Centre for Policy Studies

MIRACLE OR MIRAGE?

NEW LABOUR'S ECONOMIC RECORD IN PERSPECTIVE

Keith Marsden

45 STEALTH TAXES UNDER NEW LABOUR

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SUMMARY

It is widely accepted that the New Labour Government has enjoyed the joint benefits of a strong economic inheritance and exceptionally favourable global economic conditions. This paper asks whether it has taken full advantage of this golden legacy. It finds that:

- While the British economy under Margaret Thatcher and John Major outperformed most of its principal competitors, its average annual growth rate under New Labour (2.6%) has fallen behind that of countries such as France (3.1%) and high income countries as a whole (3.3%).
- Between 1992 and 1997, Britain's GDP grew at an average annual rate of 3.1% (well above the average rate for members of the Euro area – 1.5%); under New Labour, GDP growth has fallen to 2.6% – at a time when that of OECD member economies has averaged 3.3% a year.
- Claims by the Chancellor of the Exchequer to ended years of "Tory boom-and bust" are misleading; in the first half of the 1990s, 18 OECD members experienced at least one year of negative growth, and half of them experienced steeper falls than the UK. In comparison, only 5 OECD members suffered a recession during the second half of the decade.
- Productivity growth has fallen under New Labour from an average of 2.3% a year under John Major to 1.8% since 1997.
- Since 1997, Britain has fared less well on the inflation front than most of its EU partners; average UK inflation has been 2.5% since 1997 compared to 1.7% in the EU. In comparison, between 1982 and 1997, Britain enjoyed a lower inflation rate than that in other EU countries.

- The incremental effects of the Government's employment programmes seem to be slight. The number of people in work increased by an average of 1.1% between 1994 and 1997 but has since slackened to just 0.8% since 1998. It was just 0.2% in 2000. The IMF projects zero growth in 2001.
- Britain's share of world exports has dropped sharply over the last four years, from 5.1% in 1997 to 4.5% in 2000, reflecting a significant deterioration in Britain's competitive position under New Labour. According to the OECD, the trade deficit totalled $45 billion in 2000.
- Taxes have risen substantially under New Labour. The tax burden will rise to 37.9% of GDP in 2000-01, up from 34.3% in 1996-97. Tax and social contributions now take 46.1% of household income, up from 42.1% in 1996 and 1997.
- Household saving ratios have declined under New Labour. As a percentage of disposable income, they have averaged 4.9% since 1998, compared to 9.9% under John Major's last Tory Government.
- Business investment has fallen. Under John Major, private investment increased by an average of 5.8% p.a. (compared to just 0.6% in the Euro area). While the momentum was maintained during Labour's first full year in office, it has since fallen sharply. The OECD estimates that it will increase by only 2.7% in 2000, compared to 13.1% in the US and 6.4% in the Euro area.
- The financial balances of both companies and households have turned sharply negative. Whereas the total private sector financial balance was positive between 1994 and 1997, it was estimated to be -4.2% (as a proportion of GDP) in 2000. The Chancellor should know that these trends mirror the deterioration in the private sector's financial position during the late 1980s and led to the recession of 1990-91.
- The structure of the British economy has become more distorted under New Labour. Most of the recent growth has come from just a few sectors (such as telecoms – whose growth now looks increasingly fragile), while others have stagnated.
- The warning signs presaging a downturn in the economy are increasingly difficult to ignore. The insidious undermining of the competitiveness of the British economy since 1997 could leave Britain particularly vulnerable. And most important of all, recovery from any recession should not based on greatly expanded public spending (as planned by Gordon Brown). For that would be a true return to the boom and bust typical of Old Labour Governments.

INTRODUCTION

The Government seems pleased with its management of the economy. Gordon Brown boasts about his achievement of "stability" compared with what he calls "Tory boom and bust". He claims that he has abolished the economic cycle. During Prime Minister's Questions, Tony Blair mocks William Hague about his silence on economic issues.

Has the Government taken full advantage of the strong policy foundation laid down by the Tories and the very favourable global economic conditions?

But has the Government really taken full advantage of the strong policy foundation painstakingly laid down up by the Tories? And has it fully exploited the very favourable global economic environment over the past four years? For behind the headline figures showing low inflation and record employment levels, there are growing signs of trouble lying ahead – as both the Chancellor and the Prime Minister seem to be only too aware. Could the danger of a forthcoming recession be a major factor in his plans to call a General Election one year before he needs to? The slow-down in the US and the bursting high tech and stock market bubbles could have a damaging impact on the British economy.

Whatever date is chosen for the general election, voters might question the Government's claims and take a closer look at the independent evidence reviewed below.

CHAPTER ONE
HAS NEW LABOUR BOOSTED OUTPUT?

TORIES VERSUS NEW LABOUR

Table 1 compares Britain's long-term economic growth rates with those of its main economic rivals. The first two columns are taken from the World Development Indicators published by the World Bank. The base year chosen by the World Bank for its series –1980 – happens to coincide with the first full year of Margaret Thatcher's Premiership (during which she had to sort out the problems inherited from her predecessors). It should be noted that the statistical technique (the least squares method) used by the World Bank gives an average rate that is representative of the annual observations over the period in question. It is not distorted by the timing of the peaks and troughs in the economic cycle, which often varies among countries. The least squares estimate of the growth rate is consistent and efficient.

TABLE ONE: LONG-TERM GROWTH OF GDP (AVERAGE ANNUAL % CHANGE)

	1980-1990	1990-1997	1997-2000
UK	3.2	2.0	2.6
Germany	2.2	1.4	2.2
France	2.3	1.3	3.1
Italy	2.4	1.1	1.9
US	3.0	3.0	4.6
Japan	4.0	1.5	–0.3
High Income Countries	3.2	2.2	3.3

Sources: World Bank, *World Development Indicators 1999*, table 4.1; and OECD, *Economic Outlook 2000*, Statistical Annex, table 1.

Britain's economic performance under Margaret Thatcher outshone that of all its principal competitors except Japan, and it equalled the average growth rate (3.2%) for all high-income countries (mostly OECD members) during the 1980s. John Major's period in office (1990-97) was affected by a recession that hit most major economies. But the economy still outpaced its largest European rivals, as well as that of Japan (which began a period of relative decline that has continued to this day). Since 1997, when New Labour took charge, Britain's 2.6% average growth rate has lagged behind that of France (3.1%) and high-income countries as a group (3.3%). The United States, averaging 4.6% annual growth, shot ahead of the field, while Japan suffered an overall drop in output over the last three years. New Labour has certainly not fulfilled its promise:

> An explicit objective of a Labour government will be to raise the trend rate of growth.
>
> 1997 Labour Party Manifesto

GDP growth has fallen from 3.1% p.a. under John Major to just 2.6% p.a.

JOHN MAJOR 2 VERSUS TONY BLAIR

Table 2 provides a more detailed picture of trends since John Major's second Government took office (mid 1992). Britain's GDP grew at an average annual rate of 3.1% from 1992 to 1997, well above the 1.5% average rate for members of the Euro area, and topping the 2.5% rate for the 30 member group of industrialised countries (OECD) as a whole. Tory labour market deregulation and fiscal reforms had created a more flexible and competitive UK economy, better equipped to meet the forces of globalisation. Moreover, New Labour had the good fortune to take over during an upswing in demand in Britain's major markets. The economic growth of the OECD group has accelerated. It rose by 3.3% annually over the last three years, compared with a 2.7% rate over the previous five.

TABLE TWO: GROWTH OF GDP SINCE 1992 (ANNUAL % CHANGE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	2.3	4.4	2.8	2.6	3.5	2.6	2.2	3.0	3.1	2.6	2.9
Euro	–0.8	2.3	2.2	1.4	2.3	2.3	2.8	2.5	1.5	2.5	1.9
US	2.7	3.6	4.4	4.2	4.4	4.4	4.2	5.2	3.5	4.6	3.9
OECD	1.4	3.1	2.5	3.2	3.5	2.5	3.0	4.3	2.7	3.3	2.9
World	2.3	3.7	3.6	4.1	4.1	2.6	3.4	4.7	3.6	3.6	3.6

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 1.

