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The Stealth Nationalization of Britain's Economy Must Be Reversed

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One of the proudest boasts of the Labour government is that, since it took office in 1997, it has presided over the creation of 3 million private sector jobs. But the government's record on jobs has come under serious criticism: Many of the supposedly private sector jobs it claims to have created are in areas of the economy dominated by government spending. These jobs are, therefore, not meaningfully private. Consequently, large portions of Britain are now almost completely dependent upon government spending.

The next government must commit itself to reversing this stealth nationalization of Britain's economy and to open and honest dealing about the size of the public sector. The current government's failure also holds important lessons for the United States. Increased government spending, whether financed by taxation or by borrowing, does not create productive private sector employment. If such spending creates anything at all, it is public sector employment and pensions—which are services that must be paid for at a high financial and social cost.

Jobs in Britain: The Claim. In his September 23, 2008, speech to the Labour Party Conference, Prime Minister Gordon Brown reiterated his claim that, thanks to the policies of the Labour Party, the private sector has expanded rapidly since 1997:

When we talk about three million more people in work since 1997—that's not just a number, that's a life that's been changed—three million times over.... Three million new jobs not by accident, but by our actions.¹

If true, the government's claim would align Britain with the U.S. and the rest of the Anglosphere as nations that reject the static European economic model that emphasizes the defense of vested interests. Unlike the European model, the dynamic Anglo-American model welcomes growth and the change it brings. A 2000 IMF study found that the superior performance of the English-speaking nations derived from "a policy package consisting of low dismissal costs and low taxation."² In other words, a more flexible labor market and smaller government increase the economy's dynamism.

Jobs in Britain: The Reality. But that is not the strategy the current government has pursued. From 1997 to 2008, the government's share of the British economy increased from 38.4 percent to 41.9 percent.³ The same wrong-way trends are evident in Britain's public debt and the government's annual financial balance. Even the government's record of fostering economic growth is tainted by the fact that over a quarter of the growth from 1999 to 2006 reflected nothing more than increased state expenditure.⁴

This expenditure was funded by debt that the government, as the *Financial Times* put it, "con-

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cealed...with off-balance-sheet finance that would have made Wall Street blush.”⁵ These off-balance-sheet liabilities, taken together, raise Britain’s public debt by almost one-third, to 62.8 percent of GDP.⁶ That figure does not include the massive liabilities created by Britain’s unfunded public sector pensions.⁷ Even Britain’s on-balance-sheet debt, at 47.5 percent of GDP, is at its highest level since 1978.⁸ Leading politicians are beginning to speculate that Britain will be forced to turn to the IMF for an emergency loan, as occurred in 1976.⁹

On closer inspection, therefore, Britain under the current administration looks less like the Anglosphere and more like continental Europe. The chastening realities of the British job market reinforce that depressing comparison. In November, the *Financial Times* published its analysis of how that market has changed since 1997. It found that, while the number of people employed in Britain has indeed increased, the majority of that increase has been in jobs that exist on the fringes of the public sector:

Two out of three jobs created between 1998 and 2006 have been in sectors dominated by

public services: health, education, social work and public administration. Some of these workers—agency nurses, supply teachers and public policy consultants—may legally have private employers, but they depend on the state.

As *FT* pointed out, this conclusion should lead to a “profound reassessment of New Labour’s legacy.”¹⁰ Not only has the government expanded the size of the British state, but it has financed that expansion by increasing both taxation and debt. This has created an unproductive overhang of interest payments and even more public service pensions that will burden the economy for decades. And, in an effort to wish away the contradiction between its cheerleading of the private sector and its inflation of the public one, the government has defined public sector employment as narrowly as possible.¹¹ The result is that, 11 years after 1997, Britain is entering a deep recession it is poorly equipped to weather.

The extent to which large portions of Britain are almost entirely dependent upon the state is not widely understood. The figures are staggering:

