The Political Economy of Thatcherism (Part II)

Wolfgang Brassloff

11. Deregulation of the labour market and the trade unions

The persisting and growing disenchantment of the British electorate with the record of the Conservative government, which were chronicled in Section 10 does not prevent British ministers from lecturing their counterparts in the EU on the "virtues and successes" of their economic policies and in particular of the UK employment system: according to the Deputy Prime Minister, the British economy is "outperforming Europe" on all counts" (95). And the April 1996 G7 "Lille Jobs Summit" was told of the superiority of the "deregulated labour market" in promoting higher productivity and in creating jobs and reducing unemployment in Britain compared with the more regulated and consensual system elsewhere. (A claim which will be examined in the following sections.) British ministers are skilfully exploiting temporary conjunctural divergencies, but their *claim* is that the supposed superiority of the British economic performance is due to the policy of deregulation.

Deregulation of the labour market had been pursued consistently by the Thatcher governments. Their starting-point was the "reform" of the trade union movement. There was a year-by-year build-up of ever more weighty legislation, some of which may have been constructive, but most of it merely circumscribed union action ever more tightly in an attempt to limit their effectiveness in the representation of workers' rights and interests. In line with thatcherite principles, the aim of the government was to weaken the "countervailing" power of the unions and to shift the balance brutally and, as it hoped, decisively in favour of capital and management, as part of their overall preoccupation with overturning the political and societal post-war accommodation.

Neo-classical theory may have little to say about conflicts in production, the relative performance consequences of different institutional bargaining arrangements and trade union structures, but the neo-liberals' hostility to unionism has a long history. As early as 1947, a quarter-century before the movement is generally assumed to have become "excessively powerful", Hayek had described the existence of a strong trade union movement in Britain as the major obstacle to the implementation of economic liberal reforms and he sharpened his view in a later pamphlet (96).

A strategy paper prepared by the Centre for Policy Studies for Mrs. Thatcher in 1979, that has been described as "articulating her instincts" and, having become the blueprint for her future government programme, spelled it all out in detail: the trade unions had the power to block Mrs. Thatcher's intended key reforms so, in order to establish monetary discipline and public sector wage restraint, to shift taxes from income to expenditure, to deregulate the private sector and to use the tax revenues from North Sea oil to reduce government borrowing, it was essential to tame them (97). Nigel Lawson admitted later that the government did just that by pretending that what they were doing was curbing union "excesses" (98).

Mrs. Thatcher's legislative measures to break the influence of the unions were reinforced by the way the government used the power of the state, the police and the courts (99), to break strikes, but most of all by the reappearance in Britain of mass unemployment which resulted from its special brand of anti-inflation tactics. There is also the suggestion that unemployment was in fact engineered by the government. Alan Clark, a minister at the time, has stated in his – always outspoken – memoirs that Mrs. Thatcher *deliberately created* high unemployment in order to crush the trade unions (100). The unions had made themselves more vulnerable to attack by having resisted real reform (including attempts by the Labour government of Harold Wilson to rationalise unionism in 1969 and bring their structures and activities into line with present realities). The historically-evolved system of multi-unionism (originally craft, rather than industry, based) within individual enterprises had led to complex and at times ineffective multi-level wage-bargaining as well as inter-union rivalry and the propensity to take precipitate industrial action, often in ways that lost them popular sympathy and support: the Conservatives were adroitly fostering anti-union sentiments among some sectors of the public. In recent times there have been important and sometimes painfully-achieved changes in trade unionism, initiated by the Trades Union Congress itself, but these were not made any easier by the government's obsessive hostility towards trade unions and their exclusion from any input into economic policy-making, nationally and also increasingly in the workplace.

The labour market *was* deregulated ostensibly for the purpose of meeting the challenges of foreign competition and domestic unemployment; what it *has* resulted in is the drastic reduction in workers' rights

and employment protection, in the derecognition of unions by some firms, decentralisation of wage bargaining, in dramatically widened income differentials, in an increasing proportion of jobs being low-wage and precarious, and yet in an unemployment rate that continues to be unacceptably high. Long-term unemployment and that of young people and of the less skilled is particularly heavy. And yet skill training and general education are at a low ebb and welfare provisions are being whittled away. As a recent International Labour Office (ILO) study put it, Britain's "experiment" in labour market deregulation has not resulted in an improved labour market performance. It has not increased aggregate employment as predicted. Nor has it produced a superior inflation/jobs trade-off (101). The ILO study was published in 1995. Has the situation altered since then? Has deregulation finally paid off? The unpalatable fact is, as we shall see, that the British employment system has been *deregulated,* at great cost to the employed and the unemployed, but it has not been made *more flexible* for the benefit of society and the economy.

12. Unemployment in the 1990s

We have seen that over the whole period unemployment has been tolerated, if not encouraged, by the government at an extremely high level – averaging 8.4% between 1979 and 1992 (EU: 8.8%, but "over-regulated" Germany and Austria, 6.3% and 3.1% respectively) (102) – Norman Lamont, at the time Chancellor of the Exchequer, had notoriously called it "a price well worth paying" for what turned out to be an often only temporary reduction in inflation.

The development of unemployment since the strategy changes of the early 1990s (see Section 10) is of particular interest but also highly controversial, because different ways of collecting the statistics tell different stories and because the *same* data are subject to different interpretations. The "headline figure" has fallen steadily, by nearly two percentage points. By June 1996, it stood at 2.15 million, 7.7% of the workforce (103) "claimant count") or 2.3 million, 8.6% LFS. What is at issue is whether this latest drop in unemployment as the economy recovers from the latest recession is a further phase of the see-saw which has over the period under review seen unemployment rising and falling twice, reflecting conjunctural developments, or whether, as the government claims, the supply-side policy measures are at last paying off (even if after more than fifteen years of misery), and are now ushering in a period of fuller use of labour resources. But equally at issue is the reliability of the unemployment data themselves.

What seems to give *some* plausibility to the British government's claims of success is that unemployment now appears to be lower than in many other European countries. But appearances can be deceptive. The way in which the number of people out of work is established and the extent to which they reflect the real state of the labour market is deeply suspect.

