GORDON BROWN'S BOASTS

HOW WELL HAS THE CHANCELLOR REALLY PERFORMED?

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CHAPTER ONE
INTRODUCTION

As his time in office lengthens, Gordon Brown appears increasingly proud about his achievements as Chancellor of the Exchequer. At the same time, he is happy to denigrate the performance of his rivals and predecessors. But how sustainable are the Chancellor's claims? In particular:

- are they solidly based on objective facts?
- are they part of every politician's attempt to impress the voters?
- are they as exceptional as he makes out?
- are they commonplace results shared by many countries and finance ministers?
- are they poor compared to the achievements of others?
- can they be directly attributed to his decisions and talents?
- or do they derive largely from the actions of others, including previous Chancellors?

This study examines some of the Chancellor's recent claims against evidence published by independent statistical bodies such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund (IMF), and Britain's Office for National Statistics (ONS).

CHAPTER TWO
'THE OLD DISEASE OF STOP-GO'?

THE BOAST

> For decades after 1945, Britain repeatedly relapsed into recession, moving from boom to bust. But I can report that since 1997 Britain has sustained growth not just through one economic cycle but through two economic cycles, without suffering the old British disease of stop-go… I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years.
>
> Chancellor's Budget Statement, 17 March 2004.

THE EVIDENCE

This statement distorts historical facts. And it presents a one-sided view of the impact of recessions.

Britain has relapsed into a recession (i.e. a fall in GDP) lasting a year or more only three times since 1959 (when the IMF's international times series begins). The periods affected were 1974-75, 1980-81 and 1991.[1] Shorter-term fluctuations (quarter to quarter) in GDP are not significant as they may reflect exogenous factors such as extreme weather conditions, changes in the timing of national holidays, or sampling errors by the statistical authorities. They also have negligible effects on most people's well being. Thus the historical time series published by OECD, IMF and World Bank report year to year changes only.

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1 IMF, *International Financial Statistics Yearbooks*, 1987 and 2003.

Britain's real GDP grew in every one of the 40 other years over the period 1959-2004, and at a considerably faster average annual pace than it dropped during the infrequent recessions.

Nor is the length of the current period of growth unique: Britain sustained continual annual GDP growth for a 15 year period from 1959-1973 inclusive, longer than the current expansion of 12 years (of which six were under the Conservatives).

Nor does continued growth necessarily produce a better outcome than "the disease of stop-go". Britain achieved an average annual rate of real GDP growth of 3.2% from 1980 to 1990, despite a two-year recession in 1981-82.[2] In contrast, Britain's growth under the stewardship of Gordon Brown has averaged 2.6% annually, despite avoiding a recession.

Continued growth does not necessarily produce a better outcome than "stop-go". Annual growth from 1980 to 1990 averaged 3.2% despite a two year recession. Britain's growth under Gordon Brown has averaged just 2.6% p.a.

Nor have there been two "economic cycles" since 1997. World output (real GDP) has expanded every year since 1997. The slowest year for growth was 2001, with a 2.4% global growth rate. World growth averaged 3.4% annually from 1998-2003, topping Britain's results every year except 1998.

TABLE 1: NO SLUMP IN WORLD OUTPUT

	1998	1999	2000	2001	2002	2003	2004*
			(annual percentage change in real GDP)				
World	2.8	3.7	4.7	2.4	3.0	3.9	4.6
UK	3.1	2.8	3.8	2.1	1.7	2.3	3.5

* IMF projection.

Source: IMF, *World Economic Outlook*, April 2004, Appendix tables 1 and 2.

Among 29 advanced countries covered, only nine have experienced a fall in output in any year since 1997, and the drop was mostly quite minor (less than 1.0%).[3]

IS "STOP-GO" SUCH A BAD DISEASE?

Minor cyclical fluctuations in output are commonly experienced throughout the world. Every member of the G7 group of leading industrial powers has experienced a short-lived recession since 1990. So have all the dynamic Newly Industrialised Asian Economies (NIAEs).

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2 World Bank, *World Economic Indicators* 1997, table 4.1.

3 IMF, *World Economic Outlook April 2004, Appendix table 2.*

However, from a historical perspective, most downturns pale into insignificance. They shouldn't be thought of as a major disease. After his seminal studies of economic growth since the industrial revolution, Professor Simon Kuznets concluded:

> Except during periods of violent revolutionary change in institutions and of major wars – both necessarily limited – modern economic growth rates are steady; successive sub-periods (say of one or two decades) rarely show a drop in the rate of growth below a fairly high positive minimum.

He estimated that Britain achieved a rate of growth of total product averaging 28.2% per decade from 1780 to 1881, resulting in a twelve-fold increase in output over the century. From 1855-59 to 1957-59, its average growth rate per decade was 21.1%, generating a 6.8 fold increase over the century despite two world wars.[4]

By constantly repeating the theme of "stop-go", the Chancellor is trying to create a politically advantageous myth. But an economy doesn't grind to a halt during a recession. During the last recession of 1991, Britain's workers produced goods and services worth £650 billion (in constant 1995 prices). This was £9 billion lower than in 1990, but £90 billion more than in 1985.[5] A short recession, dismissively called "bust" by the Chancellor, is not an unmitigated disaster for all of the country. "Creative destruction" drives out inefficient firms, allows dynamic sectors to recruit needed labour more easily, and stimulates increases in productivity. Governments are also encouraged (or obliged) to cut out waste. During the 1991 recession real household disposable income still rose by 1.8%.[6] So, while some people undoubtedly did suffer a significant setback, most people didn't. What matters to ordinary people is not the absence of cyclical fluctuations in output, but the effect of government policies on their take-home income in the long run.

Booms also have positive effects. Booms encourage entrepreneurs to start up new businesses, take risks and invest in new technologies. The British boom of 1986-89 sparked off a surge in investment. Real private non-residential investment soared at an average annual rate of 13.0% from 1987-89. But under the Chancellor's vaunted "stability" it has crept up at an average annual rate of just 1.1% since 1998.[7] The ratio of total investment to GDP has also declined every year since 1998. It fell to a mere 16.3% in 2003 from 18.1% in 1998; and an average of 19.0% from 1982 to 1989. Britain's investment ratio remains well below the average level for advanced countries, and is now less than half that of Asian developing countries, which include China and India.

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4 See Simon Kuznets, *Modern Economic Growth: Rate, Structure and Spread*, Yale University Press, 1966.

5 ONS, United Kingdom National Accounts, *The Blue Book* 2001, table 1.1.

6 ONS, UK National Accounts, *The Blue Book* 2001, table 8.10.

7 OECD, *Economic Outlook* 2003, Annex table 6.

The dynamic Asian economies are recession prone. Korea's GDP fell by 6.9% and Hong Kong's by 5.0% in 1998. Singapore's output dropped by 0.9% in 1998 and 1.9% in 2001. Thailand and Malaysia suffered massive contractions of 10.5% and 7.4% in 1998. But their strong and sustained booms have lifted their investment levels to a high plateau (over 30% of GDP), thus creating the enlarged production capacity and enhanced labour productivity necessary to drive economic growth forward at a faster long-term rate. The IMF expects the NIAEs to achieve an average GDP growth rate of 4.4% from 1996-2005. Growth in the other emerging market and developing countries of Asia (including China and India) is projected to average 6.6% annually over the same ten year period.

