

‘A Transition From Here to There?’ Neo-liberal Thought and
Thatcherism

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Abstract

This PhD thesis asks how ‘neo-liberal’ was the Thatcher government? Existing accounts tend to characterise neo-liberalism as a homogeneous, and often ill-defined, group of thinkers that exerted a broad influence over the Thatcher government. This thesis - through a combination of archival research, interviews and examination of ideological texts - defines the dominant strains of neo-liberalism more clearly and explores their relationship with Thatcherism. In particular, the schools of liberal economic thought founded in Vienna and Chicago are examined and juxtaposed with the initial neo-liberals originating from Freiburg in 1930s and 1940s Germany. Economic policy and deregulation were the areas that most clearly linked neo-liberal thinking with Thatcherism, but this thesis looks at a broad cross section of the wider programme of the Thatcher government. This includes other domestic policies such as education and housing, as well as the Thatcher government’s success in reducing or altering the pressures exerted by vested interests such as the trade unions and monopolies. Lastly, while less associated with neo-liberal theory, foreign policy, in the area of overseas aid, is examined to show how ideas filtered into the international arena during the 1980s. Although clearly a political project, the policies of Thatcherism, in so far as they were ideological, resonate most with the more expedient, or practical, Friedmanite strain of neo-liberalism. This encapsulated a willingness to utilize the state, often in contradictory ways, to pursue more market-orientated policies. As such, it sat somewhere between the more rules-based *ordoliberalism* and the often utopian Austrian School.

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Introduction

The policies associated with Margaret Thatcher's government, as well as the contested and often opaque term Thatcherism, have been closely linked with liberal economic ideology. Many books on the subject simply state this as a fact while others question either the assumption itself or at the very least wonder to what extent it is true.¹ The events of 1979 to 1990 have proved fascinating and controversial with much literature being generated about the formation of the policies that came to define Thatcherism, the government's time in power and, of course, its legacy.

Why, then, revisit the subject? Mainly because the link between ideas and the Thatcher government has frequently been over-generalised and under-specified. The connection between individual thinkers and schools of thought has been to present them as a bloc, in some ways encouraged by economic liberals, in particular 'the Mont Pelerin collective'.² The result has been often to blur significant distinctions. For instance Eric J. Evans, in *Thatcher and Thatcherism* (2004), describes Keith Joseph's conversion to monetarism in the 1970s.

Above all, following the theories of the so-called Chicago school of anti-Keynesian economists, F.A. Hayek and Milton Friedman, Joseph called for strict control of the money supply.³

¹ One example of the explicit link between Hayek and Thatcherism is found in Anthony Seldon, Daniel Collings *Britain Under Thatcher*, (London: Longman, 2000), p. 68.

² Margaret Thatcher Foundation (hereafter MTF), MTF 117203, 'Friedrich Hayek letter to Arthur Seldon', 13 May 1985.

³ Eric J. Evans, *Thatcher and Thatcherism*, (Abingdon: Routledge, 2004), p. 7.

Lastly, the application of liberal ideas to specific policies has not been explored as extensively as the overall picture of Thatcherism, political events like the Cold War and Falklands conflict or individual personalities. The intricacy of policy formulation and ideology has informed later events and trends. These points, and an attempt to differentiate the components and impact of free market ideas, form the core of this thesis. The strands of modern liberal economic thought, sometimes dubbed ‘neo-liberalism’, will be brought into sharper focus and compared with the policies of the Thatcher government. The question of how and to what extent these ideas were implemented in particular policies is the second objective of this project.

‘The Thatcher government was influenced by Hayek and Friedman’ or internationally ‘Thatcher and Reagan brought about free-market revolutions in the 1980s’ typifies the kind of statements found in many texts.⁴ The Thatcher government has also been seen as being at the vanguard of a neo-liberal project or a shift toward ‘market fundamentalism’.⁵ In the very broadest sense all these assumptions are true but it is rather like saying the Soviet Union was influenced by Karl Marx or, to use a more obscure example, that New Labour was influenced by Anthony Giddens. The reality is far more complex. This thesis adds to the growing interest in how neo-liberalism has developed since the early to mid-twentieth century and its different positions. Apart from the analysis of ideological models and actual policy, this project attempts to link ideas with policy makers and politicians, if indeed any existed.

⁴ Joseph Stiglitz, *Freefall. Free markets and the sinking of the global economy*, (London: Penguin, 2010), pp. 17-18.

⁵ Taylor Boas and Jordan Gans-Morse, ‘Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan’, In: *Studies in Comparative International Development*, (44:2, June 2009), p. 138.

The eleven and a half years that the Thatcher government was in power is clearly of great historical significance. Contentious, polarising and controversial, these years did much to change the political landscape of Britain. Lower taxes, for the most part low inflation, mass consumerism, home ownership, 'choice' in public services, trade unions as an 'outsider' group and privately owned utilities are all now the norm. This list would have seemed unlikely to mainstream public and establishment opinion from the Second World War until the late 1970s but to reverse the new orthodoxy now would require huge upheaval. Two unique aspects of the government between 1979 and 1990 mark it out. Firstly, the personality, character and leadership style of Margaret Thatcher. Secondly, the ideas, dogma or philosophy that the government's policies embodied. The former has been the subject of reams of material, biographies, films - and clichés. With over thirty years since Margaret Thatcher came to power, and with an increasing number of government and personal papers now being declassified, there is space for further investigation of the relationship between liberal economic ideas and Thatcherism.

Research Questions

- To what extent was the Thatcher government influenced by liberal economic thought? Which strands of thought and which thinkers exerted most influence and in which areas?
- How closely did the policies implemented by the Thatcher government match neo-liberal models? Why were there differences?
- Was Thatcherism a macro or microeconomic project? How did this alter over time?

- To what extent did the Thatcher government actually reduce the power of vested interests?
- What impact did liberal economic thought have on the foreign as well as on the domestic policy of the Thatcher government?
- How did economic liberals view the policies of the Thatcher government?

Research Methods

This study uses a variety of qualitative research methods. Primary sources were obtained from archives, such as the Thatcher Papers at the Churchill Library in Cambridge, the Prime Minister and Cabinet files at the National Archives in Kew, the Margaret Thatcher Foundation and papers of other politicians and government advisors. Interviews were conducted with some of the key political figures as well as thinkers and civil servants. Memoirs were a key source as well as Hansard and witness seminars. Lastly, ideological texts were studied in an attempt to frame New Right policy models. These were then compared with the actual policies formulated by the Thatcher government, some of them traced through secondary literature. Ideas are transmitted in a number of different ways, from the 'primary' thinkers themselves, for instance Friedrich Hayek's *The Road to Serfdom*, through the work of think-tanks such as the IEA, as well as periodicals and journalists. All of these have been used to frame ideological viewpoints. The mechanisms by which ideas eventually manifest themselves in policies are also explored in this thesis.

A caveat regarding the primary source material is in order, however: up until the time of writing, confidential papers from the Thatcher government were only available

between 1979 and 1984 due to the 30 year rule. Therefore evidence of this type is skewed towards the first government. Secondly, many other protagonists of the period were invited for interview but declined. Thirdly, not all the key players have left papers or written memoirs. Keith Joseph was the most important example.

Parameters of this project

This is a study that examines the influence of liberal economic thought on British government policy makers. Therefore other strands of thinking will not be examined in detail. This is not a character study. There are already several books on the various facets of Margaret Thatcher's personality, and it is not the purpose of this thesis to explore this any further. The emphasis is on how closely neo-liberal models were applied empirically, how the government was influenced, why they departed from 'pure' ideology and what economic liberals thought of the reforms once they were put in place. Other intrigues of the period, such as the ERM, Poll Tax and the downfall of the Thatcher government, are not discussed. Lastly, the breadth of this study is large because of the amount of time the Thatcher government was in power. Therefore only select case studies have been chosen, albeit those which represent a cross section of the government's programme. Each of these has some association with liberal ideas. This unsurprisingly includes economic policy, deregulation and liberalization. It also takes into account social policies such as education, on which neo-liberals produced much work, and health, which represented the limit of ideology on Thatcherism. One privatization, electricity, is focused on as it conveniently allows comparison with the others that preceded it such as British Gas and British Telecom. Finally, although predominantly concentrating on domestic policies, ideas in foreign affairs are also

examined. This is because contemporary themes of globalization and the Washington Consensus allude to the effect of neo-liberalism. As a result the emphasis of the foreign chapter is on the aid policy of the Thatcher government.

Literature Review

There is a wealth of literature that looks at Margaret Thatcher, her government and the wider politics of the time. There are also several books that examine New Right ideology and some that integrate these ideas with the politics of Thatcherism. The best of these, perhaps, is now nearly twenty years old - *Thinking the Unthinkable* by Richard Cockett (1995), which identifies the work and development of the Mont Pelerin Society and IEA with their inspiration, the Fabian Society. The book puts a particular emphasis on the think-tanks that proliferated in the post-war period. Cockett does compare New Right ideas with the direction of the first Thatcher government, ending on a note of disappointment. Andrew Gamble has written on Thatcherism from the left, for instance in *Marxism Today* in the 1970s and later in works like *Thatcher's Law* (1989, with Celia Wells) and *Britain in Decline* (1994). Gamble was the first to characterise the government's programme as 'the free economy and the strong state' and later wrote a book of the same title. Martin Holmes wrote an early and authoritative account of Thatcherism in his 1985 book *The First Thatcher Government, 1979-1983*. Holmes identified what he thought was the major success of that government, the defeat of inflation, but suggested that other policies were too cautious. A subsequent book, *Thatcherism: Scope and Limits* (1989) drew a similar conclusion, this time with privatization and trade union reform as second term successes.

Think-tanks have been considered a major part of the battle of ideas, particularly in the years before the Conservatives came to power in 1979. Andrew Denham covered four of these (the Institute of Economic Affairs (IEA), Centre for Policy Studies (CPS), Adam Smith Institute (ASI) and Social Affairs Unit (SAU)) as well as their impact on policies like health and education in *Think-tanks of the New Right* (1996). Michael Kandiah and Anthony Seldon's collection *Ideas and Think Tanks in Contemporary Britain* (1996) again concentrates on think-tanks but across the political spectrum. An organisation on which less writing exists, the Bow Group, is catalogued in James Barr's *Bow Group: A History* (2001). The book revealed how the Group sought to have a similar effect to the Fabians but quickly became part of the Conservative Party apparatus, before aligning more explicitly with the New Right in the 1970s. Finally, Norman Barry has written several excellent works, including *The New Right* (1987) and *On Classical Liberalism and Libertarianism* (1986), which act as comprehensive introductions to both neo-liberalism and liberal economic ideology in general.

Neo-liberalism

A much-maligned term, there has been a growing body of literature that sets neo-liberalism in both its historical context and its different strains. Several recent books explore the origin of neo-liberalism and its variants. Rachel S. Turner's *Neo-Liberal Ideology. History, Concepts and Policies* (2008) defines the three broad schools of neo-liberalism: German *ordoliberalism*, the Austrian School associated with Friedrich Hayek and Ludwig von Mises and the Chicago School of Milton Friedman, George

Stigler and Gary Becker.⁶ This differentiation provides the emphasis for this thesis. Mark Skousen, in *Vienna & Chicago. Friends or Foes? A Tale of Two Schools of Free-Market Economics* (2005), explores the key differences between two of these approaches to neo-liberalism. This includes how Austrians and Chicagoans have held separate views on monopoly, competition, monetary control and the business cycle.⁷ Philip Mirowski and Dieter Plehwe's collection *The Road From Mont Pelerin. The Making of the Neoliberal Thought Collective* (2009) examines these separate positions in more detail, from the German thinkers of the 1930s to the more familiar Chicago School. There is a particular focus on how neo-liberals view state power and democratic processes, as well as a focus on the deliberately collective nature of the Mont Pelerin Society.⁸ *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics* (2012) by Daniel Stedman-Jones again dissects the early variant of neo-liberalism in Europe and its transformation once it had crossed the Atlantic. Stedman-Jones identifies two Chicago Schools, an earlier one led by Henry Simons more in the 'social' ordoliberal tradition, and the increasingly radical and economics-driven Friedmanite School from 1946.⁹ There is some analysis of how ideology was applied in housing policy and enterprise zones in the UK and US in the 1980s. The book also examines Hayek's relationship with the ordoliberals, and provides some emphasis on the welfare sentiments contained in *The Road to Serfdom*, which slowly eroded within the neo-liberal collective as the Chicago School gained in influence.¹⁰

⁶ Rachel S. Turner, *Neo-Liberal Ideology. History, Concepts and Policies*, (Edinburgh: Edinburgh University Press, 2008), pp. 4, 219.

⁷ Mark Skousen, *Vienna & Chicago. Friends or Foes? A Tale of Two Schools of Free-Market Economics*, (Washington: Capital Press, 2005), pp.6-7.

⁸ Hayek admitted he would prefer to temporarily lose democracy rather than freedom. Philip Mirowski, 'Postface: Defining Neoliberalism', *The Road From Mont Pelerin. The Making of the Neoliberal Thought Collective*. P. Mirowski and D. Plehwe, eds. (Harvard: Harvard University Press, 2009), p. 446, Dieter Plehwe, 'Introduction', *The Road From Mont Pelerin*, p. 8.

⁹ Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press, 2012), p. 122.

¹⁰ Stedman-Jones, *Masters*, p. 335.

This thesis will modify this last point by arguing that Austrian thinking has remained closest to classical liberalism by focusing on microeconomics and maintaining even more of a distaste for the state than its austere Chicagoan counterparts.

Taylor Boas and Jordan Gans-Morse's 2009 article 'Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan' illustrates how the term has become increasingly opaque, and achieved negative connotations, over the past twenty years.¹¹ They also explore the development from German neo-liberalism to the catch-all term of the 2000s. There are many examples that prove these points. For instance, Richard Falk, in *The Iraq War and Democratic Politics* (2005), wrote 'globally, neo-conservatism amounts to the adoption of a more militarist version of neo-liberalism, which includes a renewed avowal of the security role of the United States as global hegemon.'¹² Similarly in Anthony Held and David McGrew's *Globalization/Anti-Globalization* (2002) they use neo-liberalism interchangeably with neoconservatism.¹³ The term is sometimes even used in the mainstream British press, for example when *Guardian* journalist Polly Toynbee described Conservative politician Chris Grayling in 2012 as having found inspiration 'from all the neoliberal small statism wafting across the Atlantic, imbued with the Ayn Rand and Fox News meanness of spirit.'¹⁴ A much more detailed and better argued critique of neo-liberalism from the left is David Harvey's *A Brief History of Neoliberalism* (2005). Harvey expands the 'free economy-strong state' argument to include Deng Xiaoping's China.¹⁵ The book also

¹¹ Boas and Gans-Morse, 'Neoliberalism', p. 137.

¹² Richard Falk, 'The global setting', *The Iraq War and Democratic Politics*, edited by Alex Danchev and John MacMillan, (London: Routledge, 2005), p. 27.

¹³ David Held and Anthony McGrew, *Globalization/Anti-Globalization*, (Cambridge: Polity Press, 2003), p. 100.

¹⁴ Polly Toynbee, 'To condemn those who pay so little is not job snobbery', *The Guardian*, 20 April 2012, p. 35.

¹⁵ David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005), p. 1.

identifies the contradictions between neo-liberal theory and practice, setting out that the reality has not necessarily been a smaller state.¹⁶ Nevertheless, Harvey sees neo-liberalism in conspiratorial tones, as the ‘new imperialism’. Jamie Peck, in *Constructions of Neoliberal Reason* (2010) follows several of these arguments but highlights the manner in which neo-liberalism has adapted or tried to ‘fix markets’ since its inception.¹⁷ Peck sees neo-liberalism as ‘regulation-in-denial’.¹⁸ Along with Harvey he views neo-liberals as trying to ‘retask’ the state, and similarly to Boas and Gans-Morse and Stedman-Jones, that *ordoliberalism* was a moderate version of the movement compared to its successors.¹⁹

The Austrian School

There are several key ideological texts that stand as the cornerstone of New Right thought. The most noted one is Friedrich Hayek’s *The Road to Serfdom* (1944), which set out his all-important critique of the state. Hayek’s analysis, based on the totalitarian regimes of the period warned of the insidious and incremental nature of the state apparatus. This inspired the politics of the Chicago School, the work of Public Choice theory and the rhetoric of Ronald Reagan and Margaret Thatcher. This line of thinking would also inform Keith Joseph’s analysis of post-war Britain as moving like a ‘ratchet-effect’ to the left. Hayek’s tome *The Constitution of Liberty* (1960) was more broad ranging and libertarian while the content of his speeches, pamphlets and letters suggest his thinking became more radical in his later years. *Choice in Currency A Way to Stop Inflation* (1977) advocated the end of the state’s

¹⁶ Harvey, *Brief History*, p. 21.

¹⁷ Jamie Peck, *Constructions of Neoliberal Reason*, (Oxford: Oxford University Press, 2010), pp. xiii, 8.

¹⁸ Peck, *Constructions*, p. xiii.

¹⁹ Peck, *Constructions*, pp. 4, 17.

monopoly on issuing currency while *Social Justice, Socialism & Democracy* (1979) sets out his well-known antipathy towards socialism as well as scepticism towards concepts of social justice and ‘unlimited’ democracy. Hayek’s early work concentrated more on economics rather than his better-known philosophical work. During his intellectual battles with Keynes in the 1930s Hayek challenged views on attempting to control the business cycle in ‘Prices and Production’ (1931) and ‘Monetary Theory and the Trade Cycle’ (1933). This would clash with Friedman’s later work on monetarism. One of the aims of this thesis is to make these kinds of distinctions clearer. Even in 2013 historians talked of ‘monetary economists like Hayek and Friedman’.²⁰ Although he did have much to say on monetary issues it is somewhat misleading to use this label due to Hayek’s distinctly *laissez-faire* instincts on the topic. As Andrew Gamble has written, ‘It was often assumed at that time that Hayek and Friedman were the two leading monetarists. But Hayek never accepted monetarism.’²¹ Gamble explored Hayek’s core philosophical positions, and how they explain his embrace of liberalism and antipathy towards socialism in *Hayek The Iron Cage of Liberty* (1996).

Friedrich Hayek is the most prominent Austrian thinker studied in this thesis. Ludwig von Mises was Hayek’s mentor and produced work, such as *Socialism* (1922) and *Bureaucracy* (1944), which took possibly the closest position to classical liberalism within the New Right. Others in the Austrian tradition, such as Joseph Schumpeter and Murray Rothbard, are also briefly mentioned in later chapters. The Austrian School will be shown to take a qualitative and normative approach that focuses on ideal, but dynamic, market processes.

²⁰ Robin Harris, *Not For Turning. The life of Margaret Thatcher*, (London: Bantam Press, 2013), p. 179.

²¹ Andrew Gamble, *Hayek. The Iron Cage of Liberty*. (Cambridge: Polity Press, 1996), p. 168.

The Chicago School

If the Austrians were more philosophical in their work, then the other renowned neo-liberal school took a more empirical and quantitative approach. Early Chicagoans like Henry Simons and Frank Knight have been shown by Stedman-Jones to have taken more moderate or 'social' positions on many issues. After 1946 a new wave of thinkers coalesced at the school, such as George Stigler, Gary Becker, Aaron Director and most notably Milton Friedman. The latter's *A Monetary History of the United States, 1867-1960*, written with Anna Schwartz in 1963, was to set out one of the key arguments to challenge Keynesianism, the quantity of money theory or monetarism, as a guide to macroeconomic policy. This analysis was based on how the Federal Reserve acted during the Great Depression, the book concluding that a stable money supply would have attenuated the worst impact of the slump. Friedman's most important book was probably *Capitalism and Freedom* (1962) and is the other key text of neo-liberalism after *The Road to Serfdom*. Friedman's central tenets of economic liberalism and libertarianism were crucial in the conservative movements in Britain and the US, although there were few who subscribed, as Friedman did, to both. Friedman was very active in the political debates of the 1970s, effectively bringing his ideas into the public sphere, such as economic 'shock therapy', for example in 'The Road to Economic Freedom: The Steps from Here to There' (1977), monetarism in 'Money and Economic Development' (1972) and challenging conventional wisdom such as the Phillips Curve in *Price Theory* (1976). Friedman wrote (with Rose Friedman) a popular and more general summary of his thought in *Free to Choose* (1980), which also included his long-running ideas on education vouchers.

George Stigler's work on competition and monopoly became a vital part of the modern Chicago School, exploring regulatory 'capture' and a reduced role for 'anti-trust' legislation. This is outlined in *The Theory of Price* (1966) and its genesis explored in Hammond and Hammond's *Making Chicago Price Theory. Friedman-Stigler correspondence 1945-57*. This work was to have some overlap with Public Choice theory. Gary Becker was another Nobel laureate from the Chicago School who expanded an economic analysis to include social issues and human behaviour in general.²² Becker's work, however, is generally not explored in this thesis.

Public Choice Theory

Another school of thought looked at in this study is Public Choice theory, extending Hayek's critique of the state and called by the thinkers themselves the 'economics of politics'. The work of James Buchanan, once of the Chicago School, is central. For instance *The Calculus of Consent: Logical Foundations of a Constitutional Democracy* (1962), co-written with Gordon Tullock, as well as *The Demand and Supply of Public Goods* (1968) and *Toward a Theory of Rent-Seeking Society* (1980). Tullock is the other key figure and his work includes *The Politics of Bureaucracy* (1965) and *The Vote Motive* (1976). Buchanan and Tullock developed Public Choice at the University of Virginia in the 1960s around a number of key insights. For them, those in government acted in just as much of a self-interested manner as those in the private sector. Bureaucracy tends to unchecked expansion, and lastly individuals in government are prone to 'rent-seeking behaviour', essentially greater reward for the same tasks. The impact of Public Choice theory will be touched upon in this thesis. Its

²² Gary Becker, *The Economic Approach to Human Behavior*, (London: University of Chicago Press, 1990, first published 1976), pp. 5-14.

influence was probably most clearly seen in Ronald Reagan's 1981 inaugural address: 'government is not the *solution* to our problem; government *is* the problem'.²³

Ordoliberalism

The neo-liberal thinking that originated from the Freiburg School in Germany, called *ordoliberalism* for clarity, has until recently often been omitted from many books on both economic liberalism and Thatcherism. *Ordoliberalism* centres around a number of thinkers in 1930s and 1940s Germany: Wilhelm Röpke, Alfred Müller-Armack, Walter Eucken, Franz Böhm and Alexander Rüstow. The majority of their work is hardly known in the English-speaking world and therefore translations are few and far between. One exception is Röpke's *A Humane Economy: The Social Framework of the Free Market* (1958). Samuel Gregg has also written a biography, *Wilhelm Röpke's Political Economy* (2010). It is left to more recent studies on neo-liberalism, such as those by Stedman-Jones, Boas and Gans-Morse, Turner, and Mirowski and Plehwe, to determine the main principles of *ordoliberalism*. These include an emphasis on price but to prevent monopoly formation and maintain competition. Ordoliberal thinking most notably manifested itself in the post-war West German economic model, the 'social market economy', borrowing Müller-Armack's term. *The Theory of Capitalism in the German Economic Tradition* (2000), edited by Peter Koslowski, provides more detail on ordoliberal thinkers while articles such as 'Adam Smith and ordoliberalism: on the political form of market liberty' (2012) by Werner Bonefeld and 'At the Origins Of Neo-liberalism: The Free Economy And The Strong State' (2010) by Ben Jackson give further context. The movement's journal, the

²³ Ronald Reagan, Inaugural Address, 1981, [<http://www.reaganfoundation.org/reagan/speeches/>], accessed 13 October 2010.

‘Ordo yearbook’, also has short translations that provide some insight into how ordoliberal thinking has developed. The idea ‘free economy-strong state’ was first framed by Rüstow in 1932. It was this that Andrew Gamble assigned to the Thatcher government, making the link between the early ordoliberals and Thatcherism.²⁴

Political Histories of Thatcherism and Biographies

There are several political histories of the Thatcher government, often focussing on the personality and battles of the Prime Minister herself. *Thatcher and Thatcherism* (2004) by Eric J. Evans, *Britain Under Thatcher* (2000) by Anthony Seldon and Daniel Collings; and *Thatcherism and British Politics. The End of Consensus* (1987) by Dennis Kavanagh are all wide ranging and cover the main themes that have made up the historiographical debate. Some more contemporary books have been generally more supportive of the government’s legacy, such as Geoffrey Fry’s *The Politics of the Thatcher Revolution* (2008) and *Margaret Thatcher’s Revolution: How it happened and what it meant* (2006), edited by Subroto Roy and John Clarke, which includes retrospective chapters by economic liberals such as Patrick Minford and Norman Barry. *A Question of Leadership* (1991) by Peter Clarke places Thatcher in his list of personalities that most changed Britain in the twentieth century. Both *The Thatcher Revolution. Margaret Thatcher, John Major, Tony Blair, and the Transformation of Great Britain* (2003) by Earl A. Reitan and *Thatcher and Sons: A Revolution in Three Acts* (2007) by Simon Jenkins insist that the years of Thatcherism carved out a new orthodoxy that successors have broadly followed. The most detailed single volume is John Campbell’s, *Margaret Thatcher: Iron Lady*

²⁴ Werner Bonefeld, ‘Adam Smith and ordoliberalism: on the political form of market liberty’, *Review of International Studies*, (39:2, 233-250, July 2012), p. 235.