According to conventionally-published statistics, the number of people *unemployed* in Britain has declined since 1993 by 535,000. Yet the number of *employed people* increased by no more than 203,000 (104): some 330,000 disappeared from the statistics. They left the unemployment register but *not into employment:* employment was in 1995 nearly 1.5 million lower than it had been in 1990 (105). They are dropping out of the labour market altogether, and are joining the "economically inactive". Between the winters of 1992 and 1995 the number of "inactive" men rose by 230,000, that is, by more than 9% (106) (The labour force data do in fact show a decline of 290,000, and of nearly 800,000 since 1990) (107).

A further point affecting the reliability of official unemployment data is that in recent years the proportion of the employed that are self-employed has risen strongly: a recent study (108) shows that by 1993 over three million, 11% of the total workforce, were deemed self-employed, numbers growing very much more rapidly than in other European countries. Many are, however, to all intents and purposes, *dependent* employees who work on fixed, usually short, term contract, or even on a day-by-day basis: their "self-employment" status is really a legal and taxation fiction. But as "self-employed" they are not insured against unemployment, and cannot claim unemployment benefit even when out of work and so do not appear in the monthly unemployment statistics! Yet given the casual nature of their "employment" and the fact that many tend to work in sectors such as construction and tourism, the reality is that they are out of work much more often than most other employee groups.

The government's unemployment data must be questioned: they are based not on the number of people out of a job and looking for work but on the number who are – in addition – *eligible* to claim benefit. But the elegibility criteria for unemployment benefit have been regularly tightened, reducing the number of people who qualify, which makes the "headline figure", the "claimant count" published every month, increasingly meaningless. Statistical definitions have been changed thirty-one times (!) since 1979 (109). The series was re-calculated into the past but not in a way that would show what the present unemployment figure would have been, had it been based on the previous, less restrictive, rules. Both the Royal Statistical Society and the House of Commons Employment Committee have published reports criticising the "claimant count" (110).

The most radical reduction in eligibility was the transformation from October 1996 of the right to twelve month's *unconditional* unemployment benefit, based on the prior payment of insurance contributions, and also to "family benefit", into six months' benefit *conditional* on still more restrictive criteria to be flexibly interpreted by the Benefit Agency, which is widely understood to have been given targets for the removal of claimants from the register.

A step towards quantifying this consistent under-counting is to contrast the "claimant count" with the results of the (quarterly) Labour

Force Survey (LFS) data which receive little publicity. (Statisticians have recently proposed basing unemployment data on a *monthly* LFS, but this is being resisted by the government, which fears damage to the favourable optic provided by the processes now in operation.) The LFS shows total unemployment for Winter 1995/96 to be 0.17 million higher than the "claimant count" and the fall from 1994 only about half as great. The unemployment rate, based on the LFS was 8.6% (9.9% for men) well above the claimant count rate of 7.9% (average December 1995/February 1996) (111). However, even this is based on the "standard" definition of the LFS; if the "broad", more meaningful definition, which relaxes the minimum four-week job search variable, is used, the difference is very much greater. For February 1996 this was (as published by the independent Unemployment Unit) 1.220 million higher than the claimant count of 2.30 million. (The difference between the two figures grows as unemployment falls, since some of the "discouraged" workers re-appear in the LFS when chances for employment improve.) This raises the February 1996 unemployment rate from the published 7.9% for 1995, as shown in the statistics of the Central Statistical Office (now re-named Office for National Statistics) and taken over by the OECD, to a more realistic 11.8%, nearly four percentage points higher than the widely-publicised "claimant count" of 7.9%. The official total of 2.3 million unemployed thus turns out to be 3.5 million (broad LFS measure). (112)

In July 1996, the independent Employment Policy Institute published the first issue of the "Employment Audit" which intends to monitor labour market developments. Following the recommendations of the Commons Employment Committee, it has contructed a set of six separate unemployment indicators, which, based on LFS data, focus on labour market slack, but also on other aspects of joblessness. The most comprehensive and realistic indicator, "U3", measures *all who want jobs*. For the Winter quarter 1995, "U3" shows just under 4.3 million, almost double the official figure, or 15.4% of the labour force, the official rate being 8.3% on the labour force basis and 7.9% on the "claimant count". ("U3" also shows a smaller *decline* in unemployment over the last three years than the official figures.) (113) (See Table 10.)

Table 10:

Unemployment in Britain: Autumn 1995

	Thousands	% of Labour Force
Claimant Count	2,234	7.8
Labour Force Survey		
a) standard	2,459	8.6
b) want work, availabe to start, but not looked for work	968	
c) broad (a + b)	3,429	11.5
Employment Audit: U3	4,317	15.3

All this serves to relativise the claims made for a successful employment/unemployment policy and "much more favourable" unemployment level than the EU total, which in 1995 averaged 11.2%, based on the more realistic LFS method. It was very much lower in the "old" Länder of "much more regulated" Germany, Sweden, Austria, Portugal and Norway (114).

13. Employment creation

So the *unemployment* performance is clearly much worse than the government's claims make out and the weaknesses can be traced back directly to thatcherite policy choices. But how about the claim that the deregulated labour market has *created employment* on a much larger scale than the more regulated and more consensual economies of continental Europe where "hiring and firing" are not as easy as in Thatcher/Majorland? (115) The data in Table 11 speak for themselves: over the total period, employment was practically stagnant in Britain, with increases in the cyclical recovery non quite compensating for the losses in the recessions and the performance was *worse* than even the modest situation in the EU as a whole; in the 1990s, when the supposed improvements should have been most visible, Britain actually *lost* jobs and at a faster rate than the EU (in Austria there was a modest increase, probably due to the influx from ex-Yugoslavia.) The poor record is also apparent in the smaller increase of the labour force between 1979 and 1995. Again the situation is actually worse in the 1990s (see Table 12). Nor was there an improvement between the two recessions of the early 1980s and early 1990s: Britain lost 6.5% of total employment in the earlier and 6.3% in the later. The EU lost 2.1% and 3.8% respectively and Austria lost 1% in the earlier and gained 1.1% over the second recession (116).

Table 11:

Employment 1995

	(1979 = 100)	(1990 = 100)
Britain	100	95
EU	108	97
West Germany	106	99
France	103	100
Portugal	107	94
Austria	112	105

Calculated from OECD data, Deutsche Bundesbank and TUC (1996).

Table 12:

Labour Force: Britain (average % change)

1980s recovery		1990s recovery	
1983	+0.7	1993	–0.4
1984	+2.5	1994	–0.8
1985	+1.4	1995	–0.3
total	+4,7	total	–1.5

Source: TUC (1996).

