THATCHER'S HALF-REVOLUTION

by Will Hutton

"What have you changed?" someone asked Margaret Thatcher upon her election as Britain's prime minister in 1979. Her reply: "Everything."

Eight years later, both before and after her re-election this past June, she outlined what she had accomplished, or hoped to, with a series of catch phrases. "People's capitalism." A "lame-duck economy... [turned]... bulldog economy." "Every earner an owner." "An England free of socialism."

Pundits lumped it all together: The "Thatcher Revolution."

Revolution is not a term to be used casually in Britain. An upheaval there, even a shakeup, is a monumental undertaking. After all, Britain is very old. No other country its size has more venerable institutions. National departments, like the Treasury and the Lord Chancellor's office, that would be familiar to British citizens of 500 years ago. A parliament that has met for 700 years. A monarchy whose antecedents go back more than 1,000 years.

Britons take comfort in the very lineage of their institutions, as witnessed by the Royal Wedding of 1981. On the air, a British TV broadcaster noted that foreign newsmen often asked him how the nuptials of Prince Charles and Lady Diana, "so soon after [race] riots in Brixton and Toxteth, could be such an occasion of national celebration." The answer, he said, voice quavering, was that the royal couple (shown waving from a Buckingham Palace balcony) "represent our future."

But Britain's future looked bleak in 1979 as Mrs. Thatcher took office. Despite the best efforts of James Callaghan's departing three-year-old Labour government, Britain still lagged behind its Common Market partners. Over 1,000,000 (5.2 percent of the work force) were unemployed, economic growth was low, and inflation (10 percent) was rising. A basic reason for these ills was the collapse of consensus government, as practiced by Labour cabinets (and followed by most Tory regimes) since World War II. Ignoring pay curbs set by the Callaghan government, unions had pressed high wage claims—and employers, ignoring threats of official sanctions, complied. Meanwhile, London bankers flouted government controls on currency exchange and on lending.

Anxiety that 30 years of relative economic decline could continue compelled British voters—including an estimated one-third of Britain's 13 million union members—to turn to fresh leadership. It came in the person of a once obscure Tory named Margaret Hilda Thatcher, a grocer's daughter from the Lincolnshire town of Grantham. (It was less often recalled that she had attended Oxford, and was married to the wealthy heir to a paint-making firm.)

Why Mrs. Thatcher? She had vaulted herself from obscurity by leading a party putsch against Edward Heath, the last Tory prime minister (1970–74). What seemed obvious to Mrs. Thatcher when she became party leader in 1975, and to the voters in 1979, was that more of the same as an answer to Britain's difficulties was intolerable. Labour had been in power for 11 of the previous 15 years, and its economic tools—government intervention (e.g., wage and price controls) and Keynesian deficit spending—seemed less and less effective.

Like Hitler's Bombs

That failure was due partly to another old British tradition: institutional autonomy. At least since the Middle Ages, the basic building blocks of British organized society—guilds, banks, employers, universities—have cherished their independence. They do not easily concede the government's right to interfere in their affairs, be they unions whose wage demands are to be curbed, businessmen whose prices are to be fixed, or banks whose lending policies are to be controlled. The government-union-bank-industry consensus that operates to varying degrees in West Germany, Scandinavia, France, and Austria, although cited by Labour politicians as a model for successful intervention, did not seem applicable to Britain, where institutional autonomy is a principle that the state not only respects, but around which it is organized; departures from the principle are uneasy and discordant.

When Mrs. Thatcher moved into No. 10 Downing Street in May 1979, she signaled her understanding of the prevailing climate. "Where there is discord," she said, quoting St. Francis of Assisi, "may we bring harmony." But her aim was not to harmonize different interests; it was to make them harmonize with her own. Her plan was to force on the unions, the corporations, and the financial institutions the autonomy they claimed to cherish. Let them stand on their own feet, she said. No more subsidies and legal protection, in return for bargains that only government seemed to keep. Sound money, free markets, and a strong but aloof state—the old pillars of industry and empire—would prevail again.

