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# *The* **Decline** *of* **Britain**

*A Cautionary Tale for America*

*By Dr. Robin Harris*

*Margaret Thatcher*

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## Abstract

Similar trans-Atlantic experiences reflect more than the economic linkage between England and the United States or the well-known swing of the political pendulum. Most significantly, the echoes and counter-echoes demonstrate how, at the lowest common denominator, political fashion and, at the highest, political thinking in America and Britain take place in the same marketplace of ideas. This should give political commentators and strategists pause for thought. If Britain is on the wrong course and America follows, Britain will be even more dependent on its great traditional ally. More obviously, pursuing an authentically Anglo-Saxon route to decline offers no benefits to the United States. Consanguinity works both ways. What works in one of our countries has been shown to work in the other. But what fails in one country also fails in the other, and in crucial respects Britain is now failing. The country's palpable decline from its prosperity and security of just two decades ago constitutes an awful but, if intelligently observed, timely and useful warning to America.

## About the Author

**Dr. Robin Harris** served during the 1980s as an adviser at the United Kingdom Treasury and Home Office, as Director of the Conservative Party Research Department, and as a member of Prime Minister Margaret Thatcher's Downing Street Policy Unit. He continued to advise Lady Thatcher after she left office and has edited the definitive volume of her Collected Speeches. Dr. Harris is now an author and journalist. His books include *Dubrovnik: A History* (Saqi Books, 2003); *Beyond Friendship: The Future of Anglo-American Relations* (The Heritage Foundation, 2006); and *Talleyrand: Betrayer and Saviour of France* (John Murray, 2007).

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# SECTION I

## Similarities

The United States grew out, as much as it broke out, of the British Empire—a truth that students of the Special Relationship have had no difficulty either demonstrating or embracing. The theories behind the constitutions of both countries are, of course, sharply different, and so are many of the institutions of government; but practices and assumptions have stayed, in many important respects, remarkably similar.

Among the traditionally distinguishing features in both countries are jealous attachment to liberty in all its forms, relish for vigorous debate (underpinned by a first-past-the-post electoral system), distrust of centralized power in every aspect, and a high view of the rights and duties of individuals. This is so much the case, and has been over so long a period, that it is no exaggeration to refer to Britain and America sharing a common political culture. Awareness of this, at least at a subliminal level, is strongly reinforced by other cultural features and by both tragic and heroic historical experience.<sup>1</sup>

The ebb and flow of events confirms, sometimes to an almost unnerving extent, how much the two countries' fortunes mirror one another. Economics is not the least important part of this. Despite attempts of governments drawn from both political parties to push the United Kingdom closer to the European Union and the quasi-corporatist European model, Britain's economy, for (usually) better or (recently) worse, stubbornly follows America's into and out of recession. The structural similarity is now tacitly accepted by all of the more sensible European leaders. Hence the European pressure, once so relentless, to give up sterling and join the euro has all but dropped away.

Meanwhile, despite deep popular unease at Britain's financial state, opinion polls register no popular enthusiasm for closer European integration; indeed, they suggest the opposite. A slight relative majority of voters would leave the EU altogether; almost 60 percent believe the EU has too much power; the preferred option is a looser relationship with Europe; and, when asked specifically whether the economic crisis had made them more likely to support joining the euro, only 31 percent agreed, compared with 64 percent who disagreed.<sup>2</sup>

Even more remarkable, but also indisputable, has been the extent to which the American and British political cycles in recent times have kept largely in step, in some cases defying, though more usually reflecting, party affiliation. The Richard Nixon and Edward Heath years, even though the two leaders were personally at odds, saw remarkably similar domestic economic policies, including self-defeating controls to suppress government-induced inflation. The Jimmy Carter and James Callaghan terms—and these two leaders were personally, as well as politically, close—saw, under similar policy regimes, a sad decline in the economic strength and overseas reputation of both powers, as well as of the West in general.

By contrast, the Ronald Reagan and Margaret Thatcher years were marked by a rejection of the policies that had led to decline. A shared approach at home and overseas produced a resurgence of Anglo-American influence as well as the decisive stage in winning the Cold War.

The George H. W. Bush and John Major administrations were notable both for a deliberate distancing from their predecessors' conservative commitment and for a partial return to policies of higher government spending and taxation, which in both cases eventually contributed to political failure. Bill Clinton and Tony Blair then both sought, with varying degrees of success, to “triangulate” between maintaining their parties' support and pursuing enterprise-

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1. See, for example, Margaret Thatcher, *Statecraft: Strategies for a Changing World* (London: Harper Collins, 2002), pp. 20–24.

2. These conclusions are derived from YouGov poll for The Taxpayers' Alliance and Global Vision, January 2009; BBC/ComRes poll, March 2009; *The Times*/Populus poll, May 2009; and Channel 4/YouGov poll, June 2009.

friendly and overseas interventionist approaches of the sort more usually associated with Republican or Conservative governments.

One could then have predicted a period of discontinuity with the election of George W. Bush as President, but after some initial disagreements, the similarities exerted themselves as strongly as ever. Blair and Bush not only collaborated closely on the interventions in Afghanistan and Iraq in the wake of 9/11, but also sharply increased domestic spending.

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This provided the background to the next (and current) phase as two undeniably left-of-center leaders, Barack Obama and Gordon Brown, have sought to counter the financial crisis with a combination of economic interventionism and spending programs that

would have shocked John Maynard Keynes. (When Keynes wrote his *General Theory* in 1936, the ratio of government spending to national output was barely above half that now projected.<sup>3</sup>)

How, with the likely election of what promises to be a rather centrist Conservative government in Britain next year, the cycle will continue, it is too soon to tell. President Obama seems to have less concern for the U.K.-U.S. Special Relationship than any other recent American leader. But history suggests that, for reasons stronger than either personalities or partisanship, politics in both countries will continue to be conducted subject to very much the same influences and conditions.<sup>4</sup>

These similar trans-Atlantic experiences reflect more than the already mentioned economic linkage or, indeed, the well-known swing of the political pendulum, though they do also show that. Most significantly, the obvious echoes and counter-echoes demonstrate how, at the lowest common denominator, political fashion and, at the highest, political thinking in both America and Britain takes place in the same shared marketplace of ideas.

This hardly disputable fact should give political commentators and strategists pause for thought. It is, of course, superficially reassuring for enthusiasts of the U.S.-U.K. Special Relationship to consider that the two countries remain so similar. But if Britain is on the wrong course and America follows, that does no favor to Britain, which will be even more dependent on its great traditional ally. More obviously, pursuing a tried and tested, authentically Anglo-Saxon route to decline offers no benefits to the United States.

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**What works in one of our countries has been shown to work in the other. But what fails in one country also fails in the other, and the blunt truth is that in crucial respects Britain is now failing.**

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Consanguinity works both ways. Proclivities to certain conditions run in the same families. Yes: what works in one of our countries has been shown to work in the other. But what fails in one country also fails in the other, and the blunt truth is that in crucial respects

Britain is now failing. The country's palpable decline from its prosperity and security of just two decades ago constitutes an awful but, if intelligently observed, timely and useful warning to America.

It will also be useful if the British political class learns the right lessons. That, however, at the time of writing, seems still in the balance.

3. Keynes's postwar correspondence suggests that he would not have advocated increases from the current starting point. See David B. Smith, "How Should Britain's Government Spending and Tax Burdens Be Measured? A Historic Perspective on 2009 Budget Forecasts," Institute of Economic Affairs *Discussion Paper* No. 24, June 2009.
4. The years, individuals, and political affiliations in question are as follows:
 

Edward Heath (Con), 1970-1974	Richard Nixon (R), 1969-1974
Harold Wilson (Lab), 1974-1976	Gerald Ford (R), 1974-1977
James Callaghan (Lab), 1976-1979	Jimmy Carter (D), 1977-1981
Margaret Thatcher (Con), 1979-1990	Ronald Reagan (R), 1981-1989
John Major (Con), 1990-1997	George H. W. Bush (R), 1989-1993
Tony Blair (Lab), 1997-2007	Bill Clinton (D), 1993-2001
	George W. Bush (R), 2001-2009
Gordon Brown (Lab), 2007-	Barack Obama (D), 2009-

## SECTION II

### How the Story Unfolded

#### The Thatcher–Major Era

In making a proper assessment of what America can learn from Britain's failures, it is necessary to begin with the period which preceded Britain's greatest success. The malaise which affected Britain in the 1970s was substantially worse than that which settled on the United States, although some of the rhetoric employed in the U.S. has been similar.<sup>5</sup>

Attention was focused on the concept of decline. The worry in the circles around Mrs. Thatcher was that relative decline—that is, the erosion of Britain's place in the significant international economic league tables—was continuing at such a rate that it would result in absolute decline; that is, most obviously, in a real and continuing decline in gross domestic product (GDP).

The analysis was widely shared. Its most celebrated expression was in the valedictory dispatch of Sir Nicholas Henderson, Britain's ambassador in Paris, leaked to *The Economist* in 1979. This argued that Britain's economic decline since the 1950s had been "such as to sap the foundations of our diplomacy," adding with diplomatically polished bitterness: "we are not only no longer a world power, but we are not in the first rank even as a European one."<sup>6</sup> The most cynical conclusion to be drawn was probably that attributed to Sir William Armstrong, Cabinet Secretary, six years earlier: "The business of the Civil Service is the orderly management of decline."<sup>7</sup>

In practice, the upheavals of the two national coal miners' strikes of 1972 and 1974, the first of which forced the Heath government off its program and the second of which destroyed it altogether, suggested that even "orderly decline" would be difficult to achieve. It was, indeed, part of the Thatcher analysis that shrinking economic prospects would mean not only—as Henderson argued—a smaller world role, but also increasingly sharp social divisions as interests competed to obtain a larger share of a smaller cake.

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Mrs. Thatcher and her advisers broke company with the pessimists in believing that decline was not inevitable, that it could be reversed, and that a complete change of direction in economic policy was the key to doing so. Those who later criticized—and still criticize—the primacy that the Thatcher government gave to economics are inclined to forget the prevailing conditions and the policy interconnections.

As Mrs. Thatcher notes in her memoirs, "I came into 10 Downing Street with an overall conception of how to put Britain's economy right, rather than a detailed plan; progress in different areas would depend on circumstances, both economic and political."<sup>8</sup> Thus, squeezing out inflation, deregulation, curbing government borrowing, and trying—with initially limited success—to restrain public spending were the main priorities in her first term (1979–

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5. Albeit a decade later and from a more thoughtful standpoint, cf. "The task facing American statesmen over the next decades, therefore, is to recognize that broad trends are under way, and that there is a need to 'manage' affairs so that the *relative* erosion of the United States' position takes place slowly and smoothly...." Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict 1500 to 2000* (London: Fontana, 1989), p. 690.