In addition the 1990s show a *deterioration* in a further respect. Between 1990 and 1995 the labour force participation rate – traditionally high in Britain – declined steadily, by almost three percentage points (117). Over the whole Thatcher period male participation *fell* by nearly nine percentage points while the female rate *rose* by more than six percentage points. But this was not only a shift from male to female employment, but to a very large extent from full-time to part-time. The LFS of March to May 1996, for instance, shows that in this quarter the number of the full-time employed (both male and female) fell by 34,000, while the number of those in part-time work rose by 8,000 (118). The new jobs created replacing the old jobs destroyed thus corresponded to a very much smaller number of employments in terms of *full-time job equivalents*. (This is not to ignore the fact that in many cases part-time jobs may actualluy be preferred to full-time jobs.)

A study by Julian Morgan (119), based on material from a project carried out for the Department for Education and Employment (significantly, the formerly separate Employment Ministry has now been abolished) compares the employment performance in the 1980s and 1990s and finds a net improvement in *unemployment* in the first three years of the cyclical recovery of the 1990s over the equivalent period of the 1980s. Some three-quarters of this improvement came from a smaller fall in employment and one-quarter from a larger rise in non-employment. France had a better performance than the UK and also performed better in the 1990s than in the 1980s as to employment and the improvement was greater than in the UK, but unemployment did not fall as the participation rate increased strongly at the same time; in Italy the performance was worse than in the 1980s, mainly because participation rates rose and in Germany falls in employment, increases in unemployment and participation rates were basically unchanged over the two periods, but clearly the record of the "new Länder" depresses the all-German record.

As to *employment,* "the UK does not appear to perform particularly well" in the 1990s, compared with the other European countries (or indeed the US): employment still *fell* in the first three years of the 1990s re-

covery, but the study claims that all the fall occurred in the first year and concludes that this "could be a sign that employment in the 1990s has responded more quickly to the improving economic situation" and that this could be a consequence of the labour market reforms of the thatcherite 1980s (120). In reality, according to OECD data (121) employment increased modestly in 1994 and 1995 and unemployment fell from 1994. But, surely, this was due to the temporary *abandonment* of the thatcherite strategy – and the rebasing of the economy following it – in October 1992, as was shown in Section 10 of the first part of this article.

In a report entitled "The Myth of Job Creation" (122) of 1 April 1996, issued to coincide with the G7's Lille Job Summit, the TUC contends that "the fall of unemployment in Britain is not due to a superior performance on jobs or the creation of more flexible forms of employment. Deregulation in Britain has instead helped create a volatile labour market, strong on hire and fire attitudes in the short-term, weak in long-term investment in people."

Using official figures, the report shows that between 1985 and 1995 Britain had a lower rate of net job creation than either France or Germany, except in the two years 1989 and 1990. Taking the long term 1980–1994, UK job creation amounted to 0.02 million (that is 0.1%) while that of France rose by 0.37 million (1.7%) and that of West Germany by 1.39 million (5.2%). The British labour force increased by an average of 1.5% per year in the cyclical recovery of the 1980s, but shrank by an average of 0.5% in the 1990s recovery. Between 1993 and 1995 labour participation shrank in five EU countries (in Britain most strongly, by 1.1%), was unchanged in one country and increased between 0.1% and 1.2% in nine others.

The report is not convinced that all part-time, temporary and self-employment is precarious, but if such "a-typical" employment is seen as a sign of labour market flexibility, then Britain's share of 43% of total employment is similar to that of the European average of 41% and growth has been similar also – by four percentage points over the last decade.

What made the rates diverge is that German unemployment, which had always been well below the British rate, rose strongly after unification, in view of the massive deindustrialisation of the "new Länder" and was in December 1995 equal to the British rate. Britain's lower unemployment is due to *low female* unemployment which is a consequence structural change while *male* unemployment is similar – 9.9% – in Britain to the EU average – 9.6%: it was higher in December 1995 than in eight EU countries.

Long-term unemployment continues to be slightly higher in Britain than in France and Germany, though markedly higher than in West Germany. It rose strongly between 1991 and 1994. Youth unemployment is lower than in France but much higher than in Germany. British unemployment fell noticeably below the European average only after 1993 and the report concludes that had long-term structural change from deregulation had a significant positive impact, it might have been expected

that the British unemployment rate would have slowly moved away from the European average already in the 1980s', nor can one disregard the fact that Britain, which had entered the recession well before the rest of Europe, also left it earlier. The report could have pointed – but did not – to the change from the pure Thatcher to the pre-Thatcher strategy in 1992, shown in Section 10 of this article.

The mediocre results of British labour market deregulation in terms of better employment performance fit in with general developments: levels of regulation have been relaxed in much of the EU, but a preliminary analysis of their effect on *employment performance* suggests that overall EU employment – in terms of higher employment rates and reduced unemployment – has not improved with deregulation. Member states with the lowest levels of regulation have not had a significantly better economic or employment performance. On the contrary, some of the more regulated labour markets such as Austria, Germany and Sweden, perform well above average in terms of employment performance.

In addition, the least regulated labour markets, such as the UK, have shown the sharpest rise in income differentials. More generally, actions which reduce the bond between employers and employees risk undermining the dynamic capacity of firms to adjust to structural change. It is true that *outdated* regulations can reduce efficiency by limiting the flexibility of enterprises to adjust to changes: however, short-run flexibility may not necessarily improve long-run flexibility. An internal EU Commission Working Paper surveys overall EU labour market deregulation and its implications and consequences. Changes, while driven by the desire to improve efficiency have often had a distorting impact, adversely affecting those in a weak position in the labour market and further widening of existing divisions. In practice, deregulation of labour markets may lead not to more regulation by the market, but to alternative modes of legal regulation, through the courts, which may increase uncertainties and costs, rather than reduce them. The UK experience conforms in other ways also: deregulation has often been seen as a cost-cutting alternative to other, more expansive policies, rather than as a complement.

The working paper concludes that, until clearer evidence is available, the Commission should not encourage the member states to build employment policies on the assumption that the benefits of widespread labour market deregulation are proven. In fact, the paper argues that modern economies *need* a proper regulatory framework (123).