The Thatcher plan was both radical and conservative. It aimed at preserving the satrapies of society—from the financial houses of London's City area, to the large multinational firms and the landed estates—

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The failure of a long strike called by miners' union boss Arthur Scargill, here at a 1985 London rally, showed labor's fading power. In 1979, roughly 30 percent of the electorate were union members; now only 22 percent are.

by forcing drastic changes on their proprietors. Henceforth, they would have to earn their keep. In doing so, they would restore themselves and the economy to health.

As a conservative, Mrs. Thatcher would direct her energies mainly toward the unions and their allies, including the Labour Party and its Fabians. The party's consensual, interventionist, and protective attitudes represented all that she deplored; the state as nanny. Even some Tories, dubbed "wets" by Thatcherites, were infected.

But in May 1979, all this was only dimly apparent. The "Iron Maiden," as the London *Daily Mirror* dubbed her, knew her mission, but the means for accomplishing it were hazy. At the time, the ascendant economic doctrine was "monetarism." It had been gaining in interest among specialists since its guru, Chicago economist Milton Friedman, published *Capitalism and Freedom* in 1962. Monetarism emphasized simple fiscal virtues: limited borrowing, self-discipline, and, in general, "good house-keeping." Though dismissed by postwar economists of the so-called Keynesian borrow-and-spend school, these virtues appealed to Mrs. Thatcher. The government could leave economic management to the markets, said the monetarists. To tame inflation, the state need only set targets for the growth of the money supply, and prices would fall in line. The less government intervened in the economy, the less it would have to spend, and the less money it would have to print. The less money printed, the less the money supply would grow. This would roll back state outlays, make businesses stand on their own, and reduce inflation all at once.

With her first budget, the self-described "conviction politician" signaled a decisive break with the past. There would be reductions in taxes,* as well as in government borrowing and spending; interest rates would rise to levels necessary to bring down inflation. The results were disastrous. Over the next two and a half years, thousands of firms closed, industrial production fell by nine percent, and 1,500,000 *more* people were thrown out of work. Mrs. Thatcher, said Labour critics, had caused more economic damage than Hitler's bombs.

The prime minister had bad luck. Just when she determined to raise interest rates, Britain became a net exporter of North Sea oil—whose value, thanks to the OPEC producers' price increases of 1979, had suddenly doubled. Foreign investors rushed to buy the once-scorned British pound, now a petro-currency, quickly raising its value. Result: goods imported into Britain became cheaper and easier to buy, and British exports became harder to sell. British manufacturers were on the rack. If such troubles came with North Sea oil, said one industrialist, "why not leave the bloody stuff in the ground?" The head of the Confederation of British Industries promised a "bare-knuckle fight" over the government's laissez-faire policies.

Uncrowning Keynes

But the Iron Maiden held firm. Said she: This "lady is not for turning." Her ministers insisted that the markets must be free to act. No relief was coming in the form of further government spending or borrowing, or an engineered fall in exchange rates. Those were the remedies of yesteryear.

Not surprisingly, Mrs. Thatcher's ratings in the polls plunged.

But now came some good luck for Thatcher: a struggle within the Labour Party. Arguing that the party's consensus strategy had led only to a Conservative victory, Labour's radical wing demanded a commitment to fundamental leftward change—in defense policy, in the institutions of "capitalism," and much else. Other Labourites, wary of the electorate's fundamental conservatism, wanted the party to stay in the mainstream. Yet this required union cooperation that would not be forthcoming: In the past, wage curbs had not revived the economy, only eroded workers' pay. At a 1981 conference, Labour's constitution was amended to reflect the radicals' views. Soon after, moderates led by

*Thatcher's tax cuts lowered the top rate on personal income from 83 to 60 percent. Beginning during the 1960s, spurred by high tax rates and sporadic government controls on salaries, British employers had offered white-collar staffers myriad untaxed fringe benefits, such as low-cost mortgages, college scholarships for their children, and country house weekends. The most common perk: a car. Even in 1981, nearly two-thirds of the autos on British roads were company-owned.

former foreign secretary David Owen broke away to form the Social Democratic Party (SDP).