TABLE THREE: GROWTH IN REAL TOTAL DOMESTIC DEMAND (ANNUAL PERCENTAGE CHANGE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	2.2	3.4	1.8	3.0	3.8	4.6	3.7	3.4	2.8	3.9	3.2
Euro	–2.1	2.1	2.0	1.1	1.7	3.4	2.9	2.8	1.0	3.0	1.7
US	3.2	4.4	2.5	3.7	4.7	5.5	5.2	5.8	3.7	5.5	4.4
OECD	1.2	3.1	2.3	3.4	3.3	2.8	3.8	4.2	2.7	3.6	3.0

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 8.

The GDP of Britain's largest single foreign market – the US – has grown by 4.6% annually since 1996, and its total domestic demand boomed by 5.5% annually (see table 3). A growing proportion of that demand was satisfied by imports. The volume of US imports surged by 10.3% annually from 1992 to 1997, and by 12.1% annually over the last three years. They soared by an astonishing 13.7% last year (see table 4). The growth of imports by developing countries slackened, reflecting monetary and financial instability in East Asia in 1997-98.

Imports by the OECD group as a whole have increased by over 9% annually since 1997. Yet after a brisk 3.5% rise in 1997 (before New Labour's policies could have any significant impact), the last three years have only yielded a mediocre 2.6% average GDP growth rate in Britain. It has lost some of its competitive edge. As will be seen later, its share of world exports has dropped significantly and imports have penetrated the British market at a more rapid pace.

TABLE FOUR: GROWTH OF REAL IMPORTS OF GOODS AND SERVICES (ANNUAL PERCENTAGE CHANGE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	3.2	5.4	5.5	9.1	9.2	8.8	7.6	8.5	6.5	8.3	7.2
Euro	2.1	7.6	5.6	5.0	11.6	8.5	7.8	10.0	6.4	8.8	7.3
US	9.1	12.0	8.2	8.6	13.7	11.9	10.7	13.7	10.3	12.1	11.0
OECD	3.1	10.0	9.0	8.3	10.5	7.2	8.5	12.0	8.2	9.2	8.6
DCs†	10.3	8.2	11.7	7.8	8.8	0.2	0.5	11.2	9.4	4.0	7.3

* estimates.

† Developing Countries (data for volume of goods only).

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 10; and IMF, *World Economic Outlook October 2000*, Statistical Appendix, table 25.

CHAPTER TWO
IS THE ECONOMIC CYCLE JUST A TORY PHENOMENON?

Gordon Brown claims to have restored permanent economic stability, and suggests that the fluctuations in British output over the previous 17 years were the result of aberrant Tory policies and weak economic management. The reality is that most industrialised countries continue to be subject to economic cycles caused by external shocks, and by shifts in the attitudes and behaviour of domestic investors and consumers.

Most industrialised countries remain vulnerable to economic cycles cause by external shocks and by shifts in attitudes of investors… The idea that "boom and bust" is a uniquely Tory trait is clearly wrong.

In the first half of the 1990s, 18 OECD members experienced at least one year of negative growth, and half of them had steeper falls in output than occurred in Britain (1.5% in 1991). GDP shrank for three consecutive years in Sweden, Finland and Switzerland (see table 5 overleaf). The political philosophies of their governments varied widely. So did their policies. The idea that New Labour spin has tried to instil in the minds of the voters, that "boom and bust" is a uniquely Tory trait, is clearly wrong.

Only 5 OECD members – Japan, Korea, New Zealand, the Czech Republic and Turkey – suffered a recession during the second half of the decade. This is further evidence of the generally favourable global economic climate that has prevailed since New Labour took over. But there are several internal and external indicators that suggest that Gordon Brown's boast is premature.

TABLE FIVE: OECD MEMBERS SUFFERING RECESSIONS, 1990-2000 (YEARS, AND % FALL IN GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Australia		–0.9									
Belgium				–1.5							
Canada		–1.9									
Czech Rep.	N.A.	N.A.	N.A	N.A				–1.0	–2.2	–0.2	
Finland		–6.3	–3.3	–1.1							
France				–0.9							
Germany				–1.1							
Greece				–1.6							
Iceland			–3.3								
Italy				–0.9							
Japan									–2.5		
Korea									–6.7		
Mexico						–6.2					
New Zealand		–2.3							–0.6		
Portugal				–1.1							
Spain				–1.2							
Sweden		–1.1	–1.6	–2.4							
Switzerland		–0.8	–0.1	–0.5							
Turkey				–5.5						–5.0	
UK		–1.5									
US		–0.5									

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 1.

CHAPTER THREE
HAS PRODUCTIVITY SPURTED?

Business can and must succeed in raising productivity.
1997 Labour Party Manifesto

Have New Labour's policies helped improve productivity? The Manifesto also promised that: "we will build a new partnership with business to improve the competitiveness of industry." But since 1997, Britain's economy-wide labour productivity has grown at an average annual rate of only 1.8%, compared with the 2.3% rate achieved under the last Conservative government (see table 6). Moreover its productivity gains have fallen well behind those of the dominant economic power, the US.

Since 1997, Britain's labour productivity has grown at an average rate of only 1.8% p.a., compared to 2.3% under John Major.

TABLE SIX: GROWTH IN ECONOMY-WIDE LABOUR PRODUCTIVITY (ANNUAL PERCENTAGE CHANGE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	3.0	3.6	1.9	1.6	1.6	1.1	1.4	2.9	2.3	1.8	2.1
Euro	1.3	2.7	1.7	1.0	1.4	0.7	0.5	1.6	1.6	0.9	1.4
US	1.2	1.7	1.2	2.2	2.2	2.9	2.7	4.0	1.7	3.2	2.3
World	1.4	2.2	1.6	2.2	1.9	1.3	1.9	2.9	1.9	2.0	1.9

* estimates.

Source: IMF, *World Economic Outlook October 2000*, Statistical Appendix, derived from tables 2 & 4.

CHAPTER FOUR

HAS GORDON BROWN SLAIN THE INFLATION DRAGON?

Introducing his Budget on 7 March 2001, Gordon Brown stated:

> Because of the choices Britain made our country now has the lowest inflation for 30 years; the lowest long-term interest rates for 30 years; mortgages now averaging £1,200 a year lower than under the last Government.

And he boasted of "a new-won and hard-won stability".

Since 1997, Britain has fared less well on the inflation front than most of its EU partners.

These claims need to be put into perspective. The rate of inflation, as measured by the GDP deflator, has dropped in most OECD countries over the past two decades. Indeed, Britain did better than the majority of EU members while the Tories were in power. Its rate was below the EU average from 1982 to 1991 (the time period selected by the IMF for its 10 year averages). And it was halved during Kenneth Clarke's stint at the Treasury, again keeping under the EU average (see table 7). This progress was achieved despite a 19% increase in import prices (average unit values) from 1992 to 1996.

In comparison, Gordon Brown's achievements are modest. Less than one percentage point has been shaved from Britain's inflation rate under New Labour. It averaged 2.0% in 2000, compared with 2.9% in 1997. And the IMF projects that it will rise to 2.3% this year. Since Gordon Brown has been at the

Treasury, Britain has fared less well on the inflation front than most of its EU partners. Britain's rate has averaged 2.5% over the last three years compared with 1.7% in the EU as a whole. And yet Britain's import prices (average unit values) fell by over 16% from 1996 to 1999. Thus the slight drop in Britain's rate can largely be attributed to external factors (including the relative weakness of the currencies of Britain's European suppliers), rather than to any special merit on of the part of Gordon Brown or the newly independent Bank of England. Moreover, the results of Britain's crusade against inflation pales in comparison with the success of developing countries, where the average inflation rate fell to 6.2% in 2000 from 45% during the 1982-1991 period.