14. The insecurity society

One tends to think of unemployment in "stock" terms: however, the "flow" aspects show that – and how – Britain is increasingly and perhaps in a more pronounced way than other European countries, creating a "risk society" (124). The risks stem from the rapid advance of an uncontrolled competitive market system based on the specific thatcherite set

of social values. While the unemployment *level* was said to be over two million, nearly nine million people, one in three men and one in five women have experienced at least one spell of unemployment since 1992 (125).

While the majority of those becoming unemployed find a job again within six months, the average period of unemployment is more like one year and in early 1995 37% had been out of work for longer than a year, men more than women, with those in the 15–24 age group and those above 55 particularly vulnerable (126). Further, incomes after unemployment tend to be lower than before and career paths generally tend to deteriorate and one spell of unemployment tends to lead to another (127). Ever since the 1970s and 1980s manual workers, especially those with lower educational and skill attainments were particularly at risk of losing their jobs: in the early 1990s the risk spread to white collar and professional employees, including some layers of middle management (which the Conservatives had always considered as traditional supporters).

In a lecture to the Royal Society of Arts (128), Will Hutton, formerly economics editor of the left-of-centre daily "the Guardian" and now editor of its Sunday companion "The Observer", presented evidence that in Britain's employment system no more than roughly 42% of the workforce can be considered to enjoy job security. They have full-time jobs, or part-time jobs in which they have worked long enough to have acquired certain rights and entitlements, are members of company pension funds to which both they and their employers contribute and are likely to be protected by some form of trade union negotiated collective bargaining agreement.

Using data from the LFS, he identifies a further 30% who are either unemployed or economically inactive, mostly men, including half the men between fifty-five and sixty-five years, who have either retired prematurely or are living on government financial support. In one out of five households, neither adult partner is in paid work (4 times the proportion found two decades ago). Where women in such households *do* find jobs and payment, the husband loses the equivalent in his benefit. The "social security trap" actually punishes those who wish to escape from unemployment.

A further 28% – Hutton calls them the "newly-insecure" – are casualised part-time, temporary, contract and agency workers or the pseudo self-employed or full-time employees who have not worked for an employer long enough to qualify for full pension, sickness or invalidity entitlements. Many of them work on less than half the average hourly pay rates and some of them lose their contract – and pay – automatically for such periods in which the employing company experiences insufficient customer demand and "displaces the risk" of the variation in demand onto the employee, who loses his pay, and on the state as provider of last resort. The growing insecurity of the split labour market also has negative consequences for public finances: revenues are reduced. One – or

even two – part-time workers on zero-hour contracts or the pseudo self-employed of the construction and other industries yield less tax revenue than one full-timer: the tax take for any per cent increase in Gdp is lower than anticipated.

Such a transformation of what used to be full-time, relatively secure, jobs into "semi-employment" is not only a feature of the deregulated "flexible" neo-liberal labour market of the private sector; various ways of introducing market-type arrangements into the public sector are creating semi-employment and insecurity in the public services also.

The thirty/thirty/forty society is efficient neither in economic nor in social terms. Growing numbers of people are becoming poor and remain insecure in spite of British workers working longer than in most other West European countries and increasingly working overtime in order to make ends meet: at the same time, unemployment remains high. Hutton may be the most prominent of analysists of this problem but the voices multiply who see employment and earnings insecurity – in addition to unemployment – as a growing problem that depresses and sours British society and inhibits the emergence of a feeling of well-being, even in the present conjuctural upswing.

15. Short-termism

Short-termism is a phenomenon that has for some time negatively affected the British economic and social system, but which now appears to be creeping into other European countries. It represents a vicious circle with "insecurity" at its centre. It can be defined as a business culture in which enterprises looking for the highest possible financial returns over the shortest possible time scale are wary about committing themselves to investment in plant, training and research and development – as it will not pay off quickly enough. They reduce their core labour force, contract out and casualise work. When demand turns down, no time is lost in shedding workers.

Managers of enterprises are under pressure to keep share prices up by paying higher and faster-rising dividends to their shareholders than in most continental countries. That is because shareholders are prepared promptly to sell the shares if "shareholder value" is not increased sufficiently. The shares of most *British* companies are held by institutional investors – among them insurance and pension funds – who have generally established only a hands-off relationship with and a short-term financial interest in "their" firms. This is in contrast to a tradition in some continental European countries where individual owners or banks as owners or proxy-owners of shares tend to have developed more long-term relationships with "their" firms.

Dividends have to be raised so that share prices can rise: otherwise firms cannot resist the ubiquitous threats of "hostile take-over bids" by predatory financial conglomerates which make their profits not so much

through improving commercial performance but by various forms of "asset stripping" their purchases and "downsizing" the labour force. The management teams administering the insurance and pension funds are equally under constant threat of being replaced by others that obtain quicker "get-rich" results.

Individual firms, institutional investors, share-holders, take-over bidders all act "rationally" but what is rational for the individual party is certainly not rational for the system: short-term cost-saving to show instant maximum results has long-term costs through insufficient investment and lack of foreward planning, and tends to create insecurity and unemployment for those who are, after all, the potential customers of their products, whose insecurity and loss of employment and income tend to destabilise demand conditions still further.

The government also feels the consequences of this vicious mechanism: it has to forgo expected tax *revenues* from affected firms and from individuals who are made redundant: according to the summer 1995 government economic forecast tax revenues turned out to be £ 4 billion lower than had been expected. At the same time it incurrs *additional expenditure:* the *number* of social security claimants rises from year to year as ever more people in work, as well as the unemployed and the economically inactive, face income shortfalls. In 1995 20% even of *working households* were counted as poor and needing state financial assistance, compared with 5% in 1979. Government outgoings rise, in spite of low and reduced or insufficiently increased benefits and the regular narrowing of eligibility criteria.

What this really means is that firms are shifting some of the risks and costs associated with uncertain demand conditions onto their employees, suppliers and ultimately the state. The volatility of demand which stands at the centre of the whole process has been exacerbated by the government's proclaimed opposition to traditional ways of demand management. These may have been not without faults and risks, but they *did* maintain a modicum of demand stability in the first three post-war decades. The government's own preferred method of achieving "stable and sustained growth without booms and slumps" simply on the basis of the control of the money supply simply has not worked.

The government itself also operates on the basis of short-termism. To minimise public expenditure it holds back vital investment that would bring long-term benefits.

