



# **MOVING BRITAIN BACKWARDS**

The figures Gordon Brown won't announce in  
the Pre-Budget Report

Keith Marsden

**The TaxPayers' Alliance** is an independent, non-partisan campaign that believes in lower taxes, less Government waste and improving public services by removing politicians from the management of them and giving power to the people. The TPA has 15,000 supporters across the country and is backed by some of Britain's best-known businesspeople and opinion formers.

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## EXECUTIVE SUMMARY

Gordon Brown recently published a book of his speeches, entitled "Moving Britain Forward". This week's Pre-Budget Report is likely to echo the same theme, with endless talk of "enterprise", challenges ahead and how this Government has put Britain in the perfect place to meet these challenges.

This paper shows that the reality is very different. If anything, Britain has been moving backwards on the economy. Under Gordon Brown, Britain's economy has become less competitive and less able to meet the challenges of this century. This paper, authored by former World Bank economist Keith Marsden, tears apart all aspects of Gordon Brown's economic record:

- Families' disposable income has risen at a slower rate since 1997 than in the two decades previously, despite there being two recessions in that period.
- Tax payments to Gordon Brown have risen by £219 billion since 1996, or nearly £9,000 per household. Council tax has doubled in the last decade, business taxes have risen from £63 billion in 1996 to £108 billion in 2005, and VAT and excise duties have risen by more than £50 billion over the same period.
- Despite claims of prudence, government borrowing has exceeded £30 billion in every year since 2002.
- Soaring government spending has failed to deliver results, while billions have been wasted on IT systems that don't work properly. There are now fewer hospital beds per 1,000 people than in 2000. At the

same time, defence spending has fallen as a share of government spending. The UK's overall employment rate, which measures the percentage of the working-age population actually employed, is below the level in 1990. 1.2 million manufacturing jobs have been lost since 1997.

- By contrast, public sector employment has increased by 700,000 since 1997, with large increases in civil servants – including 27,000 more tax collectors!
- Gordon Brown has bribed voters with other people's tax money. Non-pension welfare spending has risen to £82.3 billion, and there are now more than eight million working-age adults who are currently "unoccupied" in Britain.
- The Chancellor has also bribed whole regions with taxpayers' money. Public spending represents over 60% of GDP in Wales and the North-East, compared with around 35% in London and the South East.
- Gordon Brown has not invented a magic formula for economic stability. Britain's inflation rate has averaged 2.4% since 1997, compared with 1.6% for all developed economies. 17 out of 29 members of this group also achieved faster growth than did Britain during this period.
- Britain's declining competitiveness is underscored by the fact that its share of world exports has fallen from 5.5% in 1997 to 4.6% in 2005, while the share of imports in total UK final expenditure rose from 20.1% in 1997 to 24.1% in 2005.

Gordon Brown's record as Chancellor hasn't lived up to his reputation. This paper lays his record bare for all to see.

# MOVING BRITAIN BACKWARDS

## INTRODUCTION

New Labour blasted its way into office in 1997, after a sustained and effective assault on the Conservative Party's tax record.

New Labour accused John Major of introducing 22 new taxes. Its 1997 Manifesto stated boldly: "The increase in taxes under the Conservatives is the most dramatic evidence of economic failure. Since 1992 the typical family has paid more than £2,000 in extra taxes – the biggest tax hike in peacetime history, breaking every promise made by John Major at the last election".<sup>1</sup> This hike was said to be "the equivalent of seven pence in the pound" on the standard rate of income tax.

Moreover, the major architect of New Labour's economic programme – Gordon Brown – convinced voters that Old Labour's profligacy was a thing of the past. New Labour pledged not to increase the basic or top rates of income tax. "Save to invest is our approach, not tax and spend", their Manifesto proclaimed.