TABLE SEVEN: AVERAGE ANNUAL INFLATION RATES* (PERCENTAGES

	1982-1991	1992-1997	1998-2000	2000
UK	5.9	2.8	2.5	2.0
EU	6.1	3.0	1.7	1.6
Advanced Economies	4.9	2.3	1.3	1.5
Developing Countries	45.1	32.4	7.6	6.2

*GDP deflator.

Source: IMF, *World Economic Outlook*, October 2000, Statistical Appendix, tables 8 and 9.

In regard to long-term interest rates, New Labour's comparative performance has not been significantly better than the last Conservative Government's, as shown in table 8. From 1993 to 1997, Britain's rate averaged just one tenth of a percentage point above the Euroland level. Over the last three years, it has averaged three tenths of a point higher. But by 2000, it had been brought level with the Euroland rate, and below that of US.

TABLE EIGHT: TRENDS IN NOMINAL LONG TERM INTEREST RATES* (PERCENTAGES)

	1993	1994	1995	1996	1997	1998	1999	2000**	1993-1997	1998-2000
UK	7.5	8.2	8.2	7.8	7.0	5.5	5.1	5.5	7.7	5.4
Euro	8.3	8.2	8.6	7.1	6.0	4.8	4.7	5.5	7.6	5.0
US	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.1	6.5	5.7
Germany	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.4	6.4	4.8
France	6.8	7.2	7.5	6.3	5.6	4.7	4.6	5.5	6.7	4.9

* 10 year benchmark government bond yields or yield on proximately similar financial instruments.

** estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 37.

Real interest rates, taking into account changes in producer selling prices, have grown substantially under this Government.

However, what counts more to business is the real cost of capital. Table 9 shows that nominal bank base lending rates varied relatively little over the 1993 to 2000 period. But real rates, taking into account changes in producer selling prices, have been substantially higher during the present Government than its predecessor. Assuming that banks' operating margins have remained the same, the real cost of credit is still a full percentage point above the 1996 level.

TABLE NINE: TRENDS IN REAL BANK BASE RATES

	Bank base rate %	Change in producer output prices %	Real base rate %
1993	6.0	2.6	3.4
1994	5.5	1.9	3.6
1995	6.7	3.4	3.3
1996	6.0	2.0	4.0
1997	6.7	0.2	6.5
1998	7.2	–0.1	7.3
1999	5.3	–0.4	5.7
2000	6.0	1.0	5.0

Source: *National Institute Economic Review*, January 2001, tables 6 and 10, and *National Institute Economic Review*, January 1998, tables 6 and 9.

Gordon Brown's statement about mortgages is also questionable. According to the Department of the Environment's index, house prices shot up by 44% from 1997 to the third quarter of 2000, but average salaries/wages in the business sector increased by only 18%. So first-time buyers have found it more difficult to make initial deposits or cope with higher monthly payments. Moreover, mortgage interest rates averaged 6.8% in the third quarter of 2000. This was still above the 1996 rate of 6.7%, and it had reached 7.7% in 1998. As shown in table 10, real mortgage rates, adjusted for changes in retail prices, have risen since 1997. So it is difficult to see how average mortgage payments could now be £1,200 a year lower than under the last Government, as claimed by Gordon Brown.

TABLE TEN: REAL MORTGAGE COSTS

Years	House price index	House prices (change p.a. %)	Compensation per employee (change p.a. %)	Mortgage interest rate nominal (%)	Retail prices (change p.a. %)	Real mortgage interest rates (%)
1995	100.0		2.9	7.8	3.4	4.4
1996	103.7	3.7	4.3	6.7	2.4	4.3
1997	112.8	8.8	4.2	7.2	3.1	4.1
1998	125.7	11.4	5.5	7.7	3.5	4.2
1999	139.4	10.9	4.9	6.4	1.5	4.9
2000*	162.5	16.6	3.3	6.8	2.5	4.3

* estimates.

Sources: *National Institute Economic Review*, No. 175 January 2001, tables 6 and 10; and OECD, *Economic Outlook 2000*, Statistical Annex, table 12.

CHAPTER FIVE
HAS THE WELFARE-TO-WORK PROGRAMME ACCELERATED JOB CREATION?

> Labour's welfare-to-work programme will attack unemployment and break the spiral of escalating spending on social security.
>
> 1997 Labour Party Manifesto

Almost immediately after taking office, Gordon Brown raised corporate income taxes by £5.3 billion (compared with the 1996/97 level) to fund these programmes, which include the New Deal. These increases included a special windfall tax on the utilities. The results are disappointing. Table 11 shows that after accelerating during the 1994-1997 period, employment growth has slackened quite sharply. The total number of persons in work increased by 0.7% in 1999 and by only 0.2% last year. The IMF projects zero growth in 2001.

TABLE ELEVEN: GROWTH IN EMPLOYMENT (ANNUAL PERCENTAGE CHANGE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	–0.7	0.8	0.9	1.0	1.9	1.5	0.7	0.2		0.8	0.8
Euro	–2.1	–0.3	0.6	0.5	0.9	2.0	1.9	1.9	–0.1	1.9	0.9
US	1.5	2.3	1.5	1.4	2.2	1.5	1.5	1.2	1.8	1.4	1.6
Ad Ec†	0.0	1.1	1.1	1.0	1.5	1.1	1.3	1.3	1.2	1.2	1.2

* estimates.

† Advanced Economies.

Source: IMF, *World Economic Outlook*, October 2000, Statistical Appendix, table 4.

TABLE TWELVE: UNEMPLOYMENT RATES (PERCENTAGE OF LABOUR FORCE)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	10.3	9.4	8.5	7.9	6.5	5.9	6.0	5.5	8.5	5.8	7.5
Euro	10.7	11.5	11.2	11.5	11.5	10.8	9.9	9.0	11.3	9.9	10.8
US	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	5.8	4.2	5.2
OECD	7.8	7.7	7.4	7.3	7.0	6.8	6.7	6.2	7.4	6.6	7.1

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 21.

The incremental effects of the Government's employment programmes seem to be slight, if not negative.

Britain's current (March 2001) unemployment rate is 5.2% (ILO definition). And nearly a quarter of the working age population are not participating in the labour force. So New Labour is a long way from its goal of full employment. The incremental effects of its special employment programmes seem to be slight, if not negative. It is noteworthy that other EU countries, such as France, Italy and Germany, spend even more heavily on similar interventionist measures, but still have unemployment rates in the 9%-10% range, and lower labour force participation rates. US government expenditure on active labour market programmes is only one seventh of Germany's (as a % of GDP) but its unemployment rate is less than half Germany's.

Furthermore, the spiral of social security spending has not been broken.

The real reason why Britain and the US have created more jobs over the last decade than their major EU competitors is that their labour markets are more flexible. In Britain's case, this is thanks to Tory labour reforms, not to New Labour's interventions. In fact, the elasticity of employment in relation to output has fallen over the last three years, reflecting the effects of a heavier tax and regulatory burden on business.

Furthermore, the spiral of social security spending has not been broken. Benefits in cash and kind rose to £217.5 billion in 1999 and an estimated £230.0 billion in 2000, from £198.1 billion in 1996 (see table 13). However, there was a steady fall in the ratio of social expenditure to GDP, starting under the Major Government. It dropped from 27.8% in 1993 to 25.4% in 1997. It had reached a trough of 24.5% in 1999, but began to creep up again last year.