16. The market economy: efficiency versus equity?

Having analysed the *economic* consequences of thatcherism, we now turn to its impact on British *society.*

Socio-economic systems basically derive their legitimacy from their efficiency and their equity. New Right, neo-liberal propositions assert that an increase in inequality (a decrease in equity) is irrelevant or un-

avoidable or even beneficial, as the gains for top earners will then "trickle down" and raise the living standards of the disadvantaged. What is emerging, however, is a growing body of evidence, and of thinking based on it, which suggests that social efficiency can enhance economic efficiency and that increased economic inequality not only turns into increased social but also economic *inefficiency:* growing poverty becomes an actual *competitive disadvantage,* in the way it weakens social cohesion and the sense of communal and co-operative purpose. Income distribution (and associated inequality and poverty) clearly matter.

For Britain, a recent study (129) financed by a highly respected social research charity, the Joseph Rowntree Foundation, showed that, in the wake of increasing reliance on ever less regulated market forces and of "neo-conservative" policy changes, inequality had grown rapidly over the 1980s, faster by far than in any other West European country investigated. The adverse trend shows no signs of easing. Over roughly the same period, inequality declined in Spain, Portugal, Ireland and most strongly in Denmark and Italy.

Between 1979 and 1992 (the "thatcherite" years), the poorest "20% to 30%" of the population had failed to share in economic growth, a contrast with the experience of the earlier postwar period. Among a variety of causes, the study identifies growing numbers of people becoming unemployed or leaving the labour force altogether, and a polarisation of income growth: while all males' wages grew at much the same rate between 1966 and 1977, they diverged strongly after 1978. Generally, income growth was faster the nearer the top of the statistical distribution. There was growing polarisation also between the proportion of two-adult households where both worked (60%), and of those with no earners at all (11%). After taking into account housing costs, incomes of the poorest had actually *fallen* (by at least 9%); for seven-tenths of the population, increases were below average, while those of the richest tenth increased by over 60% (not least because of massive tax reductions for top earners).

A 1996 study by the Child Poverty Action Group finds that average incomes increased by 37% between 1979 and 1993, while the poorest section of the population saw incomes fall 18%. As a result, 13 or 14 million, roughly a quarter of the total population, lived in poverty in 1993, the figure depending on whether poverty is defined as a incomes less than 50% of average income or as living on or below official "income support" (130).

The 1995 Rowntree study reports that inequalities of (marketable) wealth are even greater than those of incomes, but they are now levelling out. They had narrowed until the early 1980s and widened ever since. In 1992 the top 1% of wealth-holders accounted for nearly 20%, the top 10% for nearly 50% of total wealth. The poorest had no *wealth*, they tended to have *debts*.

The results challenge the claim that unfettered market forces are capable of solving deepening social problems and the study warns that failu-

re to reintegrate the excluded minority into the mainstream of society will leave the well-to-do majority with a heavy price to pay in terms of increased public spending, wasted economic resources and social dislocation. Thus, regardless of any moral arguments, or feelings of altruism, everyone shares an interest in reducing poverty and strengthening the cohesiveness of society.

Neither do the findings give support to the claim that rising inequality is necessary for improved economic performance. There has not been a faster rate of growth in Britain than in previous periods when the gap between rich and poor was smaller. "Trickle-down" economics has not worked. Against the demand for lower wages to keep British products competitive internationally, the Director General of the Confederation of British Industries, who was a member of the Steering Committee of the enquiry, looking at the findings from a business, efficiency, competitiveness perspective, stated that growing income inequality "may in fact turn out to be a competitive handicap" (131). There is research support for this: a recent study, using a model that relates growth to income inequality and to political institutions in nearly sixty countries over a period of more than three decades, finds that there is a "significant and large negative relation between inequality and growth": it concludes that inequality is harmful to growth (132).

In the same week, a meeting of the Permanent Secretaries (the civil servants heading government departments) of eight ministries had also blamed government policy – or the absence of policy – for the creation of "islands of poverty, disaffection and social division". The government claims that widening individuals" choice is one of their main societal objectives, but the meeting agreed that "the most deprived have been least able to take advantage of the drive to widen choice, with the most benefit going to the better-off". And they warned that unless the problems associated with pockets of poor housing, health and education, combined with high unemployment, can be overcome, the government will be forced into ever-increasing spending on social security benefits and on "social control", including police and prisons (133)!

17. A danger to democracy?

The Thatcher legacy is thus not one of national revival: there has been no economic renewal and society is less cohesive than it was. But we must also not underestimate the undemocratic if not anti-democratic implication of a system like thatcherism. The regularly professed objective was to "get the state off people's backs". But a paradox has been noted widely: to dismantle the state's power required the full exploitation of that power to achieve it. (As Mrs. Thatcher discovered ever more enemies standing in the way of her plans, she needed ever more power.)

Andrew Gamble (134) saw the essence of the thatcherite project as informing the policies it pursued with the double objective of "making the

economy free" by a sustained programme of deregulation, and "making the state strong" against perceived external and internal enemies. Its economic strategy identified the national interest and the general interest of capital with furthering the integration of the British economy into the world economy – the principal losers being organised labour and parts of the manufacturing industry, while the principal beneficiaries were the financial and commercial interests ("the City") and those industrial sectors which were already dominated by transnational companies. Its attitude to the state was ambiguous and often contradictory. The main objective was to restore state authority, but its own diagnosis of the existing crisis of state authority constantly compelled it towards interventions and conflicts to try to transform attitudes and behaviour.

A "democratic centralism" developed, based on the legitimacy of an executive subject only to periodic election, but otherwise unconstrained by any *written* constitution; the *unwritten* constitution that is said to exist on the basis of "tradition and precedent" dissolves in practice, as its essence is the absolute supremacy of Parliament, and over recent decades the power *in* Parliament has increasingly shifted towards the Cabinet, and in the Cabinet, to the Prime Minister. In earlier times Mrs. Thatcher had expressed her aversion to such an "elective dictatorship", but evidently had a conversion on taking office, acknowledging few constraints on her actions. Simon Jenkins comments that she may have intended to "take power to cede power" but that she never got round to the second part of this remit (135).

Jenkins has documented this "systematic centralising process" (136). He basically approves of the thatcherite agenda but is highly critical of how – in contrast to public profession – a system of secretly-appointed entities, the so-called quangos (Quasi-Autonomous Non-Governmental Organisations) fully dependent on the government, has taken over from elected, and independent, authorities; and of how decision-making by elected local government – exercising its ever fewer functions – is being closely circumscribed by central government: this at a time when all over the rest of Europe the scope of local and regional autonomy is expanding.

