential entrepreneurs must also worry that the chancellor's undoubted desire to see them succeed at times takes second place to his need for cash. Just last month Brown decided to hit businesses with profits of less than £50,000 for some £730m by abolishing promised tax relief on the first £10,000 of their profits.

This penchant for shifting the goalposts suggests the chancellor does not fully understand how a market economy works. Investors need to know that if they play the game and win, the rules will not be changed retrospectively.

Brown might have given his 1997 "windfall tax" on utilities a reassuring title, for example, but it nevertheless was a tax not faced by the utilities when they made the investment decisions that earned them their profits. The more recent windfall tax announced on oil company profits might have yielded a desperate Treasury a

further £2 billion a year, but it also acts as a disincentive to oil companies to invest in new enterprises in the future. One oil executive told me that North Sea projects have been moved down the priority list — just when Britain needs every cubic foot of gas it can get.

There's more, but you get the idea: Brown has saddled Britain with an increasingly expensive public sector. Not that the Tories promise much relief. Their new leader has promised to expand the public sector even beyond its current bloated state, although perhaps at a slower rate.

But those who want a brighter future for Britain can take heart from one thing. Brown is a fast learner. It is not unreasonable to hope that he recognises that claiming an ever-larger share of the country's wealth, and overtaxing wealth producers, has begun to drag the economy down. That is not a legacy he will cherish. Perhaps the one-time Iron Chancellor will renew his affair with Prudence. Or is that a triumph of hope over experience?