(2003), which covers every minutia of her premiership. This has been more recently joined by the authoritative ‘official’ biography, *Margaret Thatcher. The Authorized Biography. Volume One: Not For Turning* (2013) by Charles Moore, as well as the more thematic *Not For Turning. The Life of Margaret Thatcher* (2013) by Robin Harris. Both reveal insights into the former Prime Minister’s politics as well the role played by ideas. In keeping with other biographies, however, there is a tendency to group neo-liberal thinking into a homogeneous set of ideas. For instance Moore talks about Hayek’s economic ‘shock treatment’ while, as we have already seen, Harris puts Hayek and Friedman in the same bracket as ‘monetary economists’.²⁵ Although neither is incorrect, they create ambiguity. This thesis attempts to provide more clarity on how different neo-liberals influenced the Thatcher government.

Richard Vinen’s *Thatcher’s Britain: The Politics and Social Upheaval of the 1980s* (2009) puts Thatcherism in a historical context of reaction against the policies of the 1960s and 1970s. Vinen sees Thatcher’s politics as a desire to return to the conservative Britain of the 1950s as well as framing Thatcherism to a certain extent as a defender of a ‘post-war consensus’ of the 1940s and 1950s variety, rather than the progressive version of the 1960s.²⁶ The book also rejects a post-1990 orthodoxy of the ‘Thatcher and sons’ type due to the specific considerations that existed during the period.²⁷ Vinen identifies Thatcherism as a combination of ideology and Tory ‘Statecraft’.²⁸ The latter was set out by Jim Bulpitt in ‘The discipline of the New Democracy: Mrs. Thatcher's Domestic Statecraft’ (1985), as the use of neo-liberalism

²⁵ Charles Moore, *Margaret Thatcher. The Authorized Biography. Volume One: Not For Turning*. (London: Allen Lane, 2013), p. 624, Harris, *Not For Turning*. p. 179.

²⁶ Richard Vinen, *Thatcher’s Britain. The Politics and Social Upheaval of the 1980s*. (London: Simon and Schuster, 2009), p. 7, 31, 292, 306.

²⁷ Vinen, *Thatcher’s Britain*, pp. 8, 306.

²⁸ Vinen, *Thatcher’s Britain*, p. 274.

as a tool to pursue the more traditional Conservative objective of achieving and holding onto power.

The Anatomy of Thatcherism (1992) by Shirley Robin Letwin explored the various aspects of the government's ideology, including the values and ethics implicit in the politics of Margaret Thatcher herself. Letwin also sets out a hierarchy of ideas, that nationalism (or patriotism) and anti-socialism were more important than liberal economics.²⁹ John Ranelagh described the unusual collection of personalities that he believed most influenced the Prime Minister, in *Thatcher's People* (1991). These included British neo-liberals like John Hoskyns, Norman Strauss and Alan Walters, as well as Hayek and Friedman and advisors like Bernard Ingham and Charles Powell. *Making Thatcher's Britain* (2012), edited by Ben Jackson and Robert Saunders, examines some of the considered wisdom of the period and puts these events into a broader historical context. Jackson's chapter, 'The think-tank archipelago: Thatcherism and neoliberalism' sheds light on the Institute of Economic Affairs' (IEA) 'outsider' reputation as well as the think-tanks's subtle, but significant, shift in focus from anti-competitive business practices in the 1950s and 1960s to the problems of government in the 1970s and 1980s.³⁰ Saunders' chapter, 'Thatcherism and the seventies', frames Thatcherism as initially diagnostic rather than prescriptive and rooted in its particular narrative of the events of the 1970s.³¹ Saunders identifies this as one reason the Conservatives under Thatcher, and later John Major, lost

²⁹ Shirley Robin Letwin, *The Anatomy of Thatcherism* (London: HarperCollins, 1992), p. 325.

³⁰ Ben Jackson, 'The think-tank archipelago: Thatcherism and neoliberalism', In: *Making Thatcher's Britain*, Ben Jackson, Robert Saunders, eds, (Cambridge: Cambridge University Press, 2012, pp. 43-61), pp. 49, 54-55.

³¹ Robert Saunders, 'Thatcherism and the seventies', In: *Making Thatcher's Britain*, Ben Jackson, Robert Saunders, eds, (Cambridge: Cambridge University Press, 2012, pp. 25-42), pp. 25-26.

momentum as the targets and memories of the 1970s faded.³² *The Conservatives Since 1945* (2012) by Tim Bale sets the policies of the Thatcher government into the broader history of the Party, such as council house sales and also questions the impact of think-tanks in particular on the Party's strategy.³³ A more market-orientated set of policies is also traced back to the start of Edward Heath's leadership in 1965.³⁴

Thatcher's Diplomacy (1997) by Paul Sharp outlined the foreign policy of the Thatcher government, including the idea that the rhetoric of the market helped explain the resistance to sanctions against apartheid South Africa. *Reagan and Thatcher* (1990) by Geoffrey Smith identified, as well as the personal closeness, the ideological similarities between the two leaders during the 1980s. The revisionist *Reagan and Thatcher: The Difficult Relationship* (2012) by Richard Aldous brings the former assertion into question.

There are also several books on the wider themes of Britain's economics and politics in the late twentieth century. Kathleen Burk and Alec Cairncross's "*Goodbye Great Britain*": *The 1976 IMF Crisis* marked that year as the high point in the battle of ideas and apparent proof of Britain's post-war decline. Other historians, such as Correlli Barnett have documented what they saw as Britain's post-war decline in economics and in terms of loss of Empire and political influence. There are a number of revisionists, however, who contend the declinist thesis was exaggerated. *Post War British Politics in Perspective* (1999) by David Marsh et al. questions how serious Britain's situation was in the 1970s, in particular the perceived power of the trade union movement. This sentiment is shared by Andy Beckett in *When the Lights Went*

³² Saunders, 'Thatcherism', pp. 40-42.

³³ Tim Bale, *The Conservatives Since 1945*, (Oxford: Oxford University Press, 2012), pp. 137, 200.

³⁴ Bale, *Conservatives*, pp. 130-135.

Out: Britain in the Seventies (2010). Roger Middleton and Jeremy Black, in *The British Economy Since 1945: Engaging With the Debate* (2000) argue that the Thatcher government restructured the British economy and so provided some catch-up, but did not offset its longer term historical decline.

Memoirs

The majority of the influential politicians of the time have written memoirs. The two that most significantly mention ideas are those of Geoffrey Howe and Nigel Lawson. Margaret Thatcher's three books, *The Downing Street Years*, *Path to Power* and *Statecraft* are also of use. Some accounts by Cabinet members of the Thatcher government, like Willie Whitelaw, Lord Carrington and Michael Heseltine, rarely mention ideas while James Prior and Ian Gilmour both criticise the policies of Thatcherism. Cecil Parkinson and Kenneth Baker provide useful insights for their involvement in, respectively, privatization and deregulation, and education reform. Likewise Norman Tebbit's *Upwardly Mobile* includes detail on his time implementing trade union reform and financial deregulation. The notable omission is Keith Joseph, who did not write a memoir. It is left to other archives, his speeches and the biography written by Andrew Denham and Mark Garnett, *Keith Joseph* (2001), to construct his thought. Other influential figures that have written books on the period, although not elected politicians, include *Just in Time. Inside the Thatcher Revolution* (2000) by John Hoskyns and *Paradoxes of Power, Reflections on the Thatcher Interlude* (2007) by Alfred Sherman.

Chapter Summary

Chapter one examines the development of the New Right, from the early twentieth century to the foundation of the Mont Pelerin Society until the election of the Conservatives in 1979. It looks at key thinkers, such as Friedrich Hayek, Milton Friedman and Ludwig von Mises; as well as the main neo-liberal schools of thought. These are outlined as the Austrian, Chicago, ordoliberal and Public Choice schools. The important think-tanks of the period, the IEA, Centre for Policy Studies (CPS) and Bow Group, are also examined. The ideological debates of the 1970s are explored, with specific reference to monetarism and the trade union movement. The chapter will show how neo-liberalism developed as a set of ideas during the post-war period and how several strains of thought became seen as a homogeneous collective.

Chapter two explores a number of economic case studies, with emphasis on the early reforms of the Thatcher government. The areas looked at are the ‘monetarist’ phase of economic policy, enterprise zones and exchange control removal. The lineage of these measures is examined to show the different sources that influenced the Thatcher government. Economic policy is shown to be particularly ideological while enterprise zones and abolishing exchange controls acted as signals for subsequent reforms. Together these policies will be shown to be the ‘purest’ application of New Right policy recommendations by the Thatcher government.

Social reforms domestically presented more of a challenge in implementing policies rooted in economic liberalism. Housing, the NHS and education reform are looked at in chapter three. The manner in which the Thatcher government approached these

areas owed something to neo-liberalism, either through private ownership of capital or market-orientated solutions in the public sector. The relative success of economic liberal ideas in penetrating these areas is graduated, with council house sales a popular policy compared to the resistance to NHS reform. Even housing though, will be shown to be some way from actual neo-liberal models, particularly those of the Austrian School.

How vested interests sought to impede Thatcherism is examined in greater detail in chapter four, which concentrates on trade union reform, privatization (with particular reference to electricity), broadcasting policy and financial deregulation. Although there was no co-ordinated attempt to tame special interest groups this objective was implicitly a long-term one for both economic liberals and some Conservative politicians. The chapter will set out why vested interests are disliked by the various neo-liberal schools and how they were confronted by the Thatcher government. Trade union reform will be shown to be the most effective reform in reducing the power of a vested interest while privatization, broadcasting and deregulation fell short of this aim or attenuated one group only to allow another to emerge.

Chapter five explores the foreign policy of the Thatcher government and whether it was affected by liberal economic ideas. This is done using a number of examples, all with some connection to the rhetoric or ideology of the market: aid policy (including ATP and the Pergau Dam project), policy towards apartheid South Africa and the Know How Fund to Eastern Europe. The broader Cold War strategy is also integrated into these case studies as well as changes in policy in the World Bank and the IMF. It will be shown that although for the most part the Thatcher government adopted a

traditional foreign policy rooted in self-interest, over the course of its time in power, due to a number of reasons, neo-liberalism began to align more comfortably with these aims.

The conclusion brings these various case studies together. The proximity of the Thatcher government to neo-liberal ideas was graduated. In each example some of the broad thinking of the New Right existed, with varying degrees of clarity. Friedmanite neo-liberalism will be shown to be closest to Thatcherism due to its attempt to use the state to move in steps towards a more liberal economy and society. *Ordoliberalism* as well as the Austrian School had a much more limited impact. The Thatcher government will be shown to have attempted to 'retask' the state, often for political reasons, that fell short of liberal ideals.

The Thatcher government was influenced by neo-liberalism, although mainly through conduits. Its policies were also influenced by traditional Conservative thinking as well as political pragmatism. Ideas of 'statecraft' loom large in Thatcherism as well as the 'supporting wind' of New Right ideas during the period. Essentially Thatcherism contained some direct influence from the New Right, which was utilized as Tory statecraft while riding a wave of interest in neo-liberalism. This thesis broadly identifies three main strains of neo-liberalism - the Austrian School, Chicago School and Freiburg School. There is some evidence to suggest Hayek had a philosophical impact on some British politicians, mainly through advisors and commentators. There was also some very limited lineage between Freiburg and the 'free economy - strong state' ideas attributed to the Thatcher government. The main influence however, directly or not, was from the Chicago School because it engaged with the world as it

was and used the machinery of the state. For example monetary control, which fed through into government policy through those influenced by Milton Friedman, such as Alan Walters, Peter Jay, Tim Congdon and Terry Burns. Another would be education vouchers, a Friedmanite idea taken up by the IEA, which brought some pressure to bear on the eventual education reforms of the Thatcher government. The Chicago School was less focused on social outcomes than the ordoliberals but less idealistic than the Austrians. These differences were made more opaque due to the ascendancy of the Chicago School under Friedman as well as Hayek wanting to unify and maintain the collective integrity of his Mont Pelerin Society. The military dictatorship of Augusto Pinochet in Chile was then important in linking neo-liberalism with authoritarianism. This sullied the reputation of the neo-liberal project, thinkers associated with Chile like Friedman, and by association the governments of Margaret Thatcher and Ronald Reagan.³⁵ For all these reasons neo-liberalism has come to denote a number of positions that have rarely been clearly defined. Several writers have juxtaposed the moderate and progressive connotations of early *ordoliberalism* with the harsh interpretations and vilifications of neo-liberalism that proliferated after Pinochet.

Neo-liberal ideas, unsurprisingly, were most closely linked with economic policy and deregulation. Its impact on social policy was more diluted and more fiercely resisted. Nevertheless, New Right influence was evident in most of the policies of Thatcherism. Foreign policy was clearly less ideological but a broad neo-liberal impact can be seen as the Cold War thawed. Many of these policies did not satisfy neo-liberals. Some advocated ordoliberal ideas, such as competition promotion in

³⁵ Boas and Gans-Morse, 'Neoliberalism', p. 137.

privatization, but most thought that markets were not ‘free’ enough and overly compromised by politics and special interests. Thatcherism was initially focused on macroeconomic stability while supply-side reforms increased during the course of the government. The shift of the former under Nigel Lawson displeased monetarists, while the compromised fashion of the latter led to much criticism from Hayekians at the IEA. Finally, the case studies examined in this thesis appear to confirm that the Thatcher government ‘retasked’ the state, which has been identified as an inherent feature of neo-liberalism. That is to say that reforms were broadly liberal, but often predominantly political, and led to outcomes that as well as being criticised from the left, did not satisfy the separate strains of neo-liberal thought.

Chapter One: The New Right and neo-liberal thought

The political decision-making process is guided, or at least influenced, by ideas; as Keynes put it, ‘practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist’.³⁶ In Britain, certain goals have tended to be attached to different Prime Ministers and their governments. Edward Heath was intent on entry into the European Community, Neville Chamberlain wanted to avoid war, while Tony Blair offered a reconstructed New Labour or ‘Third Way’ vision for Britain. Partly as a result, each era of British politics is synonymous with certain legacies but rarely are they known for a particular ideological intensity. There are, however, exceptions. Clement Attlee’s post-war Labour government has a reputation, due to its programme of nationalisation and the assembly of the welfare state, as having being more radical than other administrations. This is matched or even eclipsed, however, by the scope of the changes introduced by Margaret Thatcher’s Conservative government. Were the policies that began in 1979 reactionary or as Richard Cockett put it, a counter-revolution? If they were genuinely new, then from where did they originate? An accepted view has formed that the Thatcher government implemented several New Right or free market inspired recommendations and that important policy makers became converts to these at various points before 1979 - in the case of Geoffrey Howe, during the 1950s, Keith Joseph in the 1960s and Margaret Thatcher during the 1970s.³⁷

³⁶ John Maynard Keynes, *The General Theory of Employment, Interest, and Money*, (Basingstoke: Palgrave Macmillan, 2007, first published 1936), p. 383.

³⁷ Richard Cockett, *Thinking the Unthinkable. Think-tanks and the Economic Counter Revolution 1931-1983*, (London: Harper Collins, 1995), pp. 232-236, 261.

The ideas and progression of the New Right will be examined in this chapter, up until the Conservatives came to power in 1979. The intellectual environment of the period will also be explored to see how economic liberalism came from the relative obscurity of the post-war Keynesian years to the ideological debates of the 1970s and then into the Thatcherite programme. It will be shown that monetary control in combating inflation was at the vanguard of liberal economic ideas and the first New Right principle to gain a degree of acceptance in Britain. The various threads contained within the New Right, such as the Austrian and Chicago Schools will be outlined, as well as the proliferation of liberal think-tanks during this period. The development of the important strands of neo-liberalism, such as *ordoliberalism* and Public Choice theory will also be examined. In addition, the importance of ‘conduits’ between theorists and policy makers will be explored.

Classical Economics before World War Two

The work of Adam Smith was important in Britain from the eighteenth century. *The Wealth Of Nations* (1776) and *The Theory Of Moral Sentiments* (1759) explained and legitimised processes, such as both parties gaining in a trade and the division of labour, that became defined as core tenets of capitalism. Other British enlightenment thinkers, such as John Locke, John Stuart Mill, Jeremy Bentham and David Hume made the case for the importance of private property, the rule of law, utilitarianism and individual liberty. These principles, in conjunction with the industrial revolution, laid the foundation for Britain’s rapid growth in the nineteenth century as well as its drive to build empire. Trade and its associated ‘civilising’ effects justified the vast swathes of territory penetrated by British merchants, supported by British

governments and often including the annexation of areas of land. David Ricardo was another classical economist of the 1800s who outlined comparative advantage in the exchange between two trading regions. These beliefs guided the policy makers in Britain into the twentieth century. Indeed the main ideological dividing line in the early 1900s was between the free traders of the Liberal Party such as Herbert Asquith and David Lloyd George and those who favoured tariffs such as Joseph Chamberlain. This era of British imperial power driven by free trade would have an important impact on New Right thinkers and on Margaret Thatcher herself.³⁸ Adam Smith, in particular, was reclaimed by neo-liberals and Conservative politicians in selective ways. Smith's idea of the 'invisible hand' was embraced while his promotion of social goods like education was downplayed.³⁹ The apparently seamless link between classical liberals of the Enlightenment and twentieth century neo-liberals may have allowed important ideological distinctions to be blurred.⁴⁰

Ideas can take decades to filter down into the domain of mainstream politics and often the point in time where certain principles are introduced is very different from the environment in which they were originally written.⁴¹ The seemingly unshakeable British faith in markets, trade and capitalism in the nineteenth century was challenged by the rise of socialism and in particular the work of Karl Marx, whose critique of capitalism was to have a contagious political effect across the world, from the numerous socialist regimes that sprang up over the next hundred years, to the social

³⁸ F.A. Hayek, *Why I Am Not A Conservative*, (Chicago: University of Chicago Press, 1992, first published in 1960), p. 13, Hayek described himself as an 'Old Whig'.

³⁹ Mark Skousen, *Vienna & Chicago. Friends or Foes? A Tale of Two Schools of Free-Market Economics*. (Washington: Capital Press, 2005), pp. 3-4. Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press, 2012), p. 107.

⁴⁰ Stedman-Jones, *Masters*, p. 100.

⁴¹ Cockett, *Thinking*, p 328. Cockett expands upon an idea from Samuel Brittan in 1972 that 'every age accepts the doctrines evolved to deal with the previous one and neglects the message most relevant to its own time'.

democratic policies that were introduced in Western countries that remained nominally committed to markets. It was most clearly seen in Britain, (although Marx was not the only prominent socialist thinker here: Robert Owen and the Chartists predate him) with the foundation of the Fabian Society in 1884. The Fabians, led by writers and thinkers like George Bernard Shaw, Sidney and Beatrice Webb brought socialism into mainstream political arguments. One study cited by Andrew Gamble suggested that from around 1860 collectivist doctrines began to supplant individualist ones in their hold on public opinion.⁴² Trade Unions were granted considerable legal privileges in 1906 while the Liberals, under Asquith and Lloyd George, introduced laws that guaranteed certain rights for workers and the beginning of a system of social security. Another important, if indirect, political legacy of the Fabians was the foundation of the Labour Party in 1900, committed to socialist ideals. Richard Cockett, in *Thinking the Unthinkable* (1995), described the period from 1880 to the 1930s as a battle of ideas between liberals and collectivists that was ultimately won by the latter.⁴³ Cockett also stressed the importance of the Fabian Society in giving intellectual weight to collectivism.⁴⁴ The Fabians were the first ‘think-tank’ in Britain and were the most prominent organisation of their kind during this period. The Society promulgated a very British and moderate form of socialism. In fact Joseph Schumpeter described them as a ‘small group of bourgeois intellectuals’ that ‘hailed from Bentham and Mill and carried on their tradition. The spirit of the times made socialists of them. They were genuine socialists because they aimed at helping in a

⁴² Andrew Gamble, *Hayek. The Iron Cage of Liberty*, (Cambridge: Polity Press, 1996), p. 6. Gamble cites A.V. Dicey’s study *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century*, (London, 1926).

⁴³ Cockett, *Thinking*, p. 6.

⁴⁴ Cockett, *Thinking*, pp. 14-15.

fundamental reconstruction of society which in the end was to make economic care a public affair.⁴⁵

The intellectual heritage of Owen and Marx, cultivated by the Fabian Society, manifested itself most famously not in violent revolution but in a more sober form: the 1942 Beveridge Report. William Beveridge was an economist and a Liberal social reformer, influenced by the Fabians, who saw his task as eliminating the desperate poverty experienced by many in Britain, which had been exacerbated by the Depression. The 1942 Report's recommendations became widely accepted during the War and gave the Attlee government the impetus it needed to introduce many of them. Industries were nationalised, the NHS was founded and the welfare state would look after the British people from 'cradle to the grave'. If socialist thinking had finally gained some orthodoxy in the UK another thinker was to prove just as significant for the post-war era: John Maynard Keynes. A classical economist, a member of the Liberal Party and certainly not a socialist, Keynes was to be crucial in ending *laissez-faire* policies in Britain. The Depression and unemployment of the 1920s and 1930s had a considerable impact on Keynes and his core aim became the achievement of full employment.⁴⁶ Like many thinkers who exerted mass appeal, Keynes's work was simplified and extrapolated.⁴⁷ His most influential book, *The General Theory of Employment, Interest and Money* (1936), was dense and difficult to interpret but the term 'Keynesianism' came to mean demand management and countercyclical government spending and monetary policy designed to combat unemployment and avert recession. In summary, the thought of Keynes, the influence of the Fabian

⁴⁵ Joseph Schumpeter, *Capitalism, Socialism and Democracy*, (Abingdon: Routledge, 2010, originally published in 1943), pp. 289-291.

⁴⁶ Peter Clarke, *A Question Of Leadership*, (London: Hamish Hamilton, 1991), pp. 166-168.

⁴⁷ Clarke, *Question*, p. 170.

Society and Beveridge Report were all interpreted as justification for expansive state intervention in the economy.

Defending Classical Economics: The Austrian School

Joseph Schumpeter feared that embedded within the success of capitalism lay the forces that could eventually destroy it. Many intellectuals in the first half of the twentieth century were typically antagonistic to the market, barely tolerant of capitalism and critical of the attitudes, extremes and insecurity it appeared to cause. This ranged from Marxists such as Lenin, the critique of 'finance capital' by Austrian Rudolf Hilferding and the later, more accommodating, followers of Keynes. All wanted to overturn or at least attenuate the effects of *laissez-faire*. It was unsurprising that in the aftermath of the catastrophic financial problems of the 1930s and subsequent war to which these conditions had seemingly led, thinkers advocated the taming and regulation of unfettered capitalism. The idea of market failure also encouraged growing state intervention in the economy. Market failure is the belief that the market system can break down, causing externalities (adverse and unintended effects) that damage wider society and require government intervention. Yet if Schumpeter's point seemed to be relevant, he himself belonged to a group of intellectuals that would have profound effects in the latter half of the twentieth century. Schumpeter was a classical liberal and belonged to the 'Austrian School' of economists.

While socialist thought was in the ascendency in the late nineteenth century, Carl Menger founded the Austrian School, studying classical economic thought, in 1870s

Vienna. Menger, whose work included *The General Theory of the Good*, wanted to create a new theoretical framework that would more clearly define Adam Smith's system of 'universal opulence'.⁴⁸ Menger's work concentrated on individual behaviour as well as price.⁴⁹ Eugen von Böhm-Bawerk was also a noted Austrian thinker at the turn of the century. It was the third generation though, led by Ludwig von Mises and inspired by Menger and Böhm-Bawerk, which began to make significant contributions to what we now consider neo-liberalism. Mises included social science and political philosophy as well as economics, in his work and became mentor to the young Friedrich Hayek in the 1920s.⁵⁰ Mises and Hayek developed thinking on the business cycle during this period. They identified government monetary policy as the primary cause for cycles of boom and bust, believing that interest rates and the supply of money were being manipulated away from their 'natural levels'.⁵¹ In an era, particularly following the stock market crash of 1929, when most economists advocated more government intervention, Austrians like Mises and Hayek stood out for their belief that state interference was at the core of the problems experienced in Western countries.

Hayek taught at the London School of Economics in London in the 1930s and entered into a series of public and private debates with Keynes over the decade. The full effect of Hayek and the Austrians was not to be felt until much later but his 1944 book, *The Road to Serfdom*, proved to be an important landmark and became a liberal classic. Hayek, at the height of British infatuation with Keynes and the Beveridge Report, made an unfashionable argument: the state was not necessarily a benevolent

⁴⁸ Skousen, *Vienna and Chicago*, p. 25.

⁴⁹ Skousen, *Vienna and Chicago*, p. 25.