In the world's premier economic league, composed of the 20 largest economies measured by their Gross National Income (GNI), Britain was ranked sixth in size in 2001 but only tenth in the average rate of growth over the last five years. Among the ten countries listed, all but two (China and India) have experienced recessions since 1990. So stability is not the paramount economic virtue Gordon Brown would have us believe.

TABLE 2: MEDIOCRE UK GROWTH PERFORMANCE OVER THE LAST FIVE YEARS

	1999	2000	2001	2002	2003	Average annual growth rate 1999-2003	Growth ranking 1999-03	Size ranking 2001*
	(annual percentage change, real GDP)							
China	7.1	8.0	7.5	8.0	9.1	7.9	1	2
Russia	6.3	10.0	5.1	4.7	7.3	6.7	2	10
Korea	9.5	8.5	3.8	7.0	3.1	6.4	3	13
India	6.7	5.4	4.0	4.7	7.4	5.6	4	4
Iran	1.2	5.9	5.4	7.2	5.9	5.1	5	20
Canada	5.5	5.3	1.9	3.3	1.7	3.5	6	11
Australia	4.3	3.2	2.5	3.8	3.0	3.4	=7	15
Indonesia	0.8	4.9	3.5	3.7	4.1	3.4	=7	14
US	4.4	3.7	0.5	2.2	3.1	2.8	9	1
UK	2.8	3.8	2.1	1.7	2.3	2.5	10	6

* measured by Gross National Income in purchasing power parity dollars.

Sources: IMF, *World Economic Outlook*, April 2004, tables 2 and 6; and World Bank, *World Development Indicators*, 2003, table 1.1.

These facts contradict the Chancellor's assertion that:[8]

> The nations that succeed in this new global economy are those that entrench stability and do nothing to put it at risk.

That is surely more a formula for risk aversion, mediocrity, and relative economic stagnation than a prerequisite for growth and prosperity.

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8 Speech at the launch of UK Business Week, 8 June 2004.

CHAPTER THREE
'THE LOWEST INFLATION AND INTEREST RATES'?

THE BOAST

> I believe that it is because we imposed (the) "British Model" for stability – which allowed the Bank to cut interest rates aggressively during the world downturn and allows the Bank to act proactively and pre-emptively in the upturn too – that while the USA, Germany, Italy and France suffered recessions, Britain for the first time in 50 years did not suffer a recession… It is not by accident but by the specific actions we have taken together that we have the lowest inflation rate for 30 years, the lowest interest rates for 40 years.
>
> Speech at the Institute of Directors 2004 Annual Convention, 28 April 2004.

THE EVIDENCE

The so-called "British model" is not unique. Nor is it more effective than the monetary policies adopted elsewhere. Other countries have lowered inflation and interest rates still further. Britain, like others, has benefited from a decline in import prices in recent years.

Economic stability is usually defined as monetary stability, or a low rate of inflation. Inflation has fallen since 1997. But the change is not spectacular. Britain's GDP deflator, which measures the annual rate of price change in the economy as a whole, declined from a ten-year average of 4.7% from 1986-95 to 3.1% in 2003. Most of the progress was made by the Tories. After inflation had reached a peak of 27.1% in 1975, they brought it down to 6.4% in 1990 and

2.9% in 1997.[9] Gordon Brown handed responsibility for monetary policy to the Bank of England in 1997. It lowered GDP deflator slightly to 1.4% in 2000, but it has crept above 3% in the last two years.

TABLE 3: INFLATION HAS FALLEN WORLDWIDE, BUT RECENT UK RECORD IS NOTHING TO SHOUT ABOUT

	1975	1990	1997	1998	1999	2000	2001	2002	2003
	(annual percentage change in GDP deflator)								
World	14.3	26.5	5.1	4.7	3.2	4.1	3.9	n.a	n.a
Industrial Countries	11.9	4.6	1.6	1.2	0.8	1.5	1.8	1.2	1.3
UK	27.1	6.4	2.9	2.8	2.3	1.4	2.3	3.2	3.1
Western Hemisphere	39.4	469.5	11.9	8.6	8.2	9.5	5.0	n.a	n.a
Developing Asia	25.8*	9.0	4.4	8.3	1.2	2.4	n.a	n.a	n.a

* 1974

Sources: IMF, *International Financial Statistics Yearbook*, 1998 and 2003; and *World Economic Outlook*, April 2004, Appendix table 8.

Gordon Brown's record on inflation is nothing to shout about: since 1997, Britain's GDP deflator has averaged nearly 2.5%, nearly double the rate for all industrialised countries (1.3%).

The present Chancellor's inflation-busting prowess pales in comparison to many others. The rate of increase in overall prices in Western Hemisphere countries tumbled to 5.0% in 2001 from 469.5% in 1990. For all industrial countries (OECD members), the rate declined to 1.3% in 2003 from 11.9% in 1975, while the world average shrank to 3.9% in 2001 from 26.5% in 1990. Since 1997, Britain's GDP deflator has averaged 2.5%, nearly double the average rate for all industrial countries (1.3%).

Gordon Brown clearly hasn't discovered a magic remedy for inflation of which only he knows the formula. Most countries have applied more prudent monetary and interest rate policies over the past decade. They also have all escaped the impact of external shocks, such as the tripling of oil prices in the early 1980s. And inflation-fighting over the last decade has been greatly facilitated by a 2.2% average annual decline in non-fuel commodity prices from 1996 to 2002; and by a drop in the prices (in dollars) of manufactured imports averaging 2.8% annually.[10] But the recent upturn in oil and other commodity prices (particularly steel) are signs of renewed inflationary pressure.

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9 IMF, *International Financial Statistics Yearbook*, 1998 and *World Economic Outlook*, April 2004, Appendix table 8.

10 IMF, *World Economic Outlook*, April 2004, Appendix table 20.

The story on interest rates is similar. According to the IMF, the average British nominal bank lending rate reached a peak of 14.75% in 1990, but was lower than in eight other industrial countries, including Spain, Sweden, Greece and Australia. It fell to 5.96% in 1996, when it was well below prevailing levels in the US (8.27%), Germany (10.02%), Italy (12.06%) and France (6.77%). The size of the fall in lending rates, measured in percentage points, was greater under the last Tory Chancellor (Kenneth Clarke) than in seven out of the nine other countries included in table 4. Progress continued under Gordon Brown, but at a slower pace. The average British lending rate reached its lowest point of 3.5% in the third quarter of 2003, but has since risen to 4.5%, topping the rates for the US, Canada, Netherlands, Ireland and Switzerland.[11]

TABLE 4: BANK LENDING RATES DROPPED FASTER UNDER KENNETH CLARKE THAN UNDER GORDON BROWN

	1990	1996	Change in % points 1990-96	1998	2003	Change in % points 1998-03
			(bank lending rates, &)			
UK	14.75	5.96	-8.79	7.21	3.69	-3.52
US	10.01	8.27	-1.74	8.35	4.12	-4.23
Germany	11.59	10.02	-1.57	9.02	9.57	+0.55
France	10.49	6.77	-3.72	6.55	6.60	+0.05
Italy	14.09	12.06	-2.03	7.88	5.03	-2.85
Spain	16.01	8.50	-7.51	5.01	4.31*	-0.70
Sweden	16.69	7.38	-9.31	5.94	8.54*	+2.60
Canada	14.06	6.06	-8.00	6.60	4.69	-1.91
Australia	20.48	11.00	-9.48	8.04	8.41	+0.37
Greece	27.62	20.96	-6.66	18.56	6.79	-11.77

* 2002.