That year, 1981, was the nadir of Mrs. Thatcher's fortune. Before the Royal Wedding in July, tensions between white Britons and the Asians and West Indians (who now account for four percent of the population) erupted in Britain's first real urban race riots. The recession pushed unemployment close to 3,000,000, yet the inflation rate stayed in double figures. But the budget that year not only continued "good-housekeeping"; it reduced government borrowing and raised taxes, in flagrant disregard of Keynesian anti-recession doctrine. The Tories soon fell behind both Labour and the rising SDP in the polls. As Tory losses in by-elections mounted, the betting in Westminster and the media was that Mrs. Thatcher would not long survive as Prime Minister.

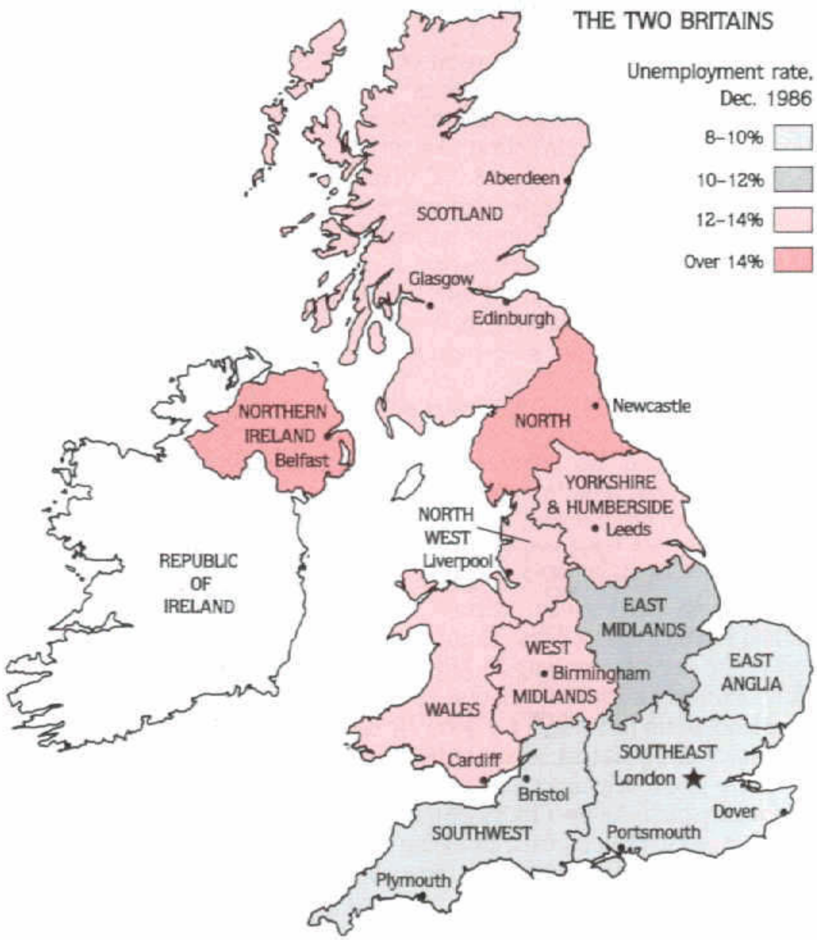
Galtieri's Gift

But again the lady stood strong. She slashed subsidies to industry and housing, and reduced spending on roads, hospitals, and schools, though less sharply. Yet while government borrowing declined as a share of national income, personal taxes rose as overall government spending continued to increase, due to welfare costs (swollen by unemployment) and a defense build-up. In contrast to Ronald Reagan, her ideological kinsman in Washington, Mrs. Thatcher bluntly told the voters that "taxation is the only moral way to pay for higher spending." The money supply, interest rates, and inflation all stayed high.