⁵⁰ Norman Barry, 'Austrian Challenge to Orthodoxy', In: *Economic Affairs*, (4:3, April-June 1984), p. 57.

⁵¹ Skousen, *Vienna and Chicago*, p. 33.

force. Hayek based his analysis on both the Nazis and Soviets, supposedly at either ends of the ideological spectrum. Fascists and communists had assembled huge state bureaucracies, and were oppressive, autocratic and violent towards their own citizens. As well as the potential malignancy of an expanding state, Hayek saw socialist utopias and emancipation as ultimately leading to collective misery. Andrew Gamble has written that Hayek thought socialism similar to the ‘archaic religions’ of traditional society and that liberalism was the natural order of things, based on experience, in modern societies.⁵² *The Road to Serfdom* advocated renewed trust in the power of the market and that individual liberty could only be obtained under capitalism. There has been some debate over the ‘social’ aspects found at this stage of Hayek’s thinking. For instance, he stated that ‘there can be no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody’.⁵³ This will be explored in more detail later. Andrew Gamble identified the other key claims of Hayek’s critique of socialism - it destroyed the basis of morals, personal freedom and responsibility; impeded the production of wealth and may cause impoverishment; and sooner or later leads to totalitarian government.⁵⁴ *The Road to Serfdom* most notably outlined the latter and proved an unlikely success. This led to a speaking tour of the United States for its author and subsequently a teaching position at the University of Chicago, although not in the economics department. It also attracted the attention of Conservative Party Chairman Ralph Assheton as well as Winston Churchill during the general election campaign of 1945.⁵⁵

⁵² Gamble, *Hayek*, pp. 8-9, 180.

⁵³ F.A. Hayek, *The Road to Serfdom*, (Chicago, University of Chicago Press, 2007, originally published 1944), p. 148.

⁵⁴ Gamble, *Hayek*, p. 24.

⁵⁵ Tim Bale, *The Conservatives Since 1945*, (Oxford: Oxford University Press, 2012), p. 29.

Hayek later claimed that of his generation there were only a handful of economists, apart from himself, that believed in classical liberalism: ‘there were just perhaps (Wilhelm) Röpke, Bill Hutt, and two or three others.’⁵⁶ They were part of a broader movement that began as an obscure club for intellectual supporters of capitalism. The Paris Conference of 1938 was the first convention of this group of (twenty six) economists and philosophers, including Hayek, Mises, Röpke and Walter Lippman (an American journalist who had influenced Hayek). Those present discussed the defence of market economics and individual liberty but were not to convene again until after the War, when the Mont Pelerin Society was born.⁵⁷

The Freiburg School of the 1930s and 1940s

Earlier in the 1930s another group of liberals coalesced in Freiburg, Germany who retained interest in market economics. It was here that the birth of ‘neo-liberalism’ can be seen. The basic difference with what we might think of as nineteenth century free trade liberalism or *laissez-faire* is that neo-liberalism accepted and desired some role for the state. This was to be reference point for all the neo-liberals of the 1930s - from Hayek and Mises to the Freiburg and Chicago Schools – they all conceded something more than *laissez-faire* was needed.⁵⁸ Although the Austrian School - less convinced that *laissez-faire* had failed even in the 1930s - would become associated

⁵⁶ Friedrich Hayek speech to the Mont Pelerin Society, (“Professor Hayek’s Closing Speech”), 9 March 1984, Margaret Thatcher Foundation, (hereafter MTF), [www.margaretthatcher.org/document/117193], accessed on 13 September 2012.

⁵⁷ Cockett, *Thinking*, p. 9.

⁵⁸ Bruce Caldwell, ‘The Chicago School, Hayek, and Neoliberalism’, In: *Building Chicago Economics. New Perspectives on the History of America’s Most Powerful Economics Program*, R. Van Horn, P. Mirowski, T. A. Stapleford, eds., (Cambridge: Cambridge University Press, 2011, pp. 301-334), p. 316.

with neo-liberalism later the concept was initially developed in Freiburg.⁵⁹ The group's ideas acted as a liberal response to the crisis of capitalism in the late 1920s and throughout the following decade.⁶⁰ Neo-liberalism was first defined by Freiburg thinker Alexander Rüstow in his 1932 essay *Free Economy-Strong State*.⁶¹ It was originally used to denote a moderate version and revival of classical liberalism.⁶² The Freiburg School believed in markets but also that the state had a role to play in providing the conditions necessary for these to operate. This was rooted in the events of the time. The Weimar Republic was seen as prey to special interest groups.⁶³ The 1929 Wall Street Crash and subsequent Great Depression were viewed by some as the death knell for *laissez-faire*, while individual liberty was trampled on in Nazi Germany. The Freiburg School sought to reconcile these problems. This early version of neo-liberalism wanted the state to ensure competition and to act against monopolies forming. They also sought social cohesion as a way to make market forces more effective. Freiburg neo-liberals, such as Rüstow but also Wilhelm Röpke, Walter Eucken, Franz Böhm and Alfred Müller-Armack, recognized the destructive implications of the market.⁶⁴ This seems at odds with the twenty-first century reading of neo-liberalism. These German thinkers put humanistic and social values on a par with economic ones and in the 1940s Eucken and Röpke became concerned with ideas like social security and social justice.⁶⁵

⁵⁹ Oliver Marc Hartwich, *Neoliberalism: The Genesis of a Political Swearword*, (St Leonards: CIS occasional papers, 114, July 2009), p. 22.

⁶⁰ Ralf Ptak, 'Neoliberalism in Germany. Revisiting the Ordoliberal Foundations of the Social Market Economy', In: *The Road From Mont Pelerin. The Making of the Neoliberal Thought Collective*, P. Mirowski and D. Plehwe, eds, (Harvard: Harvard University Press, 2009), p. 110.

⁶¹ Taylor Boas and Jordan Gans-Morse, 'Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan', In: *Studies in Comparative International Development*, (44:2, June 2009), p. 146.

⁶² Boas and Gans-Morse, 'Neoliberalism', p. 137.

⁶³ Ptak, 'Neoliberalism in Germany', p. 110.

⁶⁴ Ptak, 'Neoliberalism in Germany', pp. 102-103.

⁶⁵ Boas and Gans-Morse, 'Neoliberalism', p. 147.

Ordoliberalism

For reasons of clarity these early German neo-liberals will be called ‘ordoliberals’. This subsequently, from the early 1950s, became a recognized term associated with the West German journal *ORDO*, founded in 1948 by Eucken and Böhm. It provides emphasis because during this period the Mont Pelerin Society was formed, made up of a nucleus of notable thinkers that urged pro-market strategies. Mont Pelerin members took a variety of positions, however, some that were closer to classical liberalism than others. This notwithstanding, in the space of a few years the different views in the collective became interchangeable to some observers. The two major strands were to become the more classically liberal Hayekians, or Austrians, and the more ‘neo-liberal’ Friedmanites, or Chicagoans, who took a more expedient position on many issues. Mont Pelerin meetings were said to always split into two camps: the Austrians and the Chicagoans.⁶⁶ In fact ordoliberals recognized the difference with other members of Mont Pelerin and the Austrian School. Ordoliberals dubbed more classical liberal thinkers such as Ludwig von Mises ‘paleoliberals’.⁶⁷ In one correspondence between Rüstow and Röpke the former wrote that Hayek ‘and his master Mises deserved to be put in spirits and placed in a museum as one of the last surviving specimen of the extinct species of liberals which caused the current catastrophe.’⁶⁸ Nevertheless, the early thinking of the ordoliberals would be lost as the work of Hayek, and in particular Milton Friedman, came to define economic liberalism.

⁶⁶ Skousen, *Vienna and Chicago*, p. 1.

⁶⁷ Boas and Gans-Morse, ‘Neoliberalism’, p. 147.

⁶⁸ Hartwich, *Genesis*, p. 24. See also Philip Plickert, *Wandlungen des Neoliberalismus – Eine Studie zur Entwicklung und Ausstrahlung der ‘Mont Pelerin Society’* (Stuttgart, 2008, pp. 87-106, p. 105)

Ordoliberalism was the first comprehensive market response to the challenges of socialism. Despite accepting the primacy of the price mechanism, ordoliberals advocated this in conjunction with a firm legal framework, social and ethical considerations, and demanded a strong state as the means of restoring and sustaining the free economy.⁶⁹ Early ordoliberal thought can be crystallized by the much-used term ‘social market economy’. Alfred Müller-Armack first defined social market economy in the 1940s and it became the central plank of the West German post-war economic ‘miracle’.⁷⁰ Müller-Armack sought that political interventions not destroy the price mechanism while Rüstow even proposed ‘market police’.⁷¹ Röpke classified interventions as ‘market compatible’ (those that did not affect price mechanisms) and ‘market incompatible’ (those that did).⁷² Exchange controls and quotas, for instance, were market incompatible.⁷³ Ordoliberals rejected the Austrian *laissez-faire* tradition, because they believed this system was bound to create socially destructive outcomes, especially in the form of ‘proletarianized’ workers who would demand welfare to the detriment of liberty and security of private property.⁷⁴ The preservation of competition and prevention of monopoly were core themes of ordoliberals such as Röpke.⁷⁵ Ordoliberals therefore viewed their model as a way of maintaining order and markets as an ‘instrument’ in securing preferable social outcomes.⁷⁶ Ordoliberals

⁶⁹ Werner Bonefeld, ‘Adam Smith and ordoliberalism: on the political form of market liberty’, In: *Review of International Studies*, (39:2, July 2012, pp. 233-250), p. 234.

⁷⁰ Boas and Gans-Morse, ‘Neoliberalism’, p. 146.

⁷¹ Oliver Marc Hartwich, *Neoliberalism: The Genesis of a Political Swearword*, (St Leonards: CIS occasional papers, 114, July 2009), p. 19.

⁷² Christian Watrin, ‘Alfred Muller-Armack – Economic Policy Maker and Sociologist of Religion’, In: *The Theory of Capitalism in the German Economic Tradition*, P. Koslowski, ed, pp. 192-220, (London: Springer, 2000), p. 209. Samuel Gregg, *Wilhelm Röpke’s Political Economy*, (Cheltenham: Edward Elgar, 2010), p. 89.

⁷³ Gregg, *Wilhelm*, p. 89.

⁷⁴ Bonefeld, ‘Adam Smith’, p. 238.

⁷⁵ Gregg, *Wilhelm*, p. 77, Manfred E. Streit and Michael Wohlgemuth ‘The Market Economy and the State. Hayekian and Ordoliberal Conceptions’, In: *The Theory of Capitalism in the German Economic Tradition*, P. Koslowski (ed), pp. 224-260, (London: Springer, 2000), p. 231.

⁷⁶ Bonefeld, ‘Adam Smith’, p. 244.

viewed individuals as ends in themselves.⁷⁷ This is fundamentally different to subsequent neo-liberals, who saw economic liberty as the precursor to political freedoms and social goods, almost viewing markets as an end in themselves.⁷⁸

West German Finance Minister and later Chancellor Ludwig Erhard was linked to both the ordoliberalism and Friedrich Hayek.⁷⁹ After the War Eucken, Böhm, Rüstow and Müller-Armack exerted considerable influence upon West German economic policy. Böhm was a prominent member of the Bundestag, while Müller-Armack served as State Secretary in the Ministry of Economics, close to Erhard.⁸⁰ In his role after the War Erhard responded to shortages by ending price controls. This step, a show of faith in market forces, began the remarkable resurgence of the West German economy.⁸¹ The ordoliberal inspired mantra came to look like ‘markets where possible, the state where necessary’. The role of the state was one of the key themes that cut through all these ideas of liberalism and is one reason why it is important to define the difference between them. Critics of *ordoliberalism* believe they had a limited idea of freedom and that when democracy and the market collided, the latter prevailed.⁸² In fact ordoliberals did see majority decisions in democracy as capable of reducing the civic rights which they considered crucial in economic affairs.⁸³ The idea

⁷⁷ Wernhard Möschel, ‘The Proper Scope of Government Viewed from an Ordoliberal Perspective: The Example of Competition Policy’, In: *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift für die gesamte Staatswissenschaft*, (157:1, 2001, pp. 3-13), p.7.

⁷⁸ Norman Barry, *The New Right*, (Beckenham, Croom Helm, 1987), p. 33.

⁷⁹ MTF 117173, Letter to *The Times* by Friedrich Hayek, 17 July 1981, [www.margarethatcher.org/document/117173], accessed 13 September 2012.

⁸⁰ Gregg, *Wilhelm*, p. 42.

⁸¹ ‘The Commanding Heights. The Battle for the World Economy’, PBS Documentary, (2002), [http://www.pbs.org/wgbh/commandingheights/hi/story/index.html], accessed 10 May 2012.

⁸² Philip Mirowski, ‘Postface: Defining Neoliberalism’, In: *The Road From Mont Pelerin. The Making of the Neoliberal Thought Collective*, P. Mirowski and D. Plehwe, eds, (Harvard: Harvard University Press, 2009), p. 443.

⁸³ Bruno Molitor, ‘Schwäche der Demokratie’ (‘The Weakness of Democracy’), In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, (‘The Ordo Yearbook of Economic and Social

that the state knew best can be on one side seen as a variation on conservative patriarchy, on the other as a drift to authoritarianism. In addition, Röpke highlighted society's need of strong Christian moral values.⁸⁴ A criticism of *ordoliberalism* was that their ideas were borne out of Nazi Germany meaning that these thinkers accepted that only an anti-libertarian state apparatus could ensure market mechanisms. This was clearly at odds with a classical thesis, such as the one found in *The Road to Serfdom*. Hayek, however, was soon branded a neo-liberal. He also fiercely defended ordoliberals against any Nazi connection.⁸⁵

The criticism itself, that *ordoliberalism* had anti-democratic and an anti-libertarian undertone was contentious. If the first ordoliberal model was post-war West Germany then the state was generally effective and progressive, particularly in comparison with its Eastern neighbours. The social cohesion achieved and rapid economic growth became the envy of Europe, not least Britain. *Ordoliberalism* has had a profound impact on the economic policy making of Germany, before and after unification.⁸⁶ Ordoliberal principles, such as those concerning competition policies, may have also influenced post-war European treaties and as a result indirectly affected British politics.⁸⁷ Angela Merkel has also openly expressed her admiration for ordoliberal thinkers such as Walter Eucken.⁸⁸ Rachel Turner has written that countries that have adopted neo-liberal measures did so as a response to a group or events. If Britain in

Order', Stuttgart: Gustav Fischer Verlag, Band 34, 1983, pp. 17-38), p. 38.

⁸⁴ Ptak, 'Neoliberalism in Germany', p 116.

⁸⁵ MTF 117173, Hayek letter to *The Times*.

⁸⁶ S. Dullien, U. Guérot, 'The Long Shadow of Ordoliberalism', In: *IP Journal*, 17 July 2012. [<https://ip-journal.dgap.org/en/ip-journal/topics/long-shadow-ordoliberalism>], accessed on 20 January 2013. Dullien and Guérot explain the long standing impact on ordoliberalism on German economic policy, up to the Eurozone debt crisis.

⁸⁷ Möschel, 'Ordoliberal Perspective', p. 3.

⁸⁸ Peter Coy, 'Will Merkel Act, or Won't She?', Bloomberg Businessweek magazine, 30 November 2011, [<http://www.businessweek.com/magazine/will-angela-merkel-act-or-wont-she-11302011.html#p2>], accessed 7 February 2014.

the 1970s was as a reaction to organized labour then Turner believes post-war West Germany, the first neo-liberal state and unique in its emphasis on social justice, was a response to Nazism.⁸⁹ Ordoliberalism sought to maintain order, limit the influence of special interest groups and utilize a strong state that was limited by rules and the force of law.

Why is *ordoliberalism* important and what significance does it have regarding the Thatcher government? Firstly, it is the first real manifestation of neo-liberal ideas in a cohesive set of policy recommendations and has not featured in much literature on the subject. Secondly, writers like Andrew Gamble have made a direct linkage between *ordoliberalism* and Thatcherism by evoking the idea of ‘free economy-strong state’.⁹⁰ Thirdly, *ordoliberalism* is thought by some to have consistently influenced German policy making from the 1940s until the present. The West German economic ‘miracle’ was a primary concern for the initial research of the Centre for Policy Studies (CPS) when Keith Joseph and Margaret Thatcher established the think-tank in 1974. There is little direct evidence, however, linking *ordoliberalism* with Thatcherism, with a couple of exceptions. A document from 1974 shows how Joseph initially considered naming the CPS the ‘Erhard Foundation’ while he also sought out Röpke’s *Humane Economy*.⁹¹ Despite his often-ideological pronouncements Joseph accepted that it might be ‘necessary for the state to stimulate enterprise.’⁹² The relationship between free markets and the role of the state is a key theme when

⁸⁹ Rachel S. Turner, *Neo-Liberal Ideology. History, Concepts and Policies*, (Edinburgh: Edinburgh University Press, 2008), p. 219.

⁹⁰ Andrew Gamble, *The Free Economy and the Strong State. The Politics of Thatcherism*. (Basingstoke, Palgrave Macmillan, 1994), pp. 38-45.

⁹¹ MTF114757, ‘Ralph Harris record of conversation (visit from Keith Joseph)’, 14 March 1974, MTF114760, ‘Sir Keith Joseph note (“The Erhard Foundation”)’, 21 March 1974.

⁹² Richard Vinen, *Thatcher’s Britain. The Politics and Social Upheaval of the 1980s*, (London: Simon and Schuster), p. 64.

examining the connection between neo-liberal ideas and Thatcherism. The potential ordoliberal elements in some Thatcherite reforms are explored in later chapters. It is also of historical interest that *ordoliberalism* has been both largely ignored in the English speaking world as well as engulfed by other interpretations of neo-liberalism. Ordoliberals believed that ‘Anglo-Saxon’ theory predominated after the War.⁹³ In particular the term became sullied from the mid-1970s due to its association with the military dictatorship of Augusto Pinochet in Chile.⁹⁴ Neo-liberalism has subsequently been consistently framed as being opposed to democracy and social goods, privileging economic over political freedom. This can be shown to be generally in contradiction to the original version of neo-liberalism, *ordoliberalism*. This thesis uses *ordoliberalism* as a moderate, rules-based and socially orientated counterpoint to the utopian thinking of the Austrian School. Chicagoan neo-liberalism will be shown to position itself somewhere between the two.

The Mont Pelerin Society

Friedrich Hayek convened a meeting of like-minded liberals at the ‘Colloque Walter Lippmann’ in Paris in 1938. Interrupted by the War, it was not until 1947 that Hayek managed to secure a more formal organization, the Mont Pelerin Society, named after its initial Swiss venue. For some, like David Harvey, thus began the ‘long march’ of neo-liberalism.⁹⁵ Certainly Hayek had the long-term in mind. Using the Fabian Society as his historical model, Hayek sought to change attitudes over a period of

⁹³ Ernst Heuss, ‘“Die Grundlagen der Nationalökonomie” vor 50 Jahren und heute’, (‘Die Grundlagen der Nationalökonomie’: Fifty Years Ago and Today), In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, (‘The Ordo Yearbook of Economic and Social Order’, Stuttgart: Gustav Fischer Verlag, Band 40, 1989, pp. 21-30), p.30.

⁹⁴ Boas and Gans-Morse, ‘Neoliberalism’, p 150.

⁹⁵ Ben Jackson, ‘At the Origins of Neo-liberalism: The Free Economy and the Strong State’, 1930–1947’, In: *The Historical Journal*, (53:1, March 2010, pp. 129-151), p. 130.

years. He persuaded Anthony Fisher, a chicken farmer who had been taken by liberal ideas, to found a think-tank as a vehicle for shifting the ideological climate back towards economic liberalism. This Fisher did, with some success, establishing the Institute of Economic Affairs in 1955 and then attempting to replicate this overseas. Hayek recognized that the results of fundamentally altering opinion might take some time and that the great social movements were led not by politicians but by men of ideas.⁹⁶ While attempting to break the perceived hold on the establishment that ideas like Keynesianism had, Hayek somewhat perversely promoted anti-collectivist sentiments by maintaining a degree of ideological homogeneity within his own collective. He later admitted that he avoided criticism of what he considered Milton Friedman's macroeconomic 'nonsense' for the sake of Mont Pelerin unity.⁹⁷ Articulating his position vis-à-vis the use of the state compared to Friedman, Hayek once commented 'Milton's monetarism and Keynesianism have more in common with each other than I have with either.'⁹⁸ The Austrian, however, was conscious not to allow the group to splinter into Hayekian and Friedmanite wings. In addition Hayek also noted that 'the Ordo circle...was, shall we say, a restraining liberalism.'⁹⁹ Mises derided the Freiburg School as 'ordo-interventionism' and not much better than 'totalitarian socialists'.¹⁰⁰ Nevertheless, some writers have made comparisons between the work of early neo-liberals in the 1930s and 1940s.¹⁰¹ Ben Jackson and Daniel Stedman-Jones draw attention to the sections endorsing some degree of a social safety net in *The Road to Serfdom*, making some correlation with the work of

⁹⁶ Eamonn Butler, *Hayek*, (New York: Universe, 1985), p. 1.

⁹⁷ MTF 117203, Letter from Friedrich Hayek to Arthur Seldon, 13th May 1985, [www.margareththatcher.org/document/117203], accessed on 13th September 2012.

⁹⁸ 'The Road From Serfdom. Foreseeing the Fall', interview of Friedrich Hayek by Thomas W. Hazlitt, 1977, published in *Reason*, July 1992, [http://reason.com/archives/1992/07/01/the-road-from-serfdom], accessed 29 December 2013.

⁹⁹ Streit and Wohlgemuth 'The Market Economy', p. 229.

¹⁰⁰ Hartwich, *Genesis*, p. 24.

¹⁰¹ Caldwell, 'The Chicago School', p. 316.

the ordoliberalists.¹⁰² Andrew Gamble has also noted even in later works like *The Constitution of Liberty* that Hayek appeared to sanction surprising amounts of state intervention.¹⁰³ Henry Simons too, at the ‘first’ Chicago School, held views in the 1930s on monopoly, social welfare and regulation that were closer to *ordoliberalism* than his Friedmanite successors.¹⁰⁴ The historical context of this early moderate neo-liberalism was important. The Great Depression, the Second World War and a widespread disillusionment with *laissez-faire* informed this accommodation between classical liberalism and state action. Ludwig von Mises was identified as being closest to classical liberal thinking, or as Jackson puts it, 1970s neo-liberalism.¹⁰⁵ Mises’ uncompromising positions were even deemed by Hayek to be naïve and extreme.¹⁰⁶ Yet Mises’ work *Bureaucracy* (1944), as well as Karl Popper’s *The Open Society and Its Enemies* (1945) and *The Road to Serfdom* are considered by Stedman-Jones as the three key neo-liberal texts of the 1940s.¹⁰⁷ If Hayek had any ‘social’ inclinations during the 1930s and 1940s it was only a minor part of his thinking. The majority of *The Road to Serfdom* railed against socialism and central planning. His work as a whole saw little room for social provision or any role for the state, be it providing stable monetary conditions or regulating monopoly. Nevertheless, later generations of Austrian thinkers saw Hayek as only on the fringes of their movement as a result of this, albeit limited, role of the state. For instance Walter Block lambasted *The Road to Serfdom* and its allusions to state action. Block did not believe Hayek was a ‘complete liberal’ or an unambiguous advocate of the marketplace, but rather

¹⁰² Jackson, ‘At The Origins’, pp. 132-139, Stedman-Jones, *Masters*, p. 335.

¹⁰³ Gamble, *Hayek*, p. 175.

¹⁰⁴ Stedman-Jones, *Masters*, p. 335.

¹⁰⁵ Jackson, ‘At The Origins’, p. 140.

¹⁰⁶ Jackson, ‘At The Origins’, p. 141.

¹⁰⁷ Stedman-Jones, *Masters*, p. 31, Cockett, *Thinking*, p. 83. Karl Popper’s 1945 work *The Open Society and its Enemies* rallied against what he thought was the Aristotelean philosophical tendency towards totalitarianism.

relatively more liberal than his contemporaries in the 1930s and 1940s.¹⁰⁸ Others saw the thought of Mises, then Murray Rothbard – who believed the state should be abolished – as the true manifestations of the Austrian School.¹⁰⁹ These sentiments probably demonstrate the hardline positions taken by most Austrian School thinkers, rather than that Hayek was actually a statist.

Hayek could be strategic. The Mont Pelerin Society was a significant organisation that shifted opinion to some extent over the post-war period. By the 1970s one of its members, Milton Friedman, was a prominent voice in the political debates of Britain and the United States. One of its off shoots, the IEA, has been cited by numerous politicians as altering the economic and political debate in Britain.¹¹⁰ Margaret Thatcher famously (or at least supposedly) wielded Hayek's later work, *The Constitution of Liberty*, in a meeting in 1975.¹¹¹ Whether Hayek, and economic liberalism, could have exerted so much influence in the longer term if the Mont Pelerin Society had fractured is debatable, if moot. Yet his own thinking could be quite different from the best-known proponents of neo-liberalism, the Chicago School.

