The economic consequences of Mr Brown

For all his claims to have singlehandedly engineered British growth, Gordon Brown is the architect of policies that undermine his desire for a better society, writes **Irwin Stelzer**

Gordon Brown might be overstating his case when he ignores his Thatcherite inheritance and a benign global economic environment, and takes sole credit for Britain's rather good economic performance during his tenure at No. 11. But, asked whether they are better off now than a decade ago, most Britons would have to agree that in material terms their lives have improved during Brown's tenure at the Treasury, and that his decisions to keep Britain out of the euro and to grant a sort of independence to the Bank of England (Brown still selects the Bank's inflation target, and decides whether the Governor is to be reappointed or let out to pasture) were good policies indeed.

And the Prime Minister's critics might be overstating their own case when they claim that Brown's policies have led us to the brink of a collapse of the financial system, but they are certainly right that we are entering a period of financial strain and slower economic growth with the nation's finances in worrying condition, and have a reasonable argument that at least some of today's problems are the consequences of the tax, spending and borrowing policies pursued by the Prime Minister when at the Treasury.

There is no denying that ten years of New Labour's economic management are now severely limiting policymakers' freedom of action. It is interesting in this regard to compare the tax-and-spend policies of Gordon Brown with those of George W. Bush, who is contemplating the fiscal stimulus that is beyond Brown's reach. Both launched spending sprees to support their visions of an expanded welfare state, Brown concentrating on the NHS, Bush on prescription drugs for all elderly folks. Britain's chancellor attempted to fund his spending spree by launching a series of tax-raising measures; America's President cut taxes, in the belief that the incentive of greater rewards for work and risk-taking would increase the US Treasury's take. Gordon Brown's divorce from prudence converted a balanced budget into a deficit that exceeds, in relation to the size of the respective economies, America's. Both Brown and Bush proved to be big spenders, but the American President's tax cuts contributed to a much faster increase in receipts than did the British Chancellor's tax increases, and to a decline, rather than an increase, in the deficit relative to the size of the nation's economy.

But these are mere numbers. And numbers merely reflect the policies and mindset they reflect. Bush believes that certain tax cuts increase incentives to work and take risks. He is right. Brown rejects Bush's notion, and does not believe that raising the portion of national wealth taken by the government reduces incentives to create wealth. He is wrong.

So it is fair to say that the economic consequences of Gordon Brown include an enlarged state, both in absolute size and relative to the size of the UK economy, higher taxes and a deterioration in Britain's financial condition. While increasing the size of the state, Brown has simultaneously overseen a redistribution of income from the high-productivity, wealth-creating middle classes to lower-productivity workers directly employed in the public sector, of whom there are now 600,000 more than when Brown moved into No. 11 (not counting consultants, contractors and others feeding on the taxpayer), and to the work-shy. We can't be certain, but that just might explain the relative rise in UK unit labour costs, and Britain's decline in the international competitiveness league tables.

What we do know with greater certainty is that as a consequence of a massive increase in spending, and more red ink than should have been spilled during a period of growth, Britain is less well positioned than it would otherwise be to cope with the impending slowdown. Instead of being in a position to finance Keynes-style stimulative spending increases, the government finds itself pledged to rein in the growth of spending. Nor are tax cuts available as an anti-slowdown tool: tax receipts will anyhow decline as the City bonuses that have been pouring so much into Treasury coffers shrivel, and the long-run consequences of Brown's new attack on entrepreneurs and non-doms (foreigners resident in Britain but planning an eventual return to their home countries) unfolds. But on the plus side of Brown's ledger is the fact that his policies have contributed to the strength of corporate and private balance sheets, perhaps sufficiently to enable them to weather the approaching storms.

We also know that the 64 per cent increase in spending (about 30 per cent after correcting for inflation) under New Labour has not produced commensurate increases in the quality of service offered by schools, hospitals and other public services, despite Brown's insistence in 2002 that one of the 'pillars' of his fiscal policy is 'better planned public spending which focuses on the quality of public service provision. . . '. The key here is 'planned', for Brown believes, or perhaps but not certainly more accurately, until now has believed that better planning, not competition and widened consumer choice, is the route to the provision of high quality healthcare and education services. When Chancellor he held to the view that parents and patients do not have sufficient information to choose schools for their children or hospitals for themselves. Unfortunately, experience suggests to most observers that he is quite simply wrong, and that the Prime Minister's laudable intentions to relieve child poverty, make education more widely and equally available, and improve the efficiency of the welfare state have been ill-served by the methods he has thus far chosen to achieve those objectives. Which might just explain what seems to be his recent willingness to concede a greater role to patient choice and competition from private-sector providers in the provision of healthcare services. Note, however, that Andrew Haldenby, of the ever-reliable think-tank Reform, doubts that the newly announced policy will actually deliver choice because 'profound barriers' prevent private sector providers from being included on the choice menu to be offered patients.

