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THATCHERISM AND THE PUBLIC SECTOR

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Abstract: *This paper analyses the impact of Thatcher's economic reforms upon the UK public sector. It argues that Thatcherism was a continuation, albeit pursued with a stronger conviction, of changes in economic policy perspectives, which had been initiated many years earlier. What became known as Thatcherism began life incompletely formed. Its precise form emerged subsequently through its implementation. Thatcher's original intentions to tame the public sector and to roll back the frontiers of the state were frustrated by the reality of events. Making real cuts in public spending proved to be difficult whilst expenditure on social security increased rapidly, partly as a result of the economic policies of the first Thatcher government. The "burden" of taxation was not reduced though marginal rates of income tax did fall. A feature of the Thatcher governments was a move towards introducing greater amounts of managerialism into the public sector in an attempt to secure efficiency improvements in the delivery of public services. This has produced mixed results.*

Pre-Thatcher Britain

Thatcher came to power with a majority of 43 in May 1979 on a wave of discontent, in much the same way as Tony Blair arrived almost twenty years later in 1997. To understand the nature of Thatcherism it is essential to appreciate the state of post-war Britain up to and

including the late 1970s. The crucible out of which a partly formed Thatcherism emerged was more than a decade of discontent with the performance of successive governments of all persuasions and the alleged lack of effectiveness of their socio-economic policies. The 1970s had been an age of anxiety, uncertainty and disillusionment. Those who advised government along with academics were in a state of disagreement and confusion as to the nature of the fundamental macroeconomic relationships and how policy instruments might be connected to the objectives of policy. The 1970s were a watershed in terms of the ideas that would guide government policy but as will be emphasised the debates and changes which ensued began during the Wilson-Callaghan government of 1974-79 not, as is often assumed, with the advent of Margaret Thatcher. The decade of turmoil culminated in the 1978/79 “Winter of discontent”.

The UK had emerged from war in 1945 victorious but exhausted, near to bankruptcy, and heavily in debt to the USA. Nevertheless, there were highly positive expectations that a prosperous future could be built: a New Jerusalem, a land fit for heroes (Barnett, 1986). The years following the 1929 crash had been years of austerity and the wielding of the Geddes axe on public spending. This was followed rapidly with the restrictions on normal living standards brought by war. After 15 years of severe restraint and frustrated expectations the people of the UK looked forward to greater security and rising living standards.

The immediate post war Atlee Government (1945/50) embraced the new Keynesian thinking for the management of the economy whilst at the same time it began to implement the ideas contained in Beveridge through the creation of the welfare state. This was part of the post war socio-economic settlement, which resulted in an expansion in public spending along with

rising levels of taxation (detailed analytical interpretive analysis is found in Cairncross, 1994 a and b; Middleton, 1996; Oliver and Pemberton, 2004; Tomlinson, 2000).

In 1954 the Chancellor of the Exchequer R (Rab) A Butler pronounced that he expected a doubling of living standards over the next 25 years – he was almost correct. The 1950s was a time of growing employment, income and prosperity. Growth fed upon itself and created buoyant expectations of the future. Governments, however, feared that the rising pressure of demand, fuelled by the unsatisfied consumption built up during the war years, would outstrip and promote a rise in prices and/or suck in imports. Thereby the seeds were sown for the 1960s, a decade of inflation, rising money wages, increases in imports and a series of balance of payments crises as the competitiveness of UK manufactured exports became eroded on the back of rising costs (wage costs). Despite Sterling being a reserve currency the UK had insufficient reserves to weather balance of payments crises.

“Stop Go” was a characteristic of the age. This was a situation in which the economy would be stimulated (go) and then abruptly constrained (stop) when there was fear of over-heating. It was R.A. Butler who started this process in 1955 when he raised taxes to adjust the balance of payments. During the period 1957/63 Harold Macmillan had two stops and two starts within six years. Stop-Go reflected the strong assumption at the time that the economy could be fine-tuned. The effect of such policy interventions, however, was to constrain entrepreneurial endeavours and they became a dragging anchor on growth. Whilst governments during the 1960s had focused on growth the UK’s performance had not been sparkling with an average annual rate of growth of 3% compared to almost 9% in West Germany and an average of 7.1% for the EEC. Also, incomes per head in France and Germany exceeded those in the UK.