These messages were rammed home in endless speeches, party advertisements, TV soundbites, and tabloid headlines. And New Labour's slick propaganda machine didn't hesitate to personalize its attacks. "You

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<sup>1</sup> Labour Manifesto April 1997

lied to us on taxes Mr. Major”, accused a Labour Party Political Broadcast. “We know better now”, it trumpeted.<sup>2</sup>

Nine years on, the weapons crafted by Gordon Brown and New Labour’s spin masters could blow up in their own faces, or turned against them by opposition parties. This short paper provides a few important facts and arguments that can be used as ammunition against Gordon Brown.

## **BROWN’S RECORD ON FAMILIES’ DISPOSABLE INCOME**

Brown’s simple charge of “economic failure” prior to him becoming Chancellor doesn’t stand up to independent scrutiny.

From the perspective of families and individuals, the most significant measure of the success or failure of a government’s economic management is the average annual growth of their real disposable incomes over its full term of office. This indicator shows the rate of increase in the amount of money left in peoples’ pockets, after paying direct taxes and taking inflation into account, to spend or save as they wish. According to the Office for National Statistics (ONS), real household disposable income per head rose at an average annual rate of 2.5% from 1979-1997.

Moreover, real disposable income per head continued to rise (by 1.7%) during the recession of 1991 which is

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<sup>2</sup> Aired on April 19, 1995

often described as an economic disaster, resulting in massive hardship. In reality, the contraction (-1.4%) of GDP in 1991 was entirely due a steep drop in investment (-8.2%). But this short-lived decline came after rapid growth of fixed capital formation over the previous decade. And it continued at a healthy pace from 1993 to 1997.<sup>3</sup> The net result was strongly positive. The average person was 60% better off in 1997 than in 1979.

However, since Gordon Brown took over the reins, the growth of real household disposable income per head has slowed to an average rate of 2.2%, giving a cumulative increase from 1998 to 2005 of just 19%.<sup>4</sup> The latest ONS estimates show a drop of 0.2% in the 2<sup>nd</sup> quarter of 2006.<sup>5</sup>

## **BROWN'S RECORD ON TAX**

In 2005-06 the Labour government extracted £486 billion in taxes and other revenue from the pockets of British families and businesses. This was £219 billion more than in 1996, or nearly £9,000 extra per household on average. As a percentage of GDP, the government's current receipts rose from 37.0% in 1996-97 to 39.7% in 2005-06, and are projected to reach 41.0% in 2008-09.<sup>6</sup>

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<sup>3</sup> ONS Blue Book 2005, Tables 8.7 and 8.11, and OECD Economic Outlook 2005 Annex Table 5.

<sup>4</sup> ONS Blue Book 2006, table 8.11.

<sup>5</sup> ONS Quarterly National Accounts, Qtr 2 2006

<sup>6</sup> HM Treasury Red Book 2006, tables C25 and C9.

## **BROWN'S RECORD ON BORROWING**

The Chancellor earned the title of "Mr. Prudence" in the first four years in office, maintaining a budget surplus. But from 2002 onwards government spending has outstripped government revenue by over £30 billion annually, despite the tax hikes.<sup>7</sup> As a percentage of GDP, the government deficit has equaled or topped the maximum level (3.0%) set for Euro zone members over the last four years. And the government is not only failing to save itself, but its policies have discouraged private saving. The household saving rate fell to 5.0% of disposable household income in 2005, from 9.4% in 1996. While household debt ballooned to 154% of disposable income in 2004, up from 105% in 1996.<sup>8</sup>

## **BROWN'S RECORD ON INVESTMENT**

The Chancellor often brags about higher "investment" in public services, for which he claims responsibility. It's easy to be generous with other peoples' money if you can take it out of their pockets by the force of law. He also uses the term "investment" as if it were synonymous with total government spending. This misnomer is a deliberate evasion. There's little hard investment to show for his largesse. The Treasury's Red Book shows that investment (capital formation) represents a small fraction of government expenditure. From 1997-8 to 2005-6, net public sector investment averaged only 1.1% of GDP.<sup>9</sup>

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<sup>7</sup> ONS Blue Book 2005, table 11.3 and H.M. Treasury Red Book 2006, table C25.

<sup>8</sup> OECD Economic Outlook 2006, Annex Tables 23, 58.