TABLE THIRTEEN: GOVERNMENT SPENDING ON SOCIAL ASSISTANCE BENEFITS

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000***
GDP (£ billions)	639.4	677.6	714.0	756.1	805.4	851.6	891.6	934.6
Central Government Social Assistance Benefits in Cash (£ billions)	88.8	91.1	94.3	97.4	100.4	101.3	105.5	109.9
Central Government Social Assistance Benefits in Kind (£ billions)	42.4	44.5	47.3	48.7	50.6	53.3	54.9	58.8
Local Government Social Assistance Benefits in Cash (£ billions)	13.7	15.0	15.5	15.1	15.9	15.6	14.8	15.2
Local Government Social Assistance Benefits in Kind (£ billions)	32.6	33.1	35.0	36.9	37.8	38.8	42.3	46.1
General Government Total Social Assistance Benefits (£ billions)	177.5	183.7	192.1	198.1	204.7	209.0	217.5	230.0
Total Social Assistance Benefits (% of GDP)	27.8	27.1	26.9	26.2	25.4	24.5	24.4	24.6

* estimates base on first 3 quarters.

Sources: ONS, *UK Economic Accounts*, Quarter 3, 2000, tables A28, A29, A33, and A34; and ONS, *Quarterly National Accounts*, No. 3, 2000, table 1a.

CHAPTER SIX
HAS BRITAIN BECOME MORE COMPETITIVE?

> We will seize the opportunity to increase trade.
>
> 1997 Labour Party Manifesto

The reality, says the OECD, has been a sharp drop in Britain's share of world exports to 4.5% in 2000, from 5.1% in 1997 (see table 14). The OECD expects a further decline to 4.4% this year. France also lost ground, but at a slower rate. The US, however, has more than held its own in world markets over the last eight years.

Britain's share of world exports has dropped sharply over the last four years

TABLE FOURTEEN: SHARE IN WORLD EXPORTS (PERCENTAGE, VALUE OF TOTAL GOODS)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	4.9	4.9	4.8	4.9	5.1	5.0	4.8	4.5	4.9	4.8	4.9
France	5.1	5.2	5.4	5.2	5.1	5.5	5.2	4.7	5.2	5.1	5.2
US	12.5	12.3	11.7	11.8	12.7	12.8	12.7	12.8	12.2	12.8	12.4
OECD	73.3	73.0	73.2	72.2	71.6	73.5	72.9	70.3	72.7	72.2	72.5

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 47.

These trends reflect a significant deterioration in Britain's competitive position under New Labour. The OECD index (1995=100) for Britain's relative unit labour costs show a big jump to 145.2 in 2000. Britain's index has averaged 140.5 over the last three years compared with 105.4 from 1993 to 1997 (see table 15). The relative labour cost of its competitors in the Euro area has fallen by nearly 17 percentage points since 1995, while it has risen by over 16 points in the US.

TABLE FIFTEEN: COMPETITIVE POSITIONS: RELATIVE UNIT LABOUR COSTS
(INDICES, 1995=100)

	1993	1994	1995	1996	1997	1998	1999	2000*	1993-1997	1997-2000	1993-2000
UK	99.3	101.4	100.0	102.6	123.6	137.6	138.5	145.4	105.4	140.5	118.5
US	107.0	106.0	100.0	101.4	107.1	117.2	115.7	116.1	104.3	116.3	108.8
Euro	100.2	96.7	100.0	101.1	92.3	94.8	92.8	83.2	98.1	90.3	95.1

* estimates.

Note: Competitiveness-weighted relative unit labour costs in the manufacturing sector are expressed in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 40 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 44.

Britain's current account balance has swung from a positive 0.8% of GDP in 1997 to a negative 1.5% in 2000.

Britain's export performance for total goods, measured as the ratio between export volumes and export markets, shows a decline every year since 1996, at a 4.3% average annual rate (see table 16). Members of the EU and the OECD also experienced a collective decline in their export performance compared with the rest of the world, but to a less pronounced extent than Britain. If British products remain less competitive in foreign and domestic markets compared with those of its trading rivals, the impact of a projected global slow-down on the overall British economy is likely to be severe. Already, Britain's current account balance has swung from a positive 0.8% of GDP in 1997 to a negative 1.5% in 2000 (see table 17). And the trade deficit ballooned to $45 billion last year, more than double the level handed over by the Tories (see OECD, *Economic Outlook 2000*, Statistical Annex, table 48).

TABLE SIXTEEN: EXPORT PERFORMANCE FOR TOTAL GOODS
(PERCENTAGE CHANGES FROM PREVIOUS YEAR)

	1993	1994	1995	1996	1997	1998	1999	2000*	1992-1997	1997-2000	1992-2000
UK	0.8	2.5	1.1	2.5	–1.7	–6.5	–2.4	–3.9	1.0	–4.3	–0.9
EU	1.7	0.5	–0.8	–0.3	–0.5	–1.8	–1.0	0.6	0.1	–0.7	–0.2
US	–2.2	–2.3	3.2	1.3	3.5	–1.1	–2.3	–1.1	0.7	–1.5	–0.1
OECD	–0.3	–1.5	–0.4	–0.8	0.4	–0.8	–1.6	–0.2	–0.5	–0.9	–0.6

* estimates.

Note: Export performance is the ratio between export volumes and export markets for total goods. The export volume concept employed is the sum of the exports of non-manufactured goods and manufactures. The calculation of exports markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 1995. The export markets for total goods facing each country is calculated as the weighted sum of the individual export markets for non-manufactured goods and manufactures, where the weights correspond to the commodity export structure of the exporting country in 1995.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 46.

TABLE SEVENTEEN: CURRENT ACCOUNT BALANCES (PERCENTAGE OF GDP)

	1993	1994	1995	1996	1997	1998	1999	2000*	1993-1997	1997-2000	1993-2000
UK	–1.7	–0.2	–0.5	–0.1	0.8	–0.0	–1.2	–1.5	–0.3	–0.9	–0.5
Euro	0.4	0.2	0.7	1.1	1.5	1.2	0.4	–0.0	O.8	0.5	0.7
US	–1.2	–1.7	–1.5	–1.6	–1.7	–2.5	–3.6	–4.3	–1.5	–3.5	–2.2
OECD	0.1	–0.1	0.2	0.0	–0.0	–0.8	–1.2	–1.3	–0.0	–1.1	–0.1

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 52.

CHAPTER SEVEN

HAS NEW LABOUR KEPT ITS TAX PROMISES?

> New Labour is not about high taxes on ordinary families. It is about social justice and a fair deal.
>
> 1997 Labour Party Manifesto

Coupled with a specific pledge not to increase income tax, these statements led many people to believe that their tax bill would not rise, and might even be lowered.

The tax burden will rise to 37.9% of GDP in 2000-01, up from 34.3% during the Tories' last year in power.

How wrong they were. Britons are budgeted to hand over £86.5 billion more in taxes to the Government in 2000-01 than they did in 1996-97. Taxes have gone up faster than nominal income. So the tax burden will rise to 37.9% of GDP in 2000-01 from 34.3% during the Tories' last year in power. And the squeeze doesn't end there. The Government has devised new ways of taking money from people's pockets that are not classified as taxes. One example is the fees that telephone companies have paid for 3G licences. These fees will eventually end up on the phone bills of firms and households. The Government's non-tax current receipts are expected to reach £20.7 billion, a 55% increase over the 1996-97 receipts (see the second paper in this pamphlet for a full list of the 45 stealth taxes introduced by this Government).

TABLE EIGHTEEN: TOTAL TAX RECEIPTS AND GDP (IN £ BILLIONS AND %)

	1996-97	2000-01
Gross Tax revenues (£ bn)	273.1	359.6
GDP (£ bn)	797	950
Tax:GDP Ratio (%)	34.3	37.9

Sources: UK Treasury, *Budget Red Book 1998*, tables B1 and B9; *and Pre-Budget Report*, November 2000, tables B3 and B11.