Monetarism had failed. Sir John Hoskyns, head of the prime minister's Policy Unit, has since conceded that both exchange and interest rates were grievously mismanaged. "The Government," he says, "didn't really understand the operations of monetary policy." Yet Mrs. Thatcher never lost sight of her goals, including the dismantling of "labourism." The unions' legal power had to be reduced, along with their base in large manufacturing firms, the public sector, local government, and their supporters in intellectual circles. Although monetarism had gone astray, Mrs. Thatcher judged correctly that the bankruptcy of the alternatives had given her wide latitude for error.

Union leaders thundered about "days of action," and called national one-day strikes. But they were poorly supported: The social security system proved an effective, if expensive, safety net for the unemployed, and (as during the 1930s) those who had jobs were too grateful to strike on behalf of others. Indeed, among lower-class youths a new culture grew up around welfare. Angry over their dim career prospects, and earning just enough on the dole* to exploit Britain's tolerance of eccen-

*A jobless 17-year-old living at home gets $26 a week, which continues after six months, unlike unemployment benefits in most U.S. states. For adults on the dole, payments start at $43 a week, plus another $26 if married, and a rent allowance of perhaps $21 to $28. After 12 months, a jobless couple receives $86 a week, or nearly $4,500 a year, in a nation where average household income is £10,263 ($16,596 today).



tricity, they adopted "Mohawk" haircuts and androgynous dress to express individuality, separateness, and indifference to politics—an apoliticism that helped Mrs. Thatcher by denying her opponents a potential wellspring of support. And while some intellectuals complained about Tory callousness, their concern was not echoed by many voters.

With the opposition divided, Mrs. Thatcher needed only a modest success in order to launch a comeback. Her chance came during the spring of 1982, when the Argentine junta's leader, General Leopoldo Galtieri, ordered the seizure of the Falkland Islands (which Argentina claims as the Malvinas Islands). Meeting on a Saturday, the House of Commons called for retribution. As *Hermes*, *Invincible*, *Fearless*, and other Royal Navy ships sailed south toward Argentina, the old Establishment, from Foreign Office mandarins to Labour's Fabians, talked anxiously of a negotiated settlement. Thatcher, faithful to a more ancient English sentiment, vowed to save the 1,800 islanders from "the iron heel of the invader." She would consider no deal without the invaders' prior withdrawal, a demand to which Galtieri refused to accede.

Britain's shoestring victory in the 10-week war brought a sudden, lasting revival of Mrs. Thatcher's popular support; her conduct and her rhetoric revealed the genuineness of her ambition to restore British national pride. While the Fabians and "wets" puzzled over the reasons why poverty, unemployment, and industrial decay did not destroy her popularity, she went on to win a resounding 144-seat majority in the 1983 election. Not only was the opposition vote divided, but Labour, in calling for unilateral nuclear disarmament, badly misjudged the strength of Britain's much-publicized antinuclear movement. Britons may not like relying on nuclear weapons or the United States for defense, but a people bloodied by many wars does not lightly drop its guard.

Rolling Back

Mrs. Thatcher's second term found her in combat at home. Laws passed by the Tory majority in Parliament in 1980 and 1982 permitted strikers to picket only their own places of work, and made union funds liable to sequestration; a further act in the new Parliament required a secret ballot before strike action. An aggressive union leader's ability to force a strike and to close down a whole industry was thus weakened. The most aggressive leader was Arthur Scargill, Marxist president of the National Union of Mineworkers. That was the union that, in two decisive strikes during the early 1970s, had challenged the government pay policy, ultimately bringing down Edward Heath's Tory regime. Scargill aimed to do the same to Thatcher. His opportunity came with the government's policy of phasing out subsidies to the coal industry.

Scargill's plan had two fatal flaws. First, he began the strike during the spring of 1984, months before winter would draw down coal stocks. Second, he called the strike without a prior vote by the 180,000 miners, thus dividing his membership, whose total support he needed. The strike, Britain's longest and most bitter since the 1920s, collapsed after 12 months. At a stroke, Scargill's defeat ended a century of ever increasing union strength. Suddenly, union leaders became much more cautious about striking without a ballot, and managers became more confident that they could change wasteful work practices without union retaliation. An early beneficiary was Rupert Murdoch, the owner of Times Newspapers, who was able to break the hegemony of the Fleet Street printers and introduce new, cost-saving technology.