¹⁰⁸ Walter Block, 'Hayek's Road to Serfdom', In: *Journal of Libertarian Studies*, (12:2, Fall 1996, pp. 339-365), pp. 342, 365.

¹⁰⁹ Jeffrey M. Herbener, 'Ludwig von Mises and the Austrian School of Economics', In: *Review of Austrian Economics*, (5:2, 1991, pp. 33-50), p. 37.

¹¹⁰ Interview with Lord Ryder, 23 February 2011. Sir Adam Ridley, personal correspondence with the author, 15 May 2013.

¹¹¹ John Ranelagh, *Thatcher's People. An Insider's Account of the Politics, the Power and the Personalities*, (London: Harper Collins, 1991), p. ix.

The Chicago School

The Chicago School of economics was established by a group of thinkers in the 1920s and 1930s, including Frank Knight, Henry Simons, Jacob Viner and Lloyd Mints.¹¹² As we have seen, this ‘first’ Chicago School held some positions closer to that of the Freiburg neo-liberals. Henry Simons had stated that monopoly was ‘the great enemy of democracy...in all its forms’ and that ‘political and economic power must be widely dispersed and decentralised in a world that would be free’.¹¹³ Nevertheless, Simons was a mentor to Milton Friedman on issues such as monetary theory and the causes of the Great Depression.¹¹⁴ Friedman was to become the leader of the department from 1946, which Stedman-Jones has dubbed the ‘second’ Chicago School, and also included George Stigler, Aaron Director and Gary Becker.¹¹⁵ During the 1950s the positions of the School underwent a metamorphosis, in part due to long running projects, such as the ‘Free Market Study Group’ and the ‘Anti-Trust Project’.¹¹⁶ Firstly, this altered the Chicagoan perception of monopoly and competition. With George Stigler at the forefront, Chicagoans came to believe that monopolies were sustained by government but that also large companies could replicate the competition function.¹¹⁷ Friedman, who in 1951 appeared to still be Simons’ protégé, later relaxed his attitude towards any imposition of competition, stating that in most markets there existed ‘giants and pygmies side by side’ and that

¹¹² Stedman-Jones, *Masters*, p. 90.

¹¹³ Jackson, ‘At The Origins’, p. 142. Stedman-Jones, *Masters*, p. 99.

¹¹⁴ Stedman-Jones, *Masters*, p. 93.

¹¹⁵ Stedman-Jones, *Masters*, p. 91, 335.

¹¹⁶ Daniel Stedman-Jones, ‘The Influence of Transatlantic Neoliberal Politics’, seminar at Queen Mary University London, 22 October 2013.

¹¹⁷ Stedman-Jones, *Influence*.

there was a tendency to ‘overemphasise monopoly’.¹¹⁸ Secondly, the kind of ‘social’ proposals made by the early neo-liberals were slowly eroded.¹¹⁹ This may have been because of the changing realities of Western societies as the memory of the desperation of the 1930s and 1940s began to fade. Stedman-Jones believes business activism against the New Deal, as well as the Cold War, were important in ‘radicalising’ neo-liberalism.¹²⁰ Friedman explained the shift by saying Simons was willing to entertain a relatively active role for the state because he wrote ‘at a time when government was small by today’s (1962’s) standards.’¹²¹

Milton Friedman produced the first of his several influential works in 1962 with *Capitalism and Freedom*, soon followed by *A Monetary History of the United States*, co-written with Anna Schwartz. Friedman had opinions on a wide variety of topics, such as education vouchers, rent control and even legalising recreational drugs, but these books crucially outlined his ideas on ‘monetarism’, that the quantity of money in an economy was the key driver of inflation. American economist Irving Fisher’s 1911 work set out the simple quantity theory of money, showing that an increase in the volume of money decreased its value. Although abhorring inflation, Keynes rejected this thesis in his critique of Weimar Germany. Fisher’s theory was later adopted by Friedman.¹²²

¹¹⁸ Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962), pp. 121-123, Stedman-Jones, *Masters*, pp. 96-98. Friedman’s 1951 essay ‘Neoliberalism and its Prospects’, stated that government should preserve competition.

¹¹⁹ Stedman-Jones, *Masters*, p. 335.

¹²⁰ Stedman-Jones, *Influence*. Stedman-Jones, *Masters*, p. 329.

¹²¹ Friedman, *Capitalism*, p. 32.

¹²² Eamonn Butler, *Milton Friedman*. (Aldershot: Gower, 1985), p. 26.

Importantly, after *Capitalism and Freedom*, Friedman argued that economic freedom was the precursor to political freedom.¹²³ Friedman viewed markets as a means to disperse power and therefore freedom, whereas he thought these tended to be concentrated by the political process.¹²⁴ This was a departure in the development of neo-liberalism and also provided some justification for Friedman's later assistance to the Pinochet regime in Chile.¹²⁵ In general, however, the Chicago approach was a positivist one based on evidence, data and proof.¹²⁶ It also received a higher profile due to Friedman's political activism - he advised a number of US Presidents and candidates from Barry Goldwater to Ronald Reagan - and the clarity of his rhetoric. He managed to condense a little understood and complex theory, monetarism, into a memorable sound-bite: 'inflation is always and everywhere a monetary phenomenon.'¹²⁷ The strength of Friedman's ideas and personality, backed up by the prolific academics at Chicago, were some of the reasons the School became the most prominent in the neo-liberal movement after 1950. To suggest, as some contemporary writers on neo-liberalism have done, that this was part of the historical development of a homogeneous collective that coalesced around Chicagoan thinking from this point is again a simplification. It was true that the 'social' and anti-monopoly elements of neo-liberalism faded in the 1950s but these sentiments can only be significantly attached to the ordoliberal or first Chicago School. Neither the schools of thought nor the individuals retained rigid positions. Nevertheless there remained consistent distinctions between the Austrians and Chicagoans that are worth setting

¹²³ Stedman-Jones, *Influence*.

¹²⁴ Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to Blair, (1945-2005)*, (Abingdon: Routledge, 2011), p. 110.

¹²⁵ Milton Friedman, 'Commanding Heights' interview on PBS, 20 January 2000, [http://www.pbs.org/wgbh/commandingheights/shared/mini_text/int_miltonfriedman.html#10], accessed 24 April 2012.

¹²⁶ Skousen, *Vienna and Chicago*, p. 62.

¹²⁷ Stedman-Jones, *Masters*, p. 210.

out. Firstly, Austrians focused on microeconomic processes: Friedman of course made his name writing about macroeconomics. Monetary control required a government to restrict or expand the supply of money to limit inflation. Hayek's work on the business cycle in the 1930s advocated a *laissez-faire* approach to monetary policy that would, according to Hayek, allow an economy to more quickly move to equilibrium. In essence, Austrians rejected the concept of macroeconomics.¹²⁸ The two positions also differed on the need for a gold standard and fixed exchange rates, as Hayek supported, and Friedman's preferred floating rates. Chicagoans also believed empirical research was a necessity to prove their positions. This was never a priority for the Austrians, particularly Mises, and although Hayek did concede some empirical testing was relevant he also thought 'statistical studies don't get us anywhere.'¹²⁹ Lastly, the two differ on competition, monopoly and regulation. The Austrian view on 'antitrust' laws was that they were unnecessary, counterproductive and a violation of liberty.¹³⁰ Chicagoans moved some way to that but were never as 'hardline' as the Austrians. Skousen believed this was because many Chicagoans aided government in formulating antitrust laws in the United States.¹³¹ That is not to say there was not a great deal on which the two schools did agree but fundamentally there was a difference. Whereas the Austrians took a more puritanical view of market processes, Chicagoans accepted that the state could be used to further their objectives. That is to say thinkers like Milton Friedman believed they could propose practical stepping-stones to a more liberal society, or as he himself remarked much later, 'you

¹²⁸ Skousen, *Vienna and Chicago*, pp. 7-8.

¹²⁹ Gamble, *Hayek*, p. 12, Hayek, 'Road' interview.

¹³⁰ Gamble, *Hayek*, pp. 72-73.

¹³¹ Skousen, *Vienna and Chicago*, pp. 199, 218.

have to have some mechanism of going from here to there'.¹³² The ordoliberalists, however, reconciled themselves to a clearly defined role for the state from the 1930s.

The 'Post War Consensus'

An accepted historical narrative developed around post-war Britain, with some caveats (such as steel nationalisation), that described a broad orthodoxy. Labour then Conservative governments constructed a welfare state, moved industries under state control and saw the role of economic decision makers as Keynesian demand management. Recession and unemployment prompted the Treasury to intervene and inject money to reflate the economy. The ultimate success of the state-led action in World War Two convinced the British public that collectivism and a bigger role for government was beneficial.¹³³ The 'consensus' was the belief that both Labour and Conservative governments acted, despite their rhetoric, in similar ways. This was symbolized in 1954 by the term 'Butskellism', which represented the overlapping economic policies of Conservative Chancellor R.A. Butler and his Labour predecessor Hugh Gaitskell.¹³⁴ Subsequent Prime Ministers Harold MacMillan and Harold Wilson became associated with the policies of corporatism: government-led direction of the economy in conjunction with trade unions and business leaders. Corporatists believed power blocks in the market would confront each other unless their behaviour was co-ordinated centrally.¹³⁵ In his account of post-war Britain, Keith Middlemas wrote that a 'corporate bias' became 'institutionalised' during the

¹³² Skousen, *Vienna and Chicago*, p. 246. Milton Friedman, 'Say "No" to Intolerance', In: *Liberty* 4:6, July 1991, pp. 17-20), [http://mises.org/journals/liberty/Liberty_Magazine_July_1991.pdf], accessed on 28 November 2013, p. 20

¹³³ Barry, *New Right*, p. 8.

¹³⁴ *The Economist*, 13th February 1954.

¹³⁵ Barry, *New Right*, p. 132.

1950s.¹³⁶ This, in summary, meant that by the 1960s Britain was a heavily regulated society with the state involved throughout the economy, from incomes policies to price controls and trade union bargaining.

Despite the ‘never had it so good’ affluence under MacMillan just a few years later the country faced a number of problems: struggling from persistent inflation, low growth and productivity, occasionally crippled by strikes. Did, then, a post-war consensus ever exist? If it did, why did it break down? Andrew Gamble has argued that most Western social democratic regimes were legitimized by growth and prosperity after the War but that this did not convincingly happen in the UK and as a result was undermined.¹³⁷ Contemporary historians reject the consensus thesis, the extent of crises in the 1970s and cast doubt on the idea trade unions wielded as much power as many claimed.¹³⁸ Vinen has written that in some respects Margaret Thatcher was a defender of consensus, particularly in foreign policy, albeit more specifically of a 1940s, rather than a 1960s ‘progressive’ variety.¹³⁹ Nevertheless Conservative politicians were able to capitalize on both the consensus, and ‘declinist’, narratives that neo-liberals began to build. Matthijs has described the Party, along with the right wing press, as portraying the British state as under siege by the trade unions in the 1970s.¹⁴⁰ The New Right was openly questioning Keynesian answers to economic problems before and during this period. Opposition to Keynesian counter-cyclical

¹³⁶ Keith Middlemas, *Power, Competition and the State. Volume I. Britain in search of Balance 1940-61*, (Basingstoke: Macmillan, 1986), pp. 1, 342.

¹³⁷ Andrew Gamble, ‘Privatization, Thatcherism and the British State’, In: *Thatcher’s Law*, A. Gamble and C. Wells, eds, (Oxford: Basil Blackwell, 1989), p. 14.

¹³⁸ For instance, *The Myth of Consensus: New Views on British History, 1945-64 (Contemporary History in Context)*, H. Jones and M. Kandiah, eds, (Basingstoke, Palgrave Macmillan, 1996).

¹³⁹ Vinen, *Thatcher’s Britain*, p. 31.

¹⁴⁰ Matthijs, *Ideas and Economic Crises*, pp. 116-117.

spending was one issue that united the different strains of neo-liberalism examined here.¹⁴¹

As we have seen, as a result of Hayek's advice, the wealthy Fisher had founded the IEA in 1955. It has been considered the most important British think-tank in the post-war period and had a distinctive strategy. Ralph Harris and Arthur Seldon, in charge of the IEA during its formative years, produced pamphlets and papers that promoted free market ideas but were 'pure' in their approach. The IEA was not aligned to a political party and did not present specific policy recommendations. This work was not a question of what was possible, rather exercises that returned to liberal economic principles. A normative approach, framing the world as it could be as opposed to how it was, represented the influence of Hayek's Austrian lineage. As a result the Institute was initially considered outside mainstream political debate and somewhat eccentric.¹⁴² This image, however, may have suited the group and they did in fact receive sizeable donations from high profile businesses and seek to court influence.¹⁴³ In addition, neo-liberal influence exerted itself in the FBI (Federation of British Industries) and later the CBI (Confederation of British Industry) from the late 1950s until the early 1970s under the leadership of Arthur Shenfield and J.B. Bracewell-Milnes.¹⁴⁴ Both attended Mont Pelerin meetings and under their leadership the organisation called for pro-business neo-liberal measures such as a reduction in excessive government spending, confronting the trade unions, tax reform, cutting subsidies for the nationalised industries, opting out of the NHS, removing subsidies

¹⁴¹ Möschel, 'Proper Scope', p. 10.

¹⁴² Interview with Lord Owen, 17 January 2010.

¹⁴³ Ben Jackson, 'The think-tank archipelago: Thatcherism and neoliberalism', In: *Making Thatcher's Britain*, B. Jackson and R. Saunders, eds, (Cambridge: Cambridge University Press, 2012), pp. 49, 60.

¹⁴⁴ Neil Rollings, 'Cracks in the Post-War Keynesian Settlement? The Role of Organised Business in Britain in the Rise of Neoliberalism Before Margaret Thatcher', In: *Twentieth Century British History*, (24:4, 2013, pp. 637-659), p. 640.

on housing rents, and less bureaucracy.¹⁴⁵ These details have often been omitted from historical accounts of the period and indicate the role business leaders had in the post-war battle of ideas as well as weakening the notion that the FBI/CBI were part of a social democratic or Keynesian ‘consensus’.

Enoch Powell was the most prominent British politician associated with pro-market ideas in the 1950s and 1960s. He resigned as Chief Secretary to the Treasury over the Macmillan government’s economic policies in 1958, which he believed to be inflationary. Powell, also a member of the Mont Pelerin Society, had strong links with the IEA in the 1960s and allegedly attributed almost biblical significance to Hayek’s *The Constitution of Liberty*.¹⁴⁶ Ralph Harris (as well as Hayek and Friedman) thought Powell the best hope of implementing their ideas in Britain but his hugely controversial ‘Rivers of Blood’ speech in 1968 ended his career on the front bench and meant the task of pursuing reforms sought by the IEA was left to others.¹⁴⁷ Nevertheless, most historical narratives pinpoint Powell as the British politician keeping the liberal economic flame alive in the Conservative Party after the War. Indeed, according to Camilla Schofield, Powell’s combination of anti-Keynesianism and nationalism readied Britain for ‘Thatcher’s crusade’.¹⁴⁸ Vinen too highlights the importance of Powell on Thatcherism, saying his influence was ‘vastly more important’ than ‘Austrian philosophers’ or ‘American economists’.¹⁴⁹

¹⁴⁵ Rollings, ‘Cracks’, pp. 646-652.

¹⁴⁶ Simon Heffer, *Like The Roman. The Life of Enoch Powell*, (London: Weidenfeld and Nicolson, 1998), p. 266.

¹⁴⁷ Heffer, *Like The Roman*, pp. 367, 424.

¹⁴⁸ Camilla Schofield, ‘“A nation or no nation?” Enoch Powell and Thatcherism’, In: *Making Thatcher’s Britain*, B. Jackson and R. Saunders, eds, (Cambridge: Cambridge University Press, 2012), p. 98.

¹⁴⁹ Vinen, *Thatcher’s Britain*, p. 6.

Keith Joseph was introduced to the IEA in 1964 and Margaret Thatcher began to visit their offices around the same time. The think-tank had at that time recently published a book of essays called *The Rebirth of Britain*.¹⁵⁰ Keith Joseph was an unpredictable politician. His enthusiasm for the IEA and market-orientated policies was to fluctuate over the next ten years. The IEA, however, was not the only think-tank that became linked with the term New Right. The Bow Group was founded in 1951 by members of the Conservative Party and although not free of political influence like the IEA, became an important proponent of the free market. Geoffrey Howe, one of the key contributors to the Bow Group and editor (between 1960 and 1962) of its publication *Crossbow*, said that the organization was originally set up to promote a classless Conservative Party, a multiracial Commonwealth, liberal economics and One Nation conservatism.¹⁵¹ Howe said the idea for the group was primarily political seeking to provide a rival to the Fabian Society.¹⁵² There was some contact between the IEA and Bow Group, however, with members of the latter attending meetings of the former and IEA members writing articles for *Crossbow*.¹⁵³ From its inception the Bow Group contributed numerous pro-market articles that were to have some subsequent influence on the Thatcher government. Geoffrey Howe, for one, believes the Group has not been given the credit they deserved for this work.¹⁵⁴ The Bow Group though, was a different kind of organization to the IEA. Former members Julian Critchley and Simon Jenkins both noted by the mid-1960s the Group was being used by ambitious young politicians as a platform for Conservative candidate selection and became an important component in the Party's structure.¹⁵⁵ According to Barr's history of the

¹⁵⁰ Andrew Denham and Mark Garnett, *Keith Joseph*, (Chesham: Acumen, 2001), p. 137.

¹⁵¹ Interview with Lord Howe, 13 July 2009.

¹⁵² Interview with Lord Howe.

¹⁵³ Interview with Lord Howe.

¹⁵⁴ Interview with Lord Howe.

¹⁵⁵ James Barr, *The Bow Group. A History*, (London: Politico's, 2001), pp. 93-94.

Bow Group, it was only under Peter Lilley's chairmanship from 1973 to 1975 that the organization became explicitly aligned with the New Right and that it came into competition with the CPS when that was formed in 1974.

An example of the primacy of the IEA in promoting liberal economics can be seen when Geoffrey Howe decided to ask their advice on pension arrangements, as 'the Bow Group could not provide the level of expertise on the semi-professional basis which the IEA's founders, Arthur Seldon and Ralph Harris, could.'¹⁵⁶ Howe's links with the IEA and Bow Group along with his quiet determination subsequently made him perhaps the most committed economic liberal in the first Thatcher government. John Hoskyns later wrote of Howe in office that he 'repeatedly did the things that few of his predecessors would have dared to do. He seemed to me to be all action and very little talk.'¹⁵⁷ Howe's long-standing zeal for free market ideas was matched in government as Chancellor. Others, such as Keith Joseph and even Margaret Thatcher, were more cautious.

The New Right had a transatlantic link long before the well-publicized ideological 'special relationship' between Margaret Thatcher and Ronald Reagan in the 1980s. Friedrich Hayek taught in London and knew Milton Friedman at Chicago. They were both founder members of the Mont Pelerin Society. Ideas were shared between Britain and the United States as free market think-tanks proliferated, including the Heritage Foundation, the American Enterprise Institute and the Hoover Institution in the US. Barry Goldwater was important in the resurgence of economic liberal ideas in the United States. As the 1964 Republican Presidential candidate he was a

¹⁵⁶ Barr, *Bow Group*, p. 111.

¹⁵⁷ John Hoskyns, *Just in Time. Inside the Thatcher Revolution*, (London: Aurum Press, 2000), p. 399.

controversial figure, not least because he had opposed civil rights legislation. Nevertheless Goldwater brought his version of libertarian and free market ideas to the fore in his campaign as well as his book, *Conscience of a Conservative*.¹⁵⁸ Goldwater was instrumental in refashioning the Republican Party, moulding together two strands of thinking. It became the party that backed a smaller federal government and championed capitalism. In this respect Goldwater combined the ideas of Hayek and Public Choice theory. Secondly, social conservatism grew louder in its opposition to the (socially) liberal policies of the period, particularly after 1964, towards President Lyndon Johnson's 'Great Society' programmes. The process continued under Richard Nixon and by the time of Ronald Reagan's presidential victory in 1980 the politics of fiscal and social conservatism had become hugely influential in the United States. The American writer George Nash has described this process, of the coming together of the various strands of conservatism, as 'fusionism'.¹⁵⁹ This followed a similar, if less pronounced path in Britain. More liberal social policies in Britain, the 'permissive society', led to a backlash. Margaret Thatcher shared the conservative political instincts of Reagan. The trend can also be seen in the thinking of Keith Joseph, who made a call in 1974 to 'remoralise our national life'.¹⁶⁰ He sought to roll back the economic collectivism and social permissiveness of the post-war years and like many others wanted it replaced by the individualism of capitalism and collectivism of social conservatism.¹⁶¹

¹⁵⁸ Jeff Faux, *The Global Class War. How America's Bipartisan Elite Lost Our Future – and what it will take to win it back*, (Hoboken: John Wiley and Sons, 2006), p. 82.

¹⁵⁹ Stedman-Jones, *Masters*, p. 12.

¹⁶⁰ Matthew Grimley, 'Thatcherism, morality and religion', In: *Making Thatcher's Britain*, B. Jackson and R. Saunders, eds, (Cambridge: Cambridge University Press, 2012), p. 83.

¹⁶¹ Denham and Garnett, *Keith Joseph*, pp. 263-264.

The Early 1970s: the ideological battle takes shape

During his period in office in the 1960s Harold Wilson had presided over a sterling crisis and eventual devaluation and been forced to shelve the *In Place Of Strife* legislation that attempted to deal with growing trade union strikes. Edward Heath won the 1970 election with a manifesto, titled *A Better Tomorrow*, of free market measures promising to reform Britain's ailing economy.¹⁶² Wilson derided this as 'Selsdon Man' (after the Selsdon Park Hotel where the manifesto was discussed and set out) and the programme was discarded in 1972 as pressure on Heath mounted. 'Selsdon' has in fact been traced back to Heath's first year as party leader, in 1965, and a pro-market agenda rooted less in academic or think-tank theory than a desire for greater 'professionalism'.¹⁶³ Other policies that would come to fruition under the Thatcher government, such as council house sales and proposals to introduce business practices into the civil service, also developed under Heath.¹⁶⁴

The economic situation in Britain, however, continued to deteriorate. After the Yom Kippur war oil prices soared leaving the Western world with severe energy difficulties. This exacerbated unemployment and inflation in Britain, which, along with low productivity, induced *stagflation* (both a stagnating economy of low growth and high inflation). Industrial disputes, the worst being the 1972-74 coalminers strikes, left Britain in crisis, a three day week, its politicians unable to effectively confront trade union power. Add to this the spate of ever more violent atrocities by

¹⁶² Conservative Party Manifesto, 1970. [<http://www.conservative-party.net/manifestos/1970/1970-conservative-manifesto.shtml>], accessed 10 October 2010.

¹⁶³ Bale, *Conservatives*, pp. 130-135.

¹⁶⁴ Bale, *Conservatives*, pp. 137-138.

Northern Irish terrorists and Heath was faced with several seemingly intractable problems.

The main difficulty, however, was to repair the British economy. In the previous decade the Phillips Curve was fashionable, suggesting that employment could be bought at the cost of inflation. Yet this rule was apparently disproved in the early 1970s as both unemployment and inflation simultaneously rose. Conservative Chancellor, Anthony Barber, poured money into the economy to try and ease Britain's problems. The Conservatives were rejected at the polls in 1974, however, Harold Wilson's Labour government securing a narrow majority after the two elections that year. The economy continued to stutter throughout the rest of the decade. The explanations and analysis of these events prompted an ideological debate of growing intensity.¹⁶⁵ As we have seen, the crisis narrative was exploited by the right to propose a number of neo-liberal influenced policies.¹⁶⁶

Pro-market thinkers, many directly from or influenced by the Mont Pelerin Society, had ploughed a lonely furrow for twenty years, but were now being taken more seriously. An example of the disdain that many British politicians had held towards the New Right was a comment made in the House of Commons during a debate in 1968 on inflation by Labour MP for Stoke-on-Trent Central, Robert Cant. 'If the Friedman Chicago school of monetary theory is laughed at in the United States, why should we take it seriously here?'¹⁶⁷ This was to change, however. Think-tanks like the IEA *were* being taken notice of in the 1970s and ideas they promoted were being debated in the political mainstream. Monetarism was a key theme in discourse during

¹⁶⁵ Barry, *The New Right*, p. 115.

¹⁶⁶ Matthijs, *Ideas and Economic Crises*, pp. 116-119.