<sup>9</sup> HM Treasury Red Book tables C25 and C5.

## **BROWN'S RECORD ON STEALTH TAXES**

Instead of lifting tax rates openly, Gordon Brown has chosen to raise taxes surreptitiously. Adjustments to tax allowances and taxable bands have not kept pace with the rise in money earnings. So, millions of workers are obliged to hand over a larger slice of their hard-earned incomes to the Chancellor. Government revenue from personal income taxes has nearly doubled to £136 billion in 2005-06, from £74 billion in 1996. New types of taxes have been introduced, often hidden away in Budget annexes.

Council taxes have rocketed to £21 billion in 2005-06, more than twice the 1996 level. The government says this increase was determined by local authorities. But their main priorities and responsibilities are set by central government, and they need to top up the inadequate grants it transfers to them.

## **BROWN'S RECORD ON BUSINESS**

Businesses are fed up with being treated as cash cows by the Chancellor. As soon as he took office, he imposed windfall taxes on utility companies, grabbing an additional £5.2 billion from them over two years. Other new taxes quickly followed. They include landfill taxes, hydro benefits, and climate change and aggregates levies. National Insurance Contribution (NIC) rates have also been raised by one percentage point for both employers and employees. These are disguised hikes in income tax, as NICs are related to wage levels.

The ONS National Accounts don't disclose the total tax burden on business. But payments to the central government by businesses, in the form of income/profits tax, employers' compulsory contributions and non-domestic rates, soared to £108.2 billion in 2005 from £63.0 billion in 1996.<sup>10</sup> These figures exclude VAT, import and excise duties which totaled £142.5 billion in 2005, an increase of £51 billion over 1996. These latter taxes are paid by consumers, but nevertheless hit businesses by reducing final demand for their products and services. Insurance premium tax, stamp and air passenger duties, and tax on hydro carbon oils are also borne directly by firms. But Treasury and ONS data do not distinguish between business and household sources of payment.

The burden of proof should be on the government to justify its tax and spending programmes. It needs to show that its extra revenue has been better spent on public services and bureaucrats than it would have been if left in business hands.

Lower business taxes would release funds to expand productive investment, create more jobs, meet growing international competition, induce employees to raise productivity (via performance-related bonuses), and encourage share holders to risk more of their savings (through higher dividends). All could contribute to faster growth of output and incomes. This would enhance wellbeing directly.

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<sup>10</sup> ONS Blue Books 2005 and 2006, table 11.1.

## **BROWN'S RECORD ON PUBLIC SPENDING AND PUBLIC SERVICES**

Over the lifetime of this government, billions have been spent on IT systems that don't work properly. Allocations for public order and safety (the Home Office) almost doubled to £29.1 billion in 2004, from £15.8 billion in 1996. Yet violent crime has risen sharply. Illegal immigrants are released from prison to commit further crimes, without being considered for deportation as the law requires. A top official confessed he hadn't the faintest idea how many illegal immigrants there are in Britain.

Public health spending soared 87% over the last eight years. Doctors and nurses have enjoyed big pay increases. Waiting lists have been manipulated to suggest progress. But the bottom lines show little improvement in the nation's health. Average life expectancy has gone up just two years to 79 (a mere 2.6% increase since 1996).<sup>11</sup> The under-five mortality rate has dropped by just one year to 6 per 1,000. The incidence of tuberculosis (12 per 100,000 people) has remained the same, while the number of hospital beds per 1000 people had fallen to 4.2 from 4.5.<sup>12</sup> These are feeble returns for the massive increase in public health spending.

And according to a Eurostat study, based on 60,000 households, the quality of the lives of older Britons leaves

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<sup>11</sup> World Bank, World Development Indicators 1998 and 2006, tables 2.17 and 2.19.