TABLE NINETEEN: HOUSEHOLD INCOME, TAXES AND SOCIAL CONTRIBUTIONS

	1996	1997	1998	1999	2000*
Total income (£ billions)	725	770	810	853	892
Taxes on income (£ billions)	88	89	105	111	127
Social contributions (£ billions)	116	126	135	142	150
Income taxes and social contributions (% of income)	28.0	27.9	29.7	29.7	30.5
Indirect taxes (£ billions)	101	109	115	124	134
Total taxes and social contributions (%of income)	42.1	42.1	43.8	44.2	46.1

* estimates based on first 3 quarters.

Sources: *National Institute Economic Review*, No. 175 Jan. 2001, table 8; and ONS, *Quarterly National Accounts*, March 2001, table A12.

Table 19 shows the burden of taxes and social contributions on the household sector, including small, unincorporated businesses and non-profit institutions serving households. Note that social contributions cover payments by individuals and employers to both public and private social security programmes. Column one reports total gross household income, composed of employee compensation, social benefits in cash, net property income, the operating surplus of small businesses and other net transfers. The figures in column five indicate that income taxes and social contributions combined have taken an increasing slice of household income over the last three years, with a big jump to 30.5% in 2000 from 27.9% in 1997. Households also have to pay indirect taxes, such as VAT and excise duties, on the products and services they buy. Assuming that the indirect taxes levied on producers are passed on to consumers, column six gives the total amounts of indirect taxes reported in the national accounts. The final column shows that all taxes and social contributions now take 46.1% of household income, an increase of four percentage points from 1996 and 1997.

Taxes and social contributions now take 46.1% of household income, up from 42.1% in 1996 and 1997.

A heavier burden of taxes has meant that families have seen no improvement in their living standards under New Labour. Real net household income, adjusted by the retail price index, was at the same level in 2000 as in 1997 (see table 20).

TABLE TWENTY: TRENDS IN NET HOUSEHOLD INCOME 1996-2000

	1996	1997	1998	1999	2000*
Nominal net household income (£ billions)	420	446	455	476	481
Retail price index (1995 = 100)	102.4	105.6	109.3	110.9	114.1
Real net household income (£ billions, 1995 prices)	410	422	416	429	422
% change		2.9	–1.4	3.1	–1.0

* estimates.

Sources: Table 19 above and *National Institute Economic Review*, No. 175, January 2001, table 12.

The Government cannot claim that the tax burden has been shifted to more affluent households. The Office for National Statistics has recently published its study of the effects of taxes and benefits on household income in 1999-2000. (see ONS, *Economic Trends*, April 2001). The study includes those taxes and benefits for which there is a clear conceptual basis for their allocation to particular households. 70% of all taxes are covered. The findings show that the poorest 20% of households pay more taxes, relative to their income, than do the richest 20%, and have experienced the greatest increase in the tax burden since 1996-97. In 1999-2000, direct taxes on income and employees' NIC amounted to 11.5% of the gross income of the poorest 20%, up from 10.2% in 1996-97. Gross income includes cash benefits from the state as well as earnings from employment and other private sources. The biggest tax hike, however, came from indirect taxes such as VAT and duties on alcohol, tobacco, fuel and vehicles. They took 29.9% of the gross income of the poorest 20% in 1999-2000, 2.6 percentage points more than in 1996-97. Thus their total tax burden reached 41.4% of gross income. In contrast, the richest 20% of households paid out just 35.1% of their gross income, the same level as in 1996-97. The ONS study also reveals that the share of the poorest 40% of households in the post-tax income of all households dropped to 17% in 1999-2000 from 19% in 1995-96, while the richest 20% saw their share rise to 45% from 43% over the same period. Gordon Brown has not delivered on the promise made in his 1998 Budget Statement that: "The Government is committed to fairness in tax and spending", and would "ensure that everyone pays a fair share of the tax burden".

A recent ONS survey shows that it is the poorest 20% of households which have experienced the greatest tax increases under New Labour.

Nor can it be said that benefits are being distributed fairly between different generations, or between households with children living at home and those without children. The ONS adjusts the raw data obtained from its Family Expenditure Survey to take into account differences in the size and composition of households to recognise differing demands on resources. For example, a couple needs a higher income than a single person to achieve the same standard of living, and a child aged two needs less than one aged 12. The study shows that poor households with the same level of private income receive significantly smaller benefits from the state (in cash and kind) if they are headed by retired persons than by people of working age, despite the fact that the former have paid national pension contributions all their working lives. This discrimination occurs because non-contributory benefits (such as income support, housing benefit and disability living allowances/tax credits) are given more generously to non-retired households than to retired households with equivalent needs.

The disparity in benefit allocations between non-retired households with children and those without is even greater. The former not only receive education benefits in kind that are not granted to families which are childless, but surprisingly, are also paid almost twice as much in cash benefits as their counterparts without children, even though their needs are said to be the same.

CHAPTER EIGHT
HAS NEW LABOUR PROMOTED PRIVATE SAVING?

Labour's Manifesto pledged:

> …tax reform to promote saving and investment… Save to invest is our approach, not tax and spend.
>
> 1997 Labour Party Manifesto

Once again, these words have proved to be hollow. Household saving rates shrank to an estimated 3.9% in 2000, and have averaged only 4.9% over the last three years, half the average level from 1993 to 1997.

Savings ratios also dropped dramatically in the US and some EU countries like Sweden, but held up strongly in France.

TABLE TWENTY ONE: HOUSEHOLD SAVINGS RATES (PERCENTAGE OF DISPOSABLE INCOME)

	1993	1994	1995	1996	1997	1998	1999	2000*	1993-1997	1997-2000	1993-2000
UK	10.9	9.4	10.3	9.4	9.3	5.8	5.1	3.9	9.9	4.9	8.0
France	15.2	14.9	15.9	14.8	16.0	15.6	15.6	15.6	15.4	15.5	15.4
Sweden	11.5	11.3	8.6	7.1	4.1	3.1	2.1	2.1	8.5	2.4	6.2
US	7.1	6.1	5.6	4.8	4.2	4.2	2.2	0.0	5.6	2.1	4.3

* estimates.
Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 26.

Company savings ratios have also declined in Britain. After deducting taxes on income, social benefits paid to employees and pensioners and the cost of financial intermediation, gross disposable income (known as "gross savings") fell from 56.0% of total resources in 1994 to 47.8% in 1999 (see table 22). Yet the Manifesto proclaimed: "New Labour offers business a new deal… We see healthy profits as an essential motor of a dynamic market economy".

TABLE TWENTY TWO: TRENDS IN COMPANY SAVINGS, 1994-1999

	1994	1995	1996	1997	1998	1999
Operating surplus (£ billions)	157	163	178	188	194	193
Net property income (£ billions)	–27	–37	–40	–40	–35	–47
Net transfers (£ billions)	4	5	4	4	4	4
Social contributions received (£ billions)	48	50	58	64	69	74
Total resources (£ billions)	182	181	200	216	232	224
Taxes on income (£ billions)	15	20	24	32	33	32
Social benefits paid (£ billions)	37	39	43	48	53	56
Financial intermediation services (£ billions)	26	25	26	26	28	31
Gross savings (£ billions)	102	97	108	110	118	107
Savings ratio (% of total resources)	56.0	53.6	54.0	50.9	50.9	47.8

* estimates.

Source: *National Institute Economic Review* No. 175, January 2001, table 7, derived from NSO Quarterly National Accounts.

CHAPTER NINE
HAS INVESTMENT BEEN BOOSTED?

In his 1998 Budget Report, Gordon Brown said:

> The Government is committed to removing the barriers that hold back investment and that discourage enterprising individuals from starting dynamic businesses.

The trends in real private non-residential investment shown in table 23 suggest that the barriers have been raised, not lowered. After recovering from the 1991-92 recession, private investment rose at an increasingly rapid rate in Britain from 1994 to 1997. And the average rate under the last Tory Government of 5.8% easily topped that of the Euro area (0.6%) over the same period. The momentum was maintained during Labour's first full year in office, but has subsequently slowed down sharply. The OECD estimates that private business investment will have increased by only 2.7% in Britain in 2000, far below the growth rate of 13.1% in the US and the OECD average of 9.3%. Higher taxes and social charges have squeezed company profits available for investment and increased red tape seems to have blunted entrepreneurial drive.