These are not the only effects that Brown has had on the long-term ability of Britain to thrive in an increasingly competitive world. Britain's future success will depend in part on its ability to create the incentives necessary to capture the entrepreneurial talents of its own citizens, and the financial and other skills of foreigners. Brown as Chancellor seemed to understand this, witness his long-standing refusal to move against 'rich' foreigners, and his tax breaks for entrepreneurs. That was then, this is now. Brown now favours taxing non-doms on income and capital gains we earn outside of the UK, and increasing by a whopping 80 per cent the capital gains tax paid by entrepreneurs when they sell their businesses. The first of these moves will hardly enhance Britain's attractiveness as a destination for mobile bankers, investors and such: no less an authority than Ed Balls recently told the *New Statesman* that 'high achievers are very, very mobile people. We don't want to send a signal that we are a society which doesn't welcome talent and expertise . . .'. The boost in capital gains taxes is another disincentive to anyone contemplating taking the risk of starting or financing a new business.

Then there are the policies that affect the atmospherics so important to executives deciding where to locate and expand businesses. New York City spun into decline when its most productive residents fled because they could not safely stroll the streets or count on the schools to educate their children. Along came Rudy Giuliani, and no-crime-too-small policing, and New York became one of the safest and economically attractive cities in the world. No such luck in Britain. This nation's fewer armed police are no match for the well-armed gangs that have taken control of many of the nation's streets, while police concentrate on meeting targets set by well-protected inhabitants of Nos. 10 and 11 Downing Street. Money that might have been allocated to policing has instead been used to finance a massive increase in spending on young men and women 'disabled' by the 'stress' associated with seeking and holding a job.

Giuliani arrested people who made the streets unsafe; the British government moves violent criminals to open prisons, or releases them because Brown refused to fund the needed increases in prison capacity. Even now, the government will release funds only for studies of suitable sites for new prisons; the much-touted 'super-prisons' won't be built until 2012 at the earliest. The government has, in effect, privatised some of the cost of crime: think of the millions of pounds spent on anti-theft devices in automobiles and anti-burglar systems in homes to make up for the deficiencies in the public sector.

Crime also has significant psychic costs — ready for a nice relaxed evening walk on a deserted street in a major city, the sort of thing that was a routine pleasure a decade ago? Probably not, which is why 60 per cent of those surveyed say Britain is a worse place in which to live than it was five years ago, largely because of mounting 'antisocial behaviour', as crime has come to be called, compared with only 12 per cent who think it a better place. And is part of the reason why 207,000 British citizens emigrated in 2006, the largest number since record-keeping began in 1991. It is difficult to measure the effect this has on the long-term attractiveness of Britain as a business centre, as we will never know who among the internationally mobile work force decided against coming here. But stories of 'Rolex muggings' are making the rounds in the US.

Which brings us to education. Brown is well aware that a poorly educated workforce is an internationally non-competitive workforce. But he can't quite get himself to unleash the creativity of the hundreds of educators and headmasters at least partially freed by Blair from centralised control. So Brown's protégé, Ed Balls, has set about undermining the independence of the new academies, and issuing cradle-to-adulthood instructions on education and upbringing. It remains to be seen whether this newly tightened control-from-the-centre can reverse a decline that has seen British 15-year-olds fall from eighth to 24th in maths attainment in the past six years, from seventh to 17th in reading, and fourth to 14th in science. This, despite a massive increase in government spending on education — from 29 billion to over 77 billion (a 55 per cent increase after correcting for inflation) — since Labour came to power.

Then there is the consequence of Gordon Brown's tax policies on the nation's culture. Most social scientists have accepted that fatherless homes contribute to an increase in crime and other social ills. Nevertheless, Gordon Brown has tilted the tax structure to favour what one expert calls 'the standalone mother as the fundamental family form', with the consequences evident on the streets and in the nation's schools.

Finally, and perhaps the most important economic consequence of Mr Brown is the one he must most regret: the strengthening of the dependency culture that keeps millions of British workers on their couches rather than on the job, while skilled and unskilled immigrant workers pour into Britain in their hundreds of thousands. No one doubts the Prime Minister's belief in the ennobling nature of work, nor his desire to get what are called the economically inactive into work. Unfortunately, his laudable but misplaced compassion prevents him from taking the one step that would drive the hundreds of thousands on the welfare rolls to work: after reasonable notice, cut all benefits for everyone capable of any work — no interviews with social workers, no offer of training programmes that are proven failures. Bill Clinton, hardly a hard-hearted reactionary, even defied his formidable wife to put such a reform in place in America, as the state of Wisconsin had done earlier. It worked.

All is not lost, however. The entrepreneurial spark lit by Brown's early reforms of the tax system might not be completely extinguished by his new more punitive approach to capital gains, small family businesses, and foreigners. The financial services sector has sufficient economies of scale and scope, and the gifts of the English language and a world-straddling time zone, to survive.

In the end, Britain's future will depend on what the historian Michael Howard calls its ability to 'manage what is now the most important balance of all', that between the creation of wealth and its use to fashion a society capable of continued advances both in productivity and material wellbeing, and in social cohesion. Brown as Prime Minister, freed from the centrist tug of his colleague-enemy, Tony Blair, might be tipping the balance so far from incentives for wealth creation that he will find himself without the resources to achieve his goals of a healthier, better-educated, more secure and fairer society. That would be a pity, indeed.

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