Sources: IMF, *International Financial Statistics*, Yearbooks 1998 and 2003 and May 2004.

[11] IMF, *International Financial Statistics Yearbook*, 2003 and May 2004.

CHAPTER FOUR
A DEEPER 'GLOBAL DOWNTURN'?

THE BOAST

> In a global downturn deeper and more serious than that of the early 1990s, Britain is doing better than the rest of the world, whereas in the early 1990s, faced with a lesser contraction in global growth and output, Britain did far worse.
>
> Chancellor's statement in the House of Commons, November 18, 2003.

THE EVIDENCE

Data published by the IMF, OECD, WTO and ONS show these claims to be false. There has been no downturn (i.e. contraction) or even slowdown in world output over the last three years. And as all Britain's growth rates for these years are below the global rates, the Chancellor's claim that that it is doing better than the rest of the world is incomprehensible.

TABLE 5: UK GROWTH IS LOWER THAN THE REST OF THE WORLD'S

	Annual GDP growth (%)			
	2001	**2002**	**2003**	**2004***
World	2.4	3.0	3.9	4.6
UK	2.1	1.7	2.3	3.5

* Data for 2004 are forecasts

Source: IMF, *World Economic Outlook*. April 2004, Appendix tables 1 and 2.

The world experienced a more severe, and longer sustained, economic slowdown (not downturn) during the early 1990s than it has in the early 2000s.

The WTO says that world GDP went up at an average annual rate of just 0.9% from 1991 to 1993, well below the 2.5% average rate in 2000-2002.[12] According to the WTO, the 1991-93 years experienced the slowest growth over any three-year period since 1950. The IMF, using a different measure, says that world real GDP rose at an average annual rate of 3.1% over the 2001-2003 period, compared with 2.2% from 1991 to 1993.[13]

The IMF, OECD, WTO and ONS all agree that, despite Gordon Brown's claims to the contrary, there has been no global downturn or even slowdown in the last three years.

Moreover, the G7 economies have proved to be more resilient in recent years. Six out of the seven major (G7) economies suffered a recession lasting a year or more during the 1991-93 period. Only two did over the 2001-03 period, and their contractions were minor. Japan's GDP fell by just 0.3% in 2002 and Germany's by 0.1% in 2003. As well as far worse global conditions, the British economy was affected by two external shocks in the early 1990s. In 1991, seven of its main OECD markets were in recession, including the US. Three countries experienced a more severe contraction than Britain's minus 1.4%.[14] Then in 1993, its largest combined market (members of the current Euro area) shrank. Euroland's total real domestic demand fell by 2.1%. Italy's collapsed by 5.1%, Sweden's by 4.6%, Spain's by 3.3% and France's by 1.7%. Yet Britain's GDP rose by 2.7% in 1993, and its total real exports of goods and services went up by 4.4% that year (compared with 3.0% for all OECD members).[15] This robust performance in a sluggish global economy is a tribute to the resilience and competitiveness of the British economy at the time. It invalidates the Chancellor's criticism that Britain "did far worse" than the rest of the world during the early 1990s. Britain's GDP surged forward at a 3.4% average annual rate over the next four years, well ahead of Euroland's 2.1%.

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[12] The WTO's estimates are weighted averages of economies' real GDP growth. The weights used are shares of economies in 1990 world nominal GDP converted to dollars at market exchange rates. See WTO, *International Trade Statistics*, 2002, Table II.1.

[13] The IMF data uses purchasing power parities. See *International Financial Statistics Yearbook*, 2003.

[14] OECD, *Economic Outlook*, June 2002, Statistical Annex Table 1.

[15] OECD, *Economic Outlook*, June 2002, Statistical Annex Tables 1, 8 and 9.

CHAPTER FIVE
'MORE STABLE THAN ANY NEIGHBOUR'?

THE BOAST

> We are not just one of the only major industrialised countries to have avoided recession, but have been more stable than any of our neighbours over the last few years.
>
> Speech to the Engineering Employers' Federation, 10 February 2004.

THE EVIDENCE

The Chancellor puts great faith in the importance of stability, particularly in the sense of avoiding recession. As has been argued above, this is a questionable virtue. But how accurate is he in claiming to have achieved stability? In particular, how stable have the various sectors of the economy been? Have they all enjoyed the Chancellor's longed-for stability?

Manufacturing, for example, hardly corresponds to the Chancellor's ideal of stability. Its 2003 output was 4.8% down on 2000. And the whole of production industry has suffered a drop of 4.8% since 2000. From 1997 to 2001, production industries as a whole lost 434,000 workers, after having created 122,000 new jobs from 1993 to 1997.[16] And jobs in manufacturing dropped by 286,000 between 2001 and 2003.

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16 Employment data from ONS, National Accounts *Blue Book* 2002, Table 2.5.

The textile, leather and clothing industry has fared even worse. Its output has contracted by a massive 24% since 1999, as an overvalued pound has made it more difficult to resist labour-intensive imports.

More surprisingly, production has also fallen in skill- and capital-intensive industries where Britain would be expected to enjoy strong competitive advantages. Output from the engineering and allied industries in 2003 was nearly 10% below its 2000 level. Production of capital goods of all kinds was 7.8% down. And output of refined petrol and nuclear fuels shrank by 10.4%.

TABLE 6: MANY BRITISH INDUSTRIES ARE DECLINING OR STAGNANT

	Agriculture, forestry & fishing	Mining, quarrying inc. gas & oil extraction	Total manu-facturing	Capital goods	Intermediate goods & energy
1999	100.6	103.3	97.6	96.5	98.2
2000	100.0	100.0	100.0	100.0	100.0
2001	89.9	94.5	98.7	98.4	96.6
2002	101.0	94.4	95.1	90.0	95.0
2003	98.3	88.5	95.2	92.2	93.3

TABLE 6 CONTINUED

	Coke, refined petrol & nuclear fuels	Basic metals & metal products	Engineering & allied industries	Food, drink & tobacco	Textiles, leather & clothing
	Index numbers of value added at chained volume measures Year 2000 = 100.0				
1999	95.0	98.0	95.0	100.7	103.4
2000	100.0	100.0	100.0	100.0	100.0
2001	94.2	97.9	96.6	100.8	89.2
2002	96.4	93.3	88.5	101.6	82.2
2003	89.6	91.1	90.2	101.2	79.9

Sources: ONS, *United Kingdom Economic Accounts*, Quarter 4 2003 and *Index of Production*, April 2004.