The extent to which quangos have taken over the administration of basic, formerly central and local services, including education, health and housing, has been documented by the constitutional scrutiny group "Democratic Audit" (137). There are 5,760 (!) quangos, staffed by some 60,000 members, outnumbering elected local government councillors by three to one, managing £ 60 billion, 35% of central government – and an even larger proportion of local government expenditure. The proportion has risen rapidly, by one-seventh, in the last two years, and a further extension is planned if the Conservatives win the forthcoming general election. This would involve the transfer of a further £ 29 billion spending power from elected local authorities to Conservative-appointed quangos. As this transfer is equivalent to no less than 40% of what by now remains as local government receipts, the complete destruction of

local democracy would be on the cards. (According to Jenkins, the Major government had already considered the total abolition of local government in 1990) (138)! Quangos are also highly secretive in their procedures and unaccountable to the people whose services they dominate: only 11% of them are required to allow the public to attend their deliberations and only 16% come under an ombudsman to whom the public could complain about their decisions.

It was not merely Mrs. Thatcher's personal instincts and her distinctive style of government which tended to sideline practical democracy and to remove democratic accountability from significant areas of public life. In fact there was a systemic link with the no-holds-barred attempt to put "markets" into the centre of the whole of society.

Hayek had an equally opaque attitude to democracy: to counteract the forces "making for fiscal irresponsibility", he proposed an elaborate set of constitutional changes to destroy the influence of political parties and pressure groups and to limit suffrage. He proposed a legislature to be elected by those over the age of forty-five; civil servants, old age pensioners and the unemployed (!) would have no vote (139). Mrs. Thatcher told an assembly of the Conservative faithful, pointing to one of Hayek's works: This is what we believe (140).

Ian Gilmour, once a Conservative minister himself, has criticised Thatcher's neglect of pluralism; he also did not view this as a character defect, but rather as linked to the basic philosophical position on which Thatcherism is based: "economic liberalism à la Professor Hayek, because of its starkness and its failures to create a sense of community, is not a safeguard of political freedom but a threat to it" (141).

The warning remains relevant: Jenkins describes how Mrs. Thatcher's ministers, the longer they were in office, the more they believed that – provided they could win elections – they had met their obligations to democracy; he sees them as "hostile to an inconvenient democracy", not part and parcel of it (142). Further to this cavalier attitude to democracy, it may be useful to remember that the thatcherite Conservatives, who relentlessly pushed through their full agenda, making no concessions to other views and deriding "consensus", replacing it by "confrontation", were actually elected by a minority of voters: in none of the four elections that they won between 1979 and 1992 did they attract more than 43% of the votes.

18. The counter-counter-revolution

There are hopeful signs, however, that ultra-liberals and ultra-conservatives and their dogma are losing their grip. The time is long gone when they could claim that they were dominating the intellectual debate: one can discern a growing and by now widespread international intellectual fight-back against the many aspects of the "counter-revolution" of the 1970s. What is particularly significant is that the current intellectual

disillusion that is gaining ground is not only a consequence of the "Left" and general "progressives" belatedly taking heart again, but also of some traditional conservatives being dismayed by what is happening. The title of a recent book in which the chief economic commentator of the leading British business daily "Financial Times", Samuel Brittan, at one time one of the most high-profile campaigners for "monetarism" (the adoption of which heralded more than a technical switch in economic policy, rather the advent of a far-reaching societal agenda), says it all: what he is looking for is a "Capitalism with a Human Face" (143).

The uncompromising and at times almost intemperate nature and language of the critique attests to the strength of feeling. John Gray, the distinguished conservative Oxford scholar, qualifies and disqualifies policies based on, and emerging from, an unfettered market in which "inherited institutions and practices have been swept away by market forces which neo-liberal policies release or reinforce . . . seeking to re-model the entire national life on the impoverished model of contract and market exchange". As the old "systems debate" between planning and the market recedes in the wake of the debacle of Soviet-type central planning, a new debate began to emerge "about the varieties and limits of market institutions and about their cultural and political preconditions. In this debate, neo-liberal thought has little to contribute". Thus, Conservatism is now a spent force in Britain and elsewhere, compromised by "a species of market fundamentalism – Manchesterism redivivus . . . Uncontrolled market institutions are bound to undermine social and political stability", and impose "unprecedented levels of economic insecurity with all the resultant dislocation". As a consequence, the countries of continental Europe have seen "the re-emergence of atavistic parties of the Right", in Britain "an epidemic of crime". The deeper truth is that "market institutions are useful devices, not articles of faith". They are "stable and enduring only insofar as they are embedded in the common cultures of those whose need they exist to serve" (144).

Similar to these conclusions of a disillusioned conservative, indeed an ex-thatcherite, there is also the understanding elaborated by Will Hutton in a wide-ranging study, that markets are not universally identical abstract concepts but institutions that are embedded in a country"s social system and values, that they are created and legitimised by some broad notion of (moral) public or national purpose. Accordingly there are vast divergencies between the social and economic objectives of differing types of capitalism, only some of which are sustained by institutions that allow economic agents to gain from co-operation and not only from competition, as traditional orthodoxy has it, and which can be found in the kind of text-books that most of us are familiar with.

Concerning fundamental considerations, Hutton opposes the ultra-liberal proposition that every human act can be reduced to an economic calculus, and which logically leads to the introduction of market principles into all areas of social life from education to criminal justice, while notions of public and common interest are dismissed as "bureaucratic"

"interventionist" or "socialist". This is what leads towards an increasingly divided and atomised society.

What characterises many continental-European capitalist models is, according to Hutton, the way political, economic and social institutions hang together to form an interdependent web. In some countries the collaboration of capital and labour "is interdependent with the rest of the economic social and political system and is to be matched by a high degree of social protection, provided by the welfare system" (145). One has to note, however – *pace* Will Hutton – that thatcherite overtones and undertones can nowadays be heard more frequently from governments and employers' organisations in continental Europe, a warning of possible dangers ahead for the social consensus and, ultimately, for social cohesion.

We thus have a complex and contradictory, if not paradoxical situation. *On the one hand,* ultra-liberal New Right signals are continuing to spread to continental Europe from Britain, where "thatcherism", arguably the most ruthless European expression of such thinking, rhetoric and practice, originated in the 1970s. They are still making inroads into what might be termed the "social" democratic or "social corporatist" tradition in many countries of Europe. No country seems immune.