When Labour came into power in 1964 it was determined not to devalue the Pound. The previous Atlee Labour Government had devalued the Pound in 1948 from \$4.03 to \$2.80. Wilson and Callaghan did not want Labour to gain the reputation of being the Government of devaluation. However, at \$2.80 Sterling was not competitive. When the Conservatives lost the 1964 election the deficit on the balance of payments was 1.8% of gdp. The average rate of inflation in the UK was also above the OECD average. In November 1967 there was a run on the Pound which resulted in it being devalued to \$2.40. By 1969 the then Chancellor of the Exchequer Roy Jenkins was able to announce a balance of payments surplus of 1.0% of gdp. The 1967 devaluation had made Labour unpopular and this coupled with the introduction of price and wage controls resulted in them losing the 1970 election to Heath and the Conservatives.

The 1970s are characterised by inflation, balance of payments problems, poor industrial relations and massive global structural changes. Unemployment had started to rise during the Wilson Government but by 1972 under Heath it had risen to almost 1 million, higher than at any other point since 1945. After 1976 unemployment would not fall below 1 million and would indeed exceed 3 million in the mid 1980s.

As the 1970s started to unfold a number of global changes of lasting significance occurred. First, in 1971 the US announced that it would suspend conversion of US dollars into gold and then in 1973 it announced the abandonment of the Bretton Woods agreement which had the consequence of destroying the prevailing system of fixed exchange rates. Given the US dollar holdings around the world and the US's lack of sufficient gold reserves it was no longer able to support fixing other currencies to the US dollar. This was a highly destabilizing act

because it meant that other countries would now be subject to speculative capital transactions and hence financial instabilities. The second seismic world event was OPEC's decision in 1973 to increase the world price of oil by a factor of 400% - a non-marginal event that added 55% to material costs and which would send shock waves throughout the world economy for many years to come. The combined effects of these two external events plus structural weaknesses in the UK was to reduce economic growth, increase inflation and increase unemployment: events which prevailing macro-economic theory thought could not occur simultaneously. Not only did oil prices rise other raw material commodity prices also increased at the same time. The UK had been ill prepared to absorb these stagflationary shocks. An important structural weakness in the UK economy was that the elasticity of demand for exports = 0.9 but the elasticity of imports = 1.7 (Houthakker and Magee, 1969). Thirlwall (1974, 1980) pointed out that this resulted in the UK growing half as fast as the rest of the world. The UK had a choice, let the exchange rate fall and thereby make low quality goods attractive or produce higher quality goods enabled by active industrial and education policies. No government chose to go down the route of an industrial policy (Maloney, 2012).

These changes it can be argued ushered in the shift from traditional Keynesian thinking to a more neo-liberal perspective. Globally, it was at this time that the IMF and the World Bank emerged as powerful shapers of domestic economic policies whilst at home the blame for inflation was levelled, by the Heath Government, at the power of unionized labour. A series of incomes policies were introduced which contributed to an increase in strike action and a weakening of industrial relations. The Barber boom, started in 1972, also contributed to the inflation. The Chancellor of the Exchequer, Anthony Barber, increased the money supply (£M3 ie currency and bank deposits) by 60% during 1972/73. Sterling floated down. During the period of the 1970-74 Heath Government economic growth averaged 2.8% pa but

inflation rose significantly as did unemployment whilst the balance of payments moved into deficit (see Table 1). Heath lost the 1974 election and the incoming Labour Government inherited wage inflation of over 20%, rising unemployment and a projected current account deficit of 4% of gdp.