Now Mrs. Thatcher was getting lucky. While the money supply continued to rise, a decline in the world prices of oil and other commodities caused inflation to tumble. The pound, losing its costly petro-dollar luster, became less overvalued. And although the government was borrowing less, a boom in credit allowed British consumers to spend more. The economy began to pick up steam.

Again Mrs. Thatcher received unexpected help. While she had long fumed at the bankers' zeal to supply credit to consumers, the deregulation of the financial markets in the United States had to be emulated in Britain if the City was to maintain its preeminence. Exchange controls, interest rate controls, and direction of lending were all scrapped, while banks were allowed to borrow abroad to keep the consumer spending spree going. In the troubled days of 1979–82, such borrowing would have seemed reckless; now it was tolerated as essential in the absence of *government* stimulus.

Mrs. Thatcher was now rolling back the state in earnest. British Telecom (1984), British Gas (1986), and British Airways (1987)—three huge nationalized industries—were all sold to private sector shareholders. By last June, "privatization" had come to 14 large corporations and many other companies. All told, these firms—about one-third of the nationalized business sector—employed 600,000 workers and accounted for about five percent of the national output. This jolt to old thinking spurred little effective opposition, even from Labour, which now sought only "social control" of two utilities, British Gas and British Telecom.

The $18 Billion Boon

Indeed, "privatization" accounted for much of the Tories' strength against Neil Kinnock's Labourites on June 11. Although 29 percent of Britain's housing remains government-owned, the sale during the Thatcher years of some 1,000,000 council (public) units to their occupants helped to make two-thirds of British householders owner-occupiers, with middle-class views. Meanwhile, industrial privatization tripled the breadth of stock ownership to nearly 20 percent of adult Britons.

After eight years, the Thatcher balance sheet shows clear pluses and minuses. While leaving alone the sacrosanct Welfare State (pensions, health benefits, unemployment compensation, etc.), she has managed to reduce Britain's annual budget deficit from a peak of six percent of gross domestic product (GDP) in 1981 to 2.5 percent today. That compares very favorably with the U.S. deficit, which, measured against gross national product (GNP), now stands at five percent. But here, too, Thatcher was lucky. What made her budget-paring possible was largely the Treasury receipts from the sale of state-owned companies (more than $20 billion so far), and revenues from North Sea oil; they grew from zero in 1979 to $18 billion in 1986, when they accounted for some 10 percent of all government revenue. Neither of those windfalls can continue forever. North Sea oil will flow for at least another 10 years, but production peaked in 1986, and with the fall in petroleum prices the government's oil income has already been halved.

BUSINESS AND 'THE BRIDESHEAD SYNDROME'

In 1974, when an economic slump sank many London speculators, Lord Poole, head of Lazard Brothers bank, was asked how he had avoided the fallen. "Quite simple," he said. "I only lent money to people who had been at Eton."

To a large degree, Britain's economic fortunes are guided by a caste of Old Boys from a few schools: Eton, Winchester, Harrow, and six other "public" boarding schools (all founded between 1382 and 1611), and/or Oxford (1249) and Cambridge (1284). In recent years, observes Anthony Sampson in *The Changing Anatomy of Britain* (1984), "Oxbridge" graduates held 16 of 18 Bank of England directorships and 14 of 18 senior civil service posts.

These schools' graduates, notes Sampson, tend to climb "existing trees rather than plant new ones." What Sampson calls "the Brideshead syndrome" is less visible among business movers and shakers. Many are outsiders. Italian-born Charles Forte created Trust House Forte hotels; *The Times* and the *Sunday Times* are owned by Australian Rupert Murdoch, now a U.S. citizen. Britain's takeover kings include Czech-born Robert Maxwell, Indian-born Roland "Tiny" Rowland, and Sir James Goldsmith, who is half French. Whitehall chose Michael Edwardes (raised in South Africa) to head British Leyland; Richard Giordano, an American son of Italian immigrants, to run British Oxygen; and Ian McGregor, a Scottish-born U.S. banker, to save British Steel.