Services have performed better. But even there, the previously dynamic transport and communications sector, which enjoyed growth of 8.9% in 2000, has remained relatively static since 2001. Its value added crept up by only 2.4% over the last two years. Real estate, renting and business services continued to boom, exploiting the run-away inflation in house prices. At the end of 2003, its output was 17.4% higher than in 2000.

The retailing sector has also prospered. Its 2003 output was 29% higher than in 1997 and 16.4% above the level in 2000 in constant prices.[17] This upsurge reflects a boom in consumer demand fed by rapidly growing consumer debt. Consumers borrowed a record £6.4 billion in April 2004, and the stock of personal debt is likely to push through the £1 trillion

[17] ONS, *Retail Sales*, May 2004.

barrier this summer, equalling the UK's national income for the first time. Rising interest rates are failing to curb the "buy now, pay later" culture.[18] The biggest gainers have been textile, clothing and footwear stores (29% increase since 2000) and household goods stores (26% growth). However, the main beneficiaries have been foreign suppliers rather than British manufacturers of these goods.

Financial services have also done well, but have expanded at a slower pace since 2001 than earlier. Their output was just 3.3% higher in 2003 than in 2001.

TABLE 7: BOOMING SERVICES HAVE CREATED AN ILLUSION OF ECONOMY-WIDE "STABILITY"

	Retailing	Post & telecommunications	Financial intermediation	Real estate, renting & business services	Health & social work
	Index numbers of value added at chained volume measures Year 2000 = 100.0				
1999	95.7	87.1	92.9	92.9	96.1
2000	100.0	100.0	100.0	100.0	100.0
2001	106.1	107.9	105.2	104.5	103.3
2002	112.7	108.2	105.0	108.0	106.6
2003	116.4	112.9	108.5	114.1	110.0

Sources:ONS, *UK National Accounts*, Quarter 4 2003, and *Retail Sales*, May 2004.

UNSTABLE INVESTMENT PATTERNS

Under New Labour, gross private non-residential investment has oscillated from an unsustainable boom in 1998 (20.6% growth), through a bust in 2002 (-3.5%) and relative stagnation in 2003 (1.5%). Over the last five years, it has managed an average annual investment growth rate of just 1.7%.

Under the Tories, private investment had expanded at an average annual rate of 6.5% from 1979-89, and 3.4% from 1990-1997, despite recessions in both periods.[19] From 1979 to 1989, Britain's private investment had expanded at more than double the average rate for the Euro area (2.6%), and it more than kept pace with its neighbours from 1990-97. But since 1998, its growth has fallen behind both its neighbours and OECD members as a whole.

TABLE 8: PRIVATE INVESTMENT HAS SLACKENED

	1979-89	1990-97	1999-2003
	(average annual percentage changes)		
UK	6.5	3.4	1.7
Euro area	2.6	1.1	2.0
Total OECD	4.3	7.8	2.0

Source: OECD, *Economic Outlook 74*, 2003, Annex table 6.

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18 Report in *The Times*, 22 May 2004.

19 OECD, *Economic Outlook 74*, 2003, Annex Table 6.

The housing market has been the antithesis of stability. House prices have risen 20% over the last 12 months and more than doubled over the last five years. In relation to average earnings, UK nationwide prices are now two thirds higher than they were in 1997. As a result, the Governor of the Bank of England warned in a speech in Glasgow on 14 June 2004 that house-hunters should beware before they plunge into the market because of the growing risk that prices will drop.

The Chancellor appears unwilling to accept that the economy is deeply unstable. This may or may not be a good thing. But he should resist the temptation to make false claims.

CHAPTER SIX
A 'TRULY ENTERPRISING' ECONOMY?

THE BOAST

> Just as Britain has moved from the stop-go economy of the industrialised world to one of the more stable, so too Britain can complete its transition from being seen twenty years ago as one of the most corporatist economies of the industrialised world to in the 21st century being seen as truly enterprising… In this new century I want people who look around the world to think also of Britain as one of the great global success stories for enterprise.
>
> Speech at the launch of UK Business Week, 8 June 2004.

THE EVIDENCE

An important attribute of successful enterprise is the ability to compete in world markets. The 21st century has started badly in this respect. Britain's share of world exports of goods and services dropped to 4.9% in 2003 from 5.6% in 1998 and 1990. These figures are important because they reveal shifts in relative competitive strengths, as well as changes in the composition of exports, whereas trends in export volumes or values in absolute terms reflect year to year variations in the global economic climate.

Most of the gains in market shares were made by developing Asian economies. Their overall share increased to 16.9% in 2003 from 10.3% in 1990. But Japan is no longer the powerful trading force it used to be, losing more than two percentage points in world market share since 1990. Both Germany and France have recovered some of their competitiveness over the last three years, apparently at the expense of the UK.

TABLE 9: BRITAIN'S GRADUALLY SHRINKING SHARE OF WORLD EXPORTS

	1990	1997	1998	1999	2000	2001	2002	2003
	(percentage, values for goods and services, national accounts basis)							
UK	5.6	5.5	5.6	5.5	5.2	5.2	5.1	4.9
France	6.1	5.2	5.6	5.3	4.8	4.9	4.9	5.0
Germany	12.1	8.5	9.2	8.9	8.1	8.6	9.0	9.4
US	13.1	14.0	14.2	14.1	14.0	13.6	12.7	11.6
Japan	7.5	6.7	6.2	6.4	6.5	5.7	5.6	5.4
Non-OECD Asia	10.3	16.0	14.7	15.1	16.2	16.0	16.8	16.9

Source: OECD, *Economic Outlook 74*, 2003, Annex table 46.

Another indicator of competitiveness is the balance of trade. A widening trade deficit suggests that foreign suppliers are having more success in selling goods and services in the British market than our exporters are having in theirs. The volume of Britain's exports of goods and services suffered a 2.2% drop between 2001 and 2003 and its trade deficit rose by £6 billion to reach £33.4 billion.[20] The deficit in its trade in goods with EU members more than doubled over the last two years, totalling £24.2 billion in 2003.

International surveys show an alarming decline in the competitive position of the UK since Labour came into power.

This falling competitiveness is confirmed by a number of international surveys, in each of which the UK's ranking has dropped precipitously since 1997.[21] For example, the world competitiveness league table published by the Geneva-based World Economic Forum lists countries in order of their "capacity for medium-term economic growth" based on eight aspects of their economies. The ranking of the UK has been:

TABLE 10: WORLD ECONOMIC FORUM: FALLING UK COMPETITIVENESS

	1998	1999	2000	2001	2002	2003
UK ranking	4	8	8	12	11	15

The Swiss-based Institute for Management Development publishes a world competitiveness scoreboard. The following table shows:

(a) the ranking of the UK compared to all other countries surveyed;

(b) the ranking of the UK compared to countries with a population of over 20 million.

