

Blueprint for a Free Society
An Analysis of Thatcherism

Jeffrey C. O'Brien
June 1997

"I suppose the policy which I introduced became an -ism: Thatcher-ism. And it's rather strange to have given birth to an -ism. You know I was used to giving birth to twins, but an -ism is rather different..."

*Lady Thatcher*¹

Introduction

On May 5, 1997, Britain went to the polls and gave the Labour Party a majority in Parliament for the first time in nearly twenty years. The Conservatives, plagued by scandal and struggling to define a philosophy, suffered their worst defeat since the early 1900's.

The loss was a bittersweet moment for Lady Thatcher. Even though her Tory Party had been routed by Tony Blair and the "New Labour" Party, her governing philosophy, popularly known as Thatcherism, had ultimately won the day. Her legacy remains intact, and the change in Governments will not likely change the direction of Britain. As one American journalist observed, "Britain at the millennium will almost surely remain the entity she [Thatcher] created - a nation of homeowners, one that values wealth creation as the bedrock of society, whose public industries have been privatized and whose trade unions have been routed. It is a country whose place in Europe remains uneasy and whose social policy requires more from the individual than it does from the state. That's the Britain that Thatcher made, and it's here to stay."²

Why will the legacy of Lady Thatcher remain into the next century? Because her fundamental philosophy of government -- her "ism" -- is guided by centuries of thought and practice. Thatcherism, simply put, is formed by the principles of liberty and

¹ Speech to GOPAC Charter Meeting, April 24-25, 1994.

² Daniel Pedersen, "The Real Winner: Mrs. T." Newsweek. April 28, 1997

democracy that are characteristic of Britain and the United States. Thatcherism is the free enterprise economic system, left unfettered by a restrained central authority, held together by the rule of law. It is a philosophy that relies on the moral strength and character of individuals, not in the morality of the state.

Thatcherism in Practice

The aforementioned fundamentals take shape in practical terms within three areas of policy: economic, foreign, and social. While seemingly separate in nature, these three types of policy are linked together by the basic tenets of Thatcherism -- the belief in free enterprise, limited government and the rule of law.

The practical goals of Thatcherism can be seen in the 1979 Conservative Party manifesto, which ultimately formed the agenda for the Thatcher Government. First, inflation had to be controlled and the trade union movement had to be held in check in order to restore the economic and social health of Britain. Second, it was necessary to restore incentives so that hard work pays, success would be rewarded and real jobs were created in a growing economy. Third, Parliament and the rule of law had to be upheld. Fourth, family life had to be supported, through facilitating greater home-ownership, raising educational standards, and concentrating welfare services on those who were truly in need. Finally, Britain's defenses needed to be strengthened, and it was imperative to work with allies to ensure the protection of British interests in the world abroad.

It was the implementation and continuation of this agenda would be the main concern of the Thatcher Government from 1979 until 1990.

Economic Policy: The Free Enterprise Revolution

Nowhere are the effects of Thatcherism more clearly evident than in the free enterprise revolution that swept Britain in the 1980's. When Lady Thatcher assumed the premiership in 1979, Britain was in the worst economic situation of any European nation.

The crippling effects of the nation's twenty five year experiment in socialism had reached their peak: inflation rose to record levels (and showed no signs of decrease), growing statist involvement in industry had resulted in more inefficiency and lower returns on capital, and trade union law had become so misguided as to give unions the power to hold the country hostage (as in the Winter of Discontent, 1978-79).

For Thatcher, it was time to end the socialist experiment, and instead try a new approach. In order to restore Britain's economic standing, Lady Thatcher drew upon her own strong belief in capitalism -- formed while working in her father's store and underpinned later by writings such as Hayek's *The Road to Serfdom*. It was this unwavering belief in the free enterprise system that set the course for reform.

The Thatcherite reforms began with controlling inflation, which required a two step process. First, rather than taking the Keynesian approach and increasing public spending in order to stimulate the demand side, Lady Thatcher believed in "monetarism." She rightly recognized that inflation was a supply side problem -- "too many dollars chasing too few goods", and that in order to curb inflation tighter control of the money supply was needed. Second, greater restraint in public borrowing was needed in order to lower interest rates, thus freeing up more capital for private sector investment, spurring entrepreneurship and thus greater wealth creation.