It was during the 1970s that macroeconomic policy shifted from the maintenance of full employment as the objective to that of the control of inflation. The fear was that not only would inflation erode living standards it would also result in a loss of confidence in the Pound. At the same time there was a considerable amount of heightened debate within government and the academic community as to the appropriate choice of policy instruments and which of these would be the most effective. For example the Treasury were becoming convinced of the need to control the money supply and had set up the Monetary Policy Group. Moreover, there was a realization that fiscal policy and monetary policy had to be co-ordinated. This responsibility was transferred from the National Economy Group and the Policy Co-ordinating Unit to a newly established Central Unit in 1975. Within government Shirley Williams argued strenuously for control of inflation through setting low inflation targets close to zero. She also advocated massive cuts in the public sector borrowing requirement (PSBR) whilst Joel Barnett, the Financial Secretary to the Treasury, was arguing that public expenditure was too high and was crowding out private investment.

Outside of government a number of alternative perspectives to macroeconomic policy were battling it out not so much in the learned academic research journals but in the pages of the *London Times*; the various Bank Reviews, which were prevalent at the time and, indeed, in evidence submitted to the various House of Commons Committees. David Laidler and Michael Parkin along with journalists Peter Jay and Sam Brittan were advocating various

strands of monetarism whilst Wynne Godley, Nicholas Kaldor and Francis Cripps were presenting a new Cambridge Keynesian synthesis. Dennis Healey, the Chancellor of the Exchequer at the time, was not short of advice, the issue was which should he follow given that the advice from the Cambridge Economic Policy Groups was fiercely contested by his Treasury advisers (Maloney, 2012).

Labour tried to moderate and control inflation through various incomes policies including the introduction of the “Social Contract” ie public expenditure increases and pro-union legislation would be introduced in return for wage restraint. Barbara Castle’s idea of the “social wage” was central ie workers and their unions should take government spending into account when thinking about their standard of living. A price code was also tried whereby firms could only pass on up to 50% of wage increases in price rises. The result of this, however, was a massive corporate liquidity crisis and a rise in bankruptcies. In July 1975 a £6 per week limit was placed on pay increases.

The Treasury and the Central Policy Review Staff (CPRS) advised Dennis Healey to introduce a deflationary budget and to delay achieving his social policy objectives, thereby constraining public expenditure. The fear was that the balance of payments would soar and the rest of the world would lose confidence in how the UK would repay the deficit, whilst interest payments on overseas debt would be prohibitively high.

Healey decided to go for a reduction in public expenditure and tax increases.

Healey did not have the wholehearted support of his own party. Michael Foot was totally opposed to a statutory system of wage restraint and the idea that it is possible to settle wages by central directive from Downing Street or a Pay Board.

What is Thatcherism?

That which has subsequently become known as Thatcherism is an ex post construction. When she was elected to Government it was not on the basis of a well articulated doctrine embodied in the 1979 Conservative manifesto. Rather it was a rag bag of vague unstructured ideas and beliefs put forward as an alternative to that which had gone before and which it was hoped would appeal to a disillusioned and disappointed electorate.

The 1979 Conservative manifesto refers to the growth of the State at the expense of individual freedom. It promised to “restore the balance of power in favour of the people”. There is nothing exceptional in this. It reflects a discussion that had been going on for more than 100 years – where to draw the boundaries of the State. The Manifesto gave voice to a popular sentiment at the time that the UK had once been a great nation but that it had fallen behind and lost its way and that people felt helpless to do anything about it. Moreover, it appealed to a popular fear that the events leading up to and including the Winter of Discontent suggested that UK society was on the “brink of disintegration”. The Manifesto promised to:

1. ... “restore the health of our economic and social life, by controlling inflation and striking a fair balance between the rights and duties of the trade union movement”

2. ... “restore incentives so that hard work pays, success is rewarded and genuine new jobs are created in an expanding economy”
3. ... “uphold Parliament and the rule of law”
4. ... “support family life, by helping people to become home owners, raising the standards of their children’s education and concentrating welfare services on the effective support of the old, the sick, the disabled and those who are in real need”
5. ... “strengthen Britain’s defences ...”