¹⁶⁷ Robert Cant, *Parliamentary Debates* (Commons), 766, 20 June 1968, 1304-6.

this period. Milton Friedman had worked extensively on the causes of the Great Depression. His critique concluded that a contraction of the money supply had led to depression, while post-war inflation was caused by excessive monetary expansion. Monetarism blamed inflation in the 1970s on government intervention in the economy. The monetarist prescription was to limit or control the money supply. Later monetarists in Britain split into several camps, including those who, like Friedman, believed in controlling the monetary base or others, such as those at the London Business School (LBS) and the University of Liverpool who developed the ‘rational expectations’ theory. This split was to become important during the first Thatcher government.¹⁶⁸

Monetarism was a good example of the different approaches of the New Right. Austrians, such as Hayek, saw little role for the state where as Chicagoans like Friedman believed that government had a responsibility for macroeconomic management.¹⁶⁹ In the 1970s monetarism became *de rigueur* in some British newspapers, most notably the *Daily Telegraph*, *Financial Times* and *The Times*.¹⁷⁰ Samuel Brittan’s *Financial Times* column took on a more free market tone from 1969, while Peter Jay (who wrote Jim Callaghan’s 1976 Labour Party Conference speech) had taken a more neo-liberal stance by 1974.¹⁷¹ Future Conservative politicians like Richard Ryder have also cited the influence of Maurice Green at the *Daily Telegraph* as an influence in spreading free market ideas.¹⁷² Alan Walters, an academic and later an advisor to Margaret Thatcher, wrote *Money in Boom and Slump* for the IEA in the

¹⁶⁸ Patrick Minford, ‘Inflation, unemployment and the pound’, In: *Margaret Thatcher’s Revolution. How it happened and what it meant*, S.Roy and J. Clarke, eds, (London: Continuum, 2005), pp. 50-66.

¹⁶⁹ Barry, *New Right*, p. 23.

¹⁷⁰ Cockett, *Thinking*, p. 183.

¹⁷¹ Jackson, ‘The think-tank archipelago’, p. 54.

¹⁷² Interview with Lord Ryder 23 February 2011, Jackson, ‘The think-tank archipelago’, p. 55.

late 1960s. It set out to prove that increasing the quantity of money in an economy, compared to growth in national income, caused inflation.¹⁷³ By using historical data Walters not only transmitted a Friedmanite idea, he employed the empirical style of the Chicago School. Terry Burns, then at the London Business School (LBS) said that Walters more convincingly explained the monetary events between 1973 and 1975 than others.¹⁷⁴ Margaret Thatcher's official biographer Charles Moore states the future Prime Minister had certainly read Walters' *Money in Boom and Slump* by September 1977. Likewise monetary economist Tim Congdon described his views being formed by, as well as theorists like Don Patinkin and Gottfried Haberler, the growing influence of Milton Friedman and his explanation of the inflation of the early to mid-1970s.¹⁷⁵ Future Conservative Chancellor of the Exchequer Norman Lamont said that he first learned of Friedman's ideas by reading *Money in Boom and Slump*.¹⁷⁶

Over the decade politicians in Britain absorbed ideas like monetarism, even if under sufferance. Labour MP Robin Cook said in 1979 that Friedman's 'spirit has hovered over our debates.'¹⁷⁷ Keith Joseph, after becoming involved with the IEA in the 1960s, and announcing his conversion to liberalism prior to the 1970 election remained strangely quiet about pro-market policies whilst serving as a high-spending minister in Edward Heath's government 1970-74. When returned to opposition, Joseph lambasted that government's record, embraced monetarism and went on a

¹⁷³ Alan Walters, *Money in Boom and Slump. An empirical inquiry into British experience since the 1880s*. (Tonbridge, IEA, 1971, first published 1969), pp. 16-17.

¹⁷⁴ Interview with Lord Burns, 12 May 2011.

¹⁷⁵ Interview with Tim Congdon, 24 February 2012. Don Patinkin was a monetary economist influenced by Keynes but one time lecturer at the University of Chicago. Gottfried Haberler was of the Austrian School and specialized in international trade.

¹⁷⁶ Stedman-Jones, *Masters*, p. 207.

¹⁷⁷ Robin Cook, *Parliamentary Debates* (Commons), 969, 4 July 1979, 1424-502.

speaking tour of the UK preaching the ideas of the New Right. He founded the ‘Hayekian’ CPS, along with Margaret Thatcher (although she later played down her role) in 1974 as an alternative to the Conservative Research Department (CRD) to promote the ideas of the free market.¹⁷⁸ One of Joseph’s aims at the CPS was to investigate and emulate the West German economic model, even using the term ‘social market economy’ (although the word ‘social’, disliked by Margaret Thatcher, was allegedly added only to soothe the harsh monetarist prescription). Joseph had hopes for a British ‘social market economy’ and produced a pamphlet based on his lecture tour called *Monetarism is Not Enough*. As we have seen, Joseph had an interest at this time in ordoliberal West German politicians like Ludwig Erhard and thinkers like Wilhelm Röpke. Other Conservative politicians openly became proponents of New Right ideas. For instance Rhodes Boyson, along with Ralph Harris and Ross McWhirter, set up the Constitutional Book Club in 1970. It published ‘Right Turn’ that year as well as publications that included ‘Goodbye to Nationalization’ (O’Sullivan and Hodgson, 1971), ‘Must History Repeat Itself’ (Fisher, 1974) and ‘Rape of Reason’ (Marks and Cox, 1975).¹⁷⁹ Other right wing groups that formed during this period included the National Association for Freedom (NAFF), whose prime concern was the assertion of individual rights against those of the trade unions.¹⁸⁰

Conservatives were not the only ones interested in strategies like monetarism. David Owen, then of the Labour Party, said he became convinced of the necessity of monetary discipline via Peter Jay, from 1973.¹⁸¹ James Callaghan also seemed to

¹⁷⁸ Stedman-Jones, *Masters*, p. 177.

¹⁷⁹ Cockett, *Thinking*, p. 176.

¹⁸⁰ Vinen, *Thatcher’s Britain*, p. 83.

¹⁸¹ Interview with Lord Owen, 17 January 2010.

acknowledge the new thinking in his speech to the Labour Party Conference as leader in 1976 – a speech penned by Jay, his son-in-law.¹⁸² Labour's Prime Minister was under pressure from the International Monetary Fund (IMF) and its loan conditions of that year. Terry Burns identified the IMF as at the vanguard of a movement towards more market orientated economic policies in the 1970s.¹⁸³ Contemporary historians use these points to demonstrate that in fact the Thatcher government was not the first to employ neo-liberal measures.¹⁸⁴ What we can say, however, is that the Thatcher government was considerably more enthusiastic in its embrace of economic liberalism than its predecessor. The acknowledgement of neo-liberal ideas like monetary control by both political parties, sections of the press, and institutions like the IMF indicated the broad interest in more market orientated policies by the 1970s.

Bridging the gap between ideology and politics

There are a number of important and influential writers and advisors who played a role in transporting New Right ideas into the realm of mainstream politics. Figure 1 shows how neo-liberal ideas were contextualised and popularised into mainstream British political and public debate. As well as think-tanks, journalists and other 'conduits' played an important role in this process. Adam Ridley, who worked at the CRD and subsequently the Treasury, believed the interest of Conservative politicians 'in a monetarist approach stemmed exclusively from intermediate exponents' such as Peter Jay and Samuel Brittan, the IEA and other figures like Gordon Pepper.¹⁸⁵ Other pro-market advocates such as Alfred Sherman, John Hoskyns and Norman Strauss

¹⁸² Kenneth O. Morgan, *Callaghan. A Life*, (Oxford: Oxford University Press, 1997), p. 535.

¹⁸³ Interview with Lord Burns, 12 May 2011.

¹⁸⁴ Stedman-Jones, *Masters*, pp. 215-272.

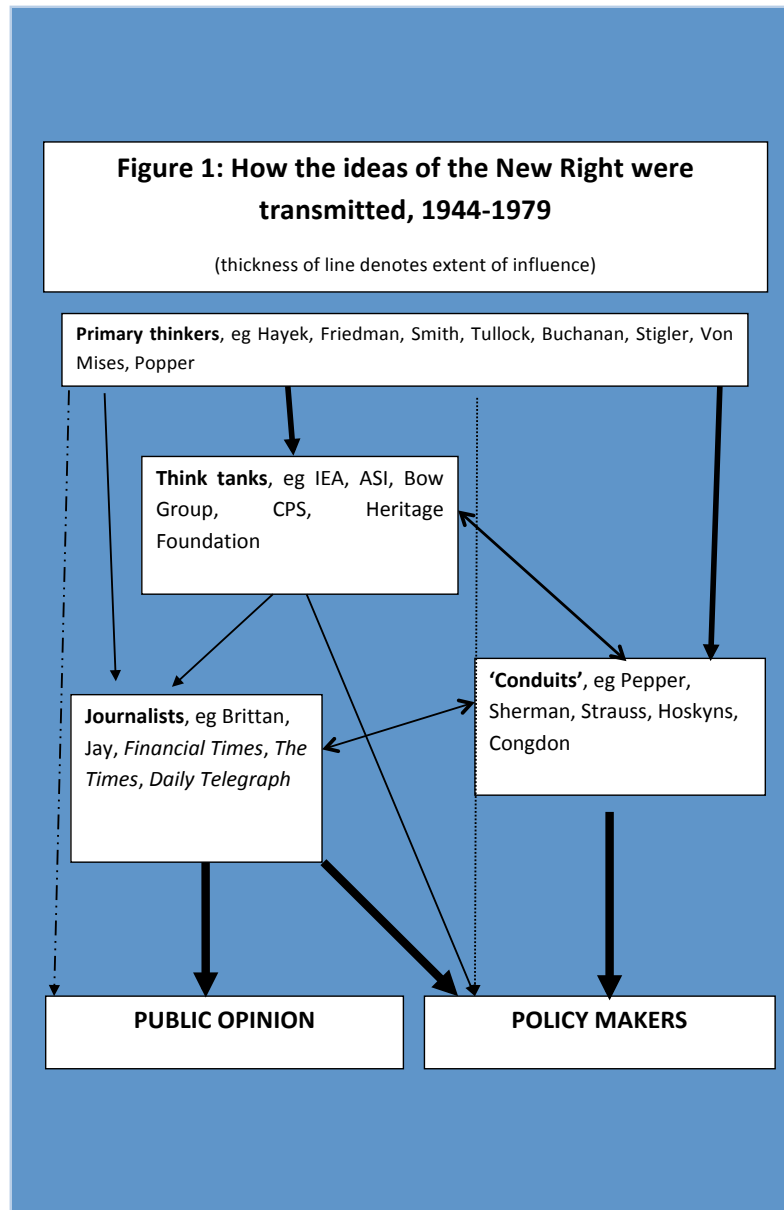
¹⁸⁵ Sir Adam Ridley, personal correspondence with the author, 2 May 2013.

came to influence future policy makers during this period. Sherman, who during the 1970s thought Margaret Thatcher had ‘beliefs, not ideas’ was the first director of the CPS, after its inception in 1974.¹⁸⁶ Sherman was attracted to ideological absolutism. He had fought in the Spanish Civil War in the 1930s on the side of the communists before subsequently converting to economic liberalism. As an advisor to Conservative politicians he offered an uncompromising and ‘pure’ free market programme often focusing on Hayek’s ideas.¹⁸⁷ Sherman proved instrumental in persuading Keith Joseph that New Right ideas were the answer to Britain’s economic problems. Joseph and Sherman were the principal ideological influences upon Margaret Thatcher in the early 1970s.¹⁸⁸

¹⁸⁶ Cockett, *Thinking*, p. 266.

¹⁸⁷ Interview with Lord Ryder, 23 February 2011, Gamble, *Hayek*, p. 167.

¹⁸⁸ Alfred Sherman, *Paradoxes of Power. Reflections on the Thatcher Interlude*, M. Garnett, ed, (Exeter; Imprint Academic, 2005), pp. 45-50.



John Hoskyns was another prominent advisor during Thatcher’s years as leader of the opposition. Similarly committed to the market as Sherman, as well as ‘all-encompassing theories’, Hoskyns co-authored the Stepping Stones report in 1977 that

was eventually considered too radical to publish.¹⁸⁹ *Stepping Stones* set out a political strategy, in particular towards trade union reform, that the Conservatives could potentially employ to improve both Britain's economic performance, and the Party's long-term fortunes. Norman Strauss was also a liberal who advised the Conservative Party in opposition in the 1970s as well as the CPS. Gordon Pepper was another neo-liberal who advised Geoffrey Howe and Margaret Thatcher on monetarism during their years in opposition.¹⁹⁰ Pepper worked in the City of London and provided a link between the business and finance sector and the Conservative Party. As well as influencing in particular Geoffrey Howe, Pepper had access to Conservative leaders when they gained power. Several documents reveal meetings and letters between Margaret Thatcher and Pepper.¹⁹¹ He consistently urged a strict monetary policy and became a critic of the government after 1987 when Nigel Lawson abandoned monetary targets.¹⁹² Tim Congdon was another monetary economist who influenced Conservative politicians in the late 1970s and while they were in office. Margaret Thatcher wrote in her memoirs that Congdon was an 'astute' economist while Nigel Lawson also mentioned him. His opinions were sometimes sought by the Thatcher government.¹⁹³ Congdon himself, in an interview in 2012, cited Peter Jay (while working together at *The Times*) as important in helping to form his own monetarist beliefs and unique in his prediction of the boom and subsequent inflation during the

¹⁸⁹ Vinen, *Thatcher's Britain*, p. 82.

¹⁹⁰ Lord Howe of Aberavon, 'Can 364 Economists all be Wrong?', In: *The Chancellors' Tales, Managing the British Economy*, H. Davies, ed, (Cambridge: Polity, pp. 76-112, 2006), p. 105.

¹⁹¹ Records of the Prime Ministers Office: Correspondence and Papers, 1979-1997. Held at the National Archives, Kew, London. PREM19/183, (Hereafter PREM19), meeting between Thatcher and Pepper, 18 July 1979, letter from Pepper to Thatcher, 16 May 1979, PREM 19/33, monetary seminar 18 July 1979.

¹⁹² M.J. Oliver, 'The macroeconomic policies of Mr Lawson'. In: *Contemporary British History*, (13:1, pp. 166-182, 1999), p. 178.

¹⁹³ Interview with Tim Congdon, 24 February, 2012. When interviewed, Tim Congdon said he believed Margaret Thatcher sometimes read his work although was not close to her personally. Nigel Lawson, in his memoirs (1993), wrote that Tim Congdon used to attend meetings of the 'Gooies', prominent economists of the day.

Heath years and its aftermath.¹⁹⁴ Jay has been consistently cited by politicians and journalists as an influence during the 1970s. Sherman, Hoskyns, Pepper, Congdon and Strauss were all important because they acted as conduits between raw theory and the business of policy making. That is not to say that Conservative politicians like Joseph and Thatcher suddenly became ideological theorists. Robin Harris wrote that Margaret Thatcher's exposure to the CPS and thinkers like Sherman allowed her to work through the connection between her political instincts and her political position, but that she was never 'converted' to neo-liberals like Hayek and Friedman.¹⁹⁵ Rather than these ideas provided the 'instruments' to seek to achieve already determined political goals that the then available tools seemed ill-equipped to reach.¹⁹⁶ Alfred Sherman said in 1990 that 'people like Keith and Margaret turned to Hayek and Friedman to justify what they already thought' while Enoch Powell expanded this to the Party as a whole in 1989: 'comprehensive theories are antipathetic to the Conservative mentality. It is suspicious of theory.'¹⁹⁷ This gives credence to the 'statecraft' thesis or a more general climate of ideas. For historians like Richard Vinen, 'Thatcherism was always about power, and it is the nature of power to adjust to circumstances'.¹⁹⁸ Conservative politician Peter Lilley has said that rather than exerting direct influence on Margaret Thatcher, the think-tanks of the 1970s provided a 'supporting wind'.¹⁹⁹

¹⁹⁴ Interview with Tim Congdon, 24 February 2012.

¹⁹⁵ Robin Harris, *Not For Turning. The life of Margaret Thatcher*, (London: Bantam Press, 2013), pp. 100-101.

¹⁹⁶ Harris, *Not For Turning*, p. 100.

¹⁹⁷ Ranelagh, *Thatcher's People*, pp. 182-183.

¹⁹⁸ Vinen, *Thatcher's Britain*, p.4.

¹⁹⁹ Interview with Peter Lilley, 7 February 2011.

Public Choice Theory

The main strands of neo-liberal thinking have so far been identified as the Austrian and Chicago Schools led by Hayek and Friedman respectively, and the lesser-known earlier variant *ordoliberalism*. The last significant grouping is Public Choice theory based at the University of Virginia. Gordon Tullock and James Buchanan were the thinkers most closely associated with Public Choice theory. Sometimes known as the economics of politics, Public Choice followed themes examined in *The Road to Serfdom*, which outlined what Hayek believed was the dangerous growth of the state. There is a link with several of the schools of thought studied here. Hayek's work warned of the dangers of an expanding state, Buchanan was once of the Chicago School while Razeen Sally believes an ordoliberal view of state power also influenced Public Choice.²⁰⁰ *The Calculus of Consent* (Tullock and Buchanan, 1962) and *The Politics of Bureaucracy* (Tullock, 1965) presented examples of the concerns of Public Choice theorists. The core features were that bureaucrats were characterised as operating in just as self-interested a manner as those in the private sector. Government, for Public Choice theorists, was too 'large and basically inefficient'.²⁰¹ They argued that bureaucracy was prone to expansion, inefficiency, waste, and that government was associated with processes that hamper market forces, such as perfect monopolies.²⁰² Tullock and Buchanan invoked the idea of 'rent seeking' in bureaucracy, that is to say a payment 'over and above that which resources could

²⁰⁰ Razeen Sally, *Classical Liberalism and International Economic Order. Studies in theory and intellectual history*, (London: Routledge, 1998), pp. 124-125.

²⁰¹ Gordon Tullock, *The Politics Of Bureaucracy*, (London: University Press of America, 1987, originally published 1965), p. 221.

²⁰² Gordon Tullock. *The Vote Motive. An Essay in the economics of politics, with applications to the British Economy*, (Hobart Paperback No. 9., IEA, 1976), p. 36.

command in any alternative use.’²⁰³ Rent seeking was said to be endemic in government and reflected a ‘diversion of value from consumers generally to the favoured rent seeker, with a net loss of value in the process.’²⁰⁴ Public Choice writers advocated a reduction in central government and more emphasis on local responsibility. Lastly, Buchanan and Tullock introduced the concept, similarly to market failure, of government failure. Margaret Thatcher capitalised on the belief that government failure was just as if not more likely than market failure.²⁰⁵ Public Choice theory looked at bureaucracy from a new perspective during this period and became influential. Not all neo-liberals, however, agreed with the ideas of Public Choice, thinking they made too much of an accommodation with the state.²⁰⁶ Admired by the Austrians for her libertarianism, novelist and writer Ayn Rand may have also had an indirect impact. Her ideas of ‘objectivism’ rejected any kind of state interference, encapsulated by her 1943 book *The Fountainhead*. Rand’s thinking has also been described as anarcho-capitalism. She influenced philosophers like Robert Nozick, was admired by Milton Friedman and also acted as a mentor to Alan Greenspan, subsequently the long serving Chairman of the US Federal Reserve.²⁰⁷

British thinkers also took up the ideas of Public Choice. Madsen Pirie, of the Adam Smith Institute (ASI, formed in 1977) later wrote that governments found it very difficult to cut their size and cost, while the incentive for the bureaucrat was to

²⁰³ James M. Buchanan, ‘Rent Seeking and Profit Seeking’, In: *Toward a Theory of the Rent-Seeking Society*, J. M. Buchanan, R.D. Tollison and G. Tullock, eds, (College Station: Texas A&M University Press, 1980), p. 3.

²⁰⁴ Buchanan, ‘Rent Seeking’, p. 7.

²⁰⁵ Clarke, *Question*, p. 316.

²⁰⁶ Alexander Shand, *The Capitalist Alternative: An Introduction to Neo-Austrian Economics*, (Frome: Wheatsheaf, 1984), pp. 182-183.

²⁰⁷ E. Hadas in conversation with Samuel Brittan. ‘Is Capitalism Morally Bankrupt?’ In: *Standpoint*. November 2008, [www.standpointmag.co.uk/node/573/full], accessed 6 May 2012, Friedman, ‘Intolerance’, pp. 17-18.

increase rather than diminish the work done in their department.²⁰⁸ The IEA's Arthur Seldon also popularized public choice ideas in the 1960s and 1970s, characterizing many employees of the state – from teachers to miners – as 'rent-seekers'.²⁰⁹ The idea of inefficiency in government sat neatly with other New Right themes such as reduced intervention in the economy and increased personal choice and liberty. The anti-state or smaller state movement probably had greater influence on the politics of the United States. Despite running huge budget deficits these ideas were perhaps most closely linked with Ronald Reagan's presidency: 'Government is not the *solution* to our problem. Government *is* the problem.'²¹⁰ Nevertheless reducing the size of the state has been consistently aligned with neo-liberalism and by association the Thatcher government. Donald Savoie, in *Thatcher Reagan Mulroney. In Search of a New Bureaucracy* (1994), wrote that Thatcher publically endorsed Public Choice as well as recommending literature on the subject to senior civil servants.²¹¹ The Prime Minister urged reform of bureaucracy in Cabinet meetings, to reduce 'unnecessary duplication, co-ordination and inefficiency' as well as setting up the Rayner and later Ibbs' task forces to investigate ways of achieving these aims.²¹² Public Choice also chimed with Keith Joseph's idea of the 'ratchet effect' of socialism.

Slimming the size of the state has been a notable neo-liberal theme. It was implicit in the work of the Chicago, Austrian and Public Choice schools, if not necessarily in *ordoliberalism*. It closely followed the message of Hayek's *The Road to Serfdom*. In

²⁰⁸ Madsen Pirie, *The Logic of Economics*, (London: Adam Smith Institute, 1982), pp. 28-29.

²⁰⁹ Noel Thompson, 'Hollowing Out of the State: Public Choice Theory and the Critique of Keynesian Social Democracy', In: *Contemporary British History*, (22:3, September 2008, pp. 355-382), p. 366.

²¹⁰ Ronald Reagan, Inaugural Address, 1981, [<http://www.reaganfoundation.org/reagan/speeches/>], accessed 13 October 2010.

²¹¹ Donald J. Savoie, *Thatcher Reagan Mulroney. In Search of a New Bureaucracy*, (London: University of Pittsburgh Press, 1994), pp. 27, 106.

²¹² Records of the Cabinet Office (hereafter CAB) CAB 128/66/22, 'minutes from the Cabinet Meeting 22/11/1979', Bale, *Conservatives*, p. 276.

addition, the emphasis of New Right think-tanks, according to Ben Jackson, shifted subtly during the 1970s from its previous focus on anti-competitive business practices to the problems of government. This may have reflected the funding of organisations like the IEA, who received donations from large companies like IBM, BP and Marks and Spencer.²¹³ Whether Public Choice theory exerted significant influence on the Thatcher government, however, is debatable. As we have seen, Conservatives had proposed greater professionalism and business methods in the civil service since the 1960s.²¹⁴ In addition, whether government actually shrank during Thatcherism has also been contested. Contemporary critics on the left believe that neo-liberals sought to ‘retask’ the state or simply use government in a different way, as opposed to doctrinaire reduction.²¹⁵

When Edward Heath was challenged for the leadership of the Conservative Party in 1975 some in the party hoped Keith Joseph would stand. A number of controversial speeches, invoking among other things eugenics, meant he did not seek the post. Tory MPs from the economic liberal wing of the party still wanted a representative, however, allowing Margaret Thatcher to stand and surprisingly, win. The year before Friedrich Hayek had been awarded the Nobel Prize in Economics with Milton Friedman emulating this in 1976. The tide was turning for the New Right and economic liberals. At the same time the movement began to see a longer decline in its reputation. This has been attributed by writers like Taylor Boas and Jordan Gans-Morse to Milton Friedman’s connections with the Pinochet regime in Chile from

²¹³ Jackson, ‘The think-tank archipelago’, pp. 47-49.

²¹⁴ Bale, *Conservatives*, p. 138.

²¹⁵ Jamie Peck, *Constructions of Neoliberal Reason*, (Oxford: Oxford University Press, 2010), p. 4, David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005) p. 21.

1975.²¹⁶ The link was made that neo-liberalism had authoritarian and anti-democratic tendencies, which could also feed into ideas of a 'strong-state'. The accusation that neo-liberalism required curbs on democratic processes has been levelled at not only Friedman, but also the Austrian and Freiburg Schools.²¹⁷

Margaret Thatcher as Leader of the Opposition

The years in opposition from 1974-79 saw a flurry of research and policy initiatives by groups close to the Conservative Party. New leader Margaret Thatcher was sympathetic to the principles of economic liberalism but was not, in public, zealously pro-market at this time. She, like her mentor Keith Joseph, had loyally served Edward Heath's government without dissenting over the U-turns or abandonment of the 1970 Selsdon programme. Margaret Thatcher was not as vocal about the virtues of the market compared to others like Geoffrey Howe, Nigel Lawson or Joseph himself. It was this period in the mid to late 1970s when high inflation and trade union strikes provided a space for Thatcher to use a different strategy, or at least one that pursued more of the neo-liberalism that the Callaghan government had already embarked upon. The difficulties Labour had in accommodating the unions and running the economy meant the Conservatives could allow Callaghan to govern himself out of office. The IMF loan of 1976 was a symbol of Britain's post-war decline, from major world power to debtor; the 'sick man of Europe'. The IMF attached structural conditions to the loan, which in part explained Callaghan's change in policy towards inflation. In their work, *Goodbye Great Britain*, Kathleen Burk and Alec Cairncross argue that 1976 was a year of crisis in particular and the turning point in ideas of

²¹⁶ Boas and Gans-Morse, 'Neoliberalism', p. 150.