These two components were brought together to form the Medium Term Financial Strategy (MTFS), which resulted in a drop in inflation from a high of 21.9 percent in May of 1980 to a low of 2.4 percent in the summer of 1986³. While it increased to 10.9 percent in October 1990 (due to Chancellor of the Exchequer Nigel Lawson's decision to shadow the German Deutschmark), inflation was held in check at 5 percent a year during the mid-1980's⁴.

³ Margaret Thatcher, *The Path to Power*. 1995. P. 570.

⁴ *Ibid*.

The second economic reform implemented by the Thatcher Government was bringing Britain's public finances under control. Public spending as a percentage of GDP fell from around 44 percent in 1979-80 to a low of 39.25 percent in 1988-89⁵. The ratio of the Public Sector Borrowing Requirement (PSBR) to GDP was also reduced, from over 5 percent at the time of the 1979 election to almost zero in 1990 (it had been as low as -3 percent in 1988)⁶.

The tight grip on public spending facilitated tax cuts. In 1979 the basic rate of income tax was cut from 33 percent to 30 percent, and the top rate was cut from 83 percent to 60 percent⁷. The 98 percent rate on investment income (capital gains) was also lowered, to 75 percent⁸.

In the 1984 budget, corporate taxes were reformed. Capital allowances and corporate tax rates were reduced in order to encourage more efficient types of business investment.

The 1988 budget completed the tax cut program, reducing the highest rate to 40 percent (for savings and earnings income)⁹. The basic rate was lowered to 25 percent¹⁰.

Along with the tightening of the money supply, reduced public expenditure and the subsequent reduction in tax rates, the third area of economic reform was the promotion of private enterprise and ownership. Recognizing that government's interference in industry was damaging the economic health of the nation, Thatcher embarked on a course of privatizing much of British - owned industry. Aerospace and shipbuilding industries, as well as shares of the National Freight Corporation, British

⁵ Margaret Thatcher, *The Path to Power*. 1995. P. 571.

⁶ Margaret Thatcher, *The Path to Power*. 1995. Pp. 571-572.

⁷ Margaret Thatcher. *The Path to Power*. 1995. P. 571.

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *Ibid.*

Telecom, British Airways, Rolls-Royce, parts of British Steel, British Leyland and the airports all were sold to private interests. By the time Thatcher left office, the state-owned sector of industry had been reduced by 60 percent, with nearly a quarter of the population owning shares¹¹.

Lady Thatcher writes, "I had set out to recreate a predominantly free-enterprise economy and to encourage a capital-owning society: I felt I had gone a long way, further even than I expected, in achieving both."¹²

Trade Union Reform

A final reform in the economic realm was that of trade union reform. For years, it was commonly believed in Britain that the trade union movement had the power to bring the nation to a halt. Lady Thatcher's reforms ended that belief. First, the right to picket was limited to those in dispute with their employer at their own place of work, making secondary picketing illegal. Second, the law was changed regarding the closed shop. Coercing workers to join a union was no longer allowed, and any evidence of dismissal on the grounds of a worker's refusal to join a union was prosecutable by law. Third, and finally, public funds would be allowed for financing postal ballots for leadership elections and other important union decisions -- in order to reduce the incidence of intimidation as well as the "rigging" of the balloting process. These trade union reforms in part were made to make the three fundamental economic reforms possible. The socialist bent of the trade unions had made such reforms necessary.

¹¹ Margaret Thatcher. *The Path to Power*. 1995. P. 574.

¹² *Ibid.*

Foreign Policy: Five Basic Tenets

Thatcherite foreign policy is defined by five basic tenets, with the first being the belief that the collective security of the international community can be maintained only through the existence of a single superpower or an extraordinarily strong alliance.

For Thatcher that single power is the United States, assisted by a strong alliance with Britain. It was this alliance, led by Lady Thatcher and Ronald Reagan, that brought an end to Soviet communism.

The second tenet is that just as a strong global power is required to maintain international order, so is it equally important for strong powers within regions. In the Asia - Pacific region, for example, nations such as China, Russia and India which possess nuclear capabilities (plus Japan, which has U.S. military backing) are held in check by one another. The European nations are in a similar situation. These regional balances of power will also help to reduce the number of situations where American led intervention is necessary.