<sup>12</sup> World Bank, World Development Indicators 2000 and 2006, tables 2.14 and 2.18.

a lot to be desired. The average life expectancy of British women (80.7 years) is very close to the EU average (81.2). But British women suffer from ill health and disabilities during the last 19.8 years of their lives on average, nearly five years longer than the EU average. The average duration of healthy, fit and active lives enjoyed by British men falls three years short of the EU average, and 9.4 years less than Italian men.<sup>13</sup>

Education was supposed to be New Labour's top priority. Total government outlays on education rose by 93% from 1996-2005, reaching £68.2 billion.<sup>14</sup> Yet public expenditure per student (expressed as a % of GDP per capita) fell to 15.5% at the secondary school level in 2004, from 20.6% in 1996. The drop at the tertiary level was even steeper – from 40.9% to 28.9%.<sup>15</sup> The number of pupils per teacher in primary schools barely changed over the same period (18 in 1996 and 17 in 2004).<sup>16</sup> Real value added in the education sector rose by just 9.6% in total from 1997-2005, little more than a third of the growth in the economy as a whole.<sup>17</sup>

Despite Tony Blair's willingness to engage in military operations abroad, defence of the realm – a primary function of government – has been neglected. The share of defence in total government outlays fell to 6.0% of GDP in 2004 from 7.3% in 1997.<sup>18</sup>

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<sup>13</sup> Cited in the Sunday Times 2.07.06.

<sup>14</sup> ONS Blue Book 2005 and 2006 table 11.2

<sup>15</sup> World Bank, World Development Indicators 1998 and 2006, table 2.10

<sup>16</sup> World Bank, World Development Indicators 1999 and 2006, tables 2.9 and 2.10.

<sup>17</sup> ONS Blue Book 2006, table 2.4.

<sup>18</sup> ONS Blue Book 2006, table 11.2.

## **BROWN'S RECORD ON EMPLOYMENT**

Labour's leaders often trumpet their success in creating a record number of jobs. But this is nothing to shout about. Employment levels rise almost every year in most countries, as natural population growth and/or immigration swell the numbers entering their labour markets. The employment rate is a more significant indicator. This measures the percentage of the population of working age actually employed at any given time. In the 3 months to September, the UK employment rate fell to 74.5%. At no time during this government's lifetime has it reached the peak attained during Margaret Thatcher's last year of office (1990) of 75.0%.<sup>19</sup> The unemployment rate declined steadily from 7.1% in June 1997 to 4.7% in July-September 2005. But it has risen progressively since, reaching 5.6% in July-September 2006.

Using a slightly different definition of the working age population, the OECD reports that the UK's has maintained an employment rate well above the OECD and euro area averages during both Conservative and Labour governments.<sup>20</sup> But how productive are the new jobs created under New Labour? Jobs in manufacturing industries have shrunk by 1.2 million since December 1996, down to 3.3 million in March 2006.<sup>21</sup> Employment in the public sector, where manning levels are set by government fiat rather than competitive market forces, has swollen to 5.9 million from 5.2 million in 1997.<sup>22</sup>

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<sup>19</sup> ONS Time Series Data and Labour market statistics, 16 August 2006.

<sup>20</sup> OECD Economic Outlook 77, Annex Table 20.

<sup>21</sup> ONS Labour Market Statistics November 2006, table 5(2).

<sup>22</sup> ONS Public Sector Employment, 7 April 2006, table 1.

## **BROWN'S RECORD ON BUREAUCRACY**

The number of permanent civil service staff has ballooned by 60,310 since 1998, and now totals over half a million. The Home Office more than doubled its permanent staff to 24,010 in 2004, but is still fraught with widespread inefficiency and incompetence. The new Secretary of State, John Reid, told a Parliamentary Committee in May 2006 that his department was "not fit for purpose". The ONS estimates that the productivity of Britain's benefits system (Department for Work and Pensions) has declined by two percent per year since Labour came to power.<sup>23</sup> The Inland Revenue (tax collectors) has taken on 27,000 extra staff to squeeze more juice out of hard working families and businesses. The prison service has expanded by 15%, to try to cope with the spurt in crime. But there are over 100,000 fewer members of the armed forces to defend Britain's borders and interests abroad than in 1991.