Several British schools offer M.B.A. programs, but their graduates have not reached top management to the extent of American M.B.A. holders, who constitute 17 percent of the *Forbes* 800 heads of big public companies.

Many U.S. universities vie with the Ivy League for top students. If France's best and brightest come from a few *grandes écoles*, they get to them on academic merit. In contrast, admittance to Britain's educational fast track is limited *and* arbitrary. There is room for only six percent of young Britons at the old public schools. And despite expansion in higher education, the Oxbridge colleges (enrollment: 24,000) remain the prime paths to power.

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In 1944, a study group urged that tuition-charging public schools allocate places for youths from state primary schools. Already in existence were "grammar schools," free state- or locally-financed high schools for smart students (among the graduates: Margaret Thatcher and Harold Wilson). But during the 1950s, egalitarian local authorities fostered free "comprehensives," schools combining academic *and* vocational training. Parents continued to favor grammar schools, so in 1976 the government forced these schools to become comprehensives *or* to charge fees.

The beneficiaries of this perverse policy were the once-strapped public schools. They gained applicants, and with them, the ability to admit only the best students. Thus the Old Boy ranks have opened a bit: Once, most public school students were children of graduates; now, most represent new blood. But the Brideshead syndrome is far from eradicated, and meanwhile, notes Sampson, "the ladders by which poorer children had climbed to success [the grammar schools] had been kicked away."

Yet by many measures, the economy has recovered smartly. Since early 1981, Britain's annual growth rate has been three percent, second among industrial nations only to Japan. Since 1979, output per worker has risen at an average yearly rate of 3.5 percent, far above the 1970s' miserable .75 percent. Industries that are mass employers—steel, autos, coal, printing—now boast productivity rates that are among the highest in Western Europe. Productivity growth has led to a rise in disposable income (for those with jobs) of 15 percent annually since 1979.*

'Gissus a Job'

The recovery has been patchy. Manufacturing production, for example, is only at its 1979 level, and manufacturing investment is still 20 percent below its peak rate. As monetarism withered as a sustainable doctrine, the government was left with not so much a policy, but a set of prejudices. Sometimes they work; sometimes they do not. Mrs. Thatcher scorns "industrial policy" as socialist. Her regime has reduced government support for research to the point where in Britain, alone among advanced industrialized countries, real spending on civilian research and development is falling. As the state has ceased to support various industries, private sources of financing have conspicuously failed to fill the gap. British financiers have remained, as always, preoccupied with short-term loans, "asset-backed" lending (e.g., mortgages), and the buying and selling of stocks. The lenders being asked to "stand on their own two feet" and respond to market forces have simply reinforced the old aversion of London investors to industrial risk.

Notwithstanding such showcases as Scotland's "Silicon Glen," where firms between Glasgow and Edinburgh employing some 40,000 workers have built Europe's largest microchip-making center, industries dependent on high technology have suffered from lack of capital and a surfeit of laissez-faire philosophy. In office equipment, computers, and consumer electronics, world market forces have forced a British surrender to U.S. and Japanese rivals (whose multinational firms own most of the Silicon Glen companies). More broadly, while many businesses have shrunken or disappeared, Britain cannot yet boast any firms that have developed into world beaters under Mrs. Thatcher's tutelage.

Indeed, much productivity growth has come by shrinking work forces around old products at old production levels, or from savings from cutbacks in new investment and research. The businesses that have grown are those that benefit from cheap labor and weak unions, and do not rely on product innovation (or can acquire it elsewhere): textile firms, fast-food chains, the local plants of foreign multinationals. Britain's

*Other indices of spreading affluence: In 10 years, one study shows, car ownership has expanded from 55 percent to 62 percent of all households (the U.S. figure: 86 percent), refrigerators from 81 percent to 95 percent, freezers from 13 percent to 35 percent. In 1986, 16 million Britons traveled abroad, compared to only six million a decade ago.