At the same time, a counter-counter-revolution is gathering momentum in Britain itself as two decades of thatcherite thought, nearly two decades of thatcherite government have had few positive results: they have certainly not led to the claimed "economic miracle". What they *have* led to is growing social dislocation. Traditional pillars of democratic self-government such as local municipal authorities, trade unions and "mutually-owned" non-profit-making insurance companies, and "building societies" (the institutions which provide housing finance), have been greatly weakened for the benefit of Mrs. Thatcher's vision of "The Free Economy and the Strong State" (146). The societal and economic consequences are becoming apparent and are progressivly discrediting the political and dogmatic ideological project of Mrs. Thatcher's neo-neo-liberalism and her creation of a neo-conservative Tory Party.

19. Britain after Mrs. Thatcher: stronger or weaker?

Given the divisive nature of the thatcherite project, the uncompromising manner of its execution and Mrs. Thatcher's intentionally confrontational style of politics, it was predictable that general as well as specialist analyses would be frequently partisan and almost always polarised. This article ist no exception: it concludes that, measured against the stated – and oft-repeated – objectives, and given their impact on "the state of the nation", thatcherism and its "new" supposedly policies have not led to success.

Taking the economy first, there has not been a British miracle' or even "renaissance". At most, there was in the 1980s a recovery from the mid-

end 1970s; but these 70s had been dismal almost everywhere, as policy-makers in Britain and much of Europe struggled unsuccessfully to cope with internal and external "shocks" and a new policy paradigm led to the "golden age" fading into the past.

As to Britain's "relative decline", it has been halted only in the sense that the country's record of economic growth and productivity, unemployment and inflation is no longer markedly poorer than that of continental Europe, because Europe's economic performance has also deteriorated, and not because Britain's performance has improved; it was, on the contrary, in the Thatcher years clearly worse than in the already mediocre 1950s and 1960s. So, if thatcherism has succeeded in halting "relative decline" with regard to the rest of Europe, it has not been able to avoid "absolute decline" in terms of Britain's own performance. To quote a recent study: because of "policy failure, . . . neither the specific problem of de-industrialisation, nor the consequent general problem of continued relative economic decline was solved in the 1980's. The "fundamental problem has, if anything, been exacerbated since 1979". (147)

We have also seen the limited nature of the much-publicised "productivity miracle" in manufacturing. It has since slowed down sharply, "pushing productivity levels down at the fastest rate since 1981" (148) in response to the renewed slow-downs in output. The damage done to growth and employment by the thatcherite "new" macro policy and the resultant sapping of enterprises' confidence to invest have never been fully reversed even in the subsequent conjunctural recoveries. Manufacturing investment at the end of 1996 was lower than it had been in early 1993. Inflation has come down sharply but its unnual rate is the second highest of the G7 countries, more than twice as high as those of France and Germany and, at 3.3%, 0,8% percentage points above the government's own target. (149)

The bottom line ist that between 1979 and 1994 Britain fell further behind other industrial countries in the relative size of Gdp per head, from thirteenth to eighteenth place (eleventh in Europe). (150) Britain's share in world export was with 5% in 1995 lower than in 1979 with 5.4%, while that of the OECD as a whole rose by almost four percentage points. (151) In manufactures, actual exports have in the last three years fallen by about 5% behind the growth of the potential market. (152) A prestigious competitiveness report ranking industrial countries shows Britain slipping from eleventh place in 1989 to fifteenth place in 1995 and to nineteenth place in 1996, eleventh in Europe. On the "investment in people" criterion, Britain comes twenty-seventh, compared with eighteenth in 1989 and, as to entrepreneurship and management, twenty-third. (153)

Total government expenditure, which was supposed to fall sharply in order to boost the private economy at the expense of public services, ended up averaging between 1991 and 1996 42.9% of Gdp compared with 37.7% between 1970 and 1973. Misguided attitudes to public finance actually worsened the situation, as public investment and long-term consi-

derations were sacrificed to short-term savings, while the public asset balance fell from £ 243 billion at the end of 1989 to £ 36 billion by the end of 1995. The public sector will be "technically bankrupt" (154) by the end of 1997.

Such an evaluation of overall failure does not exclude recognition of the fact that certain years showed progress and promise: but successes in terms of economic growth, falling unemployment, lowered inflation and improvements in people's standards of living tended to reflect no more than the British and general European conjunctural upswings, and were short-lived. Worse, they overlaid, hid and left unaddressed by thatcherism's "new" micro-economic policy, long-term key structural weaknesses in industrial under-investment in the private sector, and in physical infrastructure, research and development, and basic education and skills in the public sector. (As to this latter neglect, one has to remember that in Tory Britain the relevant decisions are made by men of wealth, "old money" and "new money" who do not themselves need to use public services to any great extent; they have access to much better funded private medicine and have their children educated in fee-paying schools from which progress to the prestigious universities is assured; they do not need "legal aid" to engage in litigation and increasingly protect themselves by private security organisations; they certainly are not dependent on unemployment and similar social benefits.)

The question to be asked is how well are Britain's economy and society equipped to face the new, or at least growing, challenge to all the countries of Europe: how to compete in the context of changes in technology and in the international division of labour, how to respond to relatively cheap manufacturing imports from producers in newly-industrialising and "transitional" countries, which have low costs but relatively well trained work forces and access to modern technology. Arguably the answer lies in structural change, the move to qualitiy servies and ever newer, ever more advanced high-quality goods (and serviced) based on industrial countries' strength in research and development, in investment and in highly skilled, highly productive and well paid workers. The logic of two decades of thatcherite policies, however, points in the opposite direction: the "Hong Kong syndrome", (155) the belief that it is possible to achieve a competitive position by economising on investment in equipment and training and by cutting wage and social security costs. Mr. Santer, the President of the European Commission, has referred to such a stance as "a return to the Dickensian sweat-shops of the nineteenth century". He was responding to Britain's attempt to resist the application of a Commission directive that limits involuntary long hours and provides for at least three weeks' paid holiday. (156)

Sisson observes that in Britain too many low-paid, low training job "provide little incentive for employers to substitute capital for labour in the form of new technology and encourage many British firms to produce relatively low-quality goods and services because low-paid consumers cannot afford better. The conclusion, unpalatable though it may be, "is

that many organisations in Britain (are) locked into a vicious circle of low pay, low skill and low productivity" (157) and low quality.