6. "Britain's Decline: Its Causes and Consequences," *The Economist*, June 2, 1979.

7. Peter Hennessy, *Whitehall* (London: Secker and Warburg, 1989), p. 76.

8. Margaret Thatcher, *The Path to Power* (London: Harper Collins, 1995), p. 569.

1983). Privatization of state-owned industries, successive steps of trade union reform, and large cuts in income tax rates were the principal achievements of the second and third terms (1983–1990). Winning the Falklands War against Argentina and helping President Reagan win the Cold War against the Soviet Union were also neatly fitted in.

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The consequences of this approach were a series of step-change improvements in Britain's economic performance. These were measurably evident by the time Mrs. Thatcher left office and, as economic changes do, became increasingly marked as the years went by, with Britain forging ahead of its competitors.

By the early 1990s, despite some setbacks, several policy errors, and a recession, the scale of the changes had attracted a good deal of international attention. The British experience was being hailed as a model to be followed rather than, as previously, a fate to be shunned.

By the early 1990s, despite some setbacks, several policy errors, and a recession, the scale of the changes

- Public spending as a share of GDP fell over the period. The large inherited budget deficit was cut year after year, and between 1987–1988 and 1990–1991 there was a budget surplus, with public debt as a share of the economy reduced to a level lower than before the First World War.
- Sixty percent of the state sector of industry passed into private ownership.
- Income tax rates had fallen. The Thatcher government cut the basic rate from 30 percent to 25 percent and shifted the tax burden from income to spending. It also cut the top rate from 83 percent to 40 percent.
- In the new climate of realism, trade union militancy was discouraged. By 1990, the number of industrial stoppages was lower than in any year since 1935.
- Most important as a measure and guarantee of long-term performance, productivity growth had sharply improved as new jobs in new industries replaced overmanning in old ones. By the end of the Thatcher term, these emerging new jobs were also bringing down the historically high levels of unemployment.<sup>9</sup>

The 1992 general election was then fought and won on this record by Mrs. Thatcher's chosen successor, John Major. His success allowed the continuation and in some cases, notably privatization, the extension of pro-enterprise policies.

The political honeymoon, though, did not last. The loss of Conservative Party cohesion over the European issue inflicted damage. The loss of the Conservative government's economic reputation as a result of its handling of British membership of the European Exchange Rate Mechanism did more.

There was a sharp recession. There was then economic recovery with healthy growth and rising productivity, with interest rates down, and with inflation, spending, and borrowing all back under control.<sup>10</sup> It was not, however, enough to repair other political damage. The Conservative Party lost the 1997 general election—and did so disastrously, with a smaller share of the vote than at any time since its formal creation in the 1830s.

Yet economic policy itself was not the main issue. Indeed, Tony Blair's commitment not to reverse the Conservative government's economic reforms, thus reassuring public opinion, was crucial in securing his victory.

## The Blair–Brown Era

American opinion warmed most dramatically toward Tony Blair because of his heartfelt reaction to 9/11, but before and after those terrible events, there was also a feeling on both sides of the Atlantic that Mr. Blair was “different.” He claimed to have learned the lessons of past socialist failures, and he was widely believed.

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9. The most convenient summary of these measures and their effects is in *ibid.*, pp. 568–569. A range of outside studies, however, have confirmed the picture. For example, see Patrick Minford, *The Supply Side Revolution in Britain* (London: Edward Elgar/Institute of Economic Affairs, 1991).

10. See John Major, *The Autobiography* (London: Harper Collins, 1999), p. 689.

Specifically, he promised to abide by the outgoing Conservative government's tight spending plans for his first two years—and did so. With the British economy growing against a favorable international background, this resulted in a reduction of public spending as a share of GDP to a recent historic low of 36.3 percent. Tony Blair had also declared: "We've no plans to increase tax at all."<sup>11</sup> Contrary to this promise, though not surprisingly or (with one exception, discussed below) particularly harmfully, some taxes were raised, but the overall increases were kept within bounds. Gordon Brown as Chancellor of the Exchequer was given much of the credit for this prudence.<sup>12</sup>

Then, upon the expiration of inherited plans and facing an approaching second general election, with many Labour supporters unhappy with the government's record, the Prime Minister and Chancellor sharply reversed economic course. Between 1999–2000 and 2005–2006, public spending was allowed to grow by 4.8 percent a year in real terms, rising as a proportion of GDP to 43.1 percent.<sup>13</sup>

The largest component of that increase—over 60 percent—was spending on the National Health Service (NHS). This was the result of an apparently impromptu decision by Mr. Blair to pledge to raise health spending from the then-current level of 6.8 percent of GDP to the European average of 9.3 percent. In furtherance of this commitment, spending on health has more than doubled.

Spending increases of this order are typically economically harmful, particularly from a high base. Only the scale of the inhibiting effect of raising spending, and so taxes, upon GDP growth is disputable. One credible estimate suggests a negative impact of 1.5 percent annually on U.K. economic growth as a result of changes in public spending levels between 1960 and 2005.<sup>14</sup>

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***In the Thatcher–Major years, Britain stood out from the rest of Europe because of its small state sector, which was accompanied by lower taxes and lighter regulation.***

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In 2005–2006, British public spending as a share of GDP stabilized, but much harm had already been done. The government's financial discipline had loosened. From 2001–2002 the budget surplus had become a regular budget deficit. The Chancellor started to finesse his own self-imposed tests of financial rigor. Public-sector debt, itself, was not as yet a problem. But fiscal easing, combined with excessively loose monetary policy, helped to create the conditions for future trouble.

regular budget deficit. The Chancellor started to finesse his own self-imposed tests of financial rigor. Public-sector debt, itself, was not as yet a problem. But fiscal easing, combined with excessively loose monetary policy, helped to create the conditions for future trouble.

Nor were trends at home the only worry; so was the contrast with trends abroad. In the Thatcher–Major years, Britain stood out from the rest of Europe because of its small state sector, which was accompanied by lower taxes and lighter regulation. But now, with other countries like Germany trying to restrain spending while Britain increased it, this advantage was lost. Between 1997 and 2005, based on Organisation for Economic Co-operation and Development (OECD) calculations, U.K. public spending as a share of GDP rose from 40.6 percent to 44.2 percent. France's fell from 54.1 percent to 53.4 percent, Germany's from 48.3 percent to 46.9 percent, Italy's from 50.2 percent to 48.1 percent, and the Euro Area as a whole from 49.4 percent to 47.4 percent.<sup>15</sup>

For Britain, however, much worse was to come.

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11. Interview, *Financial Times*, September 21, 1995.

12. In truth, Mr. Brown's main contribution to success was to keep sterling out of the euro, to Mr. Blair's chagrin.

13. What follows draws on the analysis by Andrew Lilico, Neil O'Brien, and Adam Atashzai, "Controlling Public Spending: The Scale of the Challenge," *Policy Exchange Research Note*, June 2000.

14. See David B. Smith, "Living with Leviathan: Public Spending, Taxes and Economic Performance," *Institute of Economic Affairs*, 2006, Table 10, p. 80.

15. These figures are extracted from the Table 1, below. OECD figures are compiled on a somewhat different basis from those by the British Treasury, used elsewhere in this paper; hence the discrepancies.





## SECTION III

### Britain Today

#### Britain's Economy

Various personal and political explanations suggest themselves when considering Gordon Brown's decision since becoming Prime Minister to cast aside caution in handling Britain's public finances, but these are of secondary importance. It was always likely to happen at some point. Margaret Thatcher provided an insight into the matter, though it would take time to prove correct. In a lecture delivered the year before the Conservative defeat, and commenting on the Labour Party's apparent embrace of Tory economic policies, she warned:

It's not really very important whether New Labour is sincere in seeing the errors of Old Labour. What is important is that they don't—indeed they can't—understand why the policies of the 1980s worked. And because they don't understand the philosophy behind them, they could not in the hurly-burly of government put the right policies into practice. They would be blown off course. And the reefs of interventionism are no less dangerous, and the sirens of financial profligacy no less alluring, than they were in the past.<sup>16</sup>

The British financial crisis of 2007–2009 provided an occasion, and also an opportunity, for this reversion to type. The crisis itself was, contrary to government assertions, initially homegrown.<sup>17</sup> The crisis began with the failure of the Northern Rock Bank, which was the result of the bank's own imprudent business practices—particularly excessive reliance on the money markets and loose criteria for advancing home loans. It was encouraged in both respects by slack domestic monetary conditions and a regulatory regime that failed to keep up with what was happening in the industry.

In the summer of 2007, the Bank of England sharply tightened policy, not only raising interest rates, but also allowing the money markets to dry up. News leaked out that Northern Rock needed help, and there was a run on the bank as savers rushed to draw out their funds. The government stepped in and subsequently had to do the same with other banks.

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While events unfolding in the U.S. created an atmosphere of distrust between institutions that made the situation more difficult to handle, the failed British banks had lost their money on British mortgages, not American ones. The blame lay fairly and squarely with the British government, the Bank of England, the British Financial Services Authority, and British bankers.

In the intervening year, between phase one and phase two of the crisis, the government aggressively seized control of some banks and shuffled around control of others. The potential liabilities for the taxpayers grew exponentially, and commentators started to become blasé about the number of noughts involved. Mr. Brown, the covert interventionist now breaking cover, was in his element. He achieved some passing popularity and was emboldened to philosophize at home and advise abroad on the subject of the free market's failures.

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16. Fourth Nicholas Ridley Memorial Lecture, November 22, 1996, in Margaret Thatcher, *The Collected Speeches*, ed. Robin Harris (London: Harper Collins, 1997), pp. 635–636.

17. What follows draws upon John Redwood, "Credit Crunch: The Anatomy of a Crisis," Adam Smith Institute, 2009.

Then, in the autumn of 2008, the full force of the global financial crisis hit Britain.<sup>18</sup> That October, the government stepped in with a £487 billion package of assistance for the banks that was much larger as a proportion of the economy than America's. Mr. Brown added a stimulus package consisting of a temporary cut in the value-added tax and increases in government spending. This was (and is) still supported by a policy of very low interest rates and "quantitative easing"—i.e., printing money.

The arguments for and against the British authorities' specific policy responses, like those of their U.S. equivalents, are obviously important but, in the context of this paper, peripheral. Other considerations are more significant.

- The first is the way in which these interventions fit snugly within the ideological framework one would expect to be adopted by a government that is deeply distrustful of market mechanisms.
- The second is the degree to which the possible effectiveness of these actions has been negated or compromised by previous mistakes.