²¹⁷ Molitor, 'Weakness', p. 38, F.A. Hayek, *Social Justice, Socialism & Democracy. Three Australian Lectures by F.A. Hayek*, (Turramurra: Centre for Independent Studies, 1979), pp. 39-45.

economic management.²¹⁸ Monetarism, however, was divisive in Britain, particularly as the only practical application of the doctrine was at that time in Chile. From 1975, Chilean dictator Augusto Pinochet allowed a group of economic liberals dubbed the ‘Chicago Boys’ to guide economic policy. They had either attended the University of Chicago in the 1950s and 1960s, or its affiliated institution, the Catholic University of Chile.²¹⁹ The crucial link here was with Milton Friedman, both a liberal and a libertarian. Presumably he would have approved of the economic policies and the intervention to control the money supply but not the oppression of human rights. In a letter to Pinochet in 1975, Friedman argued for ‘shock treatment’ to cure Chile’s ills, to reduce government spending by 25% within six months and for ‘the removal of as many obstacles as possible that now hinder the private market’.²²⁰ Friedman also used a phrase more synonymous with *ordoliberalism*: ‘The key economic problems of Chile are clearly twofold: inflation, and the promotion of a healthy social market economy.’²²¹

Friedman later commented that economic reform in Chile created a ‘miracle’ and that the adoption of pro-market policies allowed the country to make the transition to democracy in 1990. Friedman remarked in 2000 that ‘the really important thing about the Chilean business is that free markets did work their way in bringing about a free society.’²²² Friedrich Hayek also praised Chile as a development model. Margaret Thatcher, although broadly sympathetic to the Pinochet regime, did challenge Hayek on this in a 1982 letter. ‘The progression from Allende’s Socialism to the free

²¹⁸ Kathleen Burk and Alec Cairncross, *Goodbye Great Britain*, (London: Yale University Press, 1992), p. 215.

²¹⁹ Harvey, *Brief History*, p. 8.

²²⁰ Letter to General Pinochet from Milton Friedman, 21 April 1975, In: Milton Friedman and Rose Friedman, *Two Lucky People. Memoirs*, (Chicago: University of Chicago Press, 1998), pp. 591-594.

²²¹ Friedman and Friedman, *Two Lucky People*, p. 591.

²²² Friedman, ‘Commanding Heights’ interview.

enterprise capitalist economy of the 1980s is a striking example of economic reform. However, some of the measures adopted in Chile are quite unacceptable.²²³

Friedman and Hayek's attitude towards Chile signified a principle that has been attributed to contemporary understandings of neo-liberalism, that when democracy and markets collide, the latter will prevail. The theme is one that applies to many interpretations of neo-liberalism - that of a general disregard or disdain of democracy. Lastly, it presupposes another neo-liberal principle, that essentially markets create conditions for the state and civil society, not the other way round. From the more benign idea of the state of thinkers like Friedman and ordoliberalists like Röpke and Rüstow, to the harsher real-world manifestations like Pinochet's Chile, the market is the most important component in society. In this respect, using the state to secure conditions propitious for market mechanisms is the defining feature of neo-liberalism.

Jim Bulpitt has written that monetarism was used as a tool of Conservative 'statecraft' and argued it was an attempt to 'disentangle the central state from 'interests'' as well as a way to regain power.²²⁴ In the 1970s though, the Chilean example made it easy for British politicians to criticise monetarism and other neo-liberal measures by presenting the approach as part of an extreme programme. Dr Jeremy Bray, Labour MP for Motherwell and Wishaw, said in the House of Commons in 1976, 'when Friedman took on the job of advising the Chilean dictators they made slashing cuts in money supply, whereupon the rate of inflation escalated fantastically and the level of

²²³ Letter from Margaret Thatcher to Friedrich Hayek, 17 February 1982, MTF 117179, [www.margaretthatcher.org/document/117179] Accessed on 13/09/2012

²²⁴ Jim Tomlinson, 'Thatcher, monetarism and the politics of inflation', In: *Making Thatcher's Britain*, B. Jackson and R. Saunders, eds, (Cambridge: Cambridge University Press, 2012), p. 77.

unemployment soared.’²²⁵ In addition, the idea of macroeconomic control of the money supply was not agreed upon within the Mont Pelerin Society and threatened to cause a split between its two most notable protagonists. In a letter to the IEA’s Arthur Seldon in 1985, Friedrich Hayek wrote, ‘I have long regretted my failure to take time to criticize Friedman’s Positive Economics’ but was worried about ‘the constant danger that the Mont Pelerin society might split into a Friedmanite and a Hayekian wing.’²²⁶ For Hayek, control of money was yet another form of government intervention that was illiberal and would distort the market economy. Hayek advocated ending government monopoly on issuing legal tender to allow currency competition.²²⁷

Monetary policy as a means of bringing inflation under control, however, was becoming more prominent in British politics. Even Labour Ministers were abandoning Keynesianism. David Owen was ‘very disillusioned with the Labour Party in the 1970s’ but ‘hugely encouraged by Jim Callaghan’s speech in 1976’ (which Keith Joseph quipped could have been written by Milton Friedman) and that ‘Thatcher was helped by Callaghan and Healey’s acceptance of monetarism’.²²⁸ Critics on the left, such as Andre Gunner Frank, have criticised the 1970s governments of James Callaghan and Jimmy Carter as having introduced neo-liberal measures by stealth despite being elected on social democratic programmes. For

²²⁵ Dr Jeremy Bray, *Parliamentary Debates* (Commons), 910, 3 May 1976, 843-982.

²²⁶ Letter from Friedrich Hayek to Arthur Seldon, 13 May 1985, MTF 117203, [www.margarethatcher.org/document/117203], accessed on 13 September 2012.

²²⁷ Gamble, *Hayek*, pp. 169-170, F.A. Hayek, ‘Toward a Free Market Monetary System’, In: *Journal of Libertarian Studies*, (3:1, Spring 1979, pp. 1-8), [http://mises.org/journals/jls/3_1/3_1_1.pdf], accessed on 10 February 2014, pp. 1-5.

²²⁸ Interview with Lord Owen, 17 January 2010, *Parliamentary Debates* (Commons), 953, 4 July 1978, 253-380, Keith Joseph said ‘We thought that the Prime Minister, in that notable speech at the 1976 Labour Party conference – a speech that could have been drafted by Milton Friedman – had finally established in the Labour Party’s understanding that no country can spend its way of unemployment.’

Gunner Frank, this laid the foundation for Thatcherism and Reaganomics.²²⁹ The reality was that both Carter and Callaghan had to wrestle with the difficult conditions of rising energy prices and ‘stagflation’. Both were voted out of office in favour of more neo-liberal manifestos. David Harvey has written that the neo-liberal ‘revolutionary’ period took place between 1978 and 1980, when Reagan and Thatcher were elected, Deng Xiaoping opened up China’s economy and Paul Volcker became Chairman of the Federal Reserve.²³⁰ Harvey characterized Reagan as closer to the conservative libertarianism of Barry Goldwater. Paul Volcker, who drastically raised interest rates in an attempt to halt inflation was, according to Harvey, closer to Thatcher’s thinking in his adherence to neo-liberal methods. Deng Xiaoping, it was claimed, liberalised the Chinese economy in an attempt to emulate Japan, Hong Kong and the other Asian ‘tiger’ economies.

The rise of ‘declinist’ literature in the 1970s helped augment interest in the New Right.²³¹ The ongoing economic difficulties Britain experienced during the decade led intellectuals, politicians and the public to investigate alternative strategies. The IEA continued to publish pamphlets and papers in the 1970s but they were joined by other pro-market think-tanks. As we have seen, the CPS was founded in 1974 and although technically independent, clearly had close affiliation with the liberal economic wing of the Conservative Party. The Bow Group aligned itself with the New Right at this time and another group, the ASI was also set up. The ASI, founded by Madsen Pirie and Eamonn Butler, was not connected to a political party and unlike the IEA, actively sought to influence government policies.

²²⁹ Andre Gunner Frank, ‘No End to History! History to No End?’ In: *Social Justice*. (17:4 (42) Winter 1990), p. 17.

²³⁰ Harvey, *Brief History*, p. 1.

²³¹ Roger Middleton, *The British Economy Since 1945. Engaging with the Debate*. (Basingstoke: MacMillan, 2000), p. 65.

Margaret Thatcher was quite ambiguous about specific policies in opposition, which allowed some space for ideas.²³² This, in effect, created competition for the ear of the party leader amongst shadow cabinet members, who made various recommendations. A degree of rivalry – not all of it ideological - existed between the official CRD run by Chris Patten and the more radical CPS. Both were influential in several policy groups: *The Right Approach* (1976), *The Right Approach to the Economy* (1977) and *Stepping Stones* (1977). These have been viewed as key documents from the period and have been examined in much of the literature on Thatcherism. *The Right Approach* was published as a Conservative Party pamphlet. It did not contain radical measures but did underline some of the general themes: ‘Socialist policies have been a major cause of these distortions of our economy. The Socialist obsession with extending the power of the State has led to widespread nationalisation and to massive growth of government spending and bureaucracy.’²³³

The Right Approach did make a brief allusion to monetarism when talking about collective bargaining. ‘Monetary restraint, including the setting of targets for monetary expansion, is a key feature of economic policy, though by no means the only one. Excessive wage claims should clearly not be accommodated by an easy expansion in bank lending.’²³⁴ Rising labour costs and trade union demands had exacerbated stagflation in the 1970s by causing ‘wage stickiness’ (the cost of wages not responding to other market signals, such as declining productivity).

²³² Aneeka Patel, ‘The Dawn of Thatcherism, 1975-79’, (London: QMUL, unpublished MA thesis, 2009), p. 49.

²³³ MTF 109439, *The Right Approach* (London: Conservative Central Office, 1976), [<http://www.margaretthatcher.org/document/109439>], p. 21, accessed 19 October 2010.

²³⁴ *ibid.* p 38.

The following year came *The Right Approach to the Economy*, authored by Conservative MPs Keith Joseph, Geoffrey Howe, David Howell and Jim Prior. This again emphasised the necessity of realistic and responsible collective bargaining. In this document, however, the explicit control of the money supply was outlined as well as a reduction in the Public Sector Borrowing Requirement (PSBR).²³⁵ There was a prescription of ‘strict control by the Government of the rate of growth of the money supply and of its own spending. Unless public spending is reduced, price inflation cannot be contained.’²³⁶

Here we can see the direct application of New Right thinking into (albeit in opposition) a policy making document. Margaret Thatcher later thought much of the Party’s politics were weak in opposition but the formulation of ideas was vital.²³⁷ The two main themes of *The Right Approach* and *The Right Approach to the Economy* were the urgency to tackle industrial relations and the persistent problem of inflation. From 1976 to 1978 the Callaghan government attempted to forge a ‘social contract’, an underlying agreement with the TUC to limit pay rises to (an arbitrary) 5%. Over this period the fragile compromise seemed to have some effect as inflation declined and strikes were kept at bay.²³⁸ So good, in fact, were things looking for the Labour government that Callaghan almost called an election in Autumn 1978, his personal popularity constantly remaining higher than that of Margaret Thatcher. This was to prove a pivotal moment in post-war British history. Callaghan dithered and did not go to the polls and was to rue his decision as the social contract came apart. The ‘Winter

²³⁵ Geoffrey Howe, *Conflict of Loyalty*, (Basingstoke: MacMillan, 1994), p. 101.

²³⁶ *The Right Approach to the Economy*. (London: Conservative Central Office, 1977) p 7, MTF 110203, <http://www.margaretthatcher.org/document/110203>, accessed on 19 October 2010.

²³⁷ Margaret Thatcher, *The Path to Power*, (London: Harper Collins, 1995), p. 317.

²³⁸ H. Conroy, *Callaghan*. (London: Haus Publishing, 2006) p 106. The obvious exception to this was the fire service strike from November 1977-January 1978 when Second World War ‘green goddesses’ were brought into service.

of Discontent' cost him his majority and gave added legitimacy to not only the Conservative policy recommendations in opposition but also the general intellectual climate that a change in approach was needed. Margaret Thatcher also identified individual responsibility and law and order as paramount, as opposed to the permissive and collectivist culture that she thought had predominated since the 1960s.²³⁹ She saw the turmoil of 1970s Britain as a loss of state authority that had to be reversed.²⁴⁰ The crisis and declinist narrative, particularly after the Winter of Discontent, were relentlessly exploited by Thatcher according to Matthijs.²⁴¹ The strikes of 1978 and 1979 also inadvertently acted as a 'stepping stone', of the kind described by Hoskyns in his unpublished report.²⁴²

Although her beliefs during this period were developing, by the time she came to power Thatcher was more explicit in extolling the potency of the market. In a speech in 1979 she said: 'the greatest economic successes since 1945 have come in those nations where free enterprise has been allowed to flower without impediment.'²⁴³ One account sets out Thatcher's three objectives upon coming to power: to significantly change the conduct of fiscal and monetary policy, a 'conscious redefinition of the role of the state in the economy with a renewed emphasis on the virtues of the free market', and a gradual rebalancing of relations between labour and capital in favour of the latter.²⁴⁴ The re-imposition of the authority of the state and an economy powered more by free enterprise gives broad credence to a 'free economy-strong

²³⁹ Earl.A. Reitan, *The Thatcher Revolution. Margaret Thatcher, John Major, Tony Blair, and the Transformation of Modern Britain, 1979-2001*, (Oxford: Rowman and Littlefield Publishers, 2003), p. 18.

²⁴⁰ Gamble, 'Privatization', p. 1.

²⁴¹ Matthijs, *Ideas and Economic Crises*, p. 115.

²⁴² Matthijs, *Ideas and Economic Crises*, p. 115.

²⁴³ The Papers of Margaret Thatcher, (Cambridge: Churchill Archives, hereafter THCR), 2/6/2/170. Draft speech for Margaret Thatcher, written by Hugh Thomas for the European Democratic Union dinner, 12 July 1979.

²⁴⁴ Matthijs, *Ideas and Economic Crises*, p. 122.

state' thesis, although in a cruder way than envisaged by the Freiburg neo-liberals of the 1930s. For them a strong state was about allowing markets to operate efficiently and providing preferable social outcomes by preventing monopoly and corruption of the political process.

Stepping Stones, a policy project led by John Hoskyns working with Norman Strauss during 1977 and 1978, was never published. It is of some significance for the insights it provides into the ideas being tabled at the time, the internal divisions in deciding policy and the battle between neo-liberal ideology and political expediency. Margaret Thatcher decided that the publication of Stepping Stones would be too much of a risk and could make the public wary of her leadership. In her memoirs, however, she claimed Stepping Stones had been the main inspiration behind policy formulation.²⁴⁵ Some historians believe Stepping Stones has been mythologized by Thatcherites, while others see certain policies, such as trade union legislation, as evidence that the approach was actually employed in power.²⁴⁶ Hoskyns' role was to 'produce and outline a 'strategy framework' for the Tory Party to cover what we have called the *Turn-around*.' This was intended to formulate a set of policies that could provide substance for a manifesto or programme in government.²⁴⁷

Strategically Hoskyns thought that policies 'will in some cases require changes in "public consciousness" before they are politically possible.'²⁴⁸ This was envisaged as 'Phase Three of a process which starts with the injection of new ideas, in order to

²⁴⁵ Margaret Thatcher, *The Downing Street Years*, (London: HarperCollins, 1993), p. 40.

²⁴⁶ Vinen, *Thatcher's Britain*, p. 90, Matthijs, *Ideas and Economic Crises*, p. 132.

²⁴⁷ The Hoskyns' Papers, (Cambridge: Churchill Archives, hereafter HOSK), 1/21 'Second Draft of note by Hoskyns to Keith Joseph summarising the "assignment you would like me to undertake"', 14 July 1977.

²⁴⁸ HOSK 1/105, 'Progress report of the Policy Search Group', 10 April 1978.

soften up public opinion, followed by public debate, leading finally to the implementation of policy through legislation.²⁴⁹ This fitted with Hayek's views on shifting the ideological climate before the governing reality could change. This process had in fact been taking place for several years before Hoskyns' 1978 comment. As we have seen, some politicians, journalists, commentators and academics, had accepted some of the tenets of neo-liberal thought over the previous decade. This shift meant that some of the policies found in *Stepping Stones* would indeed become 'politically possible'.

One conversation between Geoffrey Howe and Hoskyns in August 1977 showed the priorities of the then Shadow Chancellor. Hoskyns said that Howe's key policies were curing inflation ('he agreed the real explanations of inflation are a combination of Keynes and Friedman') and to create a liberal economic climate by deregulation, switching from direct to indirect taxation and reducing the overall tax burden.²⁵⁰ Howe also wanted to 'liberalise exchange control on capital outflows' and discussed his enterprise zone idea.²⁵¹ It is also clear that Hoskyns became infuriated at the reluctance of Margaret Thatcher and her shadow cabinet, as well as the CRD, to take a more radical position. In one note to Keith Joseph, Hoskyns wrote 'my interpretation is at present that she (and therefore her advisors) are completely lost and confused.'²⁵² The friction between Hoskyns and Chris Patten at the CRD was also a regular theme. Hoskyns accused Patten of being 'concerned with election results

²⁴⁹HOSK 1/105, 'Progress report'.

²⁵⁰ HOSK 1/33 'Detailed notes by Hoskyns for Norman Strauss and Terry Price relating to his meeting with Geoffrey Howe', 26 August 1977.

²⁵¹ *ibid.*

²⁵² HOSK 1/18, 'Handwritten notes by John Hoskyns following Keith Joseph's conversation with Margaret Thatcher on the development of Hoskyn's ideas', 10 July 1977.

only. He therefore sees no need for the stick-on-stick process of changing attitudes and behaviour for the long haul.’²⁵³

The Right Approach, *The Right Approach to the Economy* and *Stepping Stones* had some impact in guiding the Conservative Party’s policies. There were a number of other groups that would also be significant, such as the Economic Reconstruction Group, and Nicholas Ridley’s report on the nationalised industries. The work produced by the IEA, Bow Group, CPS and ASI also had some impact. Some of their recommendations would be examined as discrete policies, such as the Bow Group’s work on enterprise zones, but for the most part the collective work done by the New Right during this period acted as pressure or a ‘supporting wind’ for liberal economic ideas. Some of the ways in which ideas were transmitted from original thinkers such as Hayek to politicians and public opinion are shown in figure 1. In the British context this meant that intermediaries were often important, from academics like Alan Walters to journalists like Peter Jay and Samuel Brittan, to think-tanks like the IEA and CPS. Rarely were these direct disciples of one ideological viewpoint. One could say the IEA and CPS were more generally Hayekian or that Walters’ monetarism was Friedmanite but more than likely there would be an array of influence on groups and individuals. This may have also been a reason that neo-liberalism became homogeneous to many. What we can say, however, is those that made direct policy recommendations were leaning more towards Friedman’s Chicago School. This is for the simple reason the Chicagoans dealt in evidence, data analysis and therefore real world models. The more philosophical and abstract Austrian School, based on first principles, was less suited to direct influence or the ‘politically possible’. This may

²⁵³ HOSK 1/80, ‘Copy of a letter by Hoskyns to Keith Joseph relating to a note by Christopher Patten, “Further thoughts on strategy”’, 27 February 1978.

have also been a reason that the modern reading of neo-liberalism in general took on a Chicagoan hue. These distinctions though, were probably not important to the Conservatives as the 1979 election approached. The problems of an unstable economy and trade union militancy were uppermost in voters', and the Party's, thinking. The events of the decade, and most recently the Winter of Discontent, created the opportunity for a change in approach. Margaret Thatcher won a clear majority on 3 May 1979 and wrote to Friedrich Hayek a few days later:

I am very proud to have learnt so much from you over the past few years. I hope that some of those ideas will be put into practice by my Government in the next few months. As one of your keenest supporters, I am determined that we should succeed. If we do so, your contribution to our ultimate victory will have been immense.²⁵⁴

Whether the *Constitution of Liberty*, and Hayek's ideas in general, would in fact be 'what we believe' – as Thatcher is once reported to have insisted - is examined in the following chapters.

²⁵⁴ MTF 112178, 'Letter from Margaret Thatcher to Friedrich von Hayek', 18 May 1979, [www.margaretthatcher.org/document/112178], accessed 1 May 2012.

Conclusion

The rise to prominence of New Right ideas was due to several mechanisms. Liberal economic thinkers such as Friedrich Hayek and Milton Friedman provided the intellectual foundations as a response to the rise of collectivism in the early to mid twentieth century. They represented thinking from the Austrian and Chicago Schools respectively and although agreeing on much, also took distinctive positions on several issues. The Freiburg School of thinkers in 1930s and 1940s Germany, also called ordoliberalism, was in fact the first recognizable version of neo-liberalism. Influencing post-war West Germany this movement put more emphasis on social outcomes and measures such as enforcing competition than their Austrian and Chicagoan counterparts. The ordoliberal heritage was aligned with Thatcherism later by academics such as Andrew Gamble by invoking the ‘free economy- strong state’ theme.

Neo-liberal ideas were contextualized and condensed by think-tanks and journalists that, over the space of 30 years, altered the ideological climate. Eventually these principles gained traction. The model that the think-tanks and writers like Hayek wanted to emulate, in the British context, was the Fabian Society. Much has been made of the impact of the New Right but in the 1970s the first major policy that gained a degree of acceptance in Britain was the cross-party interest in monetary control. Journalists such as Peter Jay and Samuel Brittan provided a bridge between theory, think-tanks and public opinion. Newspapers like the *Daily Telegraph*, *Financial Times*, *The Times* and *The Economist* were important in altering perceptions in the 1970s. Lastly, economically liberal ‘conduits’ influenced

politicians by promulgating the virtues of the market. Gordon Pepper, John Hoskyns and Alfred Sherman, amongst others, helped persuade some Conservative politicians of the credibility of neo-liberal ideas. Out of these politicians it was Geoffrey Howe who had the longest standing interest in liberal economics and who most doggedly pursued New Right ideas during the first Thatcher government. He was determined in his policy of monetary restraint to tame inflation and was at the forefront in implementing several liberal reforms: removal of exchange controls, enterprise zones and lower rates of income tax. Although Hayek and the Austrian School were seemingly at the forefront of the revival of economic liberalism, it was the Chicago School and its embrace of utilizing the state, which would most closely influence the Thatcher government.

**Chapter Two: The New Right and the Thatcher government. Domestic
Economic Case Studies.**

The previous chapter looked at the different schools of thought that led the resurgence in liberal economics before and after the Second World War and how they began to exert influence on the political process in the 1970s. The ideological debate took place especially intensely around economic policy and in particular the control of inflation. New Right thinkers believed that markets and fiscal conservatism should be privileged over Keynesian economic instruments. The next two chapters will consider several case studies, split into the domestic economic and social policy of the Thatcher government. Differing strands of neo-liberal thought will be shown to have been present (to varying levels) in the different examples, from a broad shift in thinking, pressure from journalists to more precise think-tank inspired recommendations. New Right models will be shown to have been implemented in a more faithful way in economic rather than social policy. Lastly, although a number of thinkers can be seen to have had an impact, it was the more expedient brand of neo-liberalism of Milton Friedman and the Chicago School that was more important than other strands, such as Friedrich Hayek and the Austrian School. Monetary policy will be examined first as this was central to the government's early anti-inflation strategy. Exchange control removal and enterprise zones will also be considered because of their significance as pro-market signals as well as the first step towards broader deregulation.

The Thatcher government made economic recovery its priority following the inflation inducing growth, and at points 'stagflation' of the 1970s. The manner in which

familiar Keynesian instruments were abandoned demonstrated how Thatcherism broke with accepted orthodoxy and was influenced by the New Right, most significantly with monetary control between 1979 and 1983. Exchange controls had existed since the outbreak of World War Two but were abruptly abolished by Chancellor of the Exchequer Geoffrey Howe soon after coming into office in 1979. Enterprise zones were a novel idea to stimulate business and jobs in run down inner city areas on state owned land. These three areas: economic policy, exchange control removal and enterprise zones will be examined in order to show the perceived successes and limits of New Right recommendations during the early years of Thatcherism. This will be continued in the next chapter by analysing several social reforms. There was a spectrum of New Right influence in domestic policy, with early economic policy, removal of exchange controls and enterprise zones some of the 'purer' –if still compromised - applications of this, compared to the more limited implementation of social reforms.