Iron Lady: Mrs. Thatcher at a Conservative Party conference at Brighton in October 1984, hours after she narrowly escaped injury from the blast of a bomb planted in her hotel by Irish Republican Army terrorists.

1986 manufacturing trade deficit was $18.2 billion, as bad relatively, as the U.S. deficit—not a signal of greatly increased competitiveness.

And as companies have laid off workers, the number of unemployed has grown. And grown. Britain's unemployment rate, although falling, is high—10.7 percent during 1987's first quarter—and the jobless are concentrated in the old manufacturing areas—Scotland, Wales, the North of England, and the Midlands.* (Perhaps the best recent series on British TV has been *The Boys from the Black Stuff*, which dealt with the angst and antics of unemployed youths in Liverpool; the "Gissus a job" plea of one character, "Yosser" Hughes, has entered the vernacular of Britain.) Poverty is widespread. Of Britain's 55 million people, 12 million have living standards below the Council of Europe's minimum. One in six children is not properly fed or clothed. Seven of the 12 poorest regions in the 12-nation Common Market are in Britain; of the Common Market's poorest 15 cities, 10 are British.

But after the minuses, another plus. The woolly Fabianism of the 1960s and 1970s is in total disarray. Behind the old talk of consensus and gradualism lay the politicians' tendency to romanticize the working classes (e.g., the ritual exaltation of "the labour movement" by Labour

*Other countries' unemployment rates for the first quarter: France, 11.2 percent; West Germany, 7.4; United States, 6.7; Italy, 6.7; Japan, 2.9.

leaders) and their institutions—a tendency that the workers knew as cant, but that union chiefs exploited in their strikes and opposition to change. In its place, judging by opinion polls, is a widespread mood among blue- and white-collar Britons of "realism;" a hard-headed appreciation that nobody owes anybody a living. Indeed, after Mrs. Thatcher's third election victory, Labour politicians conceded that, as their campaign coordinator Bryan Gould said, Labour was trapped "in a very conservative or reactionary position."

Yet with the long-overdue elevation of private initiative has come a debasing of the old notion of the "commonweal," the broad public interest that should be declared and served. Discontent that had been simmering for years was poured into the "Westland crisis," which broke early in 1986. At issue was the future of Westland, Britain's only helicopter manufacturer, which was failing. The solution of Mrs. Thatcher's privatizers was to sell the firm to United Technologies, the U.S. conglomerate; the public solution was to fold the firm into a European consortium. Tory supporters of the U.S. option were the advocates of free markets, shareholders' rights, and the minimal state; supporters of the European option tended to be, among other things, proponents of the interventionist state. It was a battle Mrs. Thatcher could not afford to lose, as London and Whitehall understood, and anonymous buyers of Westland stock ensured that the shareholders' vote favored the sale to United Technologies. And they won. But the matter was not resolved until a major uproar produced two ministerial resignations and a charge of Thatcher's involvement in official duplicity.

Westland illustrated the passions arousable in present-day Britain. Mrs. Thatcher found Britain's glass half empty; she has emptied it, and it is now half-full. That her economic shake-up should touch so many and yet, to date, leave so much to be accomplished suggests that actually filling the glass will require more than calls to Britons to stand on their feet and balance the books. It may require a new ideology, a better sense of public purpose, and institutions that embody both.

But if the weaknesses besetting Britain—industrial, educational, social—have not disappeared with Mrs. Thatcher, they did not begin with her. Indeed, they go back to the Golden Age, the mid-19th century, when Britons began to believe that, as Queen Victoria said, they could do "anything," a belief that permitted institutions to ossify. Mrs. Thatcher has laid the groundwork for change in key respects. If she is reaching the limits of self-renewal through market forces, that strategy has yielded considerable and irreversible advances. Despite grave and lingering difficulties, Britain is stronger than it was in 1979. Mrs. Thatcher took the first painful, necessary steps in the British renaissance.