Mr. Brown was still in his twenties when the Labour Party, in Labour's Programme 1976, endorsed the most sweeping program of nationalization, state planning, trade protection, increased public spending, and confiscatory taxation that any non-Communist party has ever proposed. Indeed, linked to its advocacy of defense cuts, the Programme had a distinctly Communist air about it—not surprisingly, perhaps, since the Industrial Organizer of the Communist Party just two years earlier had boasted: "The Communist Party can float an idea early in the year and it can become official Labour policy by the Autumn."<sup>19</sup>

The Labour Prime Minister of the day, James Callaghan, described Labour's Programme as "the total sum of all [the Party's] hopes," though he later thought fit to add that it was "a programme for the 1980s and not for the immediate future."<sup>20</sup> (He was 20 years too soon.) The Programme was undertaken in pursuit of the implementation of Clause IV of Labour's (only later amended) Constitution, which demanded "the common ownership of the means of production, distribution and exchange."

At the heart of this strategy was control of the nation's capital, direction of investment, and nationalization of the banks. Mr. Brown would certainly deny that the government's acquisition of majority or controlling stakes in British banks (Northern Rock, Bradford and Bingley, Royal Bank of Scotland, Lloyds Banking Group, etc.) was driven by nostalgia for Clause IV, but the fact remains that he has succeeded where British socialists in the 1970s failed and that he envisages, as they did, vastly widening the scope of government regulation and influence in finance and business to subordinate disorderly capitalism to graph paper—neat plans made in Westminster and Whitehall.

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Mr. Brown is not exclusively to blame. It was, as has been noted, the Blair-Brown partnership that saw the initial increases in public spending and taxation. The most recent public spending splurge, which has occurred on Mr. Brown's personal watch since 2007, is

only a logical extension of the first. When the NHS needed improvement, Mr. Blair spent more, and when the finances required repair and recession loomed, Mr. Brown did the same. The reaction reflects the assumptions, and all are of a piece.

Which leads to the second point: the degree to which past mistakes vitiate any benefits and increase any risks inherent in the latest decisions. Because Mr. Blair and Mr. Brown spent and borrowed during the boom years—a boom which was itself fuelled by excessively lax monetary and credit policies, both domestically and internationally—Mr. Brown now finds himself without room for maneuver, within the limits of prudence, to adjust his policies. Indeed, in the resulting conflict of objectives, prudence has been abandoned.

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18. For the wider background to this global crisis, see J. D. Foster, "Understanding the Great Global Contagion and Recession," Heritage Foundation *Background* No. 2331, October 22, 2009, at [www.heritage.org/Research/Economy/bg2331.cfm](http://www.heritage.org/Research/Economy/bg2331.cfm).

19. Quoted in *New Society*, January 17, 1974.

20. Speeches made, respectively, to the Labour Party National Executive, May 12, 1976, and in Bournemouth, June 7, 1976.

This is perfectly well understood and sometimes tactlessly stated abroad. For example, the President of Chile, a socialist who has been sensible enough not to overturn the economic legacy of the Pinochet era, observed at a joint press conference with the British Prime Minister in March that Chile was in good economic shape to face current difficulties “because of our decision during the good times to save some of the money for bad times.”<sup>21</sup> Not so Britain.

Certainly, the British government’s record of profligacy makes for some dismal statistics.

- Public expenditure as a share of GDP is forecast to rise from 48.1 percent in 2008 to 52.4 percent in 2009 and 54.1 percent in 2010.<sup>22</sup> That is a higher figure than at any time since the highest spending year of the Second World War (1944), three percentage points above the Euro Area, and eight points higher than the OECD.<sup>23</sup> Even Russia would blench at the prospect: In his latest state-of-the-nation address, President Medvedev has called for a reduction of the state’s 40 percent share of the economy.<sup>24</sup>
- The budget deficit in 2009–2010, on British government figures, is set to reach 12.4 percent of GDP. That is higher, according to both cyclically adjusted and non-adjusted measures, than for any other OECD member.<sup>25</sup> It is also much higher than when the Callaghan government endured the humiliation of being bailed out by the International Monetary Fund (IMF) in 1976.
- The government itself foresees a doubling of public-sector net debt as a share of GDP.<sup>26</sup> Many commentators consider this overly optimistic because of doubts about the official estimates of growth. But more serious is the misleading effect of overlooking those public debts which, though real, are kept off-balance sheet. Public-sector projects financed under the Private Finance Initiative (where in practice government bears much of the risk), the debts of the rail network, the liabilities of unfunded public-sector pensions, and the uncertain final costs of financial-sector interventions should all arguably be added to the total. By one estimate, and taking these additions into account, public-sector net debt could be more than 150 percent of GDP.<sup>27</sup>
- In any case, just taking the official figures and according to the IMF, Britain will have the fastest increase of debt of any G-20 country between 2007 and 2014.<sup>28</sup> Not surprisingly, there have been intermittent rumbles to the effect that the U.K. risks losing its AAA international credit rating.<sup>29</sup>

The government says that it plans to curb debt by halving the budget deficit by 2013–2014. This is a sharper tightening than at any time since the 1970s. It implies either very large cuts in spending, or a rise in taxes that would be economically damaging and possibly fiscally self-destructive, or most probably in practice, under either a Labour or Conservative government, some combination of the two options.

Taxes in Britain are already, in fact, much too high for the country’s good. In recent years, tax rises seem to have been aimed, with almost unerring precision, at targets most likely to maximize economic harm.

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21. “Gordon Brown Embarrassed by Chile President on Economy,” *The Daily Telegraph* (London), March 27, 2009, at <http://www.telegraph.co.uk/news/worldnews/southamerica/chile/5062883/Gordon-Brown-embarrassed-by-Chile-president-on-economy.html> (January 12, 2010). Chile is, according to the Fraser Institute, economically freer than the United States. See James Gwartney and Robert Lawson, *Economic Freedom of the World: 2009 Annual Report*, Fraser Institute, 2009. For a discussion of why this happened, see former Chilean Pensions Minister José Pinera’s account at <http://www.cato-at-liberty.org/2009/09/17/why-chile-is-more-economically-free-than-the-united-states>.
  22. OECD figures; see Table 1.
  23. Smith, “How Should Britain’s Government Spending and Tax Burdens Be Measured?” Taking an arguably better measure of the public expenditure/national income ratio, judged according to factor cost GDP, the burden is substantially higher than when measured by the government’s preferred measure of market-price GDP.
  24. Tony Halpin, “Russia Must Cast off Communist Legacy or Collapse, says Medvedev,” *The Times* (London), November 13, 2009, at <http://www.timesonline.co.uk/tol/news/world/europe/article6914620.ece> (January 12, 2010).
  25. OECD *Economic Outlook*, Vol. 2009/1, No. 85 (June 2009), Annex, Tables 27 and 28. The updated U.K. government figure for the deficit this financial year is, in fact, 12.6 percent of GDP, £178 billion. See H. M. Treasury, *Pre-Budget Report*, December 9, 2009.
  26. H. M. Treasury Budget 2009, HC 407, April 22, 2009, Table 1.1: from below 40 percent to almost 80 percent 2007–2008 to 2013–2014.
  27. See Brooks Newmark, MP, “The Hidden Debt Bombshell,” Centre for Policy Studies, 2009.
  28. As illustrated by Robert Chote, Rowena Crawford, Carl Emmerson, and Gemma Tetlow, “Britain’s Fiscal Squeeze: The Choices Ahead,” IFS *Briefing Note* BN87, September 2009, Figure 3.6.
  29. Most recently from the Fitch ratings agency. Tom Bawden and Robert Lindsay, “Pound Backtracks After Fitch Deficit Warning,” *The Times* (London), November 11, 2009, at <http://business.timesonline.co.uk/tol/business/markets/article6911592.ece> (January 12, 2010).

Even in his early, prudent phase, in his first budget in 1997, Gordon Brown as Chancellor inflicted a blow on the nation's savings by abolishing the dividend tax credits paid to pension funds. (Until then, there was tax relief on the dividends paid on investments in these funds.) This change cost savers £5 billion a year—every year. As such, it was one factor in discouraging saving, but there were, of course, others. The Bank of England kept interest rates too low and credit too free for too long. The savings ratio had duly fallen sharply, from 10 percent in 1997 to about 2 percent in 2007, before the recession struck.<sup>30</sup> The authorities then sharply reversed track.

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***Taxes in Britain are already much too high for the country's good. In recent years, tax rises seem to have been aimed, with almost unerring precision, at targets most likely to maximize economic harm.***

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Gordon Brown cannot escape his own substantial share in this serious policy failure because, even though it was replicated in different ways and different degrees in other countries, it also had its own specifically British origins in decisions which he made as Chancellor. Mr.

Brown's Bank of England Act 1998, widely praised at the time for establishing the Bank of England's independence from government, can now be seen to have contained two serious flaws.

*First*, it mandated that the Bank, in its monetary policy, concentrate on inflation above all else while distorting this objective further by substituting as a measure of inflation a new Consumer Price Index (CPI) in place of the traditional Retail Price Index (RPI). The latter included housing costs; the former excluded them—and house prices were the single most important indicator of the credit bubble.<sup>31</sup>

*Second*, the Bank of England's traditional role of supervising the banking system was transferred to the new Financial Services Authority, whose knowledge of and feel for the City proved in the event inadequate. All this made for a double dose of imprudence.<sup>32</sup>

British taxes, in the wake of Mr. Brown's almost obsessive technical meddling, are also confusing and complicated. According to the authoritative *Tolley's Tax Guide*, Britain now has the longest tax code in the world, having surpassed India with 11,520 pages—more than double the number 12 years ago.<sup>33</sup>

Almost as important as the reality, though, is the impression—particularly among those who are tempted to do business in Britain—that this is a country where wealth creation is frowned upon and where the government has a reflexive impulse to levy taxes whenever and wherever possible. The Russian Foreign Minister, to take an unlikely example, has thus commented on Mr. Brown's prominent championing of a global tax on financial transactions: "I'm quite sceptical about such taxes. Gordon Brown is well known as the person who has been raising taxes all the time."<sup>34</sup>

Rich Russians are likely to be well aware of the truth of this, given that the U.K. (along with Japan) levies the highest top rate of all the G-8 countries.<sup>35</sup> In recent years, countries have been bringing down top rates as an economically healthy competition between tax regimes takes effect. Against this background, Mr. Brown announced a new 50 pence rate of income tax levied on those with incomes over £150,000, applicable from April 2010. Equally significant is the accompanying tapered withdrawal of personal tax allowances for those earning more than £100,000. One effect of this combination is to create widely varying marginal tax rates that will reach as high as 61.5 percent.