TABLE TWENTY THREE: GROWTH IN REAL PRIVATE NON-RESIDENTIAL INVESTMENT 1993-2000
(ANNUAL PERCENTAGE CHANGE IN %)

	1993	1994	1995	1996	1997	1998	1999	2000*	1993-1997	1997-2000	1993-2000
UK	–2.9	3.7	7.7	8.8	11.8	13.8	7.6	2.7	5.8	8.0	6.6
Euro	–10	1.7	5.0	2.1	4.1	7.2	6.5	6.4	0.6	6.7	2.9
US	8.4	8.9	9.8	10.0	12.2	13.0	10.1	13.1	9.9	12.1	10.7
OECD	–1.6	4.6	6.4	8.8	9.6	6.8	6.3	9.3	5.6	7.5	6.3

* estimates.

Source: OECD, *Economic Outlook 2000*, Statistical Annex, table 6.

CHAPTER TEN

HAS BRITAIN'S FINANCIAL BALANCE SHEET REMAINED SOUND?

Gordon Brown prides himself on being prudent, and he has used a large slice of his stealth taxes to reduce government debt. But he doesn't seem to care that the private sector has gone deeply into the red. "Save to invest" was New Labour's Manifesto slogan. The outcome after four years in office is far different. Private saving ratios have declined, as we have seen. So a growing proportion of private investment has had to be financed by borrowing.

The Chancellor should know that these trends mirror the deterioration in the private sector's financial position during the late 1980s and led to a recession in 1990-91.

The financial balances (defined as gross saving less investment and capital transfers) of both companies and households have turned sharply negative (see table 24). Companies maintained a surplus of savings over investment from 1993 to 1997, but built up a financial deficit equal to an estimated 2.7% of GDP in 2000. Households kept positive financial balances until mid-1998, but then began to rely increasingly on external funds to pay for their investments. Thus the private sector's total financial balance fell to an estimated negative 4.2% of GDP. The Chancellor made no reference to these trends in his Budget speech. Yet he should know that they mirror the deterioration in the private sector's financial position during the late 1980s, and led to a recession in 1990-91. And in those years the household savings ratio never fell below 5.7%, compared with a drop to 3.0% in the third quarter of last year. So much for Gordon Brown's much vaunted financial stability. In reality, the graphs for private sector saving, investment, and financial balance look like the Blackpool Big Dipper.

TABLE TWENTY FOUR: PRIVATE SECTOR FINANCIAL BALANCES

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000***
Company financial balance							
– £ billions	2.7	10.9	11.6	1.9	–4.5	–18.0	–25.6
– % of GDP	0.4	1.5	1.5	0.2	–0.5	–2.0	–2.7
Household financial balance							
– £ billions	21.7	27.7	21.5	21.8	1.0	–3.9	–14.1
– % of GDP	3.2	3.9	2.8	2.7	0.1	–0.4	–1.5
Total private financial balance							
– £ billions	24.4	38.6	33.1	23.7	–3.5	–21.9	–39.7
– % of GDP	3.6	5.4	4.4	2.9	–0.4	–2.4	–4.2

* estimates.

Sources: NSO, *UK Economic Accounts*, No. 32, Quarter 3, 2000, tables A22, A26, and A41; *National Institute Economic Review* No. 175, January 20001, tables 7 and 8; and NSO *Quarterly National Accounts*, No. 3, 2000, table 1a (for GDP).

CHAPTER ELEVEN
HAS ECONOMIC DEVELOPMENT BEEN BALANCED ACROSS SECTORS AND REGIONS?

New Labour has stressed the need for balanced development, and its Manifesto complained that Britain's industrial base was too narrow. The evidence shows that the structure of the British economy has become more distorted under its leadership. Most of the growth that has occurred has come from a few sectors, while other sectors are floundering in their wake.

The structure of the British economy has become more distorted under this Government. Most of the growth that has occurred has come from a few sectors. Other industries are floundering.

The agriculture and fishery sector was in trouble even before the present foot and mouth crisis. Table 25 shows that in 2000, real value-added generated within the sector was 1.7% below the 1997 level. Farmers' incomes have plummeted. Manufacturing industry is in the doldrums. Its output increased by a paltry 2% over the last three years. Manufacturing employment shrank by 234,000 from June 1997 to June 2000, a 5% drop in its labour force. The machinery and equipment sector of the engineering industry – world-renowned as a source of technological innovation – has suffered a 9% drop in output over the last four years. Surely this is not the outcome New Labour had in mind when its Manifesto promised to "support a collaborative approach between researchers and business, spreading the use of new technology and good design, and exploiting our own inventions to boost business in the UK."

TABLE TWENTY FIVE: GROSS VALUE ADDED AT CONSTANT 1995 PRICES, BY SECTOR
(INDEX NUMBERS, 1995=100)

	1996	1997	1998	1999	2000
Agriculture, forestry and fishing	102.0	103.5	101.8	103.2	101.8
Manufacturing	100.4	101.7	102.2	102.2	103.8
Total production sector	101.1	102.1	102.9	103.4	105.0
Construction	101.5	104.7	106.1	106.9	108.6
Services	103.3	107.8	112.3	115.6	119.5
Gross value added	102.5	106.0	109.1	111.5	114.8

Source: ONS, *Quarterly national accounts*, 4th quarter 2000, March 20001, table B1.

Among service industries, the hotel and restaurant sector has stagnated (see table 26). In 2000 (third quarter) its value-added was just 0.3% above its 1997 level, yet this is one of the most dynamic industries globally. And rural tourism is now suffering from restrictions on movement within the foot and mouth affected areas. Value added in the education sector is also stuck at almost the same level as three years earlier, despite an increase in the number of pupils. What happened to Tony Blair's oft-repeated slogan "education, education, education"? Value added in public administration, defence and social security has also contracted, largely due to reduced defence expenditure.

In contrast, two sectors have boomed over the past four years, but are now beginning to look more fragile. GDP in post and telecommunications has soared by 73% since 1995, but the recent collapse of the share prices of internet-linked businesses, and the high bankruptcy rates among start-ups, may presage a sharp downturn in this field. The 44% rise in output from real estate and business services may also prove to be over-exuberant. House prices have gone through the roof since 1996. The Department of the Environment's index shows a 60% rise. This far exceeds the increase in the nominal earnings of house buyers. As real (inflation-adjusted) mortgage interest rates have also risen since the trough of 1991-93, first time buyers and borrowers have been hit hard. If the housing bubble bursts (as it did in 1991), income generated in the real estate sector may contract. A stalled high-tech sector and a badly rattled financial services industry will probably reduce their demand for external business services.

TABLE TWENTY SIX: VALUE ADDED AT CONSTANT 1995 PRICES IN SELECTED SERVICES
(INDEX NUMBERS, 1995=100)

	1995 weights	1996	1997	1998	1999	2000*
Wholesale and retail trade	117	103.4	107.3	110.1	112.1	115.5
Hotels and restaurants	29	102.4	103.6	105.7	106.7	103.9
Post and telecommunications	29	110.8	126.2	135.5	155.6	173.4
Real estate, renting and business activities	111	106.8	117.6	128.5	135.2	143.8
Public admin., national defence & social sec.	61	98.5	96.7	96.4	96.1	97.1
Education	56	101.6	103.0	103.3	103.8	103.9
Health and social work	65	104.4	108.3	111.8	114.4	117.3
Total services	664	103.3	107.8	112.3	115.6	119.5

* Third quarter.

Source: ONS, *UK output, income and expenditure*, 4th quarter 2000, March 2001, table B2.