It would do this through controlling inflation by means of monetary discipline; setting monetary supply targets and a reduction in the PSBR. Incentives to encourage enterprise and wealth creation would come from reductions in public expenditure and taxation. To achieve savings in public spending it would seek greater value for money, the reduction of waste and the elimination of over government. Trade union reform would be introduced along with responsible pay bargaining. Income tax rates were to be reduced to reward hard work and success. A property owning democracy would be encouraged along with the privatization of some nationalized industries. Small businesses would be incentivized to grow and to create jobs.

These elements of the manifesto reflect Margaret Thatcher’s long standing strong belief in the responsibility of the individual and self help. The contents of the manifesto are more a reflection of Labour’s policy failures than a revolutionary change. Thatcher had undoubtedly great skills in mastering a brief but she was severely limited in her capacity to understand the

intellectual foundations of those briefs. She pronounced in the style of homilies but in many instances these were truths that were not self evident (Runciman, 2013).

Thatcher does not come across as an ideologue – unlike many of her supporters. Her conviction politics were simple and simplistic, grounded in a strong belief in the responsibility of individuals. Thatcher grasped at policy options when they were presented. There was no deep philosophical well articulated set of political beliefs. Rather what became known as Thatcherism emerged from some kind of primordial political soup, not fully formed and in need of refinement through hectoring discussions and debates. Thatcherism is an example of an emergent strategy rather than a fully formed plan.

Monetarism serves to illustrate this point. It was never clear what her personal understanding and commitment to monetarism was. Whilst she had read Milton Friedman he was never sure that she understood his policy prescriptions. One of her advisers pointed out that whilst she was good at finance she was not good on economics.

During the 1970s the deep philosophical thinking for the Conservative party had been carried out by, amongst others, the Selsdon Group, which had been officially formed in 1973 and which took its name from a meeting of the Conservative shadow cabinet that met in the Selsdon Park hotel in 1970 to formulate the 1970 election manifesto “A Better Tomorrow”. The content of the Selsdon Group’s thinking was neo-liberal. They argued that Keynesian social democracy was the cause of the UK’s economic malaise and decline since 1945. Inflation they believed was public enemy number one and could not be controlled by incomes policies. Trades Union policy it was claimed acted as a disincentive for innovation, productivity, economic growth and improvements in living standards.

The content of the 1979 Conservative manifesto was in many respects a rewriting of the 1970 Seltsdon “A Better Tomorrow” which had advocated; tax reductions; a strong competition policy; rewards for enterprise and efficiency; reductions in public spending, which was seen as a burden on the economy; tax reductions; the establishment of fair rules for industrial relations and the privatization of health and social welfare.

Another insight into the foundations of Thatcherism is to be found in her House of Commons attack on 21st July 1975, on the Labour Government’s 1975 White Paper “Attack on Inflation”. There she endorsed Chancellor Healey’s use of cash limits to control public spending but was severely critical of his record on the control of inflation and his use of incomes policies. She argued that incomes policies (of which there had been six since Sir Stafford Cripps introduced them) were only moderately successful in controlling inflation and needed to be supported by monetary and fiscal policies including reductions in public spending; reductions in borrowing and a balanced budget. Interestingly she would not be drawn in that debate to assign a figure to the level of unemployment that she thought would be tolerable in the pursuit of those policies.

Thatcherism as a policy package was emergent. With the advantage of hindsight it is possible to sketch out a caricature of what Thatcherism was revealed to be:

- the role of government should be to promote free markets; to enable the forces of competition to generate economy wide benefits and to establish a legal framework that will ensure this happens

- a distaste for Keynesianism and state intervention, planning and control based partly on Hayek's "fatal conceit" and also a fear of the oppressive power of the state in everyday life through the loss of liberty, freedom and choice
- a strong belief that it is markets and not the state that will solve social problems; private choice rather than collective decision making and collective consumption is to be preferred
- the establishment of "sound money" ie a low inflation economy through the active use of monetary policy; setting money supply targets; and reductions in the public sector borrowing requirement. Inflation was regarded as always a monetary phenomenon
- to achieve the fundamental objectives above it follows that public expenditure not only needs to be controlled it must be reduced thereby relaxing the "burden of taxation" and releasing freedom of private choice and the entrepreneurial spirits. Lower levels of public spending and taxation makes it easier for government to balance its budget and eliminate the PSBR. Given the belief that public spending crowded out private sector investment then reductions in public spending would promote a revival in investment and economic growth.