Thatcher's third tenet is that "nationhood, nation states and national sovereignty are the best foundations for a stable international system."¹³ This tenet is best exemplified by Thatcher's protection of British interests in the face of the European Economic Community's growing federalist tendencies. While the other member countries sought to create a "United States of Europe," Thatcher pushed for a Community that would serve as a free trade zone - a Common Market. This free trade zone would not only encompass the EU but the former communist states in Central and Eastern Europe as well as the Americas, forming a North *Atlantic* Free Trade Area. With a renewed free-market system thriving in Britain, Thatcher's vision of the Community would have been -- and still is, for that matter-- far superior to British interests than the

¹³ Margaret Thatcher. *The Path to Power*. 1995. P. 522.

increasing subsidies and protectionism that was the main focus of the current EU. After rescuing Britain from the socialist experiment, there was no reason for Thatcher to return to it by joining a federated Europe.

The fourth tenet of a Thatcherite foreign policy is that a free society should seek to advance freedom, democracy and human rights across the world. This belief was at the heart of the Thatcher-Reagan led fight against the Soviet Union throughout the 1980's. Rather than just defend against the spread of communism, the two leaders felt that it was time to put freedom on the offensive, which meant in practice that it was necessary to stand up for any nation that had communism forced upon it.

Next to the economic freedoms restored at home, it was this political freedom which emerged from the ruins of the Soviet state which will ultimately stand as Margaret Thatcher 's greatest contribution to humankind. Her belief, shared by her American colleague Ronald Reagan, was that it was the free society which would ultimately prevail. While this belief was met with sharp criticism at the time, it was to provide the inspiration for the fight against the Soviets in the 1980's, a victorious fight which proved indeed that the free society would endure, and the totalitarian state would wither and die.

These four tenets are linked together by the fifth. That is, that none of these principles would be possible without being made effective through a strong defense. The Soviet Union fell because it could not continue to defend its empire militarily against the onward march of freedom. In fact, the Soviets were not even willing to come to the bargaining table with the Western allies until its military might had been equaled by the United States.

While it is Ronald Reagan who receives the lion's share of the recognition for the defense buildup and led to the subsequent collapse of the Soviet Union, it was the enduring and unwavering support of Lady Thatcher which enabled President Reagan's policies to succeed. Many times, Soviet Premier Mikhail Gorbachev tried to break the Thatcher-Reagan alliance; every time, he failed. Even when disagreeing with Mr.

Reagan, Lady Thatcher stuck by her American ally, and that alliance in the end is what led to the collapse of communism and the rebirth of freedom worldwide.

Welfare, Illegitimacy and the Family: From Dependence to Self-Reliance

The fundamental principle underlying the Thatcherite approach to social policy is that the family is the fundamental unit of society, not the state. Furthermore, when the state assumes the family's role, the free society breaks down and a "dependency culture" takes root.

It is this "dependency culture", created as a result of the rise of the modern Welfare State, which is at the root of the exploding problem of illegitimacy. Lady Thatcher sees the current welfare system (in both Britain and the United States) as encouraging out-of-wedlock births, which in turn lead to an increase in crime. The way to fix the problem, she believes, is to make it more troublesome and less financially advantageous to have children outside of marriage. It is also necessary to reintroduce the stigma that once accompanied illegitimate births.

The state, however, does have a role in seeing that the children born to unmarried young women have a chance to survive. Group homes for young mothers, as well as stronger adoption laws would put the children's interests first. On a purely financial level, repealing minimum wage laws that kill entry level jobs will help those on welfare become self-reliant.

Ultimately, though, Lady Thatcher does not see the state as capable of doing much to solve the problems of those in need. Rather, she sees the family and the local communities of families as the proper place for this transformation from dependency to self-reliance. This role requires strong moral character from the people, and it is this moral character, provided by Judeo-Christian values, that underlies not only Lady Thatcher's approach to welfare and illegitimacy but rather her whole philosophy. She writes:

Freedom will destroy itself if it is not exercised within some sort of moral framework, some body of shared beliefs, some spiritual heritage transmitted through the Church, the family and the school.¹⁴

Thus, the "dependency culture" is defeated by strong individuals acting virtuously (and guided by religious belief) and working with those in need to instill in them the same virtues and sense of self-reliance.

A Thatcherite Approach to Crime: Upholding the Rule of Law

With the reduction in illegitimate births, Thatcher sees a corresponding decrease in crime. When young boys are raised in an environment without male role models, they are more likely to perform criminal acts.

Solving the illegitimacy problem goes a long way in solving the crime problem, but it does not go far enough. It is also necessary, Thatcher believes, to strictly enforce the rule of law and to punish those who violate it. In some more vicious crimes, such as murder, Lady Thatcher views capital punishment as a completely appropriate deterrent as well as a means of justice.