The pattern of development has also been unbalanced between regions. The unemployment rate (ILO measure) in the North East crept up to 9.0% in 2000 (3rd quarter) from 8.8% in the same period of 1997, and was nearly three times higher than in the South East. Some northern regions have felt the brunt of the decline in traditional manufacturing activities. Meanwhile, southern regions and London have grabbed a large share of the benefits from some booming service sectors. Average weekly pay in Northern Ireland was only 68% of the London level in 2000. The figures for the North East and Yorkshire were 69% and 70% respectively. A majority of British manufacturing firms reported falls in output during the course of 2000, and by October the negative balance was largest in the North West (-39%) and the North East (-32%), compared with a positive balance in the East (3%) and South West (4%). The figure for the UK as a whole was -3% (see CBI/BSL, *Regional Trends Survey*).

CHAPTER TWELVE
IS BRITAIN HEADING TOWARDS A RECESSION?

Despite the brave front put on by George Brown, the warning signs presaging a recession, or at least a severe slow-down, are becoming more difficult to ignore. A continued stock market collapse would certainly dampen any remaining market optimism. Over-investment in the past few years has reduced the return on capital. And since mid-1998, the CBI's industrial trends survey has reported a growing majority of firms that expect to authorise less capital expenditure over the next 12 months. If consumers begin to feel overburdened by debt, and the value of their shares (either held directly or through pension funds) falls, they may save more and cut spending. Optimism may give way to pessimism, and domestic demand may falter. A stalled US economy, stagnation in Japan, and a stuttering recovery in Europe, will also affect global markets for British exports.

The Government seems to have been lulled into a false sense of security by relative price stability. The real danger is likely to come from another quarter. Britain may be caught in an "investment boom and bust" cycle that could have more serious repercussions for the economy than the more familiar cycle based on rising inflation and higher interest rates. The way out of this cycle is not through greatly expanded public investment as planned by Gordon Brown. Governments do not have a good record for selecting investment projects wisely or managing them efficiently. A better solution would be to return the tax surpluses accumulated in the Government's "war chest" to the people and firms from whom they have been forcibly extracted. And then leave them free to spend their money as they (and the markets) think best. But this solution is unlikely to appeal to Gordon Brown's Old Labour instincts.

45 STEALTH TAXES UNDER NEW LABOUR*

An analysis of the tax changes that have been announced in Gordon Brown's first four budgets shows that he has introduced 45 new taxes. The total net increase over this Parliament amounts to over £36 billion.

Of the 45 new taxes, 24 fall directly on individuals with the remainder falling on business. The figures are based on the Government's own statistics published in the Treasury Red Books.

TABLE 27: SUMMARY OF NEW LABOUR'S STEALTH TAXES

Year	Measure	Tax take 1997-98 £m	Tax take 1998-99 £m	Tax take 1999-00 £m	Tax take 2000-01 £m
	26 personal stealth taxes	3,065	7,160	10,775	16,505
	19 business stealth taxes	2,840	3,830	3,815	5,530
	Total gross stealth taxation	**5,905**	**10,990**	**14,590**	**22,035**
	11 personal tax cuts	–220	–485	–1,770	–7,005
	10 business tax cuts	–	–1,775	–2,400	–3,770
	Total tax cuts	**220**	**2,260**	**4,170**	**10,775**
	NET STEALTH TAXES	**5,685**	**8,730**	**10,420**	**11,260**
	So total tax collected by stealth in this Parliament				**36,095**

* The author of this paper, who has chosen to remain anonymous, is a leading tax expert at one of the main accountancy firms.

WHAT IS A STEALTH TAX?

The attempt to produce a definition of a stealth tax seems to be an exercise doomed to failure: by their very nature, stealth taxes are provided with various cloaks and disguises so as to enable their introduction to pass relatively unnoticed amongst the general population. The mask can take many forms.

All stealth taxes have one common feature: they do not involve an increase in the basic rate of income tax. This is the single measure of the burden of tax they face of which most people seem to be aware. The public instantly appreciates a change in the basic rate, even though the amounts at stake may be small relative to other changes, such as the withdrawal of valuable allowances and reliefs.

Some stealth taxes are disguised as anti-avoidance measures, and in this case there is inevitably a slightly subjective approach to their identification. This is because it is necessary to exercise a judgement as to whether the persons who are targeted were truly engaging in unreasonable avoidance of tax or whether the Government merely saw an easy target for some revenue raising. Often both factors are present, as this Government likes to use sledgehammer legislation to crack avoidance nuts.

So, for example, in this list of stealth taxes, various changes to the UK's Controlled Foreign Companies regime have been ignored because these have largely targeted fairly abusive structures. On the other hand the IR35 legislation on personal service companies has been included since it catches far more in its net than the limited abuses that were going on.

In some cases changes were signalled in the 1997 manifesto, and so arguably cannot be stealth taxes at all. However, where the manifesto description was so hazy as to make it impossible for people to assess the scope and incidence of a change, these have been included (e.g. the windfall tax on utilities).

WORKING METHODOLOGY

In tables 28 to 31, all stealth taxes introduced by the present Government have been listed, and their revenue effect during the expected four years of the Government's life indicated. Tax cuts have been included on the same basis. The following points should be noted:

- Business and personal taxes have been separated. In several cases (e.g. the successive stamp duty and VED changes) there is both a personal and business impact, and in this case the change is allocated to the sector most heavily affected.
- Wherever possible, the Government's own estimates of the effect of the changes has been used. In practice tax revenues have risen faster than expected throughout this parliament, so it is reasonable to suppose that the figures significantly underestimate the effect of stealth taxes.
- A few one-off measures with a limited effect over a year or two have been ignored, such as temporary changes to capital allowances rates for small businesses. These usually are just timing differences, with their effect being reversed in later years.

- Wherever possible indexed figures have been used. So an inflationary increase in tobacco duties is not a stealth tax. Where revenues rise through the maintenance of the previous Government's escalator arrangements, these have not been listed. Only increases in the escalator have been included.
- Changes have been listed by year of announcement. This Government has a habit of announcing tax changes a year in advance, and there are accordingly several pre-announced changes in the pipeline which are not listed because they have no revenue effect prior to 2000-01. This is true of both tax cuts (children's tax credits) and stealth taxes (changes to corporation tax double tax relief).

CONCLUSION

This Government has introduced some 24 stealth taxes on individuals and 20 on businesses. The annual revenue effect of these taxes rises remorselessly and in 2000-01 will exceed £22 billion.

There have been 11 cuts in personal taxation and 10 in business taxation in the period.

For both businesses and individuals the effect of stealth taxes significantly outweighs the tax cuts made, even in 2000-01 when much-heralded personal tax cuts amounted to over £7 billion.

The net additional revenue from new tax increases has consistently exceeded the benefit of tax cuts. Even on original estimates the net effect of stealth taxes over the life of this parliament (assuming it ends in the spring), will be over £36 billion.