TABLE 11: IMD: FALLING UK COMPETITIVENESS

	1997	1998	1999	2000	2001	2002	2003	2004
a. All countries	9	13	19	16	19	16	19	22
b. Population 20m +	3	6	6	5	6	5	5	8

20 ONS, *UK Trade*, April 2004.

21 See J Littlewood, *The Stock Market under Labour: for New read Old*, CPS, 2004.

The Index of World Economic Freedom, co-published by the US-based Heritage Foundation and the *Wall Street Journal*, shows a similar picture:

TABLE 12: INDEX OF WORLD ECONOMIC FREEDOM: FALLING UK COMPETITIVENESS

	1998	1999	2000	2001	2002	2003	2004
UK Ranking	3	4	8	7	9	9	7

There is a consistent pattern in these international surveys: an alarming decline in the competitive position of the UK since Labour came into power.

While Britain's competitiveness has been declining since 1997, that of the developing Asian economies has been increasing. China has now overtaken Britain among the world's leading exporters. China's merchandise exports rose by 22% in 2002 and by 11% annually from 1995-2000. Its share of world exports reached 5.0%. India too has become a force to be reckoned with. It is now not only among the top 15 exporters of textiles, but also has made substantial inroads into the world markets for IT services and call centres. Its exports of commercial services have surged at a 35% annual rate since 1995.

In contrast, Britain's merchandise exports went up by just 4% annually between 1995 and 2002. And even in commercial services, where Britain's emerging competitive advantage is said to lie, it lost market share in two out of the three categories separately identified in WTO statistics.[22] Britain is now sixth in the rankings of the world's largest economies (measured in purchasing power parity dollars), while China has jumped to second and India fourth.[23]

British enterprises had held their own in world markets during Conservative rule, refuting the Chancellor's accusations of instability and corporatism. Their share of world exports stood at 5.5% in both 1991 and 1997. Germany's share rose to 9.4% in 2003 from 8.1% in 2000, after falling to 8.5% in 1997 from 12.1% in 1990.[24]

According to the OECD, Britain's export performance deteriorated by –3.1% in 2002 and -3.5% in 2003.[25] In fact, negative figures are recorded in six out of the seven years that the Chancellor has been in office. They had been positive during eight out of the last 11 years of Conservative leadership.[26] And the erosion of British competitiveness under his stewardship has resulted in a wider current account deficit. It reached -2.7% of GDP in 2003, up from virtual balance (-0.1%) in 1997 [27].

22 The only bright spot was in a residual category of "other commercial services" which includes financial, construction and business services. Britain's share of world exports in this field rose to 11.4% in 2002 from 8.2% in 1995.

23 WTO, *International Trade Statistics*, 2003, tables III.36 and III.72.

24 OECD, *Economic Outlook*, 2003, Annex table 46.

25 This is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each export country's markets, with weights based on trade flows in 2000.

26 OECD, *Economic Outlook*, 2003, Annex table 45.

27 OECD, *Economic Outlook*, 2003, table 46.

CHAPTER SEVEN
'1.8 MILLION' MORE PEOPLE IN WORK

THE BOAST

> The number of people in work has grown by 1.8 million
>
> Speech to the Institute of Directors, 28 April 2004.

THE EVIDENCE

1.8 million sounds like a lot of new jobs. But the IMF says that Britain's employment rose at an average annual rate of just 1.0% from 1998 to 2003. This equals the average for all advanced countries, but is well below the rates achieved by Spain (3.9%), Canada (2.3%), France (1.4%) and the whole Euro area (1.3%). As Britain's population is expanding, the economy needs to generate a lot of additional jobs each year. According to the ONS, the number of people of working age is growing at an annual rate of 0.6% in Britain.

TABLE 13: EMPLOYMENT HAS EXPANDED FASTER IN SOME COUNTRIES

	1997	1998	1999	2000	2001	2002	2003	1998-03 average
	(annual rates of growth, %)							
Spain	3.3	4.1	5.5	5.5	3.7	2.0	2.7	3.9
Canada	2.3	2.7	2.8	2.6	1.1	2.2	2.2	2.3
France	0.4	1.5	2.0	2.6	1.8	0.6	0.2	1.4
Euro area	0.9	1.8	1.8	2.2	1.4	0.4	0.2	1.3
US	2.3	1.5	1.5	2.5	0.0	-0.3	0.9	1.0
UK	1.8	1.0	1.3	1.1	0.8	0.7	0.9	1.0
Advanced econ.s	1.4	1.1	1.4	2.1	0.7	0.3	0.6	1.0

Source: IMF, *World Economic Outlook*, April 2004, Appendix table 4.

However, the British economy has been consistently more successful than its main competitors, whatever the political stripes of its leaders, in creating jobs for people of working age. The latest internationally comparable figures show that 72.7% of Britons aged between 16 and 64 years were employed in 2002. This ratio was only 0.2 percentage points above the level in 1990, but easily topped the ratios for Germany (65.3%), France (61.1%) and Spain (59.5%) in 2002. The ONS reports a 74.8% employment ratio for Britain in the first quarter of 2004. But this figure is not comparable with OECD data because it excludes women aged 61-65 from the count and denominator.

TABLE 14: BRITAIN HAS ACHIEVED HIGH EMPLOYMENT RATIOS UNDER BOTH TORY AND LABOUR GOVERNMENTS

	1990	1998	1999	2000	2001	2002
		(Employment/population ratios: persons aged 16-64 years in percent)				
UK	72.5	71.2	71.7	72.4	72.8	72.7
US	72.2	73.8	73.9	74.1	73.1	71.9
Germany	64.1	64.7	65.2	65.6	65.8	65.3
France	59.9	59.4	59.8	61.1	62.0	61.1
Spain	51.1	52.4	55.0	57.4	58.8	59.5
OECD	65.1	65.2	65.5	65.7	65.5	65.1
EU	61.5	61.7	62.6	63.6	64.2	65.1

Source: OECD, *Employment Outlook*, July 2003, Table B.

It should be noted that the bulk (76%) of the 477,000 net new jobs created over the last two years are in public administration, education and health services, mostly within the public sector.[28] It is not too difficult for a Chancellor to create government jobs if he controls the public purse, and can oblige taxpayers to cough up £100 billion more in compulsory levies in 2003 than they had to do in 1996.[29]

Employment in the public sector is now 10% higher than in 1998 due to the creation of additional 509,000 jobs.

A separate, individually-authored ONS study found that 162, 000 new jobs were created in the public sector in the year to June 2003, considerably more than the 89,000 for the previous year. Employment in the public sector is now 10% higher than in 1998, due to the creation of an additional 509, 000 jobs. The authors point out that the fastest growing areas of public sector employment are where there has been the largest additional public spending. Education and health had the bulk of job gains in 2003, with 88,000 in education and 63,000 in health. Other central government employment and police added 22,000 and 9,000 respectively.[30]

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28 ONS, *Labour market statistics*, June 2004.

29 ONS, *Public Sector Accounts*, 1st quarter 2004.

30 Ole Black, Ian Richardson and Rhys Herbert, *Jobs in the Public Sector Mid-2003*, ONS, 2004.

TABLE 15: BUT MOST NEW JOBS HAVE BEEN CREATED IN PUBLIC SERVICES RECENTLY

	Dec 2001	Dec 2002	Dec 2003	Change 2001-2003
		(employment by sector in 000s)		
Agriculture & fishing	462	410	437	- 25
Energy & water	218	208	205	- 13
Manufacturing	3,975	3,781	3,689	- 286
Construction	1,938	1,967	2,082	+ 144
Distribution, hotels & restaurants	6,870	6,974	7,018	+ 148
Transport & communications	1,828	1,840	1,810	- 18
Finance & business services	5,763	5,773	5,851	+ 88
Public admin. education & health	6,960	7,133	7,324	+ 364
Other services	1,815	1,652	1,890	+ 75
All jobs	29,829	29,939	30,306	+ 477

Source: ONS, *Labour market statistics*, June 2004, table 5.