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30. Bank of England, *Quarterly Bulletin*, Vol. 49, No. 3 (2009), p. 191, Chart 1.

31. See Maurice Saatchi, "The Myth of Inflation Targeting: The Largest Policy Failure of Our Generation," Centre for Policy Studies, 2009.

32. See Sir Martin Jacobson, "Re-empower the Bank of England," Centre for Policy Studies, 2009.

33. Jonathan Russell, "UK Has Longest Tax Code Handbook in the World," *The Daily Telegraph* (London), September 6, 2009, at <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6146911/UK-has-longest-tax-code-handbook-in-the-world.html> (January 12, 2010).

34. Sam Fleming, "Bank Tax Rebellion: World's Finance Chiefs Pour Cold Water on Gordon Brown's Plan for a Levy on All Transactions," *The Daily Mail* (U.K.), November 8, 2009, at <http://www.dailymail.co.uk/news/article-1226013/Humiliation-Brown-plan-global-banking-tax-rejected-U-S-G20-meeting.html> (January 12, 2010).

35. For this and what follows, see Jill Kirby and Iain Griffiths, "What's Wrong With 50p? Unfair, Uncertain, Inefficient and Damaging," Centre for Policy Studies, 2009.

# International Public Expenditures and GDP

OECD Nations, General Government Total Outlays, as a Percent of Nominal GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Australia	37.8	38.3	37.8	38.3	38.2	37.2	36.3	35.2	34.8	35.2	35.9	35.4	34.6	35.1	34.8	34.5	34.2	34.0	37.4	37.4
Austria	52.9	53.5	56.6	56.1	56.5	56.0	53.7	54.0	53.7	52.2	51.6	51.0	51.6	54.1	50.0	49.5	48.7	48.7	52.3	53.1
Belgium	53.4	53.7	54.8	52.5	52.0	52.5	51.1	50.4	50.2	49.2	49.2	49.9	51.2	49.6	52.1	48.4	48.3	50.0	53.9	55.2
Canada	52.3	53.3	52.2	49.7	48.5	46.6	44.3	44.8	42.7	41.1	42.0	41.2	41.2	39.9	39.3	39.4	39.1	39.7	43.0	44.1
Czech Republic	—	—	—	—	54.0	42.4	43.2	43.1	42.3	41.6	44.2	46.2	47.1	44.8	44.7	43.1	41.6	41.7	43.9	44.2
Denmark	56.5	57.0	60.1	60.0	59.1	58.7	56.4	56.0	55.1	53.3	53.9	54.2	54.7	54.3	52.5	51.3	50.7	51.3	56.1	56.6
Finland	56.7	62.2	64.6	63.7	61.5	59.9	56.2	52.6	51.5	48.3	47.9	49.0	50.1	50.1	50.3	48.6	47.3	48.4	54.1	55.4
France	50.6	52.0	55.0	54.2	54.4	54.5	54.1	52.7	52.6	51.6	51.6	52.6	53.2	53.3	53.4	52.7	52.3	52.7	55.4	55.8
Germany	46.1	47.3	48.3	47.9	54.8	49.3	48.3	48.1	48.2	45.1	47.5	48.0	48.4	47.3	46.9	45.3	44.1	44.0	47.7	48.6
Greece	41.8	44.3	46.6	44.8	45.8	44.1	45.0	44.4	44.4	46.7	45.3	45.1	45.0	45.4	43.3	42.2	44.0	44.9	46.5	46.5
Hungary	56.6	59.5	59.3	61.8	55.0	52.0	50.0	52.4	50.0	46.6	47.3	51.3	49.1	48.9	50.1	51.9	49.6	49.6	49.6	50.0
Iceland	40.1	40.5	40.4	39.9	39.1	38.5	37.2	41.3	42.0	41.9	42.6	44.3	45.6	44.1	42.2	41.7	42.5	57.7	49.4	46.4
Ireland	44.5	44.9	44.7	44.0	41.2	39.2	36.7	34.5	34.1	31.5	33.4	33.6	33.4	33.7	33.7	34.0	35.7	41.0	46.8	49.3
Italy	54.0	55.4	56.4	53.5	52.5	52.5	50.2	49.3	48.2	46.1	48.0	47.4	48.3	47.8	48.1	48.7	47.9	48.7	51.7	51.6
Japan	31.6	32.5	34.3	35.5	36.5	36.8	35.7	42.5	38.6	39.0	38.6	38.8	38.4	37.0	38.4	36.2	36.0	37.1	42.3	42.1
Korea	19.9	21.0	20.6	20.0	19.8	20.6	21.3	23.5	22.7	22.6	24.2	23.8	29.2	26.7	27.3	28.4	28.9	30.3	33.8	33.7
Luxembourg	38.5	40.1	39.8	39.0	39.7	41.1	40.7	41.1	39.2	37.6	38.2	41.5	41.8	42.4	41.6	38.6	37.2	40.7	45.6	47.7
Netherlands	54.9	55.7	55.7	53.5	56.4	49.4	47.5	46.7	46.0	44.2	45.4	46.2	47.1	46.1	44.8	45.6	45.3	45.5	49.2	51.0
New Zealand	50.2	49.4	45.5	43.1	42.2	41.1	41.7	41.5	41.2	39.2	38.6	37.6	38.5	38.0	39.1	40.2	40.3	41.1	45.3	46.4
Norway	54.5	55.7	54.6	53.7	50.9	48.5	46.9	49.2	47.7	42.3	44.2	47.1	48.3	45.6	42.3	40.6	41.0	40.0	44.1	44.6
Poland	—	—	—	—	47.7	51.0	46.4	44.3	42.7	41.1	43.8	44.2	44.6	42.6	43.4	43.8	42.1	43.1	44.0	44.7
Portugal	43.4	44.5	46.1	44.3	43.4	44.1	43.2	42.8	43.2	43.1	44.4	44.3	45.5	46.5	47.6	46.3	45.8	45.9	51.1	51.4
Slovak Republic	—	—	—	—	56.1	48.6	53.7	49.0	45.8	50.9	44.5	45.0	40.1	37.6	38.2	36.9	34.4	34.9	38.9	39.5
Spain	44.3	45.4	49.0	46.7	44.4	43.2	41.6	41.1	39.9	39.1	38.6	38.9	38.4	38.9	38.4	38.5	38.8	40.5	45.7	46.6
Sweden	61.4	69.8	70.9	68.4	65.3	62.9	60.7	58.5	60.2	57.0	61.2	55.8	56.0	54.4	54.0	52.9	51.3	51.9	57.0	57.9
Switzerland	32.1	34.2	35.1	35.2	35.0	35.3	35.5	35.8	34.3	35.1	34.8	36.2	36.4	35.9	35.3	33.7	32.9	32.9	35.2	36.1
United Kingdom	43.2	45.2	45.3	44.6	44.1	42.2	40.6	39.5	38.8	36.6	39.9	40.9	42.4	43.2	44.2	44.3	44.1	48.1	52.4	54.1
United States	37.8	38.5	38.0	37.0	37.0	36.5	35.4	34.7	34.3	34.2	35.3	36.3	36.8	36.4	36.6	36.5	37.4	39.0	41.6	42.8
<b>Euro area</b>	<b>49.3</b>	<b>50.6</b>	<b>52.3</b>	<b>51.0</b>	<b>53.2</b>	<b>50.7</b>	<b>49.4</b>	<b>48.6</b>	<b>48.2</b>	<b>46.3</b>	<b>47.3</b>	<b>47.6</b>	<b>48.1</b>	<b>47.7</b>	<b>47.4</b>	<b>46.7</b>	<b>46.1</b>	<b>46.8</b>	<b>50.4</b>	<b>51.1</b>
<b>Total OECD</b>	<b>41.2</b>	<b>42.3</b>	<b>42.7</b>	<b>42.0</b>	<b>42.7</b>	<b>41.6</b>	<b>40.4</b>	<b>40.7</b>	<b>39.7</b>	<b>38.9</b>	<b>40.0</b>	<b>40.5</b>	<b>41.0</b>	<b>40.4</b>	<b>40.6</b>	<b>40.1</b>	<b>40.2</b>	<b>41.5</b>	<b>44.8</b>	<b>45.7</b>

Sources: OECD Economic Outlook No. 85, June 2009, Annex Table 25, p. 275, at [http://www.oecd.org/document/6/1/0,3343,en\\_2649\\_34573\\_2483901\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/6/1/0,3343,en_2649_34573_2483901_1_1_1_1,00.html) (December 2, 2009).

The new punitive marginal top rate makes no economic sense. Nor does it make sense in terms of tax revenue. Specifically, it overlooks the effect of the big reductions in the top rate of income tax introduced by Nigel Lawson as Chancellor in 1988, which was that the rich contributed a larger, not smaller, share of total tax revenue than they had previously.<sup>36</sup>

Viewed rationally, of course, low top rates make sense. It is easier for the rich to stop working than it is for the less rich. They are more likely to be able to afford advice that enables them to avoid tax. If all else fails, they can move to another country, and the likelihood that they will do that is increased by the low quality of other aspects of life in Britain. So it is not at all paradoxical that high taxes on rich people bring in less revenue, as well as leading to less growth.

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***The wealthiest 10 percent in Britain already pay more than half the country's total tax. It is extremely unlikely, despite the egalitarian exhortations of politicians, that they will be prepared to pay more.***

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Such considerations, however, seem to have been overlooked or at least underestimated by the British Treasury, which foresees an estimated increase in revenue from the change of almost £2.5 billion—itsself in

any case a drop in the ocean of debt, with the government scheduled to borrow some £178 billion this year. The wealthiest 10 percent in Britain already pay more than half the country's total tax. It is extremely unlikely, despite the egalitarian exhortations of politicians, that they will be prepared to pay more.

Not surprisingly in these conditions, alongside understandable problems from lack of access to finance and the less excusable problem of government inefficiency, the World Economic Forum's latest *Global Competitiveness Report* lists tax regulations and tax rates high among the difficulties faced when doing business in Britain. The report also shows that Britain has fallen from seventh to 13th place in the international competitiveness league since 2001.<sup>37</sup> Only the purblind could fail to heed this writing on the wall.

But the British political class remains determinedly myopic. The government's latest populist (and, naturally, popular) tax rise, announced at the time of the Chancellor of the Exchequer's Pre-Budget Report on December 9, 2009, is for a one-off 50 percent tax on all bankers' bonus payments above £25,000. That is on top of national insurance contributions and income tax. The vindictive attitude toward Britain's vital financial services industry and lack of concern for the City of London which this implies is arguably more important than the sums involved. Also significant is the fact that the Conservative Opposition supports the measure, though the Conservative Mayor of London, Boris Johnson, does not. Not surprisingly, there is already anecdotal evidence of businesses planning relocation to countries with more favorable and more stable tax regimes.

