

Stumbling and Mumbling

An extremist, not a fanatic

October 13, 2005

Against Thatcher

It's Thatcher's 80th birthday. I'll not be celebrating. I'll grant that she did do some good things – such as the abolition of much of the machinery of the corporate state and the deregulation of financial markets. But her influence upon the economy was, in many ways, disastrous. For example:

1. She did not shrink the state in the sense of cutting the tax burden. In 1978-79, taxes were 40.2% of GDP. In 1989-90 they were 39.9% (table C24 of [this pdf](#)).

2. She was not, naturally, committed to privatization. The word wasn't mentioned in the 1979 manifesto. And the sale of BT was motivated more by a desire to raise money than to promote competition; that's why the company was sold as a monopoly, rather than broken into competitive units. And in this case at least, privatization did not much increase efficiency. [Massimo Florio](#) (pdf) says of BT:

Operating profits...were remarkably stable before and after divestiture, and ownership change per se had little discernable impact on productivity trends.

And the sale of council houses, with huge discounts to people who had lived in them longest, was designed to bribe people into voting Tory. In rewarding people who had been immobile, these signaled that labour mobility – “get on your bike” – was not to be encouraged.

3. Thatcher did not introduce major market reforms into the NHS or education. The basic structure of these services – state monopolies – was much the same in 1979 as in 1990.

4. Labour market performance did not improve under Thatcher. [This paper](#) (pdf) estimates that the Nairu was actually higher in 1990 than 1979, although it did fall in the later 1980s. And [this paper](#) (pdf) concludes that the Thatcher reforms:

did not improve the response of real wages to unemployment nor the transition for men out of unemployment, and were accompanied by rising wage inequalities that do not seem to reflect the working of an ideal market system... There is no strong evidence that the British labour market experienced a deep microeconomic change.

5. The original Thatcherite macroeconomic policy – the use of monetary targets to cut inflation – was a terrible failure. The idea (at least in public) was that the announcement of credible limits to monetary growth in 1979 would reduce inflation expectations, and hence actual inflation, without reducing output.

But this didn't happen. Money growth consistently overshot its target and the economy slumped in 1980-81. [Patrick Minford](#), a Thatcher sympathizer, has blamed this on the “poor credibility” of policy.

Sure, inflation did collapse, especially after 1982. But this was for completely different reasons to those publicly envisaged. Inflation fell because of the recession and a fall in world-wide inflation – certainly not because of lower monetary growth.

6. Two of the three worst recessions in the last 100 years - 1980-81 and 1990-91 – began under Thatcher. This (at least) betokens a little recklessness in macroeconomic policy.

Now, it's quite possible that the aggregate welfare costs of recessions are small, as Robert Lucas has demonstrated. But this is only true if there are adequate mechanisms for polling macroeconomic risks. But Thatcher, far from promoting these, actually cut unemployment benefits, stigmatized the unemployed, and did nothing to encourage the growth of private markets for insuring against macroeconomic risks. The Thatcher project owed nothing at all to the [Arrow-Hahn-Debreu](#) model of what a properly functioning market economy should be.

There is a common theme uniting all these points. It's that Thatcher was a class warrior, not an economic libertarian.

Where market reforms benefited the rich (exchange controls) or bribed floating voters (council house sales), she supported them. Where market reforms could have helped the poor (school vouchers, macro markets), she did nothing. And there remains the suspicion that the 1980-81 recession was welcomed as a means of destroying the traditional working class.

And this is where her influence was wholly pernicious. She has given a generation of non-economists the impression that support for free markets is equivalent to support for the vested interests of the rich. Nothing could be further from the truth.

October 13, 2005 in [Stupid Party](#) | [Permalink](#)

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Thats not totally fair. She demonstrated that many things which had previously been thought impossible were actually doable. In doing so she had a major impact on the role of the state throughout the world.

It is true that she could have done much more, but the vested interests weighed in against her were huge. It took a long time to break them down.

The current government is far more guilty of screwing the poor in favour of the metropolitan middle class.

Posted by: [EU Serf](#) | [October 13, 2005 at 11:34 AM](#)



Unreal.

Compare before and after - she wrought a revolution.

Posted by: [Guido Fawkes](#) | [October 13, 2005 at 01:16 PM](#)



Good post. I think you're right about Thatcher as class warrior rather than economic libertarian. Do look out for my friend Ewen Green's new book, Thatcher, which should be published in the new year, by the way, and which I think you'd enjoy.