It was during the crises of the 1970s (stagflation, oil price hikes, widespread industrial action) that journalists, politicians and possibly even the general public began to entertain the possibility of challenging the status quo. The model of Keynesian economic policies, collective bargaining by powerful trade unions and heavily regulated private enterprise appeared to be faltering. Some, such as the left of the Labour Party and militant trade union leaders (as well as an increasingly vocal Trotskyist left) believed this was the opportunity to pursue a more socialist path. The inevitable crises and eventual collapse inherent in capitalism were, according to Marxist analysis, apparently close at hand.²⁵⁵ What these groups proposed was higher

²⁵⁵ See Ernest Mandel's provocatively titled *Late Capitalism* (1978). In Britain Trotskyism had some

taxes, more nationalization and state control. MPs like Tony Benn came to encapsulate this line of thinking in mainstream British politics and it was to cause the schism in the Labour Party that led to the creation of the centre-left Social Democratic Party (SDP) in 1981. On the pro-market right, however, a different viewpoint was taken. According to liberals, the problems of the 1970s were down to the ‘ratchet’ effect of socialism. New Right thinkers proposed a shift to market orientated policies which would allow British companies and individuals to create wealth and help the economy grow. The public sector was perceived to be ‘crowding out’ the private sector during this period. It was this polarized ideological debate that made the change of the period so turbulent. For economic liberals though, the basic importance of free markets was not in question, but what they should look like.

This section will illustrate that the Thatcher government, in particular during the first term, pursued an economic strategy that was rooted in the thought of the New Right, in particular of the Friedmanite brand of neo-liberalism. This will contrast with the more complex compromises that occurred when trying to apply economic liberal ideas to social policy.

The First Thatcher Government’s Economic Policy

With a majority of 43 seats and after a decade of apparently interminable problems, manifest in the Winter of Discontent, James Callaghan’s ‘sea-change’ narrative suggested many would be receptive to a new approach in 1979.²⁵⁶ Several of the themes that became most synonymous with Thatcherism: privatization, a showdown

influence in left wing groups in the 1970s such as the Socialist Worker’s Party and Anti-Nazi League.
²⁵⁶ Kenneth Morgan, *Callaghan: A Life* (Oxford: Oxford University Press, 1997), p. 697.

with the trade unions, Big Bang in the City of London; were to lie ahead. Some economic liberal writers have concluded that the first Thatcher government was too slow in bringing about reform and that the only major success was the reduction in inflation.²⁵⁷ In its pursuit of this goal unemployment rocketed to three million by January 1982, the figure having been less than one million in 1975. The economic policies and deregulation of the first term, however, paved the way for later reforms. Although Geoffrey Howe (Chancellor from 1979-83) said ‘I didn’t give myself a course in economics’ he introduced significant changes rapidly when he came into office based on the ideas of economic liberals.²⁵⁸ Exchange controls were abolished in 1979 and monetary targets quickly introduced. Margaret Thatcher described the former as showing the rhetorical commitment to the market would be matched by action, and Howe initiated the idea he had enthused about in opposition, enterprise zones.²⁵⁹ Howe, influenced by Professor Peter Hall at the University of Reading and aided by the Bow Group had built on ideas from a 1961 series on urban renewal relating to New Towns.²⁶⁰ Howe’s key speech on enterprise zones was on the Isle of Dogs in 1978, three years after he had asked the Bow Group for help on the topic.²⁶¹ The policy was to have some results during the 1980s, most notably in Canary Wharf in London, transforming the derelict Docklands area into a world financial centre.

Firstly, though, the early economic policy of the Thatcher government will be examined as so much else was built on this. The quest to defeat inflation and reduce public borrowing was the primary goal for the Conservatives in 1979. Inflation had dogged the British economy for several years (it was 10% in May 1979, down from

²⁵⁷ Martin Holmes, *The First Thatcher Government. 1979-83*, (Brighton: Wheatsheaf, 1985), p. 68.

²⁵⁸ Interview with Lord Howe, 13 July 2009.

²⁵⁹ Margaret Thatcher, *The Downing Street Years*, (London: HarperCollins, 1993), p 40.

²⁶⁰ Interview with Lord Howe, 13 July 2009.

²⁶¹ James Barr, *The Bow Group. A History*, (London: Politicos, 2001), p. 159.

27% in 1975).²⁶² By 1983 it had fallen to 4% and remained low until the end of the decade and the ‘Lawson Boom’. The methods used to bring this down were to exacerbate an already deep recession, the dogmatic adherence to monetary control suggesting economic policy in the Thatcher government was guided by ideology.

Neo-liberals, such as those from the Chicago School or London Business School (LBS), believed a key role of government was to maintain stable and benign macroeconomic conditions.²⁶³ Although the means to achieve the objective differed, the importance of this was shared by all the strains of neo-liberalism studied here. For instance, one of the architects of *ordoliberalism* Walter Eucken outlined in ‘Policy for a Competitive Order’ his primary goal as monetary policy and a stable currency, isolated from political influence.²⁶⁴ The most prominent ‘monetarist’, however, was Milton Friedman. He firmly opposed inflation, as did all neo-liberals, for a number of reasons. Friedman had written extensively on the monetary conditions that he believed caused the 1930s Depression and that a contraction of the supply of money made a recession much worse.²⁶⁵ According to Friedman, where inflation occurred in an attempt to prevent or ease unemployment it caused several problems. Wages and prices increased while productivity and output often did not. ‘Wage stickiness’ occurred, whereby wages should have (if left to the free market) decreased with declining productivity but were either maintained or increased. Friedman’s critique of the Philips Curve showed that inflation and unemployment were not mutually

²⁶² *The Guardian*, ‘Inflation since 1948’,

[<http://www.guardian.co.uk/news/datablog/2009/mar/09/inflation-economics>]. Accessed on 07/05/2013.

²⁶³ Norman Barry, *The New Right*, (Beckenham: Croom Helm, 1987), p. 23.

²⁶⁴ Wernhard Möschel, ‘The Proper Scope of Government Viewed from an Ordoliberal Perspective: The Example of Competition Policy’, In: *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift für die gesamte Staatswissenschaft*, (157:1, 2001, pp. 3-13), p.10.

²⁶⁵ Milton Friedman, *Capitalism and Freedom*, (Chicago, University of Chicago Press, 1962), p. 38.

exclusive; one could not simply be bought at the cost of the other but could happen concurrently.²⁶⁶ This challenged post-war orthodoxy. In his 1963 book *A Monetary History of the United States*, written with Anna Schwartz, Friedman's much repeated phrase was first set out: 'Inflation is always and everywhere a monetary phenomenon.'²⁶⁷ Friedman rejected Keynesian demand management, asserted that the Philips Curve was a temporary phenomenon and that both unemployment and inflation had risen in the 1960s and 1970s.²⁶⁸ His ideas were taken up in the 1970s by think-tanks such as the IEA, journalists such as Peter Jay and Samuel Brittan and economists like Gordon Pepper, David Laidler, Brian Griffiths, Alan Walters and Geoffrey Wood.²⁶⁹ The growing interest in this theory also attracted academics like Terry Burns and Alan Budd, who examined the international dimension of monetarism at the London Business School.²⁷⁰ Burns later said he introduced monetary elements into his LBS research because the previous Keynesian models and forecasts had performed poorly during 1972 and 1973.²⁷¹ Keith Joseph was the most prominent politician interested in monetarism during this period and made several speeches that advocated the technique. It was the International Monetary Fund (IMF), however, which first imposed monetary discipline on a British government, as part of the conditions of the 1976 loan.²⁷²

Monetarism reasoned that excess money had to be squeezed out of a system to bring inflation under control, so that prices would increase only in a slow and steady

²⁶⁶ Milton Friedman, *Inflation and Unemployment: The New Dimension of Politics*. The 1976 Alfred Nobel Memorial Lecture. (London: IEA, Occasional Paper 51, 1977), p. 12.

²⁶⁷ Milton Friedman and Anna Schwartz, *A Monetary History of the United States*, (Princeton University Press, first published 1963)

²⁶⁸ Friedman, *Inflation*, pp. 12-23.

²⁶⁹ Sir Adam Ridley, personal correspondence with the author, 2 May 2013.

²⁷⁰ Ibid.

²⁷¹ Interview with Lord Burns, 12 May 2011.

²⁷² Ibid. Burns said that the IMF accepted monetary control 'early'. Adam Ridley also acknowledged the role of the IMF.

fashion. Monetarists reasoned that when inflation was rising, the rate of growth of money supply should be reduced, while deflation should be met with a monetary expansion.²⁷³ By most calculations, the first Thatcher government set about a monetarist economic strategy, reducing the growth of the quantity of money in the economy through a variety of policy instruments - raising interest rates, abandoning prices and incomes policies, reducing the Public Sector Borrowing Requirement (PSBR), and reducing spending whilst altering the tax burden. In July 1979, economic advisor to the Chancellor, Peter Middleton, produced a paper on different monetary approaches. This included 'A Monetary Base for the UK' by Gordon Pepper, 'Cash Base Control and Institutional Change in the UK Financial System' by Geoffrey Wood, 'Controlling the UK Money Supply' by Brian Griffiths and 'A Proposal for the Control of the UK Money Supply' by Duck and Sheppard.²⁷⁴ These differing approaches were critiqued, some as being too complex and unworkable. Pepper's approach was seen as closest to the classical monetary base control (MBC) model.²⁷⁵ It was this technique of attempting to influence the quantity of money in the British economy that was pursued in the first two years of the Thatcher government. The aggregate £M3 was chosen as the most appropriate method of doing this and targets were set, although consistently overshot. The choice of aggregate itself proved contentious. Nigel Lawson consistently backed the 'broad' money aggregate £M3 while for instance, Milton Friedman generally based his work on £M2, which included 'time deposits', and sometimes on 'narrow' money, £M0.²⁷⁶

²⁷³ Tim Congdon, *Money In A Free Society. Keynes, Friedman, and the New Crisis in Capitalism*, (London: Encounter Books, 2011), p. 247.

²⁷⁴ Records of the Prime Ministers Office: Correspondence and Papers, 1979-1997, (The National Archives: Public Record Office, Kew, hereafter PREM19), PREM19/33, paper by Peter Middleton on 18 July 1979 concerning monetary approaches.

²⁷⁵ Ibid.

²⁷⁶ Margaret Thatcher Foundation (hereafter MTF) 113283 - Lawson minute to Howe ("A Medium Term Financial Plan") [what it should contain], 24 Sept 1979, Robin Harris, *Not For Turning. The life of Margaret Thatcher*, (London: Bantam Press, 2013), pp. 173-174, Congdon, *Money*, p. 376, Charles

The aggregates, targets and methods of monetary control were much criticized and debated by economic liberals. There was no broad New Right economic model and much disagreement over whether the very concept of macroeconomics was even liberal.²⁷⁷ Austrians and Hayekians believed monetary control was another method of government intervention that would distort market forces. Hayek consistently proposed other monetary principles, first the gold standard, then competition of currency itself, as ways to restrain inflation.²⁷⁸ An article in the *ORDO* journal during the first Thatcher term perceived the monetary squeeze in Britain as too tough on the private sector but too ‘soft’ on a state sector that still received sizeable subsidies.²⁷⁹ The ordoliberals believed a concerted effort to reduce the fiscal deficit would be a surer way to combat inflation, which is what in fact happened. The tight monetary control of the first two years was perhaps the most ideological policy of the first term. It was explicitly neo-liberal in the Friedmanite sense. After 1981 other influences marked economic policy, particularly the London Business School and ‘rational expectations’ on monetary strategy.

Geoffrey Howe, although declaring in 2006 that ‘I think those who proclaim either monetarism or Keynesianism as ‘isms’ in which you have to believe are profoundly misguided’ and that ‘now, I do not believe in monetarism’, went about fervently

Moore, *Margaret Thatcher. The Authorized Biography. Volume One: Not For Turning*, (London: Penguin, pp. 523-524.

²⁷⁷ MTF117203, letter from Hayek to Arthur Seldon, 13 May 1985. Hayek wrote, ‘I do regard the abandonment of the whole macroeconomics nonsense as very important...I have long regretted my failure to take time to criticize Friedman’s Positive Economics.’

²⁷⁸ F.A. Hayek, *The Constitution of Liberty*, (London: Routledge, 2006, first published 1960), p. 291, F.A. Hayek, *Choice in Currency. A Way to Stop Inflation*, (London: IEA, 1976), pp. 14-22.

²⁷⁹ Victoria Curzon Price, ‘Structural Aspects of the Thatcher Experiment. How to put the cart before the horse and (perhaps) survive’, In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, (‘The Ordo Yearbook of Economic and Social Order’, (Stuttgart: Gustav Fischer Verlag, Band 33, 1982, pp. 39-60), p. 60.

trying to defeat inflation as Chancellor of the Exchequer.²⁸⁰ Howe's measures in his first three budgets, most notably in 1981, and his use of high interest rates eventually brought it down. Direct taxation was reduced (83% to 60% as a top rate in the 1979 budget) while indirect taxation like VAT was increased. The First Thatcher government, however, was hamstrung in its attempts to reduce the PSBR by its election promise to honour the Clegg Commission. This had recommended substantial increases in public sector pay and the Conservatives, during the 1979 campaign, felt that without an assurance to keep these they would lose crucial votes. Clegg made Howe's aim of reducing public spending all the more difficult. Indeed, when Milton Friedman was asked his opinion on the government's anti-inflation strategy (upon news that spending was increasing) his response was typically iconoclastic (also invoking the Virginia School), blaming 'resistance from bureaucracy, the Civil Service and the Conservative Party' but praising the Prime Minister for 'sticking to her guns.'²⁸¹

The 1980 budget saw the introduction of the Medium Term Financial Strategy (MTFS), devised by Financial Secretary to the Treasury Nigel Lawson. A theme that Lawson believed in (and was to return to when he was Chancellor with the European Exchange Rate Mechanism) was that market credibility required a stabilizing force and the certainty of rules. Back in 1976 Lawson said 'parliamentary control over monetary policy means in practice that the policy would be expected to follow certain rules, whether they be rules of the gold standard or rules for a certain increase in the money supply as propounded by Professor Friedman or in the ideas of Professor

²⁸⁰ Lord Howe of Aberavon, 'Can 364 Economists all be Wrong?', In: *The Chancellors' Tales. Managing the British Economy*. Howard Davies, ed, (Cambridge: Polity, 2006, pp 76-112), pp. 105-106.

²⁸¹ MTF114507, *The Times*, 'Economists criticize Government', 10 March 1981. [www.margaretthatcher.org/document/114/507] accessed 12 September 2012

Hayek.²⁸² Lawson, working under Howe at the Treasury, set out a plan for a medium term strategy of setting declining targets for both the PSBR and the money supply in September 1979.²⁸³ This belief in a framework to provide stability invoked elements of Keynes (herd behaviour) and ‘rational expectations’ thinking (investors need confidence in likely medium term interest rates). The MTFS set out a number of monetary and PSBR targets that were intended to give markets confidence in the British economy.

Documents regarding the MTFS hint at how economic policy was formulated in the first Thatcher government and also the influence of the New Right. Special advisor to the Chancellor Adam Ridley communicated a message on 18 February 1980 that he had spoken to two monetary economists, Brian Griffiths and Tim Congdon, who said they were broadly supportive of the government policies.²⁸⁴ The Government, however, was coming under pressure from journalists to publish monetary targets for the succeeding years. This included from Samuel Brittan (who was ‘quite friendly’ with both Nigel Lawson and Terry Burns at the Treasury) in the *Financial Times* on the 20 and 28 February.²⁸⁵ Geoffrey Howe wrote to Margaret Thatcher saying, ‘I have been considering whether it would be possible to present our monetary and financial strategy for the medium term in a manner and context that would strengthen its credibility.’²⁸⁶ Against the liberal economic policy makers and commentators, however, was considerable opposition. Regarding the MTFS the Prime Minister and Chancellor received several notes, on 22 February saying the Governor of the Bank of

²⁸² Nigel Lawson, *Parliamentary Debates* (Commons), 908, 31 March 1976, 1511-37.

²⁸³ MTF 113283 - Lawson minute to Howe ("A Medium Term Financial Plan") [what it should contain], 24 Sept 1979.

²⁸⁴ PREM19/177 on MTFS. Note from Adam Ridley to Douglas Wass 18 February 1980, articles by Samuel Brittan in *Financial Times* 20 February 1980 and 28 February 1980.

²⁸⁵ Interview with Lord Burns.

²⁸⁶ PREM19/177. Note from Howe to Thatcher 22 February 1980.

England had ‘serious misgivings’, from head of the Central Policy Review Staff (CPRS) Sir Kenneth Berrill on 25 February ‘doubting the wisdom of the MTFs’, from Cabinet Secretary Robert Armstrong on 26 February saying it ‘would give the Government very little room for manoeuvre’ and lastly even by the Chief Secretary to the Treasury – and arch-monetarist - John Biffen.²⁸⁷ Writing to Howe, Biffen despaired on 4 March that ‘the demand for such a Financial Strategy comes from journalists, academics and commentators rather than those in the commercial world.’²⁸⁸ These documents give an insight into how few people within government were guiding economic policy during the first Thatcher term and suggest that the New Right did indeed exert some influence over them. It also showed that both Geoffrey Howe and Margaret Thatcher had to act steadfastly in the face of opposition to the strategy they were pursuing. When asked during an interview in 2012 about Biffen’s comment, another monetarist, Tim Congdon, remarked: ‘It’s absolutely true...John Biffen didn’t know what he was talking about and we did.’²⁸⁹

The early economic policy of the Thatcher government, designed to squeeze inflation out of the economy, had a number of ideological interpretations. Milton Friedman was well-known for being a proponent of economic ‘shock-therapy’. Typical of his thinking was the 1977 speech, ‘The Road to Economic Freedom: The Steps from Here to There’. Friedman set out two courses: ‘gradualism’ and ‘shock treatment’.²⁹⁰ Gradualism could steadily reduce inflation in an economy that exhibited single figure price rises but higher figures needed more drastic action. The two examples Friedman

²⁸⁷ Ibid. Notes from Howe to Thatcher on 22 February 1980, Berrill to Thatcher on 25 February 1980 and Armstrong to Thatcher on 26 February 1980.

²⁸⁸ Ibid. Note from Biffen to Howe on 04 March 1980.

²⁸⁹ Interview with Tim Congdon, 24 February 2012.

²⁹⁰ Milton Friedman, ‘The Road to Economic Freedom: The Steps from Here to There’, In *From Galbraith to Economic Freedom*, pp. 43-62; (London: IEA, 1977, pp. 43-62), pp. 43-44.

used were post-war West Germany under the guidance of Ludwig Erhard and 1970s Chile.²⁹¹ Friedman stated that the British case was somewhere between a stable economy such as the United States and the more extreme examples of West Germany and Chile. He therefore believed ‘modified shock treatment’ was appropriate for Britain using instruments such as reduced government spending, lower tax rates, denationalization of state industries and reduced government bureaucracy.²⁹² Friedman also believed in using the central bank to control money in the economy by using aggregates. It was this latter point that was most anathema to Austrian neo-liberals like Hayek. By advocating the gold standard, then choice in currencies, the Austrian fell back upon the School’s idea that markets will move towards equilibrium. The result would have been even more of a shock to the economy in terms of short-term employment.²⁹³ Monetary policy was another example of how Hayek represented a more idealistic form of neo-liberalism, closer to ‘market fundamentalism’ than Friedman’s more pragmatic ideas, despite the widespread criticism the latter received from the left. Other Austrian thinkers may have considered Hayek as compromising some of the School’s beliefs, but nevertheless his ideas were often distinct to other strands of neo-liberalism such as the Chicago School.²⁹⁴ It may have been that Hayek, buoyed by his Nobel prize, became more radical in his old age. In 1975, when he visited Chile, Hayek made a speech advocating abolishing all trade restrictions, income tax and the central bank itself. Arnold Harberger, of the Chicago School, described him at this time as ‘remote from

²⁹¹ Friedman, ‘Road’, pp. 43-44.

²⁹² Friedman, ‘Road’, pp. 43-48.

²⁹³ Mark Skousen, *Vienna & Chicago. Friends or Foes? A Tale of Two Schools of Free-Market Economics*. (Washington: Capital Press, 2005), pp. 7-8, 37.

²⁹⁴ Walter Block, ‘Hayek’s Road to Serfdom’, In: *Journal of Libertarian Studies*, (12:2, Fall 1996, pp. 339-365), pp. 342, 365.

the real world'.²⁹⁵ Mark Skousen wrote that Hayek was 'shockingly impractical and idealistic'.²⁹⁶ The first two years of economic policy of the Thatcher government was loosely based on a Friedmanite aggregate model, or the monetary base. Although not entirely true to their respective positions, David Willetts (then a researcher for Nigel Lawson), later said 'though we were trying to do Friedman, we were actually doing Hayek'.²⁹⁷ This was presumably because there was a sharp rise in unemployment during this early phase of monetary control. Even monetary economist Tim Congdon thought interest rates were too high, that 'policy was too tight in much of 80... I objected to the severity of policy'.²⁹⁸ These theoretical positions and the drastic impact of the Thatcher government's early economic measures were the backdrop of the 1981 Budget.

The controversial Budget saw a reduction in the 'public sector borrowing requirement' (PSBR) and an increase in taxation. Criticised for being deflationary in a time of recession, most famously in a letter to *The Times* signed by 364 economists, this juncture signified the determination of Howe and Thatcher that the battle against inflation was of primary importance. It also marked a shift from strict monetary control to a more concerted effort to reduce the deficit. The driving force behind the budget, however, has been contested and in particular the role of the Prime Minister's advisor Alan Walters. A diary entry made by Walters shortly before the budget was announced suggests it was the Prime Minister who demanded a tougher stance from Howe on reducing the PSBR. 'Saw MT at 10.00. What should she do about Geoffrey.

²⁹⁵ Skousen, *Vienna&Chicago*, p. 112.

²⁹⁶ Skousen, *Vienna&Chicago*, p. 112.

²⁹⁷ Moore, *Margaret Thatcher*, p. 624.

²⁹⁸ Interview with Tim Congdon, 24 February 2012.

Who could she promote. No-one.’²⁹⁹ Shortly afterwards Walters reported on a discussion with Tim Lankester that echoed these sentiments: ‘He (Tim) said PM told GH that he must get the PSBR down or “you are for the chop” – very unlike her.’³⁰⁰ Despite this early example of the tension that would build between Thatcher and Howe, they continued to work together to pass the tough 1981 Budget. Norman Tebbit, a central member of the Thatcher Government saw the budget in clear terms. ‘Their (the 364 economists) longing for the old ways of compromise was echoed by those who wanted to give in to the threat of jailed IRA criminals to starve themselves to death in a hunger strike. Few people believed the Government would stand firm...but it did.’³⁰¹

The 1981 Budget, however, saw a shift that has often been neglected. Monetary aggregates were still important but the emphasis moved towards reducing the deficit. This was in keeping with ‘rational expectations’ thinking, that focused on the inflationary outlook based on likely interest rates. Friedman had previously shed light upon this work, citing in particular John Muth’s ‘Rational Expectations and the Theory of Price Movements’ (1961) and Robert Lucas’s ‘Econometric Testing of the Natural Rate Hypothesis’ (1972).³⁰² Adam Ridley believed that rational expectations was known and understood by only ‘a very small proportion of the policymaking world’ but that the work of Alan Budd and Terry Burns at the LBS in the 1970s was important in this respect.³⁰³ By the time of the 1981 Budget Burns was Chief

²⁹⁹ MTF114203, Alan Walters diary, 19 January 1981. [www.margaretthatcher.org/document/114203], accessed on 12 September 2012.

³⁰⁰ MTF114204, Alan Walters diary, 23 February 1981. [www.margaretthatcher.org/document/114204], accessed on 12 September 2012.

³⁰¹ Norman Tebbit, *Upwardly Mobile*. (London: Weidenfeld and Nicolson, 1988), p. 180.

³⁰² Milton Friedman, *Price Theory*, (London: AldineTransaction, 2007, first published 1962, 2nd ed.1976), pp. 230-231.

³⁰³ Sir Adam Ridley, personal correspondence with the author, 2 May 2013.

Economic Advisor to the Treasury. Another advocate of rational expectations, Patrick Minford, thought the crucial turning point however was when Alan Walters entered the fray prior to the 1981 Budget and ‘threw his considerable influence into the rational expectations monetarist camp and engineered a very large contraction in the budget deficit.’³⁰⁴ Endorsing the rational expectations approach, Walters later said that after the 1981 Budget ‘at first gradually, then much more rapidly, expectations adjusted to the reduced rates of inflation.’³⁰⁵ What do these theoretical positions tell us about the economic policy of the first Thatcher government? Firstly, it was broadly neo-liberal and had shifted away from Keynesian orthodoxy. Secondly, although the techniques differed from monetary base control to deficit reduction, the chief contemporary influence was Milton Friedman and his ideas on monetarism. The use of empirical evidence, monetary aggregates and interest rate manipulation all follow the methods set by the second Chicago School. Although the unemployment that resulted from this strategy led some to say the Government was ‘doing Hayek’, it can be concluded that the actual policy owed little to the work of the Austrian School.