The elements of this sketch are consistent with Thatcher's personal belief in individualism and self help, the role of monetarism and an idealization of 19th century capitalism in which growth took place in an enterprise economy of fast growing small firms.

The point has already been made that the notion of Thatcherism was emergent and, post hoc and that it did not add up to a consistent or coherent economic or political philosophy (Gamble, 1996). It was also authored by many others which could account for its lack of coherence.

For example, it was Keith Joseph who emphasised the disincentives of the tax system; Geoffrey Howe was the architect of monetarist policy and Nigel Lawson not only played a significant role in the design of the government's financial policy he was also a strong advocate of the creation of an enterprise economy, "changing the entire culture of a nation from anti-profits, anti-business, government dependent lassitude and defeatism to pro-profits, pro-business, robustly independent vigour and optimism", (Lawson, 1992, p65).

Having acceded to power on 3rd May 1979 the economic policy of the first Thatcher Government (1979-1983) did not represent a radical departure from that of the previous Labour Government who had started post 1976 to reduce public expenditure and to introduce a weak form of monetarism.

This raises the question, just how revolutionary was Thatcherism?

The detailed economic history of the Thatcher period has been reviewed elsewhere (). A brief summary shows that when the rhetoric of Thatcher out of government meets the realities of being in government then the weaknesses of Thatcherism are revealed. Over the period 1979/81 the Government backed off from introducing cold turkey monetarism. The political realities would not allow it. Moreover, not everyone in the first cabinet (the "wets") subscribed to the philosophy of individualism and monetarism with the same zeal and passion

as the true believers. By June 1979 Bank Rate had increased by 2% and rose by a further 3% to 17% by November 1979. Thatcher was worried about the impact of this on the cost of mortgages and the cost of borrowing for investment and private consumption.

Between 1979 and 1981 gdp fell by 3.5%. The economy moved into a recession as result of the monetarist shocks and fiscal austerity announced in the early budgets. When Labour left government in 1979 GDP was growing at 2.3% pa and the claimant count rate of unemployment was 5.3%. By 1982 unemployment was 12.2% reaching a peak of 14.8% in 1986. Over the period 1979-1997 unemployment averaged 9.2% compared to 4.8% for the Labour Government of 1974-79 (see Table 1).

In the 1981 budget taxes were raised by 2% of gdp. Inflation which had been running at 8.3% and 13.4% in 1978 and 1979 respectively shot up to 18% in 1980 and only came down to 1978 rates by 1982. Did inflation fall as a result of the introduction of stronger monetarist policies or because of the fall in world commodity prices occasioned by the slump in aggregate demand? The targets that had been set for Sterling M3 (£M3) were overshot in 1980/81 and 1981/82, moreover, the targets had been revised upwards. It is, therefore, most unlikely that it was monetarism that reduced the rate of inflation. Rather it was more probably due to the fall in aggregate demand and the significant rise in unemployment from an annual average of 1.4 million people in 1979 to 3.1 million 1982 (unemployment peaked at 3.3 million in 1986 and was still at 2.6 million in 1994).

Despite changes to the £M3 targets and redefinitions of the money supply Thatcher's UK version of monetarism and monetary policy did not deliver outcomes as expected and was totally discredited. By 1987 money supply targets were abandoned.

It was at this time that the UK debated whether or not it should join the ERM. Thatcher, greatly influenced by her personal economic advisor, Alan Walters, preferred to stay out, favouring instead floating exchange rates, whilst Nigel Lawson, her Chancellor of the Exchequer, was a strong advocate of joining by pointing out the discipline on economic policy of fixed exchange rates. Between March 1987 and March 1988 Sterling shadowed the German DM at approximately 3DM=£1. In October 1989 Lawson resigned and was replaced by John Major, who took the £ into the ERM. The UK then moved into recession (GDP fell by 1.4% in 1991) having joined the ERM with an overvalued exchange rate which damaged manufacturing exports, whilst at the same time monetary policy was tightened to curb inflation which had increased significantly from 3.4% in 1986 to 7.8% and 9.5% in 1989 and 1990 respectively.