## Britain's Welfare State<sup>38</sup>

When considering Britain's fall from economic grace—its descent from a pinnacle of free-enterprise achievement in Europe to the trough of Europe's slow-growing, overspending underachievers—Americans need also to bear in mind some differences between their own past and Britain's. Superficially, these differences should be a source of relief because the U.S., unlike the U.K., has managed to escape socialism. But at another level, Britain's experience offers a still more serious long-term warning because it shows how difficult it is for another Anglo-Saxon country to escape the legacy of socialism once that ideology becomes entrenched in attitudes and institutions.

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36. See Nigel Lawson, "Budget 2009: This Return to High Tax Will Only Deepen Our Debt," *The Daily Telegraph* (London), April 25 2009.

37. World Economic Forum, *The Global Competitiveness Report 2009–2010*, Section 2.1; also Table 4. Cf. World Economic Forum, *Global Competitiveness Report 2001–2002*, Table 3.

38. Although the origins of the term are disputed and even the parameters of what constitutes "welfare" arguable, in Britain the "Welfare State" can be said to signify both the state's social programs (health, education, narrowly defined welfare, etc.) and a certain idea of what government exists to do; i.e., to take a paternalistic or even proprietorial approach to its citizens' well-being. I use the expression in both senses and in opposition to the tradition of limited government focused on ordered liberty; cf. Nicholas Timmins, *The Five Giants: A Biography of the Welfare State* (London: Harper Collins, 1995), pp. 6–7.

## A Cautionary Tale for America

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It has to be emphasized that Britain's problems do not stem simply from the actions of one government or one Prime Minister. The Thatcher years had a profound effect on Britain, but not profound enough to expunge the legacy of socialist thinking. The changes that she wrought were the result partly of a crisis—the crisis of the mid-1970s—and partly of a supreme and sustained effort of political will. From 1991 to some degree, and from 1997 more comprehensively, the British political class relaxed, and Britain itself reverted.

The Second World War was arguably the decisive event in the history of British collectivism. It increased public expenditure, taxation, and controls to previously unimaginable levels. As Margaret Thatcher recalls in her memoirs, this was the time when the command economy came into its own.<sup>39</sup> The Left argued that total planning, which allegedly had won the war, could also secure universal prosperity. Even while hostilities continued, collectivist thinking

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***Britain's experience offers a serious long-term warning because it shows how difficult it is for another Anglo-Saxon country to escape the legacy of socialism once that ideology becomes entrenched in attitudes and institutions.***

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was making large advances through the armed forces by means of political education programs.<sup>40</sup> Churchill's coalition wartime government, bowing to the prevailing ethos, laid foundations for the massive economic and social interventions that were later implemented by the postwar Labour government.

A new conception of government was thus born in Britain. The consensus was not complete: Churchill himself was never other than temporarily and reluctantly part of it. But one can say that from about this time, the principal purpose of government was seen as being to cure social ills rather than to preserve ordered liberty. The shape and activities of the public sector today in Britain can be understood only against that background.

Clement Attlee's landslide victory in 1945 set the seal on the change, and to a remarkable extent it has stayed sealed. The Attlee Labour government more than implemented its sweeping mandate. It nationalized coal, railways, electricity, gas, and steel. It founded a National Health Service. It implemented the hugely ambitious proposals drawn up by the distinguished all-purpose academic and bureaucrat, Sir William Beveridge, for universal insurance-based state benefits with a safety net of means-tested welfare, which Beveridge was optimistically convinced would eliminate poverty (which he called "Want").<sup>41</sup> Unfortunately, like the elimination of ill-health, that goal, many years and billions of pounds on, has yet to be achieved.

Even the Thatcher years—again, despite Mrs. Thatcher's own objections to the consensus—hardly shook the assumptions established at this time about what government was about. It was accepted that the economy was sick, but once it was cured, it was equally assumed that the merry-go-round of social programs would resume. Spending on public services duly rose. Only the momentum of increase was temporarily curbed. In the Blair and Brown years, as one would expect, spending and intervention once more accelerated. Whereas the average real rate of spending increase under the Conservatives from 1979 to 1997 was 1.5 percent, under Labour from 1997 to 2009, it was 3.2 percent.<sup>42</sup>

Chart 1, showing the share of total public expenditure now taken by different government functions, more or less speaks for itself. Notable is the way in which defense (6 percent) is dwarfed by social programs: health at 18 percent and social protection or, in British terms, "social security"—i.e., welfare benefits, targeted tax credits, and government-funded pensions—at 28 percent.

Looking back over time, one can follow the story in the figures. Over the past 50 years, expenditure on social security, education, and the NHS has grown faster than total spending.

- Social security was about 15 percent of total spending just after the end of World War II. That had doubled by the end of the 1990s.

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39. Thatcher, *The Path to Power*, p. 44.

40. For a judicious survey of all these elements, see Paul Addison, *The Road to 1945: British Politics and the Second World War* (London: Pimlico, 1994).

41. Timmins, *The Five Giants: A Biography of the Welfare State*, pp. 51–60, 132–138.

42. Rowena Crawford, Carl Emmerson, and Gemma Tetlow, "A Survey of Public Spending in the UK," IFS Briefing Note BN43, September 2009, p. 4.














- The NHS in the late 1940s took 9.3 percent and has also approximately doubled.
- Education is much more affected by demographics, but it too rose sharply, again nearly doubling as a share of total spending before falling back somewhat.

The contrast with defense is striking. It rose sharply at the time of the Korean War in the early 1950s and, after falling back, rose again in the early to mid-1980s at the crucial stage of the Cold War, when it reached over 5 percent of GDP. It has since dropped steadily. An interesting comparison is that whereas 50 years ago, social security and defense spending were both equivalent to about equal shares of GDP (6 percent and 6.4 percent, respectively), spending on social security in 2009 was four times as much as spending on defense (11.9 percent and 2.6 percent, respectively).<sup>43</sup>

### U.K. Government Spending by Function

Projections for 2009–2010, in Billions of Pounds and Percentage of Total Spending

Social protection	£189	28.2%	
Health	£119	17.7%	
Education	£88	13.1%	
Other	£72	10.7%	
Defense	£38	5.7%	
Public order and safety	£35	5.2%	
Personal social services	£31	4.6%	
Housing and environment	£29	4.3%	
Debt interest	£28	4.2%	
Transport	£23	3.4%	
Industry, agriculture, employment, and training	£20	3.0%	
<b>Total</b>	<b>£671</b>		

Source: HM Treasury, "Budget 2009, Building Britain's Future," Economic and Fiscal Strategy Report and Financial Statement and Budget Report, April 2009, at [http://www.hm-treasury.gov.uk/bud\\_bud09\\_index.htm](http://www.hm-treasury.gov.uk/bud_bud09_index.htm) (November 24, 2009).

Chart 1 • SR 76  heritage.org

seek, with moderate success, to break up and liberalize health, education, and what remained of social housing; even more limited, though useful, were reforms of welfare.<sup>44</sup> Steps forward and back, and then shakily forward again, characterized the process.

Health and education reforms advanced a little further under John Major but were then frozen and partly if temporarily reversed by the incoming Labour government, with Mr. Brown's enthusiastic support—all for straightforward ideological reasons. Mr. Brown's preferred means of eliminating poverty and advancing equality was through a plethora of tax credits. In each of these areas—welfare, education, and health—the harmful effects of socialistic thinking are apparent.

In welfare, the use of tax credits to tackle poverty and encourage poor people back into paid work is perfectly compatible with a free society and is, indeed, based on models developed in the world's freest society: the United States. But in the case of Britain, the system has been skewed by overly ambitious and hyperinterventionist government.

The number of tax credits has multiplied along with their complexity.<sup>45</sup> Their cost has grown exponentially to some three times the level of the U.S. as a share of GDP. They have been plagued by overpayment, which is built into the British system, and have been widely subject to fraud. They penalize couples who live together and so discourage marriage and weaken the family. They even—astonishingly enough, given their central purpose in the U.S.—dis-

43. *Ibid.*, pp. 15–27.

44. See Margaret Thatcher, *The Downing Street Years* (New York: Harper Collins, 1993), pp. 589–624. The most important housing reform, initiated by the incoming Thatcher government, was to give the right to buy at large discounts to local authority tenants, which transformed the level and the pattern of home ownership.

45. Eamonn Butler, *The Rotten State of Britain* (London: Gibson Square, 2009), pp. 220–222.

courage full-time work; many are paid to people who are not in work at all, and those who are on tax credits face rates, including withdrawal of tax credits, of 70 pence in the pound.

The whole tax credit system needs fundamental reform, but such reform would require more than technical changes; it would need a sharp downsizing of deep-rooted government ambitions for social engineering.<sup>46</sup>

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***Britain's whole tax credit system needs fundamental reform, but such reform would require a sharp downsizing of deep-rooted government ambitions for social engineering.***

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church schools (Anglican and Catholic, “voluntary controlled” and “voluntary aided,” respectively) received government money but retained some autonomy. Meanwhile, 7 percent of pupils went, and continue to go, to independent private schools.

Education is, of course, always an activity to which ideologues gravitate. Government's educational quasi-monopoly in postwar Britain gave them an unusually tempting opportunity—and they seized it. There was highly successful (but deeply damaging) promotion of egalitarian doctrines associated with comprehensive education as huge schools, community based and eschewing selection by ability before or after entry, became the norm. Comprehensive education was enforced by political means until the grammar schools mostly closed. At the same time, high levels of unionization among the teaching profession and lack of competition between schools, despite several beneficial marginal changes introduced in the 1980s, imposed a suffocating uniformity and mediocrity.