1. Labour Party, “Gordon Brown Speaks to Conference,” September 23, 2008, at http://www.labour.org.uk/gordon_brown_conference (January 29, 2009).
2. Pietro Garibaldi and Paolo Mauro, “Job Creation: Why Some Countries Do Better,” International Monetary Fund, April 2000, at <http://www.imf.org/external/pubs/ft/issues/issues20/index.htm> (January 29, 2009).
3. Organisation for Economic Co-Operation and Development, *OECD Economic Outlook No. 84* (Paris: OECD, November 2008), Annex Table 26, at <http://www.oecd.org/dataoecd/5/51/2483816.xls> (January 27, 2008).
4. Nick Bosanquet *et al.*, “A Lost Decade: Counting the Opportunity Cost of Public Spending, 1999–2008,” *Reform*, March 2008, pp. 20, 22, at <http://www.reform.co.uk/documents/A%20lost%20decade.pdf> (January 27, 2009).
5. Editorial, “The Big Boss State,” *Financial Times*, November 24, 2008, at <http://www.ft.com/cms/s/0/fbf4e914-ba4f-11dd-92c9-0000779fd18c.html> (January 27, 2009).
6. Dale Bassett *et al.*, “The Hole We Are in and How to Get Out of It,” *Reform*, November 2008, p. 35, at [http://www.reform.co.uk/documents/The%20hole%20we%20are%20in%20\(updated%20version\)%20FINAL.pdf](http://www.reform.co.uk/documents/The%20hole%20we%20are%20in%20(updated%20version)%20FINAL.pdf) (January 16, 2009). This figure does not account for support offered to the financial sector after the report’s publication date, which has further increased Britain’s liabilities.
7. *Ibid.*, p. 8.
8. Angela Monaghan, “UK National Debt Highest Since 1978 as RBS Goes on the Books,” *Daily Telegraph*, January 21, 2009, at <http://www.telegraph.co.uk/finance/economics/4305807/UK-national-debt-highest-since-1978-as-RBS-goes-on-the-books.html> (January 27, 2009).
9. Nicholas Watt, “Cameron: Britain May Have to Seek IMF Bail-Out,” *Guardian*, January 23, 2009, at <http://www.guardian.co.uk/politics/2009/jan/23/davidcameron-conservatives> (January 27, 2009).
10. *Financial Times*, “The Big Boss State.”
11. Simon Briscoe and Chris Giles, “Public Sector Fuelled the Jobs Boom,” *Financial Times*, November 23, 2008, at <http://www.ft.com/cms/s/0/ab95cd9e-b991-11dd-99dc-0000779fd18c.html> (January 29, 2009).

- In northeast England, the state in 2008–2009 will be responsible for more than 66 percent of all economic activity.
- In Wales, the state will control 71.6 percent of the economy;
- In Northern Ireland—which has supposedly rebounded with the end of the IRA's terrorist campaign—the state will be responsible for 77.6 percent; and
- In southeast England, the government's share has grown from 33 to 36 percent in four years.

Across the entire United Kingdom, the state will control 49 percent of the economy.¹²

As the *Sunday Times* cuttingly points out:

The state now looms far larger in many parts of Britain than it did in former Soviet satellite states such as Hungary and Slovakia as they emerged from communism in the 1990s, when state spending accounted for about 60 percent of their economies.¹³

What Should Be Done. It is critical to be able to reliably assess the size of the public sector. Yet by changing its accounting system in 2001–02, the government has made it difficult to compare its budgets with those of past administrations.¹⁴ And by concealing much of its borrowing while refusing to acknowledge the full cost of public sector pensions, the government has made it impossible to trust the official data on the state of the national finances.¹⁵

This disguised growth has imposed a four-fold burden on Britain: First, it has reduced economic growth; second, it has increased borrowing, and therefore the costs of debt service; third, it has handed future taxpayers an even larger public sector to support and an even bigger bill for public service pensions to pay; the fourth burden is subtle but perhaps the most dangerous. Britain faces a significant challenge in integrating a sizable immigrant population and in defusing the dangers posed by domestic Islamic radicalism. A vibrant private sector that creates jobs, including jobs for the low-skilled, is indispensable to winning this battle.

The alternative is for British cities to become like the French *banlieue*, dominated by unemployed and unassimilated immigrants and sustained by a massive but faceless and uncaring state bureaucracy. This is a culture of alienation and dependency, easily exploited by radicalism's recruiters.

The state cannot tax and spend its way to prosperity, to full employment, or to social peace, and the effort to do so is destructive of each of these goals. That is why the next government must restore public trust in official publications and accurately assess and reverse the stealth nationalization of Britain's economy.

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12. Abul Taher, "'Soviet' Britain Swells amid the Recession," *Sunday Times*, January 25, 2009, at <http://business.timesonline.co.uk/tol/business/economics/article5581225.ece> (January 29, 2009).

13. *Ibid.*

14. Fighting Crime: Are Public Policies Working?" *Reform*, March 2006, pp. 3–4, at <http://www.civitas.org.uk/pdf/crimeBriefingMarch06.pdf> (January 29, 2009).

15. Bassett *et al.*, "A Lost Decade," p. 8.