Whilst Thatcherism on a large number of socio-economic measures was a failure, nevertheless, it was during Thatcher's premiership that the rules of the macro-economic policy game were changed. Post war Keynesian policies depended upon co-operative solutions to the game. In order to secure full employment and win elections governments needed to do deals with the Unions. The price paid for such co-operative solutions it was alleged was rising wage inflation and the erosion of competitiveness. The first Thatcher Government essentially ripped up the implicit social democratic consensus that lay at the heart of Keynesianism. Mindful of the Heath Government's humiliating defeat at the hands of the miners' strike the Thatcher government introduced a strategy of credible threats for those setting wages and prices. These threats were made credible and the policies were made time consistent by announcing that neither fiscal nor monetary policies would be relaxed in the face of rising unemployment. This is the basis of "This Lady is not for turning" speech to

the 1980 Conservative Party conference. In other words there would be no U turn in policy even if unemployment rose substantially. Unemployment was to be the price paid for moderating inflation. Unlike Heath, who had made a number of U turns, Thatcher held her resolve not to turn. She didn't. Unemployment rose to levels not seen since the Great Depression.

Thatcher's Impact on the Public Sector

Did Thatcherism achieve its objectives to roll back the frontiers of the state; reduce the burden of taxation; balance the public sector budget and improve the efficiency of the public sector?

Thatcherism and the Public Sector

The 1979 Thatcher government's pre-election campaign had made a number of public spending commitments: to increase spending on defence and law and order. They had also agreed to maintain spending on health services. Statements about public spending are always vague, ambiguous and open to multiple interpretations no matter which political party makes them. Maintaining the level of nominal public spending on a particular service can result in a decline in the volume of output and/or the quality of the service if rates of inflation are rapid or if the service is under pressure of demand. Moreover, maintenance of the absolute level of nominal spending can result in the relative decline of the service compared to other parts of the public sector. Any ex post analysis of the outcome for public spending needs to examine what has happened to the item of spending in nominal and real terms and absolutely and relatively. Ideally it should also be analysed in per capita terms. Such comparative data are, however not always readily available.

Thatcher's first public spending White Paper in November 1979 (Cmnd 7746) argued that public spending was, "at the heart of Britain's present economic difficulties" (page 1) and the 1980 White Paper (Cmnd 7841) stated that the Government is "determined not merely to halt the growth of public expenditure but progressively to reduce it" (page 5). Both White Papers asserted that years of increasing government spending had resulted in rising taxation and an excessive tax burden on the productive elements of the economy. Furthermore, government spending had fuelled inflation through the pressure of demand it placed on the economy, increases in tax costs and through the PSBR which increased the money supply. Public spending was also responsible for increases in interest rates which stifled private investment and thereby destroyed jobs.

This very muddled potpourri of assertions and simplistic economics reflected the ideologies of neoliberalism found in the Selsdon Group: a distrust of collective consumption (public spending) rather than the market; a distrust of the effectiveness of bureaucratic procedures and values; and an agnosticism that government was able to solve economic and social problems. These were ideas that were appealing and could be easily packaged for popular consumption via newspapers. They also found some support from the journalistic writings of people like Friedman (1976), Joseph (1976), Hayek (1975) and Rees-Mogg (1974). Populist economic tracts such as Bacon and Eltis (1976) were also influential in lending support to the emerging neo-liberalist perspective. To blame the economic problems of the day on public expenditure provides a strong justification for cutting it and thereby roll back the state.

The Bacon and Eltis thesis that the public sector was crowding out private sector economic activity was not supported by the evidence. Over the period that they examined labour which had been shed by the manufacturing sector was male whereas the labour recruited by the

public sector was predominantly female! Also, private sector investment as a proportion of total investment increased between the early 1960s and late 1970s. Investment crowding out arguments implicitly assume a large interest elasticity of investment and ignore other important influences on the investment decision such as confidence, expectations, risk and the growth in gdp. Any slump in private investment was due to excess capacity and a lack of confidence brought about by the decline in gdp post OPEC-1 and not because of public spending.

