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## Britain slowly sinking

By Richard W. Rahn

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LONDON, England.

From the time of the Thatcher reforms in the early 1980s, Britain has been the star economic performer among the major European nations. The British went from having the lowest per capita income of the European big four (Germany, France, Italy and Britain) to having the highest one, but now there are signs the economic sickness in "old Europe" is beginning to infect the British.

The British economy had been growing an average of almost 3 percent yearly for the last two decades, which is quite respectable, given that French and German economies have grown much more slowly. Over the same period, the U.S. grew at an average rate of almost 4 percent, far higher than any of the major European economies.

When Tony Blair took office, he had the wisdom not to undo the Thatcher reforms. As a result, Britain has had the advantage of far freer labor markets, and a lower tax burden than most of its European competitors, along with a strong rule of law and relatively little corruption.

Unfortunately for the British, the chancellor of the exchequer (i.e., treasury secretary) in the Labor government, Gordon Brown, has too much of a "social market economy" streak. As a result, domestic spending and taxes have risen rapidly, and consequently, as would be expected, economic growth has been falling to an annual rate of only 1 1/2 percent.

The Europeans, including Chancellor Brown, like to talk about their "social market economy" being superior and more humane than the freer U.S. market economy, but the facts paint a very different picture. Last year, the per capita GDP (on a purchasing power parity basis) of Britain was only \$29,600 as compared with \$40,100 in the U.S., and the British on average are about 10 percent richer than other EU members. Even the poorest of the U.S. states, like Louisiana, Alabama and Mississippi (all hit by Katrina), have slightly higher average incomes and the rich states, like Connecticut, have incomes roughly double those of the British.

Many on the left like to argue that Europe, including Britain, has less poverty than America. But measures of poverty are relative, and constantly change. For instance, 36 percent of America's official "poor" own a dishwasher, 73 percent have cable or satellite

TV, 75 percent own a car or truck and 75 percent have air conditioning. (Back in the romanticized ideal America of the 1950s, virtually no one in the American middle class had all those things). According to a report in the well-regarded British publication, the *Business*, "[a] recent U.K. government analysis of Britain's 12 m[illion] poorest people, or the bottom quintile -- showed only 22 percent have a dishwasher and just 25 percent have cable television."

In addition, all too few of almost any income group have air conditioning, though southeastern England (where London is located) has many weeks of very warm and humid weather in the summer (as I have just experienced).

While Britain slowly drifts back to the overtaxed and regulated economy of the pre-Thatcher era, its European competitors have been cutting taxes. Ireland, once a poor backwater, after radically cutting tax rates has a higher per capita income than England and the second-highest per capita income in Europe after Luxembourg. British economic journalist Allister Heath reported last week new research shows "ince 1995, Eastern European countries with a flat tax have enjoyed an average annual gross domestic product growth rate of 5.3 percent, compared with only 2.6 percent for eastern European countries without one. ... The research also reveals cutting tax rates need not mean a collapse in tax receipts, thanks to positive growth effects and a reduction in tax evasion."

Several British free-market think tanks and the British Taxpayers Alliance have advocated that Britain adopt a flat tax to revitalize its economy. An encouraging sign is that George Osborne, the shadow chancellor of the exchequer for the Conservative Party, announced he is setting up a commission to look at the idea. Predictably, those on the British left and some of the economic establishment commentators have said it would lose too much tax revenue because they have a narrow, static worldview. It is often hard for people to see what is not yet there, but what could if the shackles of excessively high tax rates are removed.

If Gordon Brown and his high-spend, high-tax allies persist, Britain's economic performance will continue deteriorating until it stagnates like Germany, Italy and France. The good news is, if the coalition for tax cutting, spending and regulatory restraint can gain power either within Labor or more likely by replacing Labor, Britain can again become the engine of economic growth within the EU. Unfortunately, the majority of Conservative politicians still seem to be very slow learners, and it is not at all certain they will learn the way to regain power is to advocate a flat tax and tax cuts.

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