The most damaging effect, particularly upon pupils from poorer families, has been what a former Chief Inspector Schools has described as “a culture of low expectations.”<sup>48</sup> The resulting devaluation of examinations—a reality denied by government but emphatically confirmed by employers and universities—has betrayed all pupils.<sup>49</sup>

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***The National Health Service most accurately represents all that is wrong with the ethos of government in Britain today and provides the sharpest contrast to, and most significant lesson for, the United States.***

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mented by the Labour government and was given an unmistakably socialist twist by the dogmatically left-wing Health Minister of the day, Aneurin Bevan, who would later write: “A free [sic] health service is pure socialism and as such it is opposed to the hedonism of capitalist society.”<sup>50</sup> Bevan was a believer in total control from the center, famously declaring that “[i]f a bed pan drops in a hospital corridor, the noise should reverberate round the corridors of Whitehall.”<sup>51</sup>

In fact, a centralized, single-payer health service, free at the point of consumption, was an ideal prescription for waste, rationing by queues, and inordinate public expenditure, all of which have characterized the system to the present day. It was also ideologically generated folly to suppress alternative sources of health care, yet that is what

As for Britain's education system, that bears even more closely the imprint of collectivism. The basic structure was established by the wartime government's 1944 Education Act. State control was not total. Government, for example, largely kept out of the curriculum.<sup>47</sup> Selective education continued in state grammar schools. So-called direct grant schools and, of course,

However, it is the National Health Service which most accurately represents all that is wrong with the ethos of government in Britain today and provides the sharpest contrast to, and most significant lesson for, the United States. The NHS, like the 1944 Education Act, had its origins in the wartime policy consensus. It seemed to make sense to a generation grown used to the controls of a command economy. It was then imple-

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46. See Rupert Darwall, “A Better Way to Help the Low Paid: US Lessons for the UK Tax Credits System,” Centre for Policy Studies, 2006.

47. In the 1980s, a national curriculum was introduced by the Thatcher government in order to counteract the follies of the education establishment. The same establishment subsequently gained control of it, as Mrs. Thatcher despairingly acknowledges in *The Downing Street Years*, p. 597.

48. Chris Woodhead, *A Desolation of Learning: Is This the Education Our Children Deserve?* (Chippenham: Pencil-Sharp, 2009), p. 2.

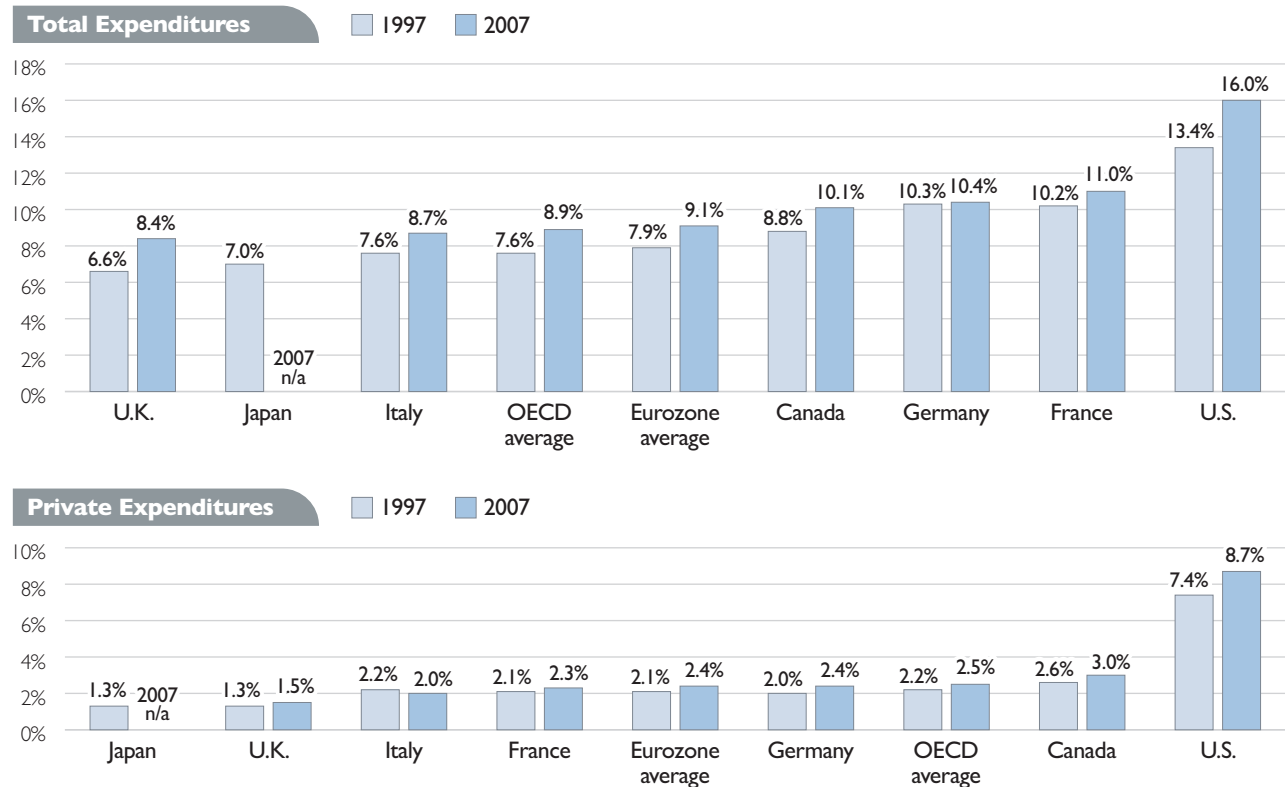
49. *Ibid.*, pp. 9–40.

50. Aneurin Bevan, *In Place of Fear* (London: Macgibbon and Kee, 1961), p. 106.

51. The remark, of uncertain origin, has several variations.

## Most Nations Increased Health Expenditures from 1997 to 2007

Figures are in Percentages of GDP



Note: Figures for the Eurozone average do not include data from Cyprus, Malta, and Slovenia.

Source: Organisation for Economic Co-operation and Development, OECD Health Data 2009, November 2009, at <http://www.oecd.org/health/healthdata> (December 16, 2009).

Chart 2 • SR 76 heritage.org

Bevan did by nationalizing 1,334 voluntary hospitals and 1,771 municipal hospitals, disadvantaging the existing insurance schemes and squeezing out private medical practice.<sup>52</sup> In such an atmosphere, private health insurance was unlikely to develop, and Britain still spends much less on private health than is spent by other countries.

The NHS is best considered as the last of Britain's nationalized industries, but bigger. With its 1.5 million staff, it is one of the world's largest employers, somewhere behind Wal-Mart, Indian Railways, and the Chinese army. As noted earlier, spending on the NHS has doubled in a decade. It has 41,800 more doctors and 84,700 more nurses. Not surprisingly, such a huge increase of resources has had some beneficial effect, though the rate of improvement has not been significantly higher than it was before the spending splurge.

But the main effect of all the extra money has remained with inputs, not outputs; in other words, the improvements have mainly been in the rates of remuneration and terms and conditions of the producers rather than the consumers. In fact, NHS productivity fell by 4.3 percent over the ten years to 2007.<sup>53</sup> Doctors' salaries, meanwhile, have risen by more than half in real terms, but doctors are working fewer hours.<sup>54</sup>

52. Timmins, *The Five Giants: A Biography of the Welfare State*, p. 104.

53. Andrew Haldenby, "The NHS Is Bleeding to Death, and the Time to Operate Is Now," *The Daily Telegraph* (London), June 11, 2009. The author is director of the London-based Reform think tank, the source of many authoritative reports on the NHS.

54. *Written Evidence from the Health Departments of the UK to the Review Body on Doctors' and Dentists' Remuneration*, November 2007, pp. 42–43.

As with schools, the incoming Labour government found itself, after a period of trying to make the existing system work, forced down the road of giving hospitals and doctors some more autonomy. But these changes did not involve any substantial increase in the role of the private sector, at least in conception. In practice, there has been a growing move toward patients buying treatments, sometimes abroad, rather than waiting in an NHS queue. Nor was it envisaged that national health provision should be placed on a different financial basis, or limited to certain functions, or forced to raise income (and regulate demand) by large-scale charging. All radical thinking has been excluded, either at the outset or in the outcome.<sup>55</sup>

Europe's insurance-based models have delivered higher standards and greater patient satisfaction, but these have been ruled out not just by the Labour government, but (so far at least) by the Conservative Opposition as well. Indeed, both main party leaderships have competed to denounce suggestions made by Conservative Member of the European Parliament Daniel Hannan that the U.S. would be making a bad mistake if it adopted the failed model of the U.K. National Health Service.<sup>56</sup> This only proves how accurate was Nigel Lawson's well-known description of belief in the NHS as "the closest thing the English have to a religion."<sup>57</sup> It also reveals how unwilling British politicians are to challenge superstition.<sup>58</sup>

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***The NHS is a failing institution and its failure—and the failure of anyone in power to get a grip on it—is deeply symptomatic of failures at the heart of Britain's political and social system.***

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The truth is that the NHS is a failing institution and that its failure—and the failure of anyone in power to get a grip on it—is deeply symptomatic of failures at the heart of Britain's political and social system. Britain is near the bottom of the European league on cancer survival rates, waiting times, hospital-acquired infection, and access to new drugs.<sup>59</sup> The NHS still works on the

basis of rationing, though this now takes place within a stifling framework of complicated targets laid down by central government. That inevitably leads to distortions.

Even the government now admits that the system discriminates against the elderly.<sup>60</sup> There has, in particular, been mounting concern about old people being denied treatment, and even denied the chance of life, by cost-conscious managers and doctors unquestioningly applying questionable rules.<sup>61</sup> At about the same time that the leaders of British political parties were proclaiming the merits of the NHS, a report by the respected Patients Association revealed a string of appalling incidents of cruelty perpetrated by nursing staff.<sup>62</sup> While these, of course, are a small minority, providing care for vulnerable people through centralized, bureaucratic, rule-obsessed structures, with little concern for professional ethos or personal needs, allows such abuses to take hold.

The Health Service functions badly even in the egalitarian terms which the system's originators and current defenders uphold. Like every state-run monopoly, the NHS is highly susceptible to manipulation by those who know their way around the system. Just as middle-class families who have the money to move home to within a good

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55. Thus, the official Wanless Review in 2002 was told not to consider alternative financing options, and a recent McKinsey's report in September of 2009, which revealed huge inefficiencies, was rejected out of hand.

56. On Fox News, April 4 2009.

57. Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical* (London: Bantam, 1992), p. 613.

58. One should note that the difficulties of fundamental reform are not technical but political; i.e., problems of will, not capability. For a radical but simple option of empowering patients by vouchers and premiums, see Tony Hockley, "A Premium on Patients? Funding the Future NHS," *Politeia*, 2009.

59. Some of the large body of evidence showing Britain's lagging health care outcomes can be found in Hockley, "A Premium on Patients? Funding the Future NHS," (hospital-acquired infections), and Nick Bosanquet, Andrew Haldenby, and Helen Rainbow, "NHS Reform: National Mantra, Not Local Reality," *Reform*, 2008 (cancer survival rates, strokes, dementia care).