The problem with this approach to thinking about public spending was that it lacked theoretical and empirical content whilst at the same time it failed to understand the complexity of the financial flows that underpinned the relationships between the PSBR, the money supply, interest rates and private investment.

There is no evidence that public expenditure was out of control. Taking total public expenditure as a proportion of gdp it rose from 37% in 1948 to 45.9% in 1979. During this thirty year period the welfare state had been developed along with the NHS and a public education system. Population grew at a rate of 0.4% pa between 1951 and 1979. The composition of the population also changed. Those of 65 increased from 2 million to 7.4 million. Between 1973 and 1979 the ratio of public spending to gdp had increased from 42.9% to 45.9% but that reflected the world recession following the 1973 world oil price and commodity price rises. When the numerator of a ratio (in this case gdp) falls whilst the denominator remains constant (public spending) then the ratio will rise – it is simple arithmetic!

It does not imply that public expenditure was out of control and it is disingenuous to suggest it was. Nor was UK public expenditure out of line with that of other countries. Comparable figures for 1980 show that UK public expenditure as a proportion of gdp was 44.8% compared to OECD average of 42.2%; EC-9, 49.0%; France 46.1%; Germany 48.5%; Netherlands 57.5%; Sweden 61.6%. All OECD countries had found it difficult to adjust to OPEC-1 and had created fiscal stresses across the world. Also, throughout the post war period, including the 1970s, the UK government's current account had always been in surplus. Current expenditure did not exceed tax revenues. Borrowing was for the purposes of capital spending. This applied to local government also.

Did Thatcherism achieve its objectives to roll back the frontiers of the state; reduce public spending; reduce the burden of taxation; balance the public sector budget and improve the efficiency of the public sector?

The Thatcher Government found it difficult to make real cuts in public spending. The rhetoric of opposition soon evaporated in the bright light of the reality when in government. The 1980/81 public expenditure outturn was 2% higher than planned and this was followed by another two years of overspending. The public spending planning total for 1978/79 was 44% of gdp and for 1993/94 it had risen to 45.5%. This figure for 1993/94 would have been higher because the proceeds of the various privatizations and the sale of assets such as council houses are recorded as negative public spending. Making suitable adjustments for this accounting convention raises the 1993/94 figure to 47%. The 1985 White Paper (Cmnd 9428) had declared the Government's objective to reduce public expenditure as a percentage of gdp. To achieve this would require keeping public expenditure constant in real terms whilst real

gdp increased. In the event public expenditure rose faster than real gdp. Clearly the Thatcher Governments had failed to control public spending and to reduce the size of the public sector.

It was in fact the 1974/79 Labour Government that had made the biggest real cuts in public spending during the 1970s compared to the Tories of the 1980s. Between 1975/76 and 1977/78 public spending in real terms was cut by 7.2%. The biggest cut that Thatcher achieved was 0.5% between 1986/87 and 1987/88 (see Cm 621-1989)

Some of the steepest increase in social security spending and spending on social services occurred during the Thatcher period. This was due to the recession in the early 1980s caused by the implementation of Thatcher's economic policy to combat inflation and its impact on unemployment (see Table 1) which peaked at over 3 million in 1986. In 1979 social security spending was about 10% of gdp and peaked at 12.5% for 1984/85. Over the period 1970/71 to 1979/80 social security spending as a percentage of gdp averaged 8.2%. the comparable figure for 1980/81 to 1989/90 was 10.8%. This growth in social security spending was despite the tighter controls that were placed on the way in which benefits were calculated. After 1979 some rates were frozen in real terms whilst the link between earnings and benefits was either abolished or greatly reduced. Many were also time limited. This also represented a shift from contributory benefits to income tested benefits. In 1980 state old age pensions shifted from being linked to prices. Prior to this they had been indexed to earnings growth or inflation whichever was the higher. However, in the early 1980s pensioners' real disposable income was not affected because inflation rose faster than earnings. This put upward pressure on the social security budget along with the rise in the population of pensionable age. Earnings, however, soon grew faster than inflation by about 2% per annum which meant that the value of the state pension relative to earnings fell significantly. Over a 10 year period it

was about 24% down severely affecting pensioners' living standards. All of those whose benefits were indexed to inflation rather than earnings growth were similarly affected. This indicates that the burden of controlling public expenditure fell upon some of the poorest and most vulnerable.