But is the "word privatisation not in 1979 manifesto" a terribly strong argument? The big privatisations came in the second and third terms, not in the first, and the 1979 manifesto did say this:

""We will offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares. We aim to sell shares in the National Freight Corporation to the general public in order to achieve substantial private investment in it..."

Which, though limited, does set that particular ball rolling.

Anyway, as I say, good post.

Posted by: [Chris Brooke](#) | [October 13, 2005 at 01:40 PM](#)



Given the growth in public spending that had come before, and the assumption that it would go on like that for ever, I think holding it almost steady for ten years was a huge achievement.

Of course more could and should have been done, but you're asking for superhuman determination there. Maggie was as tough as they come and even she had to fight every inch.

Credit where it's due - she was the best, and we'll never see her like again.

Posted by: [Andrew Duffin](#) | [October 13, 2005 at 03:45 PM](#)



If Thatch's influence on the economy was disastrous, we can only guess what adjective we'd have to apply for a continuation of what had gone before.

I wouldn't disagree that she wasn't a libertarian (and have argued so myself), and I do think there's a class warrior edge to her actions - she did, after all, need a coalition - you are rather scrabbling around on some of these. For example, the collapse of school vouchers owes much more to civil service inertia and a worry over political expediency than any lack of interest for them. After all, the 1988 education reforms (GM schools especially) were geared heavily towards creating a non-top-up voucher, with per capita funding rather than LEA formulas.

Also, re the class warrior aspect - the biggest mistake is to cast this in traditional rich versus poor terms. Rather, her class war was for, and behalf of, the professional working and lower middle classes and the nouveau riche. That was what made it a powerful brew (and of course, the concerns of that coalition dominate policy discussion to this day).

Posted by: [Blimpish](#) | [October 13, 2005 at 03:59 PM](#)



Hmm yes economic mismanagement, but in the wake of a miserable decade (1970s) for the UK economy.

Of course manufacturing etc was restructured and ended up with massive job losses. Punitive interest rates and poor exchange rates sunk so much manufacturing. Could some of it have still survived and prospered with a bit more or a gentle handling of monetary policy I wonder?

I think that the Thatcher government had some of the right ideas, executed very very badly. But then, that's government, eh?

But I can't really agree that she wrought a revolution. She oversaw huge change, and forced a bit too much of it. She had to be extremely bloody minded and that was her downfall. Personally growing up in the North East at that time I have an inbred and in retrospect, irrational hating of Thatcher. However, Growing up as a teenager when 1 out of four fellow pupils at school were in unemployed households was not good.

Still without Thatcher's Britain would we have had The Smiths?!

Posted by: [Dr. angry economist](#) | [October 13, 2005 at 05:17 PM](#)



Well we wouldn't have had the Smythes if Labour had "won" another term of UK destruction.

Posted by: [Rob Read](#) | [October 13, 2005 at 06:13 PM](#)



http://thefilter.blogs.com/thefilter/2005/10/margaret_thatch.html

Thatcher was a Tory using central power to get her own way. The left shouldn't be angry with her though. They should see the harm that she did, and conclude not that "the wrong person was in charge", but that the system that creates such power should be changed.

Posted by: [AJE](#) | [October 13, 2005 at 06:35 PM](#)



Disagree: you're setting absurdly high standards for politicians if you reckon Thatch a dud. But there are ironies, such as her saving the NHS, and, of course, the fact that so many criticise her for Cuts that never were.

Posted by: [dearieme](#) | [October 14, 2005 at 04:48 AM](#)



Meh. Much more important, surely, is the 161st birthday (tomorrow) of mad ol' Freddy Nietzsche. More impact than Thatch, and more horribly misunderstood too...

Posted by: [Paul Davies](#) | [October 14, 2005 at 11:46 AM](#)



JK Galbraith's comment on the first two years of Thatcher was that "it seems that Britain is to be used as a laboratory rat for Friedman's monetarism. This is all for the best; the English and Scots, and even the Welsh, do not take readily to the streets. Anywhere else, carnage would be likely".

Posted by: [dsquared](#) | [October 14, 2005 at 11:48 AM](#)



An inability to introduce to introduce market reforms into the NHS and education simply shows how strong union vested interests are, even Mrs. T couldn't defeat them!

How does the sale of council houses to their tenants sit with her "class war"? I accept your good point about reducing worker mobility, however, did the sale of council houses improve social mobility by increasing the wealth of the certain tenants?