The sectors that have created the most productive jobs are Finance and Business Services. They now employ 6.2 million people in Britain, an increase of 1.2 million since 1997. Their growth has been largely the result of their own efforts and entrepreneurship. They have succeeded despite an ever growing tax burden. The employer's social insurance contributions of financial corporations alone ballooned to £43.5 billion in 2005 from £14.5 billion in 1996, and their corporate income taxes increased more than fourfold to £9.0 billion. Their employees paid out £35.0 billion in NIC's in 2005.<sup>24</sup>

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<sup>23</sup> Reported in The Times, 6.7.06.

<sup>24</sup> ONS Blue Book 2006, table 4.1.4

## **BROWN'S RECORD ON WELFARE**

In 1992, Labour accused John Major of "bribing people with their own money" by proposing tax cuts. Labour's rhetoricians sought to mellow out old-fashioned socialist arrogance by at least acknowledging that tax money belongs initially to the voters. But people can't be bribed with their own money until it has first been taken from them, in which case it is no longer theirs. However elegantly phrased, calling a tax a "bribe" betrays the conceptual flaw that now haunts socialism everywhere – the idea that it is the government's right to manage economic resources, rather than allowing individuals and private organisations to manage their own resources, with the government merely supplying the services it can most efficiently provide.

Gordon Brown has bribed voters with other people's tax payments. The government paid out £82.3 billion in cash benefits (excluding state retirement pensions) to 24.4 million households in 2004-05. 56% of these cash benefits went to 17.9 million non-retired households – those whose "chief economic supporter" is of working age. These households contain two adults and only 0.7 children on average. And 70% are owner-occupiers of their homes. Such households should normally be able to support themselves from their own earnings. Yet they received, on average, £3,030 a year in cash benefits from the state, and a further £5,302 worth of benefits in kind.

The 40% of non-retired households with the lowest (declared) disposable incomes got total benefits costing the government (or rather, taxpayers) £11,747 per household on average. But they paid only £2,808 in

direct taxes and NICs.<sup>25</sup> 9% of the “chief economic supporters” in this group are self employed, but report low earnings. 27% say they are unoccupied, but are not seeking employment. There are now more than eight million working age adults who are currently “unoccupied” in Britain.

Part of these benefit transfers helps to alleviate genuine hardship. But large sums come from honest taxpayers who are less well off than the recipients. A serious study estimates that the “black economy” – defined as the economic activities that are hidden from the public authorities to avoid taxation – amounts to over 10% of Britain’s GDP.<sup>26</sup> Gordon Brown has tolerated a system that doesn’t ask too many questions about the capacity to work of the millions receiving disability and child care benefits, or the true level of “black” income. It would not be surprising if many reward their political benefactors with their votes. But would hardworking families continue do so if they knew the extent to which their compassion is abused by tax evaders and welfare cheats?

## **BROWN’S RECORD ON SUBSIDIES**

Political calculations also seem to influence the geographical distribution of Government expenditure. Voting records show that New Labour has retained and even increased its support in the old industrial centres of the North and West, despite the decline in manufacturing

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<sup>25</sup> ONS, The effects of taxes and benefits on household income, 2004/05

<sup>26</sup> P.Lyssiotou, P.Pashardes and T.Stengos, “Estimates of the Black Economy Based on Consumer Demand Approaches”, The Economic Journal, July 2004.

and mining jobs. To what extent is this due to the flood of government money it has poured into these regions? A study by the Centre for Economics and Business Research (CEBR)<sup>27</sup> reveals that public spending represented 66.2% of GDP in Wales, 64.9% in the Northeast, 57.7% in Scotland and 56.1% in the Northwest in 2005-06. These are all Labour heartlands. Government contributes a much lower share of GDP in the Southeast (36.3%) and London (35.6%), and the gap has widened significantly over the last five years.

It might be argued that high government spending is a response to economic and social deprivation. But what is cause, and what effect? Free government services preempt or "crowd out" private enterprises which might use resources more efficiently and raise output/incomes. Government handouts may blunt incentives to work hard, or even to seek employment.