During the 11 years of the Thatcher government public expenditure on health services rose from 4.5% of gdp in 1979/80 to 4.8% in 1990/91. In terms of the 1979 election manifesto she had in some sense fulfilled the promise to main spending on the health service. This, however, hides shrouds the pressures faced by these services. Between 1951/71 the number of people over the age of 85 increased from 260,000 to 480,000; between 1981/91 the increase was from 520,000 to 1.1 million. These increase do, however, need to be seen in the context that the costs of treating an 85 year old is approximately three times that of someone between the ages of 20 and 60. The cost of treating someone between 60 and 85 is about twice. The number of those over 60 increased from 11 million in 1981 to 12 million in 1991. These demographic changes and their associated costs indicate the increased pressures placed on the health services' unit of resource. Laid on top of demographic changes are the population's rising expectations of health care and the costs of improved technologies, treatments and drugs. The picture is complex. Advances in pharmacology have reduced the number of patients treated in mental hospitals and improved anaesthetics have reduced the period of post operative recovery. But more labour using techniques such as scanners and expensive chemo/radio therapies for cancer have added to costs. The number of GPs (family doctors) has increased, the number of hospital beds have fallen whilst the number of staff has increased so that the staff/bed ratio has risen from 2.0 in 1976 to 2.9 in 1989. Trying to reach a conclusion about the net effect of all of these changes on the overall quality of healthcare is a complex task.

Public expenditure on education in real terms was fairly constant between the mid 1970s and the mid 1980s. During the 1970s education spending averaged 13% of total public spending. This fell to 12% in the 1980s.

As a proportion of gdp education spending peaked at 6.4% in 1975/76 and declined, thereafter, 5.6% in 1979/80 and 4.9% in 1989/90. The number of school children peaked in the mid 1970s. Low birth rates after 1970 meant that there were fewer pupils and the pupil/teacher ratio fell. The expansion in university education resulted in student staff ratios in universities rising from 8.3 to 1 in 1975/76 to 11.6 to 1 in 1990/91. Similar trends occurred in further education.

The 1979 promise to expand expenditure on defence and law and order was partially fulfilled. In 1979 expenditure on defence was 4.7% of gdp and rose to 5.4% in 1984 falling back to 4.2% in 1989. This was partially the result of a change to the 1979 commitment to NATO, which had required the UK's defence expenditure to grow by 3% per annum. The change took effect from 1985/86 and defence expenditure fell. Law and order fared better rising from 1.2% of gdp in 1979 to 1.9% in 1984.

It was public

Table 1 **Macroeconomic Indicators: Annual Averages By Government 1945-1997**

Government	GDP growth (%)	Inflation (%)	Unemployment (%)	Current Payments % of GDP
Labour 1945-51	1.5	5.5	1.9	(2.1)
Conservative 1951-64	2.9	3.4	1.8	0.2
Labour 1964-70	2.5	4.6	2.1	0.0
Conservative 1970-74	2.8	10.4	3.0	(0.3)
Labour 1974-79	2.1	15.6	4.8	(0.9)
Conservative 1979-97	2.1	5.8	9.2	(0.6)

Notes (1) inflation is measured as a change in the retail price index

(2) figures in brackets for the current payments indicate a balance of payments deficit

Source: Tomlinson (2007) Table 15.2

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Footnotes

1. Members of the Selsdon Group included; Keith Joseph, Nicholas Ridley, Rhodes Boyson, John Biffen, Richard Body, Jock Bruce-Gardyne, Piers Dixon, Hugh Frazer,