However, it would be mean-spirited not to acknowledge Britain's success in reducing the unemployment rate (using the government's preferred labour force survey measure) to 4.8% in April 2004. This is well below the unemployment levels in most EU countries. But the Chancellor should give some credit where it's due – to Tory governments that made markets more flexible by their tax and labour reforms, and privatisation programmes.

CHAPTER EIGHT
THE NEW DEAL

THE BOAST

> From 1997, the New Deal has helped 1 million men and women move from unemployment to employment.
>
> Budget Statement, 17 March 2004.

THE EVIDENCE

There is no solid basis for attributing so many new jobs to Labour's welfare-to-work programmes. Official assessments by the Department for Work and Pensions and HM Treasury show that the proportion of New Deal participants finding a job on leaving the programme varied considerably across the schemes.

For the long-term unemployed, just over a fifth got into jobs lasting more than 13 weeks. An evaluation carried out on behalf of the Government found that the New Deal for Young People (NDYP) had helped only 16,000 people find a job at a cost of £7,000 for each job.[31] Studies of similar youth labour market measures across a number of OECD countries have also reported little impact.

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31 R. Riley and G. Young (2001) *The Macroeconomic impact of the New Deal for Young People*, NIESR Discussion Paper 184.

The New Deal programme for lone parents appears to have been more successful, with a 52% job-finding rate.[32] But there is no way of knowing how many would have found jobs anyway, due to growing demand from employers.

The New Deal for Young People has helped just 16,000 people find a job at a cost of £7,000 each.

Studies conducted in several advanced economies, including Britain, suggest that structural reforms have a more powerful effect on unemployment. A recent review of these studies by the IMF[33] concludes that the benefits of reforms tend to materialise in the long run, although the dynamic effects on unemployment vary somewhat across the reforms:

- tax reforms reduce unemployment in the short run and, to a larger extent, in the long run;
- trade liberalisation and labour market deregulation increase unemployment in the short run and reduce it in the long run;
- financial reforms have had small effects on unemployment; and,
- product market reform appears to raise unemployment rates in both the short and long run; while surprising, these last findings may reflect the fact that the study examined the effect of reforms in seven service sectors, where pre-reform employment was sometimes above efficient levels owing to the presence of state ownership.

These studies covered 12 year periods from the inception of reforms. They showed that tax, trade and labour market reforms have a cumulatively greater impact as time goes on. So the fact that British unemployment is now below the levels in most European countries is not because Gordon Brown has pursued more prudent monetary and fiscal policies than his Continental counterparts. They have been equally or even more prudent. The real reason is that he is reaping the benefits of Conservative tax and labour market reforms. Britain's labour market is now far more flexible than in the rest of the EU, where a continued adherence to a "social market" philosophy has kept labour markets rigid.

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[32] OECD, *Economic Survey*, United Kingdom 2004, Chapter 4.

[33] IMF, *World Economic Outlook*, April 2004, Chapter III.

CHAPTER NINE
'MORE BALANCED' INVESTMENT?

THE BOAST

> Let us remind each other of Britain's chronic history of stop-go – under-investment… an instability that meant businesses would not invest… It was our resolve that facing more intense global competition than ever – where investments will move to the countries that can demonstrate a long standing commitment to and record of monetary and fiscal stability – Britain had to have a new monetary and fiscal regime. And so the changes we made were not just making the Bank of England independent but… imposing tough new fiscal rules over the economic cycle which allowed us to invest through a world recession… And I can now report to you that now the world economy is strengthening, growth in Britain is also becoming more balanced with business investment… rising now – and expected to continue to rise this year and next.
>
> Speech at the Mansion House, 16 June 2004.

THE EVIDENCE

Under the current Chancellor, the investment record of British business has not been successful. Real private non-residential investment had risen at an average annual rate of 11.2% from 1994-98. Yet over the last five years its growth averaged just 1.1%, and the OECD forecasts only slight improvement in 2004 – a 2.7% increase compared with 9.7% for the US.[34] Total economy-wide investment dropped to 16.3% of GDP in 2003 from 18.1% in 1998 and an average of 17.1% from 1990-97.[35]

TABLE 16: BRITAIN'S INVESTMENT RATIO IS WELL BELOW PAR

	Average 1990-97	1998	1999	2000	2001	2002	2003
				(percent of GDP)			
World	24.0	23.4	23.1	23.4	23.0	22.8	23.4
NIAEs	32.4	25.9	26.9	28.0	24.9	24.0	23.2
Developing Asia	32.0	29.5	29.2	29.3	30.5	31.5	34.1
Advanced economies	21.8	21.7	21.8	22.1	20.8	20.0	19.8
UK	17.1	18.1	17.8	17.5	17.1	16.5	16.3

Source: IMF, *World Economic Outlook*, April 2004, Appendix table 43.

This disappointing record since 1998 reflects a decline in the propensity to save by both households and enterprises. Britain's gross household saving rate was a paltry 4.8% in 2003, down from an average of 9.9% from 1990-96, and less than half the level in most of its European competitors.

Britain's gross household savings rate was just 4.8% in 2003, down from an average of 9.9% from 1990-96.

TABLE 17: BRITISH HOUSEHOLDS SAVE LESS

	Average 1990-96	1997	1998	1999	2000	2001	2002	2003
			(per cent of household disposable income)					
UK	9.9	9.6	6.4	5.3	5.5	6.7	5.3	4.8
Italy	24.9	20.2	17.2	15.2	14.4	15.4	15.9	15.1
Spain	13.5	13.3	12.2	11.2	10.8	10.1	10.6	10.8
Germany*	12.2	10.4	10.3	9.8	9.8	10.3	10.6	10.7
France*	10.7	11.3	10.8	10.4	11.0	11.5	12.0	11.4
Netherlands*	14.6	13.4	12.9	9.6	6.8	9.0	8.6	8.9
Belgium	18.3	15.6	14.5	14.0	13.2	13.3	14.4	13.6

* net savings

Source: OECD, *Economic Outlook 74*, 2003, Annex table 24.

Britain's total national savings ratio (to GDP) has fallen steadily since 1998, reaching a meagre 13.9% in 2003. This was little over half the world ratio, and more than six percentage points below the average for the Euro area. It also compares unfavourably with the average national savings ratios under Gordon Brown's predecessors from 1982-89 (17.6%) and 1990-97 (15.4%).

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[34] OECD, *Economic Outlook*, 2003, Annex table 6.

[35] IMF, *World Economic Outlook*, April 2004, Appendix table 43.