60. Andrew Porter and Rebecca Smith, "Age Discrimination in NHS Must End Says Andy Burnham," *The Daily Telegraph* (London), October 21, 2009, at <http://www.telegraph.co.uk/health/healthnews/6400326/Age-discrimination-in-NHS-must-end-says-Andy-Burnham.html> (January 12, 2010).

61. Kate Devlin, "Sentenced to Death on the NHS," *The Daily Telegraph* (London), September 2, 2009, at <http://www.telegraph.co.uk/health/healthnews/6127514/Sentenced-to-death-on-the-NHS.html> (January 12, 2010) (on the controversial application of the so-called Liverpool Care Path for the allegedly terminally ill).

62. "Patients Not Numbers, People Not Statistics," Report by the Patients Association, August 27 2009.

school's catchment area gain an advantage over those who cannot, so can well-heeled and well-educated patients of the NHS who get into a good hospital or attend a good doctor's practice.

Government studies confirm that inequalities in health have widened, not narrowed, whether measured by heart disease or by hip replacements.<sup>63</sup> If any institution demonstrates the acuity of Edmund Burke's warning, "Believe me Sir, those who attempt to level never equalise," it is the broken British National Health Service.<sup>64</sup>

## Britain's Security

In pursuing the objective of expanding social welfare through government programs, politicians can convince themselves that they are also rendering a country more secure. This is, indeed, a recognizable and unsettling feature of political discourse in the United States today.

The uplifting but unproven notion that social improvement is the way to end crime and conflict at a national or international level is, of course, one of the distinctive traits of the liberal mind. Even Margaret Thatcher, who hardly falls into that particular category, recalls the prevailing, powerful illusion in her early days in politics that there were a certain number of identifiable social evils to remedy, after which society would become orderly and well-functioning and progress would be smooth.<sup>65</sup>

The conviction that suppressing crime involves, first and foremost, exercises in social engineering still persists. In practice, however, a more hard-headed approach has been pursued in Britain as in America in recent years. In British terms, this has been reflected in public spending on law and order, which has risen from 3.3 percent of public spending in the year Mrs. Thatcher took office to 5.5 percent last year.<sup>66</sup>

That outcome might seem to cast doubt on the argument that social programs are the driving force of upward spending in Britain, but it merely qualifies the judgment. Spending on police, prisons, and (now) immigration control has had to increase in response to past breakdowns in the system. A long-term growth in recorded crime in Britain from the late 1950s to the early 1990s, which probably, despite distortions, also reflected a large growth in real crime, was not matched at the time by increased numbers of police or prison places. In recent years, the system has been catching up, albeit belatedly and inadequately.

Law and order in Britain presents a mixed picture, with overall crime down, almost certainly as a result of higher incarceration rates, though this has also left prisons overcrowded and prompted increasing reliance on problematic initiatives for early release of offenders who should properly be in custody. In any case, violent crime, particularly gun crime and knife crime, is up sharply. Other weaknesses are evident in a centralized system that is unresponsive to local requirements and leaves police bogged down with the demands of political correctness. Paperwork takes up a high percentage of available police time. Clear-up rates remain poor; approximately one reported crime in four is solved, and that ignores the many crimes that people cannot be bothered to report because they have no confidence in the police.<sup>67</sup>

63. See James Gubb, "Why the NHS Is the Sick Man of Europe," *Civitas Review*, Vol. 5, No. 1 (February 2008).

64. Edmund Burke, *Reflections on the Revolution in France*, in *Selected Works of Edmund Burke—A New Imprint of the Payne Edition* (Indianapolis: Liberty Fund, 1999), Vol. 2, p. 139.

65. Thatcher, *The Path to Power*, p. 547.

66. Crawford, Emmerson, and Tetlow, "A Survey of Public Spending in the UK," p. 27.

67. The clear-up rate is 28 percent in England and Wales and just 25 percent in London. Hansard, January 14, 2009, W. A. Col. 805. For a fuller discussion of these points, which have not changed significantly since my writing the original pamphlet, see Robin Harris, "Criminal Negligence: How Current Policies Towards Crime, Policing and Punishment Fail the Nation," *Politeia*, 2003.

## A Cautionary Tale for America

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The days when the British could look askance at scary America have long gone—first the reality and now even the illusion. Fear of crime has reached socially paralyzing levels, and this fear is not unfounded.<sup>68</sup>

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***The days when the British could look askance at scary America have long gone. Fear of crime has reached socially paralyzing levels, and this fear is not unfounded.***

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likely to be burgled in London as in New York—doubtless in part because restrictive U.K. gun laws ensure that the burglar, not the householder, is likely to be armed.<sup>69</sup>

Britain currently seems to be experiencing its worst problems at the top and bottom of the criminal scale. The police and Security Service have found their attempts to remove and suppress potential terrorists frustrated by the courts, acting in deference to human rights legislation. In 2004, the government had to abandon indefinite detention of foreign terrorist suspects after the policy was ruled by the Law Lords to be against the provisions of the European Convention on Human Rights. Similarly, earlier this year, the Law Lords effectively exploded the system of control orders, intended to keep these suspects under what amounts to house arrest. As a result, intelligence, which is vital for counterterrorism but insufficient to gain a conviction, is not deployed to maximum effect.

The government's ability to respond to the Jihadist terrorist threat has also been gravely weakened by uncontrolled immigration, which has increased fivefold since it took office. Immigration at such a rate—it will account for the great majority of the forecast 9 million population growth over the next 20 years—is not only socially disruptive and economically unnecessary. Even more worrying is that,

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***The government's ability to respond to the Jihadist terrorist threat has been gravely weakened by uncontrolled immigration, which increases the already powerful tendency toward Islamic separateness.***

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because so much of it comes from countries in the Muslim world, it increases the already powerful tendency toward Islamic separateness, creating the conditions for alienation and extremism.

Attempts to promote the assimilation of new immigrants within a traditionally defined British culture have had much less success than similar efforts in the United States, not least because of liberal unease at attempts to define British culture in meaningful terms and sympathy

for the failed doctrine of multiculturalism. Alarm at the consequences has been voiced in unlikely quarters: For example, the Chairman of the Commission for Racial Equality has warned that the country is “sleepwalking its way towards segregation.”<sup>70</sup>

Britain has also been sidling toward a down-at-heel seedy disorderliness. This is manifest in what the authorities describe in aggregate as “disorderly behaviour,” for which “Anti-Social Behaviour Orders” were devised by the incoming Labour Government as a bolt-on addition to the ordinary array of criminal justice penalties. These Orders issued against subcriminal or petty criminal acts can, when breached, lead to a fine or a custodial sentence. But their multiplication and the fact that so many are ignored in practice cast doubt on their efficacy. The well-documented rise in drug and alcohol abuse, in both of which Britain now breaks European records, is a large and unresolved part of the wider problem.<sup>71</sup>

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68. More people than ever in England and Wales believe that crime is rising. *Crime in England and Wales, 2008/2009*, Home Office, Vol. 1, p. 97, Figure 5.1.

69. Jan van Dijk, John van Kesteren, and Paul Smit, *Criminal Victimization in International Perspective: Key Findings from the 2004–2005 ICVS and EU ICS* (The Hague: Boom Legal Publishers, 2008), Figure 3, p. 43, and Table 8, p. 65.

70. Quoted in Christopher Caldwell, *Reflections of the Revolution in Europe: Can Europe Be the Same with Different People in It?* (London: Allen Lane, 2009), p. 104.

71. On drugs, see U.K. Drug Policy Commission, *An Analysis of UK Drug Policy*, 2007, which shows that Britain has the highest rates of drug abuse: double the rates found across Europe. On alcohol, see OECD, *Doing Better for Children*, 2009, which shows that drunkenness among British teenagers is the highest among OECD countries.

As for external security, the extreme pressure on an already diminished defense budget has now reached crisis point.<sup>72</sup> With British defense spending last year at 2.2 percent of GDP, lower than at any time since the 1930s, and with the British army under strength and British forces having to undertake two foreign wars, the strains on personnel and equipment have become immense. Because of uncertain political leadership in both London and Washington, neither serving troops nor the general public, which opinion polls suggest is turning sharply against the Afghanistan commitment, seem clear as to what the real objective of the operation is.<sup>73</sup>

Confusingly, Mr. Brown talked at the same time of an exit strategy, yet of the need to send more troops—a theme that President Obama has since echoed. Though not logically incompatible, combining the two different messages is politically self-defeating and increases unease, possibly even more in the U.K. than in the U.S. because British skepticism about the Afghanistan involvement was always greater.

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***There is a danger that future strategic thinking may be compromised. Ambitious aims combined with an inadequate budget make for interservice rivalries and damagingly short-term risk assessments.***

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Moreover, while the dangers facing the British army are rightly at the front of national concerns and anger is directed at lack of helicopters, inadequate armored vehicles, shortages of personal equipment, bad accommodation, and inadequate medical care, other services also face their own problems. The navy has shrunk by a fifth, and the scheduled two new aircraft carriers, for

which the shrinkage was accepted, have yet again been postponed. As the decibels of protest rise, there is also a danger that future strategic thinking may be compromised. Ambitious aims combined with an inadequate budget make for interservice rivalries and damagingly short-term risk assessments.<sup>74</sup>

Liam Fox, the Shadow Defence Secretary, will face huge problems if, after the next general election, he is empowered to bring goals and resources back in line within a promised defense review. The scope for Britain to play a significant role as America's chief ally will certainly be limited for years to come by past mismanagement.

And at the root of it all has been the twin assumptions: first, that security is secondary to social engineering and, second, that public spending can be allowed to determine finance and taxation. On the altar of those two misconceptions, Britain's reputation and prosperity, hard won in the 1980s, have been sacrificed.

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72. For a fuller account of the pressures and shortcomings, see Robin Harris, "Securing the West: The U.S., the U.K., and Present Dangers," Heritage Foundation *Special Report* No. 51, April 30, 2009, pp. 19–20.

73. A Channel 4/YouGov poll published November 5, 2009, showed that just 33 percent now believe the Afghan war can be won and 57 percent think victory is impossible; 35 percent want all British troops withdrawn immediately, compared with 25 percent two weeks earlier; And 73 percent want troops withdrawn immediately, or most withdrawn soon with the rest out within a year or so.

74. As argued by Paul Cornish and Andrew Norman, "National Defence in the Age of Austerity," *International Affairs*, Vol. 84, No. 4 (2009), pp. 737–739.