## **BROWN'S RECORD ON STABILITY**

The Chancellor often boasts about the success of his stabilisation policies. Speaking on 30 October 2006 he bragged that "in recent years Britain has led the world in securing a low interest rate, stable economy, founded on low inflation". He attributes this to his "prudent" government spending and his perspicacity in giving the Bank of England independence on monetary policy in 1997. In reality, IMF and OECD data show that Britain's long term interest rate has averaged 4.7% over the last five years, above the averages for the US (4.4%) and the

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<sup>27</sup> report in the Sunday Times 28.5.06

Euro area (4.3%). Britain's economy-wide inflation rate (GDP deflator) has averaged 2.4% annually during Gordon Brown's term of office, compared with 1.6% for all advanced economies since 1997. 17 (out of 29) members of this group achieved faster growth than did Britain during this period. So much for Brown's claim that Britain has led the world with his hand at the tiller. He clearly hasn't invented unique magic formulae for price, interest rate or economic stability.<sup>28</sup>

Moreover, he keeps quiet about the exogenous (external) factors that have helped to curb price increases. The Bank of England's task was made much easier by the rapid expansion of cheaper imports. The price of imported goods and services fell at an average annual rate of 1.7% from 1997-2004, while the share of imports in total final expenditure rose to 23.1% over the same period.<sup>29</sup> Many other countries benefited from the surge in cheap imports from low labour-cost countries like China and India, as well as from a decline in commodity prices (until recently). Inflation rates fell globally, irrespective of the degree of government control over central banks.

## **BROWN'S RECORD ON COMPETITIVENESS**

A true measure of New Labour's relative economic failure is the decline in Britain's international competitiveness. Its share of world exports of goods and services shrank from 5.5% in 1997 to 4.6% in 2005 and a projected

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<sup>28</sup> IMF World Economic Outlook April 2006, Statistical Appendix table 8 and OECD Economic Outlook 2006. Annex table 35.

<sup>29</sup> OECD Economic Outlook 2006, Statistical Annex tables 41, 54.

4.4% in 2006. Over the same period, foreign producers increased their penetration of Britain's domestic markets. The share of imports in total UK final expenditure rose to 24.1% in 2005 from 20.1% in 1997.<sup>30</sup> The average percentage for all OECD (advanced economy) members was 20.2% in 2005.

Even taking a more conventional indicator of performance – GDP growth – Gordon Brown has little to write home about. Average annual growth rates calculated by the IMF for the 1998-2007 period (including projections for 2006-07) show Britain lagging well behind the top performers. Real world output is expected to increase at a 4.0% average annual rate over this decade, compared with Britain's 2.7%. Among the twenty largest economies in the world – composing a kind of world super economic league, Britain was ranked in 15<sup>th</sup> place in the average rate of economic growth over the period 1997-2005.<sup>31</sup> If this was Gordon Brown's favourite game, football, he would have been sacked as manager long ago.

## **CONCLUSION**

As this short paper has showed, Gordon Brown's record as Chancellor hasn't lived up to his own rhetoric and boasts. The tax burden on ordinary people and businesses has risen steeply. Growth of disposable incomes has slowed. Huge increases in Government spending haven't delivered commensurate improvements

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<sup>30</sup> OECD Economic Outlook 77 Annex Tables 45, 54.

<sup>31</sup> World Bank, World Development Indicators 2006 table 1.1 and IMF World Economic Outlook April 2006 Statistical Appendix tables 1, 2 and 6.

in public services. Saving, both government and private, has dropped while debt has ballooned. Real Government investment has been far less than New Labour's spin has claimed. The bureaucracy has swollen, but remains inefficient. Tax evasion and welfare cheating has been tolerated, and the tax/benefit system manipulated for political ends. Government subsidies to the regions have been used to reinforce Party allegiances. The net result has been hugely damaging to ordinary people across Britain, and has weakened the competitiveness of Britain's industry at home and abroad.

Gordon Brown looks set to embark on a major campaign to spin the public that he has been a great success and that he should be trusted with the keys to No. 10. I hope this paper deals with some of his likely claims in advance.