TABLE 18: AND ITS NATIONAL SAVINGS RATIO IS ALSO LOWER

	Averages 1990-97	1998	1999	2000	2001	2002	2003
			(national savings as a % of GDP)				
World	22.9	23.0	23.1	23.8	23.2	23.4	23.6
Advanced countries	21.1	21.8	21.4	21.6	20.6	19.7	18.8
Euro area	21.4	21.7	21.8	21.8	21.4	21.3	20.2
Japan	32.2	29.8	28.6	28.8	27.8	26.7	27.1
Germany	22.3	21.2	20.5	20.3	19.8	20.8	19.6
France	20.5	21.7	22.5	22.4	22.2	21.2	19.3
Italy	20.2	20.0	20.3	19.7	19.6	19.4	18.7
US	15.9	18.3	18.1	18.0	16.4	14.7	13.0
UK	15.4	17.6	15.1	15.0	14.7	14.7	13.9

Source: IMF, *World Economic Outlook*, April 2004, Appendix table 43.

Nor has Britain become more attractive to foreign investors. World flows of foreign direct investment (FDI) surged during the 1990s, and under Conservative "stop-go", Britain's share of world inflows of direct foreign investment (FDI) averaged 7.7% from 1990-1995. But under the Chancellor's stability its share dropped to 7.3% in 2001.[36] And in absolute terms, Britain's FDI inflows collapsed from a peak of £78.5 billion in 2000 to £18.5 billion in 2002.[37]

TABLE 19: FOREIGN DIRECT INVESTMENT FLOWS INTO BRITAIN ARE VOLATILE

	1996	1997	1998	1999	2000	2001	2002
				(£ billions)			
EU	4.7	6.9	12.6	39.7	52.4	17.5	19.0
US	6.7	10.0	18.9	15.9	12.7	15.0	-3.0
ASIA	0.4	0.4	1.4	-2.2	7.7	3.1	2.5
WORLD	15.7	19.8	44.9	54.4	78.5	36.5	18.5

Source: ONS, *Foreign direct investment 2002*, 11 December 2003 and December 2001.

The Chancellor has attributed this weak investment performance to a world recession. This hasn't occurred. World output continued to expand at a brisk pace throughout his term. Global growth never dropped below 2.4% (in 2001) and has averaged 3.5% since 1996. He should not try to avoid any responsibility for the poor performance of the British economy in this field – and he should consider the long-term implications for the British economy of the failure to invest for the future.

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36 UNCTAD, *World Investment Report*, 2002, Annex table B.1.

37 ONS, *Net foreign direct investment in the UK analyzed by area and country of origin 1998-2002*, 18 June 2004.

CHAPTER TEN
'A RADICAL REDUCTION IN THE NATIONAL DEBT'?

THE BOAST

> We put in place a wholly new long-term fiscal and monetary discipline…founded on a radical reduction of the national debt…paying off more debt in one year more than all the debt paid off in the whole of the last fifty years taken together… Having cut debt dramatically, we reduced our debt interest payment – which with social security had taken up half of all additional public spending ten years before – to less than 2% of GDP, lower than at any time since the first world war.
>
> Speech to the British Chambers of Commerce, 21 April 2004.

THE EVIDENCE

The Chancellor exaggerates his transformation of the government debt burden. The general government's net financial liabilities[38] in the last full year of Conservative Government (1996) stood at 39.3% of GDP. This was less than half Italy's level, and significantly below those of the US, Germany, France, and the Euro area as a whole. Brown brought the ratio down to 31.9% in 2003, but it is projected to rise to 33.3% in 2004 and 34.8% in 2005.

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[38] General government net financial liabilities are defined by the OECD as "all financial liabilities minus all financial assets of general government".

During the boom years of the 1980s, Britain's government debt burden was reduced to 15.0% in 1990 from 31.3% in 1986, and averaged just 18.3% over the four years of 1988-92.

TABLE 20: BROWN'S DEBT REDUCTION IS NOT SO SPECTACULAR

	1986	1990	1996	1998	2003	2004*	2005*
	(General government's net financial liabilities as percent of GDP)						
UK	31.3	15.0	39.3	42.1	31.9	33.3	34.8
US	45.4	49.9	58.3	52.3	46.9	49.5	52.0
Germany	20.1	21.0	42.5	46.1	52.1	54.5	56.4
France	12.5	17.5	42.6	41.7	42.7	45.2	47.2
Italy	81.3	81.0	106.8	104.0	93.9	93.5	93.4
Euro area	35.1	36.9	58.2	58.1	55.0	55.9	56.5
Total OECD	43.0	36.6	49.8	49.3	48.6	50.7	52.7

* OECD projections

Source: OECD, *Economic Outlook 74*, 2003 Annex table 34.

Moreover, he fails to acknowledge that Britain's debt burden has been below the averages for all OECD members and the Euro area every year since 1986.[39]

Brown's achievement in reducing the cost of debt interest rates should be applauded – but it is hardly record-breaking.

Similarly, the Chancellor inflates the historical cost of interest payments on government debt: including interest payments with social security is misleading. Since 1986, Britain's net debt interest payments have never exceeded 3.4% of GDP, dropped to 2.2% in 1990 and rose to 2.9% in 1996. His achievement of bringing them down to 1.6% in 2003 is to be applauded – but it is hardly a record-breaking performance: nine OECD members had lower ratios in 2003 and the OECD average was only 0.4 percentage points above Britain's. And in Britain it has been achieved at the cost of higher taxes: total government current revenue increased to 41.1% of GDP in 2001, from 38.6% in 1996.[40] Moreover, the drop in nominal interest rates – a global phenomenon – has lightened the burden of debt interest payments everywhere.

TABLE 21: AND NOT MUCH IS SAVED ON INTEREST

	1986	1990	1996	1998	2003	2004*	2005"
	(Government net debt interest payments in percent of GDP)						
UK	3.4	2.6	2.9	2.8	1.6	1.6	1.6
US	3.3	3.5	3.5	3.2	1.7	1.7	1.8
Germany	2.5	2.2	3.2	3.3	2.7	2.7	2.7
France	2.2	2.4	3.4	3.2	2.8	2.8	2.8
Italy	8.3	9.9	10.9	7.8	4.9	4.7	4.8
Euro area	4.1	4.5	5.2	4.4	3.1	3.0	3.0
Total OECD	3.3	3.4	3.6	3.1	2.0	2.0	2.1

Source: OECD, *Economic Outlook 74*, 2003, Annex table 32.

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[39] OECD, *Economic Outlook*, 2003, Annex table 32.

[40] OECD, *Economic Outlook*, 2003, Annex table 27.

CHAPTER ELEVEN
'100,000 MORE BUSINESSES'?

THE BOAST

> In the UK today we are seeing 3,000 new businesses starting up each week… There are 100,000 more businesses than in 1997
>
> Chancellor's remarks at the UK-US Enterprise Forum, 24 May 2004.

THE EVIDENCE

These claims are misleading, and not supported by the ONS. Data for new enterprise creation should be offset by bankruptcy and exit. ONS's size analysis of UK businesses reports a net reduction in the number of VAT-based enterprises of 3,839 in 2002, the latest year available.