TABLE TWENTY EIGHT: STEALTH TAXES ON INDIVIDUALS

Year	Measure	Tax take 1997-98 £m	Tax take 1998-99 £m	Tax take 1999-00 £m	Tax take 2000-01 £m
1997					
P1	MIRAS restricted to 10%		900	950	950
P2	Abolition of tax credits on dividends	2,300	3,950	5,400	6,100
P3	End income tax relief on health	25	115	135	160
P4	Extend Insurance Premium Tax to health insurance		5	5	5
P5	Increase road fuel escalator to 6%	730	230	440	500
P6	Increase Vehicle Excise Duty	5	20	20	20
P7	Increase tobacco escalator to 5%	5	160	360	420
1998					
P8	Restrict married couple's allowance			720	1,080
P9	Extend top rate of IPT to travel		5	15	20
P10	Exceptional increase in tobacco and alcohol duties (net)		45	30	35
P11	Increase gaming and related duties		40	45	50
P12	Acceleration of road fuel escalator		1,515	1,040	1,150
P13	Increase tax on company cars		75	165	280
P14	Abolish relief for foreign earnings		100	300	350
P15	Abolition of cash basis for certain professions				40
P16	CGT for certain non-residents			20	20
P17	Restriction of reinvestment relief			20	30
1999					
P18	Raise NIC earnings limit				430
P19	Raise NICs for self-employed				240
P20	Abolition of Married Couple's Allowance				1,600
P21	Abolition of MIRAS				1,350
P22	Taxation of personal services companies				475
P23	Restrict business mileage discounts for company cars			270	265
P24	Double escalator on tobacco duties			630	410
P25	Raise insurance premium tax to 5%			210	290
2000					
P26	Real increase in tobacco duties				235
	Total personal stealth taxes	**3,065**	**7,160**	**10,775**	**16,505**

TABLE TWENTY NINE: STEALTH TAXES ON BUSINESS

Year	Measure	Tax take 1997-98 £m	Tax take 1998-99 £m	Tax take 1999-00 £m	Tax take 2000-01 £m
1997					
B1	Raise stamp duty to 2%	240	490	540	600
B2	Limit carry back of CT losses to 1 year		100	250	275
B3	Windfall tax on utilities	2,600	2,600		
1998					
B4	Corporation tax payments on account		100	1,600	2,000
B5	Raise stamp duty		390	470	520
B6	Raise certain hydrocarbon duties		35	35	35
B7	Additional diesel duties		120	335	455
B8	Increase Landfill Tax		-5	50	60
B9	Restrict double tax credits on certain dividends			10	50
1999					
B10	Abolition of Vocational Training Relief				25
B11	Extension of employer NICs to all benefits in kind				415
B12	Extension of VAT exemption on financing arrangements and changes to partial exemption			165	175
B13	Taxation of reverse premiums			20	50
B14	Further changes in oil/fuel duties			45	115
B15	Net effect of VED changes for lorries			25	20
B16	Landfill tax escalator				45
B17	Raise rates of stamp duty to 2.5/3.5%			270	310
2000					
B18	Raising of rates and extension of scope of stamp duty				330
B19	Extra taxation of life assurance companies				50
	Total business stealth taxes	**2,840**	**3,830**	**3,815**	**5,530**

TABLE THIRTY: TAX CUTS ON INDIVIDUALS

Year	Measure	Tax take 1997-98 £m	Tax take 1998-99 £m	Tax take 1999-00 £m	Tax take 2000-01 £m
1997					
P1	Reduce VAT on fuel and power	–220	–485	–510	–530
1998					
P2	Abolition of entry rate of NICs			–1,200	–1,350
1999					
P3	Tax relief for employer loaned computers			–5	–15
P4	New 10% income tax rate				–1,800
P5	Reduce basic rate to 22%				–2,250
P6	Raise NIC threshold				–850
P7	Remove income tax on mobile phones			–25	–30
P8	Reduce pools betting duty to 17.5%			–30	–20
2000					
P9	New all employee share plan				–120
P10	Enterprise management incentives				–30
P11	Reduce VAT on sanitary towels				–10
	Total personal tax cuts	**–220**	**–485**	**–1,770**	**–7,005**

TABLE THIRTY ONE: TAX CUTS ON BUSINESS

Year	Measure	Tax take 1997-98 £m	Tax take 1998-99 £m	Tax take 1999-00 £m	Tax take 2000-01 £m
1997					
B1	Reduce main corporation tax rate to 31%		–1,400	–1,950	–2,100
B2	Reduce small companies rate to 21%		–200	–250	–280
B3	Elimination of Gas Levy		–170	–190	–210
1998					
B4	Further 1p off corporation tax rates				–790
B5	Raise VAT threshold above inflation		–5	–10	–5
2000					
B6	Abolish stamp duty on IP				–5
B7	Corporate venturing scheme				–5
B8	Changes to group rules				–60
B9	Reduction in construction industry deductions				–150
B10	Changes to VED				–165
	Total business tax cuts		**–1,775**	**–2,400**	**–3,770**

SUMMARY OF RECENT CENTRE FOR POLICY STUDIES POINTMAKERS

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Stuart Lyons

The British Post Office may be a much-respected brand. Yet it is also the last unreformed nationalised industry in the country -with many of the problems to match.

Lyons argues that radical reform is needed if the Post Office is to compete effectively in the future. The first step should be to split the distribution businesses – the Royal Mail and Parcelforce – from the Post Office Counters network. The second is to privatise these distribution services quickly. The third is to remove the current uncertainties which are undermining the Post Office Counters businesses, introduce commercial efficiencies and prepare for privatisation of Post Office Counters in the medium term.

Faced with the choice of becoming a global competitor, or remaining as a national player in a shrinking traditional market while the Germans and Dutch pick up the cream, politicians of whatever political colour must surely choose the former.

POST OFFICE MUST BE BROKEN UP AND PRIVATISED – headline in *The Independent*

UNLOCKING GROWTH: proposals to extend venture capital in the UK **£7.50**

Patrick Burgess

On a pro rata basis, British venture capital funding is less than one third that of the US. Britain is only investing £2 billion a year; if investment was running at US levels, that figure would be £7 billion a year. Venture capital creates on average between three and five more jobs than normal business investment, while investment in technology creates output equal to five times the input. In 1998, venture capital-backed companies contributed £22.3 billion in taxes and produced £178 billion in sales.

So what can be done to boost venture capital investment? Foremost among Burgess's recommendations is the abolition or significant reduction of Capital Gains Tax, which prevents young companies from offering decent rewards to good managers; restricts levels of investment by limiting exit routes; and damages liquidity by inhibiting people from realising their investment. Implementation of Burgess's reforms would also see a reform of the share incentive arrangements; protection for 'angel' investors;· relaxation of the insolvency laws;· removal of the remaining obstacles to corporate venturing. And on a wider scale, Burgess calls for an end to the 'cultural wariness' of the venture capital industry which is common in the professions, retail banks, universities and the civil services.

This is an outstanding paper, well argued, with sensible and positive suggestions to carry forward into policy – Bill Jamieson in *The Scotsman*

OFCOM IS WATCHING YOU **£7.50**

George Trefgarne

The Government's recent Communications White Paper envisages the creation of a new all-powerful regulator, Ofcom, which will police the rapidly evolving telecoms, media and communications industries. While claiming that the regulator will have a light touch, the author shows that as currently formulated, its powers are draconian. This new quango will, for example, have the authority to: block take-overs and mergers; draw up "detailed rules" to enforce "acceptable community standards"; compel news providers to be "impartial"; enter premises and confiscate documents; fine companies up to 10% of their turnover and impose civil penalties on individuals; monitor training of broadcasters and possibly journalists, making sure media companies have approved schemes in place.

A report today by the Centre for Policy Studies says Ofcom would be an over-powerful regulator. Its chief executive would be one of the most powerful unelected figures, it would not be accountable to parliament, and its accounts would not be scrutinised by any official body – Brian Groom in *The Financial Times*

SUMMARY OF RECENT CENTRE FOR POLICY STUDIES POINTMAKERS

NICE AND BEYOND: The parting of the ways? **£7.50**

Christopher Booker

The Nice summit is a turning point for relations between Britain and the EU. France and Germany have now openly stated their wish for an "avant garde" of member states to proceed rapidly to much closer political integration. The German foreign minister has commented that: "We must put the last brick in the building of European integration, namely political integration", while the French Prime Minister spoke of a "hard core of a few more closely integrated countries". Will the British Government try to push a reluctant public into monetary union and political union, or will it accept Britain in a "second tier"?

In a proposal which had gone virtually unnoticed before the publication by the Centre for Policy Studies of Christopher Booker's pamphlet, Nice and Beyond, federalist-inclined countries are to be allowed to push ahead with deeper integration – Leading article in the *Daily Telegraph*