## SECTION IV

### Conclusions

#### Britain's Dilemma

One recurring problem in any analysis of contemporary Britain's systemic problems, particularly in an international context, is that it is immediately dismissed as unpatriotic. This was a difficulty faced, for example, by Mrs. Thatcher on her first visit as leader of the Opposition to the United States in 1975. Few Americans at the time had any doubt about the facts. For example, *The Wall Street Journal* commented (in an article that Mrs. Thatcher took to the U.S. among her briefing papers):

Hardly anyone needs to be told that Great Britain is the sick country of Europe.... It is all very curious. For Britain has not been brought to this state by defeat in war, by earth quakes, plagues, droughts or any natural disasters. Britain's undoing is its own doing. It has been brought to this by the calculated policies of its Government and by their resigned acceptance by the people.

But when she tried, herself, to explain to an American audience what was wrong and how she intended to put it right, she was accused in briefing from the Embassy in Washington of talking down Britain abroad.<sup>75</sup> Fortunately, realism does sometimes reap rewards.

The seriousness of Britain's problems can, in truth, hardly be overrated. They are economic and social, with one bearing down on the other and both risking the country's domestic and international security. From next year, if current opinion polls are to be believed, there will be a new government to face them, but whichever Party holds power will immediately face the dilemma of what to do about the country's finances.

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***Britain's problems are economic and social, with one bearing down on the other and both risking the country's domestic and international security.***

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If Labour returned to office, it would have to increase taxes sharply and would doubtless try to justify this course of action by resort to traditional arguments based on fairness. Favorable public reaction to the

announcement of the 50 pence top rate might give Mr. Brown some encouragement to press ahead with taxes to squeeze the rich.<sup>76</sup>

If, as is more likely, the Conservatives form a government, they could, by contrast, take comfort from polling which suggests that most people would prefer public spending cuts to tax rises as a means of closing the budget deficit.<sup>77</sup> But David Cameron, the Conservative Leader, and George Osborne, the Shadow Chancellor, have proved reluctant to go far down this route.

Up until the eve of the credit crunch, Mr. Osborne was repeating his widely ridiculed pledge to match the government's public expenditure plans. The party then shifted position, criticizing Mr. Brown's new public spending commitments and expressing doubts about the expansionary money supply. Since then, Mr. Cameron and Mr. Osborne have warned of the need for spending reductions, with the Conservative Leader predicting an "Age of Austerity."

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75. Thatcher, *The Path to Power*, pp. 357–360. The *Wall Street Journal* article, dated August 20, 1975, is quoted by Mrs. Thatcher in footnote, p. 357.

76. It received 57 percent public support. Populus/*The Times* poll, April 24, 2009.

77. According to a *Sunday Times/YouGov* poll of September 13, 2009, 60 percent favored this option as against 21 percent who favored tax rises. Somewhat confusingly, only a bare majority, however, favored the spending cut option in a *Guardian/ICM* poll of September 21.



At the Conservative Party Conference in October 2009, the Shadow Chancellor spelled out a number of such measures: a pay freeze for public-sector workers earning more than £18,000, curbs on civil service pensions, reductions in bureaucracy, ending tax credits for wealthier families, and bringing forward moves to raise the pension age.<sup>78</sup> But these plans would yield only a part of what is required: The pensions pledge, for example, would yield nothing immediately, and the party is also pledged to reinstate the link between the retirement pension and average earnings that was broken, at great political cost though with large savings to the Exchequer, by the Thatcher government in 1980.

Equally significant, Mr. Cameron continues to campaign at least as much on non-economic as on economic issues, and he cannot resist making or implying spending pledges when he does. For example, in a recent speech that received widespread publicity, he castigated the Labour government for failing the poor and called for “a re-imagined state” to have “a powerful role” in helping to “remake society.” This kind of rhetoric, however politicians qualify it, is always taken as code for more government and more spending.<sup>79</sup> Other indicators that the Conservatives hope to combine high public spending on social programs with their squeeze on the deficit are their continued pledge to increase spending on the NHS (the main driver of recent spending increases) and the leadership’s favorable response to a well-intentioned but costly plan from the Tory-aligned Centre for Social Justice to recast the benefits system.<sup>80</sup>

The Tory Opposition’s reluctance to sail under the traditional conservative colors of a small state and low tax and regulation can be explained in various ways, including the leadership’s unease at being linked with the Thatcherite 1980s. Mr. Cameron famously told the press, when campaigning to become Conservative Leader, that he was “the heir to Blair” (i.e., not Thatcher), and his aides seemed pleased with the impact.<sup>81</sup>

Conservative timidity is also understandable in straightforward electoral terms because of the sheer size of the public sector and the number of individual voters who are dependent in one way or another on public spending—something that has large regional variations. Most affected by talk of cuts are, of course, government employees. They have done well under Labour, and their numbers have continued to rise. For example, even in the second quarter of 2009, at the height of the recession, while employment in the private sector fell by 230,000, employment in the public sector expanded by 13,000.<sup>82</sup>

This is part of a continuing pattern. Over the eight years between 1999 and 2007, U.K. public-sector employment grew at twice the rate of private-sector employment. That was globally out of step. In the U.S., public and private employment rose equally. In Germany, the public sector shrank while the private sector grew. In the Euro Area as a whole, private-sector employment grew almost twice as fast as jobs in the public sector.<sup>83</sup>

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***Britain has, in truth, been socializing its economy during boom and during bust, and politicians in such circumstances fear to turn back socialism.***

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Britain has, in truth, been socializing its economy during boom and during bust, and politicians in such circumstances fear to turn back socialism. What Sir Keith Joseph, Margaret Thatcher’s mentor, used to call the “ratchet effect” is plainly and damagingly at work. If the Conservatives, whatever they say before the election, do not make radical cuts in spending after it, the ratchet will shift further.

Contrary to what is sometimes imagined, Margaret Thatcher and her colleagues were not glorified bookkeepers. They were perfectly aware of another reason beyond deficit management why public spending had to be curbed: It was to make room for tax cuts. Without low taxes, economies do not enjoy healthy growth. Without that growth,

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78. Robert Winnett, “Conservatives: George Osborne to Cut Public Sector Pay, Pensions and Bureaucracy,” *The Daily Telegraph* (London), October 6, 2009, at <http://www.telegraph.co.uk/news/newstoppers/politics/conservative/6264796/Conservatives-George-Osborne-to-cut-public-sector-pay-pensions-and-bureaucracy.html> (January 12, 2010).

79. Mr. Cameron also said he wanted a “big society” rather than “big government,” but the impression was—and was meant to be—that the “age of austerity” would not affect benevolent social engineering. Hugo Young Memorial Lecture, cited in *Guardian*, November 10, 2009.

80. Centre for Social Justice Working Group, “Dynamic Benefits: Towards Welfare That Works,” September 16, 2009. The report places a (gross) cost of £3.6 billion on its preferred option.

81. Andrew Pierce, “Horror as Cameron Brandishes the B Word,” *The Daily Telegraph* (London), October 5, 2005.

82. Office for National Statistics, “Statistical Bulletin: Public Sector Employment, Q2 2009,” September 16, 2009.

83. Ludger Schuknecht, “Booms, Busts and Fiscal Policy: Public Finances in the Future,” Politeia, 2009.

the only way in which popular expectations can be fulfilled is by redistributive policies, which further slow growth and also, when they reach confiscatory levels, imperil a free society.

This has political implications as well. High-growth (low-tax) economies are, crudely put, also much more likely to see the return of right-of-center parties than are low-growth (high-tax) economies. The fact that the Conservative Leadership at present, for all its talk of curbing the deficit, seems to have no interest in lower taxes—Mr. Osborne has even pledged to keep the 50 percent top rate—suggests in several respects, therefore, deficient long-term analysis.<sup>84</sup>

It should be added that if social programs like health and welfare take the lion's share of planned spending, and if economic growth then remains anemic, defense cuts could be such as to prevent Britain's being an effective military ally for the United States. So America has a strong interest in seeing that its old ally gets back on track.

## A Warning for America

America has, though, a still stronger interest in avoiding going down a similar route. Regrettably, early signs are not encouraging. The U.S. is already close to the U.K. among G-20 nations in its forecast debt increase.<sup>85</sup> The present Administration seems no less enthusiastic about spending its way out of recession than the British government is.

Anyone who seriously wishes to see where current programs of massive spending will lead the U.S. economy and American society need only study what has happened in Britain. High taxes and low growth are the inevitable outcome, with a return to high inflation as a real possibility as government struggles to find ways to pay off its debt.

But there are also other similarities of thinking between the dominant American elite and its British counterparts, although these are often downplayed for domestic political reasons. Ambitious plans for a much greater federal government role in U.S. health care have been framed with

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***Anyone who seriously wishes to see where current programs of massive spending will lead the U.S. economy and American society need only study what has happened in Britain.***

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little acknowledgement of what a single-payer, quasi-monopoly system like the NHS—if that should ever ultimately emerge—would mean for American public finances or American patients. Similarly, often under cover of concern for the environment, regulation and punitive taxation have been rehabilitated in America as

means for politicians to achieve what they think is best for citizens, as opposed what citizens think best for themselves. From the other side of the Atlantic, these are recognizable trends.

Of course, the U.S. is not a mirror image of Britain and will never become so. History ensures that. Only in America—never, sadly, in Britain—would the tea-party movement against overbearing government have emerged to shake up the political establishment. Above all, as observed earlier, the U.S. has no history of socialism. That is an advantage—but not an unqualified one, because Americans have, as a result, fewer bad memories from which to recoil. For the British, the danger is that they revert to collectivism by historically conditioned reflex. For Americans, the risk is different but real: It is, as Tocqueville warned, that they may gently and unwittingly slip into it.<sup>86</sup>

Understanding the costs that the U.K. is paying and will continue to pay for unlearning the lessons of the 1980s should, therefore, itself provide a cautionary lesson against Americans going in the same direction. If that lesson is learned, at least the British bad example could do some good. Perhaps even, in the end, with America's core values reasserted and endorsed by America's performance, it may result in some good for Britain too.

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84. See Rupert Darwall, "Burying Thatcherism: British Voters Will Have No Pro-Growth Option in 2010," *The Wall Street Journal*, October 11, 2009.

85. Chote, Crawford, Emmerson, and Tetlow, "Britain's Fiscal Squeeze: The Choices Ahead," Figure 3.6. Japan and the U.S. are just behind the U.K.

86. Alexis de Tocqueville, *Democracy in America*, ed. J. P. Mayer and Max Lerner, trans. George Lawrence (New York: Harper and Row, 1966), p. 667: "Over [the citizens] stands an immense, protective power which is alone responsible for securing their enjoyment and watching their fate.... It would resemble parental authority if, father like, it tried to prepare its charges for a man's life, but on the contrary, it only tries to keep them in perpetual childhood.... I have always thought that this brand of orderly, gentle, peaceful slavery... could be combined... with some of the external forms of freedom...."



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