The remaining total of 1,619,195 enterprises constitutes an increase of 72,020 since 1997, a rise of just 4.6% or 277 a week. But it represents a drop of 176,165, or 9.8% since 1991, the peak year for the number of established enterprises. And there have been substantial changes in their sectoral distribution. There were 10,935 (-6.5%) fewer manufacturing enterprises in 2002 than in 1997, and 17,410 (-8.3%) fewer retail enterprises. The most dynamic sector has been finance, property and professional services, which expanded by 98,535 enterprises (+28.4%) from 1997-2002.[41]

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41 NSO, Commerce, *Energy, and Industry: Size Analysis of United Kingdom Businesses*, May 2002.

During the boom years of 1984-1991, the number of enterprises went up by 176,165 (11.6%), a rise of 484 per week. Substantial gains occurred in manufacturing (plus 15,925 or 10.3%) as well as finance, property and professional services (plus 25,875 or 24.5%).

TABLE 22: NUMBER OF LEGAL UNITS/VAT-BASED ENTERPRISES

	1984	1991	1997	2000	2001	2002
Agric. forestry & fishing	182,975	175,305	152,330	148,400	146,425	142,840
Manuf.	154,095	170,690	156,970	152,235	149,095	146,035
Constr.	223,645	278,020	168,735	171,085	173,300	175,235
Trans.	64,865	78,470	63,840	61,035	60,085	59,235
Retail	269,575	263,850	209,800	200,795	198,095	192,390
Finance, property & business services	105,595	182,945	346,710	426,845	438,530	445,245
Catering	124,090	131,050	102,665	105,225	106,510	108,580
Motor trades	76,715	84,025	68,865	68,275	67,155	66,265
Other services	169,925	285,000	136,555	139,005	140,020	141,160
TOTAL	1,496,955	1,795,360	1,547,175	1,616,835	1,623,025	1,619,195

Source: ONS, *Size Analysis of United Kingdom Businesses*, May 2002.

CHAPTER TWELVE
'REMOVE MORE WASTEFUL REGULATIONS'?

THE BOAST

> 650 regulations have been identified in Britain for reform or removal and we now propose sector by sector, working with you, to look at how we can remove more wasteful regulations....Because 40 per cent of new regulation comes from Europe we have resisted inflexible barriers being added into European directives.
>
> Speech to the Institute of Directors, 28 April, 2004.

THE EVIDENCE

The British Chambers of Commerce (BCC), in collaboration with the London and Manchester Business Schools, released on 31 March 2004 their latest report into Regulatory Impact Assessments (RIAs) conducted by various government departments. RIAs are required for any proposed UK or EU legislation that has an impact on businesses, charities or voluntary bodies. The report revealed that the cost to business of almost 900 regulations introduced since 1997 has increased to £30 billion, a rise of 46%. In 2003 British business was faced with the bill for an extra £9 billion. These figures exclude the cost to business of the National Minimum Wage

Regulations 1999 and subsequent amendments to the rate, estimated in the RIAs to have cost £13.5 billion by July 2004. [42]

The cost to business of the almost 900 regulations introduced since 1997 is estimated to be £30 billion, a rise of 46%.

When the Chancellor claims that he has ‘resisted inflexible barriers being added into European directives’, he demonstrates his strength of nerve. For the Social Chapter, signed up to during the first months of the New Labour Government, has probably introduced more barriers for business than any other article of peacetime legislation.

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42 BCC, *Burden’s Barometer*, 2004 and Newsletters.

CHAPTER THIRTEEN
'NEW MEASURES TO HELP ALL PENSIONERS'?

THE BOAST

> Since 1997, Labour has kept its promise to do more for Britain's pensioners… Labour has introduced new measures to help all pensioners… But I want to warn pensioners today of the threat the Tories pose to their incomes. Their plans would hit pensioners in the future just as they did last time they were in power.
>
> Speaking in Fife, 5 June 2004.

THE EVIDENCE

The Chancellor's policies have significantly damaged the outlook for pensioners, in particular:

- the £5 billion a year raid on pension funds;
- the 8% increase in employers' social security taxes;
- the fall in share prices (which are now well below 1997 levels in real terms).

Britain's private pension provision was once the envy of most continental countries, which have massive unfunded state pension liabilities. But scheme after scheme in Britain have closed to new members: since 1998, more than one in five employers has scrapped their programmes.[43] By September 2003, only 27% of UK firms ran final salary pension schemes, down from 43% a year earlier, said the CBI.[44] Moreover, the proportion of men working full time who were members of their current employer's occupational pension scheme had dropped to 55% in 2002 from 64% in 1989.[45] The take-up of pensions among the self-employed fell to 52% in 2002 from 64% in 1998.

By 2003, only 27% of firms ran final salary pension schemes, down from 43% a year earlier.

Subsequent trends show further deterioration. A survey by tracking firm WM Co. found that returns on investment by British pension funds dropped by 14% in 2002, the worst annual performance since 1974.[46] The CBI estimated that British companies had a £160 billion deficit in their private pension funds and would have to divert an additional £26 billion from their profits over the next three years to fill the deficit in their schemes, thus reducing their capital expenditure and future growth potential.[47] Among the companies having to pump money into their pension deficits, GlaxoSmithKline PLC made a special £314 million payment in the last quarter of 2003, but was still left with a deficit of about £1.3 billion.[48]

A survey undertaken by the Trade Union Congress found that under half of those under 30 are currently saving for a pension.[49] And a study by PricewaterhouseCoopers concludes that a man on the average wage who worked continuously until the age of 65 would retire with a private pension of only 30% of his final salary. Their projections suggest that pension contributions will need to double from current UK average levels to deliver a total pension, including the state pension, of two-thirds of final salary at 65.[50]

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43 National Audit Office, 2002.

44 Report in *The Times*, 4 September 2003.

45 ONS, *Summary of changes over time in pensions*, 20 April 2004.

46 Reported in *The Wall Street Journal Europe*, 10 January 2003.

47 Report in *The Times*, 28 July 2003.

48 Report in the *Wall Street Journal Europe*, 16 March, 2004.

49 Report in *The Times*, 11 June 2004.

50 Report in *The Times*, 10 October 2002.

CHAPTER FOURTEEN
CONCLUSION

> What people most dislike about New Labour is the dissembling of truth.
>
> Frank Field, Sky News, 20 June 2004.

On the evidence reviewed in this study, the Chancellor is in danger of acquiring one of the Government's least attractive characteristics. Some of his boasts are plainly false. Others distort reality by giving a partial picture. Or he has unfairly blackened the image of his predecessors by the selective choice of data and a crude misrepresentation of past trends. He blames external forces – particularly an alleged global recession which never happened – for weaknesses in the British economy. He is selective in his choice of international comparators, rarely acknowledging that other countries have had greater success in creating a policy framework conducive to faster growth of output, exports, income and employment. And the stability he boasts so much about is an illusion that disappears on closer examination. Moreover, stability is not the most important characteristic of dynamic economies.

Nevertheless, the British economy has performed reasonably well under his Chancellorship. But would not more honesty in the presentation of facts, more modesty when claiming credit for achievements that owe much to his predecessors, and more generosity in recognising the superior results of other "models" be more prudent?