Posted by: [Snafu](#) | [October 14, 2005 at 06:18 PM](#)



For some reason, my trackbacks don't seem to work. I have made some comments at <http://www.owen.org/blog/2005/10/14/mrs-thatchers-economic-legacy/>

Posted by: [Owen Barder](#) | [October 14, 2005 at 07:24 PM](#)



"...She was not, naturally, committed to privatization. The word wasn't mentioned in the 1979 manifesto..."

This is because the word did not then exist - I have before me a 1975 edition of Chambers 20th Century Dictionary which does not include it. In fact the 'superstructure's' belated need to generate the word is an indicator of just how radical and unexpected was Thatcher's attack upon the conventions of the economic base. For almost the entire zeitgeist of that century had smugly assumed that history was marching ineluctably towards the planned economy, and had seen no use for a word that would mark that march's reversal.

And it is more than a bit odd that Britain's mainstream leftists, who spend the first 95 years of the 20th century urging a planned economy, should now claim they believed in the market all along and that Thatcher fell short of their exacting standards of its form (the claim, ludicrous though it is, is probably not cynical but a kind of spontaneous and collective self-delusion – a good example of what Marxists call 'false consciousness'). Had they truly done so, they would of course have initiated the language of the market revolution themselves and not depended upon their ideological foes to do so.

"... And there remains the suspicion that the 1980-81 recession was welcomed as a means of destroying..."

You will need to sugar your suspicions a little further, for the early 80s recession extended to the USA, Canada, France, Germany, Italy and Australia. In fact Thatcher's ability to project class warfare over vast distances was truly astonishing and there was scarcely an Old Etonian anywhere in the world who did not fear her.

Posted by: [Phil Jackson](#) | [October 15, 2005 at 07:01 AM](#)



Oh, the word existed all right. It just wasn't used as much as it was from the 1980s onwards, could be used to mean a bunch of different things, and (of course) didn't appear in the 1979 Manifesto.

The OED, for example, gives the following examples, all from 1979 or earlier (and apologies, Chris, for taking up so much space):

1959 News Chron. 28 July 2/6 Erhard selected the rich Preussag mining concern for his first experiment in privatisation.

1960 Ibid. 22 Apr. 11/5 Complete privatisation was opposed by the Socialists..because they feared..the little man selling out his shares to the big capitalists.

1970 Observer 25 Jan. 1/6 He foresaw 'privatisation' of many sectors of industry now in public ownership.

1970 J. COTLER in I. L. Horowitz Masses in Lat. Amer. xii. 440 If rural marginality allows for the..privatization of State power, the political sphere demands..a new line of social integration.

1976 National Observer (U.S.) 1 May B6/3 The contrast between then and now measures the tendency toward privatization and withdrawal of our commitments from the open, public arena that has occurred during the course of the Twentieth Century.

1976 Globe & Mail (Toronto) 12 Dec. 5/7 Privatization in the handing over of elements of the public service to the private sector is threatening the livelihoods of thousands of public servants.

1977 Ibid. 20 Jan. 6/1 The Government published a working paper..which set out some possibilities..including this: 'The possibility of the private sector providing goods or services that are now provided through government enterprise and programs.' The government, it seemed was toying with the idea of 'privatization'.

1979 New Statesman 6 July 14/3 This political formula of controlled privatisation depends on not too many people finding the stringent limits on expression spiritually intolerable.

Posted by: [Chris Brooke](#) | [October 15, 2005 at 04:01 PM](#)



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Posted by: [Chris Brooke](#) | [October 15, 2005 at 04:03 PM](#)



Chris Brooke

Thank you for your correction. I note that, according to your list, the word had indeed been used in Britain as recently as 1970 (and that the journalist had armoured himself against editorial pedantry by putting it in single quotes).

My opening sentence should now read "This is because the word was so rare as to be unknown even to political commentators (apart from some guy who used to work at the Observer)".

As you were.

Posted by: [Phil Jackson](#) | [October 17, 2005 at 03:34 PM](#)



Please add names to my thatcher one and share, www.gopetition.com/petition/41746.html

Posted by: [keith wicks](#) | [July 29, 2011 at 02:51 PM](#)



Chris, do you still think Thatcher's deregulation of financial markets a good thing?

Posted by: [Neil Harding](#) | [January 26, 2012 at 05:27 PM](#)

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