In any case, the question arises whether the inevitable restructuring, with its accompanying social costs, can be left à la thatcherism to the market or whether there ist not a non-thatcherite policy role for the state, for business-trade union collaboration, in the restructuring process itself and in easing the social costs of transition.

20. Concluding remarks

Assessments of the Thatcher era are inevitably polarised and conflicting. Ignoring the substantial additional ressources provided by the North Sea Oil bonanza, admirers stress the benign effects of the extreme marketisation of economy and society, the withdrawal of the state from many commitments – to economic growth, full employment and universal social welfare provision – which all preceding postwar governments had taken for granted. They point to the necessary near-exclusive concentration on anti-inflation (deflation?) and a system of industrial relations based on the measures taken to emasculate trade union influence.

But it is these specific, supposedly benign, key issues – the partial opt-out by the state and the weakness of the unions – which some critics hold responsible for the deep deficiencies that were either left unaddressed or were even aggravated. To quote Kitchen and Michie: there was no improvement, "owing to a lack of any strong modernising force within British society, with the trade union movement having been too weak to force through any such modernisation, and with government policy having been at best rather ineffectual and at worst positively harmful". (158)

The director of the competitiveness report concludes that Britain "has to re-assess the viability of its social model and, ultimately, the role of the state". (159) For his part, Sisson concludes that "For serious change to take place there will need to be significant changes in the national . . . framework. A policy of laissez-faire not only sends the wrong signals . . . it also fails to take into account that left to their own devices, many UK managements will find the (desirable) high-pay, high-skill, high-productivity route simply beyond them." However, the prospect of the government taking the initiative involved is "ectremely remote", because of its commitment to unfettered market forces. (160)

In the early years of her government, Mrs. Thatcher liked to counter criticism of her policies with the claim that "There Is No Alternative". This became known as TINA. It was true to the extent that a demoralised political and intellectual opposition at the time had no coherent and convincing counter-strategy to offer to what was then a self-confident neo-neo-liberalism, not yet discredited by reality. Since then, its nostrums have shown themselves patently unable to respond successfully to the challanges of our times: true believers are becoming scare even

among the Conservatives themselves. Increasingly people in Britain who wish to see the nation's economic and societal needs adequately addressed now read TINA as "Thatcherism Is No Answer".

Notes

(95) Interview on the BBC on 2. 4. 1996.
(96) Hayek (1980) Unemployment and the Unions.
(97) Cockett (1995) 272.
(98) Lawson (1993) 436.
(99) Hayes (1994) 79.
(100) See William Keagan in "The Observer" of 9 June 1996.
(101) ILO (1995) 69.
(102) Calculated from OECD data.
(103) ONS Labour Market Statistics 17 July 1996 and ONS Labour Force Survey (17 July 1996).
(104) Calculated from OECD and ONS data.
(105) Calculated from OECD data.
(106) LFS 1992–1995, Quarterly Bulletin.
(107) OECD Employment Outlook, various issues.
(108) Harvey (1995).
(109) Central Statistical Office, Labour Market Trends (November 1995).
(110) Royal Statistical Society (April 1995), House of Commons Employment Committee (February 1996).
(111) ONS LFS (17. April 1996).
(112) Unemployment Unit (April 1996).
(113) Employment Policy Institute (Summer 1996).
(114) OECD Economic Outlook (June 1996), Annex Table 21.
(115) Varying demographic conditions have of course to be taken into account also.
(116) Calculated from OECD data: Economic Outlook (December 1995), Annex Table 18.
(117) Calculated from data in the OECD Economic Outlook (December 1995), Annex Table 19.
(118) ONS LFS, First Release (17 July 1996).
(119) Morgan (1996) 80 ff.
(120) This is claimed by Beatman (1995) and Minford (1994) referred to in Morgan (1996) 80 ff.
(121) OECD Economic Outlook (December 1995), Annex Tables 21 and 22.
(122) TUC (1996).
(123) European Commission, Policy Perspective Group (1996).
(124) White (1996) 59 ff.
(125) Michael Meacher in the House of Commons (18. 3. 96).
(126) Employment Outlook (1995) 21; OECD Economic Surveys: Britain (1995).
(127) White (1996) 64 f.
(128) Hutton (30 October 1995).
(129) Joseph Rowntree Foundation (1995a).
(130) CPAG (1996).
(131) Davies (1995).
(132) Persson, Tabellini (1994) 600–621.
(133) A report of this meeting was leaked to the (arch-conservative) "Sunday Telegraph" which displayed it prominently on the front page of its edition of 12. 2. 1995.
(134) Gamble (1994).
(135) Jenkins (1995) 21.
(136) Jenkins (1995) 9.

(137) Hall, Weir (1996). As their report was still unpublished at the time this article was written, the data are taken from the advance review in The Observer of 14 July 1996.
(138) Jenkins (1995).
(139) Marquand (1988) 81.
(140) Jenkins (1995) 1.
(141) Quoted in Jenkins (1995) 262.
(142) Jenkins (1995) 262.
(143) Brittan (1995).
(144) Gray (1995) 5 ff.
(145) Hutton (1995), see in particular Chapter Ten "The Political Economy of the World's Capitalism".
(146) Gamble (1994).
(147) Kitchen & Michie (1996b) 24 f.
(148) ONS reported in The Guardian (14. November 1996).
(149) Financial Times (15 November 1996).
(150) The Economist (21 September 1996). 1994 is a World Bank ranking; 1979 an OECD ranking.
(151) OECD Economic Outlook December 1995. Annex Table 46.
(152) Calculated from OECD Economic Outlook December 1995, Annex Table 63.
(153) International Institute of Management Development (IIMD) Mey 1996. Executive Summary.
(154) Coopers & Lyrbrand reported in Financial Times (13 November 1996).
(155) Even if it no longer fully applies to Hong Kong itself.
(156) Financial Times (15 November 1996).
(157) Sisson (1995) 41 ff.
(158) Kitchen & Michie (1996b) 24 f.
(159) IIMD, May 1996, Press Release.
(160) Sisson (1995) 41 ff.

Literature see Part I in: Wirtschaft und Gesellschaft 22/3 (1996) 382 ff.