Upholding the rule of law with regards to criminals is not only applicable to domestic crimes. Lady Thatcher's strong stand against IRA-sponsored terrorism in Northern Ireland as well as Britain was due to her strong belief in the rule of law. Regardless of the views of the terrorists, their violent actions would not bring Thatcher to the bargaining table. Instead, their actions only strengthened her resolve. As she wrote in the *Downing Street Years*, "we must not appear to be bowing to terrorist demands."¹⁵

¹⁴ Margaret Thatcher. *The Path to Power*. 1995. P. 555.

¹⁵ Margaret Thatcher. *The Downing Street Years*. 1993. P. 388.

Will Thatcherism Endure?

Thatcherism led to a rebirth in the economic, social and military health of Britain. The nation awoke from its socialist induced slumber and once again became a country based on free enterprise, limited government and the rule of law. Most of the nationalized industries, as well as most state owned housing, have been sold off to the private sector; the trade unions no longer can manipulate the government into agreeing to its socialist ideals; and citizens of Britain remain leery of entering into economic and monetary union with the European Community.

One of the biggest changes in Britain as a consequence of Thatcherism occurred within the opposing Labour Party. With the electoral successes of Lady Thatcher, as well as the 1992 victory of her successor, John Major, set the stage for Tony Blair's rise to the leader of the opposition and the emergence of the "New Labour" Party. Blair set out reforming the Labour party, ridding it of most of its socialist elements and moving it closer to the Thatcherite vision.

Thatcherism in the World Abroad

With the Thatcher - induced collapse of the Soviet Union, freedom and democracy are on the march all over the world. Latin American countries have begun to shun statist philosophies and moved toward sound finances, smaller government, privatization and deregulation. Chile in particular has led the way, providing the model for Social Security reform with its privatization approach.

Despite the continued threat of Communist China, the Asia - Pacific region also has adopted Thatcherite reforms. The capitalist economies of Hong Kong and Taiwan continue to enhance their status, and even China has adopted a limited capitalist economic system while maintaining its controlled political realm.

African nations are beginning to learn that the collectivist systems which have been used to govern in the past have led to the famines and hardships of the present. Slowly, they are moving towards the Thatcherite model.

The most obvious example of the acceptance of the Thatcherite approach has been in the former communist nations of Central and Eastern Europe as well as the former Soviet Union. In Russia, Thatcher believes that the role of the West is to make sure to show how the rule of law is needed to ensure the success of the economic reforms already underway. Meanwhile, nations such as Poland, the Czech Republic, Hungary and Albania have already gone far in adopting capitalism and recovering from the effects of decades of communist rule.

The United States

While the rest of the world marches toward the Thatcherite model of freedom, the nation which is the hallmark of this model - the United States - seems to be marching in the opposite direction. The current Administration, as well as its Democratic allies in the Congress, favor the German approach of greater expenditures on social programs and an emphasis on economic security rather than freedom. The revival of the free society undertaken by the Reagan Administration during the 1980's has not fared as well as Lady Thatcher's reforms.

The differences in the U.S. and British Governments have a lot to do with the differences in results. While Thatcher had her own party in control of the Parliament, President Reagan had to deal with the Democratic majority in the House throughout his Administration and a Democratic Senate from 1986 until the end of his tenure. Mr. Reagan has even pointed to Lady Thatcher's reforms as examples of what he could have done with a Republican Congress.

Despite the Republican "revolution" that swept the Congress in 1994, the U.S. continues down the path of bigger government and less freedom. The inability of

Congressional Republicans to effectively make the case for the Thatcher-Reagan vision has facilitated this. If the conservatives, Republicans and Democrats alike that believe in the Thatcherite approach, can in the future form a majority in Congress, gain a veto-proof majority in the Senate and work with a conservative President, then the full realization of the Thatcherite philosophy can lead to the rebirth of freedom in America.

Conclusion

It is useful to study the vision of Thatcherism, as well as the results, in order to determine what approaches to governing work. Clearly, the reforms implemented by Lady Thatcher in the 1980's have shown that her vision of free enterprise, limited government, and the rule of law are the keys to the restoration of a vibrant, creative and free society. Her unwavering dedication to her vision is what helped ensure its success. For the Thatcherite vision to succeed, it is necessary to have leaders such as Lady Thatcher to stand tall in the face of criticism of short-term hardships. Only then can the long-term prosperity be achieved. It is not compromise and consensus that leads to success in implementing a Thatcherite agenda, but rather conviction. Lady Thatcher's convictions led to renewal in Britain, and her "ism" provides the world with a blueprint for a free society.