The cost of these methods, however, was high. Thatcher liked the scientific certainty of ideas like monetarism but was criticized as being attracted to ‘gimmicks and dogma’ in trying to solve complex and subtle economic problems.³⁰⁶ Unemployment and factory closures soared, while interest rates and inflation remained high. A strong pound, buoyed by its petrocurrency status, made British exports uncompetitive, intensifying these difficulties. Inflation had been seemingly tamed in 1983 but the

³⁰⁴ Patrick Minford, ‘Inflation, unemployment and the pound’, In: *Margaret Thatcher’s Revolution. How It Happened and What It Means*, S. Roy and J. Clarke, eds, (London: Continuum, 2005, pp. 50-66), p. 53.

³⁰⁵ John Ranelagh, *Thatcher’s People. An Insider’s Account of the Politics, the Power and the Personalities*, (London: HarperCollins, 1991), p. 235.

³⁰⁶ John Campbell, *Margaret Thatcher. Volume Two: The Iron Lady*, (London: Pimlico, 2004), p. 81.

structural impact (or adjustment) done to the British economy was to prove intractable in some regions. Several of her own ministers were doubtful about the Prime Minister's path. Jim Prior said of both Margaret Thatcher and Keith Joseph that they saw Hayek and Friedman as 'gurus'.³⁰⁷ Yet Margaret Thatcher made her reputation during this first term by remaining resolute in the face of overwhelming pressure, and in 1982, the Argentines who invaded the Falklands. Also important was Geoffrey Howe's determination to follow through on the Government's strategy to reduce inflation. It was he, as well as the Prime Minister, who came up against resistance from within his own Party as well as the establishment. Margaret Thatcher made the decision to trust in Howe's judgment. This will also be shown in the removal of exchange controls.

Monetary targets were effectively abandoned during the second Thatcher government when Nigel Lawson took over as Chancellor of the Exchequer. Lawson, from 1985, pursued a policy of shadowing the Deutschmark (in a different attempt to maintain stability and as a precursor to joining the European Exchange Rate Mechanism).³⁰⁸ He later believed that the Medium Term Financial Strategy worked better on the fiscal rather than on the monetary side.³⁰⁹ Lawson's thinking was that market credibility was paramount, which had been achieved by monetary targets in the early 1980s but by the middle of the decade a new method was required.³¹⁰ Lawson's predecessor remarked over twenty years later that, 'I attach great importance to monetary policy. I

³⁰⁷ Jim Prior, *A Balance of Power*, (London: Hamish Hamilton, 1986), p. 104.

³⁰⁸ M.J. Oliver, 'The macroeconomic policies of Mr Lawson'. In: *Contemporary British History*. 13:1, pp. 166-182. (London: Routledge, 1999), p. 175.

³⁰⁹ Oliver, 'Mr Lawson', p. 174.

³¹⁰ Lord Lawson of Blaby, 'Changing the Consensus', In: *The Chancellors' Tales. Managing the British Economy*, Howard Davies, ed., (Cambridge: Polity, 2006, pp. 113-146), p. 119.

attach great importance also to the learning of Keynes, but they have to be married together and judged.³¹¹

It was this transitory commitment to their principles that incensed monetary economists in the mid to late 1980s. Shadowing the Deutschmark, as well as easier credit, fuelled the ‘Lawson Boom’ of the latter part of the decade and caused a surge in asset prices.³¹² £M3 aggregates increased by 20% between June 1987 and June 1988.³¹³ This in turn led to high inflation in 1989 and 1990, punitive interest rates that effected homeowners and a recession in the early 1990s.³¹⁴ Monetary economists Tim Congdon and Gordon Pepper had warned of swollen asset prices between 1986-88 and were proved correct in their inflationary predictions.³¹⁵

Why was monetarism abandoned, allowing the inflationary cycle to return in the late 1980s? Tim Congdon, interviewed in 2012, said that ‘deep down, British economists don’t believe in monetarism.’³¹⁶ Congdon said that Nigel Lawson repeated the mistakes of the Heath-Barber boom of the early 1970s and that the Prime Minister, too dependent on Alan Walters (an economic advisor to Margaret Thatcher at several points during her Premiership) did not really understand the technicalities.³¹⁷ Congdon said of Lawson and monetarism, ‘I don’t think he believed in it at all.’³¹⁸

³¹¹ Lord Howe, ‘Can 364 Economists all be Wrong?’, In: *The Chancellors’ Tales. Managing the British Economy*, Howard Davies, ed., (Cambridge: Polity, 2006, pp. 76-112), p. 106.

³¹² Oliver, ‘Mr Lawson’, p. 175.

³¹³ Ibid. p 178.

³¹⁴ A. Gamble, *Britain in Decline*, (London: MacMillan, 1994), p. 190.

³¹⁵ Oliver, ‘Mr Lawson’, p. 178.

³¹⁶ Interview with Tim Congdon CBE, 24 February 2012.

³¹⁷ Ibid.

³¹⁸ Ibid.

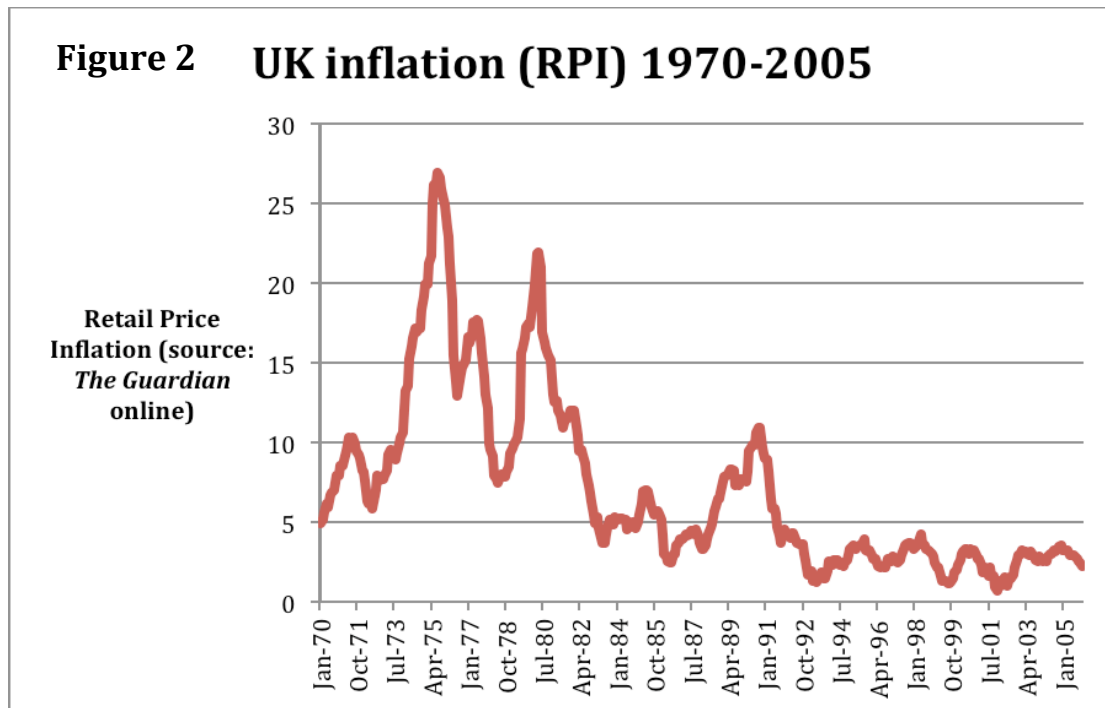


Figure 2 shows the trend in inflation before and after Thatcherism. Limiting price rises has clearly become a prime goal of British governments. After almost reaching 10% in 1989, inflation did not exceed 5% in the UK in the 15 years from 1991. Prioritising low inflationary conditions are a legacy of the Thatcher government, despite the surge at the end of the 1980s. Terry Burns said in 2011 that the monetary control ‘we (the LBS) preached...became orthodoxy.’³¹⁹ After the 1981 Budget, fiscal policy (according to Tim Congdon) was neutralized until 2008, as a clear result of the influence of monetarism.³²⁰ The primacy of monetary policy, however, has not reached the heights of the first Thatcher government, although the MTFs remained Conservative policy, under the influence of Burns as Permanent Secretary to the

³¹⁹ Interview with Lord Burns, 12 May 2011.

³²⁰ Interview with Tim Congdon, 24 February 2012.

Treasury.³²¹ Both Nigel Lawson and Geoffrey Howe, with reputations as ‘dry’ economic liberals, have both distanced themselves from monetarism. Some neo-liberals, meanwhile, have advanced monetarist explanations for the 2007-08 financial crisis.³²² The response to the crisis, according to them, allowed the supply of money to contract too quickly and the resulting recession worse.³²³ The early economic policy of the Thatcher government was influenced by neo-liberal thinkers like Milton Friedman and his Chicago School, think-tanks like the IEA, academics like those at the LBS and journalists like Samuel Brittan. The impact of monetarism on the British economy during and since Thatcherism has meant low inflationary conditions are a key aim of policy makers. Peter A. Hall, in ‘Policy Paradigms, Social Learning, and the State’ (1993) examined the shift from Keynesian to monetarist macroeconomic policy-making in Britain. Hall explored how ideas came to impact on institutions and policy-makers. He identified the role of the media and to a lesser extent ‘experts’ in the 1970s, as well as competition for power between the political parties – particularly one that suited long-term Conservative objectives like lower public spending – as important.³²⁴ Hall wrote that the shift in economic policy instruments, as well the hierarchy of objectives, represented a change in ‘policy paradigm’ so that independent ideas managed to ‘induce changes in institutional routines’.³²⁵ In this way, the changing methods and aims of economic policy during Thatcherism represented a ‘retasking’ of the role of the state. It can also be seen in its approach to the nationalised industries, trade unions and other areas of the public sector.

³²¹ Ibid.

³²² Philip Booth, *Verdict on the Crash. Causes and Policy Implications*, (London: IEA, 2009), p. 27.

³²³ Interview with Tim Congdon, 24 February 2012.

³²⁴ Peter A. Hall, ‘Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain’, In: *Comparative Politics*, (25:3, April 1993, pp. 275-296), pp. 288-289.

³²⁵ Hall, ‘Policy Paradigms’, pp. 279, 290.

Enterprise Zones

The role of the state was also prominent in one of the early acts of ‘deregulation’ by the Thatcher government, that of enterprise zones. Although less prominent compared to reforms like privatization, enterprise zones were another idea that became closely linked with Thatcherism. In March 1979 Labour MP Bruce George remarked that a Conservative proposal that ‘free enterprise will move into...inner urban areas’ exposed the ‘hand of Friedman’.³²⁶ Although the Chicagoan did consistently eulogize pro-enterprise city states such as Hong Kong and Singapore, the enterprise zone idea had a much more diverse lineage. Its development was closely associated with Geoffrey Howe and the Bow Group, promoted business by incentivization and satisfied several New Right themes, such as reduced state intrusion, wealth creation and lower taxation. Enterprise zones were taken from a number of strands of thought and policies of the post-war period, although not specifically thinkers like Friedman. The Bow Group was a key influence but the planning concept of ‘New Towns’, Fabian academic Professor Peter Hall and the economic success of Singapore and Hong Kong were all important contributors to the eventual 1980 legislation. Although not exclusively of the New Right, enterprise zones were a good example of the impact of ideas on the Thatcher government, and particularly in this case on Geoffrey Howe. In terms of neo-liberalism, however, enterprise zones were pro-business without necessarily being liberalising or an act of free market deregulation. The more radical elements of Hall’s initial model, such as the removal of immigration controls in the zones, were heavily watered down or excluded from the eventual legislation. This follows several of the Thatcher government’s ‘pro-market’ policies.

³²⁶ Bruce George MP, *Parliamentary Debates* (Commons), 964, 12 March 1979, 55-173.

Policy development

The 'New Towns Act' of 1946 was part of the post-war housing strategy and over the subsequent 25 years a number were built to absorb the growing UK population. This was very much in keeping with the programme of the Attlee government, where policy, from health to housing, was the result of state planning. Geoffrey Howe saw New Towns as one of the successes of planning. Howe, a longstanding liberal, viewed the allocation of land for certain purposes as a potentially positive role for the state.³²⁷ Enterprise zones were earmarked for disused state owned land in urban and inner city areas. A 1962 article in *Crossbow* (the Bow Group periodical) by journalist Godfrey Hodgson called *Wigan Delenda Est* has been cited as a precursor to the enterprise zones idea.³²⁸ It was part of a series on urban renewal after New Towns and concentrated on publically owned derelict land.³²⁹ Labour governments had attempted to manipulate the cost of land or nationalise it, with the 1967 Land Commission and 1976 Community Land Acts. The enterprise zone principle also tried to influence the use of land but rather than claiming it for government purposes, providing incentives on disused areas that the state already owned.

The other element in the development of enterprise zones was deregulation. The rapid growth of the Asian Tiger economies, such as Hong Kong, in the post-war period acted as an ideal for economic liberals. Through deregulation, low taxation, minimal building restrictions and ease of starting a business, ports like Hong Kong and

³²⁷ Sir Geoffrey Howe, 'Speech to the Bow Group at The Waterman's Arms, Isle of Dogs', 26th June 1978, In: *The Right Angle. Three studies in Conservatism. Enterprise Zones*. (London: Bow Group, 1978), p. 12.

³²⁸ Interview with Lord Howe, 13 July 2009. *Wigan Delenda Est* translated as Wigan must be destroyed, a play on *Carthage Delenda Est*.

³²⁹ Ibid.

Singapore developed rapidly.³³⁰ Export-led growth unleashed the potential of enterprise and trade alongside a strong central authority (the Asian Tigers were not democracies). Some proponents of capitalism, as well as more unlikely figures saw this as a model. An academic from the University of Reading and a former chairman of the Fabian Society, Professor Peter Hall, used the examples of the Asian Tigers. He co-wrote 'Nonplan: An Experiment in Freedom' in 1969 and gave an influential paper in June 1977 setting out his idea of 'freeports'.³³¹ Hall outlined a freeport as being an area exempt from certain regulations, like Hong Kong and Singapore, that would provide incentives for business and trade. Geoffrey Howe said he was 'delighted' that 'distinguished Socialist Professor Peter Hall' had begun to 'reach for the same prescription' as him.³³² Howe said, 'why not aim to recreate the Hong Kong of the 1950s inside Inner Liverpool or Inner Glasgow?'³³³

As Shadow Chancellor between 1975 and 1979 Howe developed the enterprise zone idea. He has also cited future Conservative Cabinet member Nick Ridley's work done on 'non-planning agreement(s)' as influential: that an area of land may be exempt of regulation to increase productivity and attract business.³³⁴ John Hoskyns, whilst working on the Stepping Stones project in the late 1970s, described a meeting he had with Howe in August 1977. Hoskyns said of Howe that a key policy was to 'create a liberal economic climate' and that he was 'very keen on an interesting idea from someone called Peter Hall for tax exempt, planning regulation exempt areas – e.g.

³³⁰ Milton Friedman and Rose Friedman, *Free to Choose*, (London: Pan Books, 1990, originally published in 1980), p. 34.

³³¹ S.M. Butler, *Enterprise Zones. Greelining the inner cities*. (London: Heinemann, 1982), p. 95, Peter Hall, 'The British Enterprise Zones', In: *Enterprise Zones. New Directions in Economic Development*. Roy Green, ed., (London: Sage, 1991, pp. 179-191), p. 179.

³³² Howe, 'Bow Group speech 1978', p. 16.

³³³ *Ibid.* p. 16.

³³⁴ Interview with Lord Howe, 13 July 2009.

regional, inner urban decay areas – where entrepreneurs could really let rip as in Singapore (and) Hong Kong.³³⁵ At first Margaret Thatcher was not convinced. A document from 1979 shows how Howe tried to win over the Conservative leader. ‘Can I have another go at persuading you to endorse my “enterprise zone” proposal as something we should put forward in the Election?’ Howe also attached an article written by the conservative US think-tank Heritage Foundation (‘Enterprise Zone: A Solution to the Urban Crisis?’) which came out in support of both the idea and the then Shadow Chancellor himself. Peter Hall later said, however, that the Conservatives rendered his radical idea ‘harmless’ by omitting his proposals regarding free migration and exemption from mainstream legislation within the zone.³³⁶ Hall thought these inner city areas required such an overhaul they needed to be ‘completely open to immigration of entrepreneurs and capital’ and ‘effectively outside the UK’s normal legislation and controls.’³³⁷ Despite his Fabian links Hall demonstrated the kind of anti-state and internationalist sentiment more associated with Austrian radicals.

Howe’s set piece speech regarding the policy had been in June the previous year on the Isle of Dogs, site of a proposed pilot scheme, setting out his idea of ‘New Enterprise Zones’. He had asked for help with the formulation of this idea two years earlier from the Bow Group. Enterprise zones were to give free reign to construction, providing exemptions from planning permissions and reducing the bureaucratic process. Taxation on business was lower and local and central control reduced. Howe

³³⁵ The Papers of Sir John Hoskyns, (Cambridge: Churchill Archives, hereafter HOSK), 1/33, Detailed notes by Hoskyns for Norman Strauss and Terry Price relating to his meeting with Geoffrey Howe on 2 August 1977, written 31 August 1977.

³³⁶ Hall, *Enterprise Zones*, p. 184, Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press, 2012), p. 317.

³³⁷ Hall, *Enterprise Zones*, p. 180.

described the dereliction of cities like London, Manchester and Glasgow and how they were ideally placed to reverse the process by their innate advantages: nearby commercial centres, often close to rivers and housing communities that yearned for jobs.³³⁸ The policy of enterprise zones was to transform some of these areas and satisfied some New Right themes. As we have seen, however, other more radical ones were not included.

Enterprise Zones and the ethos of the New Right

Enterprise zones were important in setting the general tone of the policies of the Thatcher government and aligned them with some of the tenets of economic liberalism. Primarily, the shift that the idea encapsulated was an emphasis on favouring business and wealth creation over redistribution and producer interests such as trade unions. Enterprise zones represented the importance the Thatcher government attributed to economic growth and entrepreneurship. They incorporated some themes of Public Choice theory, such as incentivization and a reduced role for the state. Only a few years later Canary Wharf, in the enterprise zone set up on the Isle of Dogs, invoked a Hong Kong in miniature with high rise neon towers hosting several successful global financial companies. Canary Wharf became an iconic image of the Thatcher years and represented private sector resurgence. From the viewpoint of a 'model' market it can be said the policy reduced barriers to entry for producers and using the example of Canary Wharf, which drew in foreign direct investment, increased consumer choice and competition.³³⁹ This in turn drove up economic

³³⁸ Howe, 'Bow Group speech 1978', p. 15.

³³⁹ Defined using microeconomic principles of the Austrian School: free entry into a market, perfect information, high number of producers and consumers, price as key signal. Taken from Barry, *New Right*, pp. 35-36.

activity in the enterprise zone and surrounding economy and widened ownership at the expense of previously publically owned land.

Implementation

Enterprise zones were not included in the 1979 manifesto, possibly because Margaret Thatcher thought the idea had ‘Heathian overtones’ and was regional policy by another name.³⁴⁰ Nevertheless the initial enterprise zone legislation was introduced in 1980 and was incorporated in two acts: the Local Government Planning and Land Act, and the Finance Act. Chancellor of the Exchequer Geoffrey Howe had announced the scheme and Michael Heseltine, as Secretary of State for the Environment helped implement the policy. Six enterprise zones were initially allocated in 1980 and were given tax concessions, simplified planning procedures and rates exemptions.³⁴¹ These areas included the Isle of Dogs, Salford in Manchester and Clydebank in Glasgow. In the early part of the first Thatcher government Britain sank into a deep recession. The Prime Minister and Chancellor’s focus on reducing inflation meant that numerous factories faced closure and many jobs were lost. As unemployment soared to 3 million and social unrest flared in 1981, the government came under pressure to act. Schemes such as enterprise zones acted as incentives to create jobs and were seen by some as palliatives in areas particularly affected by recession.³⁴² On the Isle of Dogs the enterprise zone fell into the area controlled by the newly created London Docklands Development Corporation (LDDC), an example of an Urban Development Corporation (UDC). The LDDC had wide-ranging powers

³⁴⁰ Howe, *Conflict*, p. 110.

³⁴¹ Holmes, *First*, p. 54.

³⁴² PREM 19/576. Note by CPRS on Liverpool, 18 March 1981, urging Howe to implement more zones, who counseled patience.

and access to public funding, encouraged by Heseltine and initially resisted by Geoffrey Howe and Keith Joseph.³⁴³ The role the state played in the regeneration of the Docklands was important. For example, the LDDC helped clear sites, build infrastructure projects such as the Docklands Light Railway (DLR) and make land available to private developers.³⁴⁴ Certainly the business activity in the enterprise zone was assisted by this government-led action. In this respect, the state acted as a 'pump-primer' for the private sector and sits well with Harvey's post-1970s neo-liberal model, that the state creates the conditions for markets.³⁴⁵

Geoffrey Howe described the enterprise zones idea as his 'hobby horse' and he expanded the scheme in 1981-82, designating another ten zones, and a further 13 during 1983-86.³⁴⁶ Both Geoffrey Howe and Michael Heseltine were reluctant to expand the policy any further during this time. Letters to the Prime Minister state that enterprise zones were 'experimental' and that expansion should wait.³⁴⁷ Howe did target some of the areas that had been particularly effected by the government's austere economic policies, such as Liverpool, Tyneside and Clydebank. In this respect the scheme had a political element. Howe later thought the idea was a successful reform and part of a package of liberalization measures that became influential overseas. Howe said that 'Thatcherism', including enterprise zones, was a British export that was taken up by other governments during this period.³⁴⁸ In this way Howe later proclaimed the Thatcher government had acted as the world's leading

³⁴³ Jack Brown, 'The London Docklands Development Corporation: 1979-1981', (London: QMUL, unpublished MA thesis, 2012), pp. 1, 15, 52-53.

³⁴⁴ Brown, 'Docklands', p. 54.

³⁴⁵ Brown, 'Docklands', p. 54, David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005), pp. 2, 21.

³⁴⁶ Sir Geoffrey Howe, *Enterprise Zones and the Enterprise Culture*. (London: Bow Group, 1988), p. 17.

³⁴⁷ PREM 19/576. Notes from the CPRS, Michael Heseltine and Sir Geoffrey Howe to Margaret Thatcher.

³⁴⁸ Howe, *Enterprise Zones*, p. 22.

export agency for free market ideas and that it had ‘set about making the whole of Britain into one massive “enterprise zone.”’³⁴⁹ Enterprise zones were one idea (albeit a lesser known compared to a policy such as privatization) that was used by other governments. Geoffrey Howe said in 1988 that ‘the United States has proved to be the main importer of the enterprise zones concept’ and gave examples such as Ohio (which had allocated 51 zones) and Pennsylvania (26 zones).³⁵⁰ Perhaps the most significant example of the use of enterprise zones was in China. In essence, Deng Xiaoping’s economic reforms were state orchestrated capitalism focused on export-led growth.³⁵¹ China, with an eye on the success of Hong Kong, implemented their own enterprise zones (known as Special Economic Zones (SEZs)) in Shenzhen and Zhuhai.³⁵²

Enterprise Zones: Analysis

In his 1988 speech, Geoffrey Howe extolled the success of enterprise zones, using the Isle of Dogs as the example. Howe quoted the employment figures in the area, from 641 in 1982 to 3700 in 1987, while the number of firms grew from 105 in 1982 to 270 in 1987.³⁵³ Economic growth, creation of jobs through incentivization of the private sector as well as attracting foreign investment all satisfy the philosophy of the Thatcher government and neo-liberalism. Add to this the fact that the idea was mimicked in other countries and enterprise zones appear to be an effective reform of the Conservatives in the 1980s. As an example of deregulation, however, enterprise zones have not worn as well as some of the other policies of Thatcherism. In the UK

³⁴⁹ Howe, *Enterprise Zones*, p. 16-22.

³⁵⁰ Howe, *Enterprise Zones*, p. 22.

³⁵¹ Again fitting Andrew Gamble’s idea of the ‘free market and the strong state’.

³⁵² Howe, *Enterprise Zones*, p. 22.

³⁵³ Barr, *Bow Group*, p. 199.

they were not extended after their initial roll-out and were not considered as an option by the Major government. In addition, and unlike some of the other policy areas looked at in this study, New Labour did not take up the idea. In 1987 an article in *Economic Affairs* (the IEA's periodical) wrote that there was no evidence to suggest enterprise zones had addressed the significant imbalances in employment rates in the UK.³⁵⁴

The policy met with other criticism. Opponents of enterprise zones challenged whether new jobs were actually being made or just transferred from one area to another, if businesses were being started or just moving.³⁵⁵ Enterprise zones were said to favour large and mobile businesses and therefore act as a barrier to smaller businesses, where innovation was (according to Butler) more likely to occur.³⁵⁶ Lastly, the location of enterprise zones has been criticized. Canary Wharf played its part in solidifying and increasing the comparative wealth of London and the South East, while the lesser known zones tended to be situated in areas that were most badly affected by the government's economic policies. That enterprise zones were unevenly distributed and targeted in this way could also lead to the conclusion that this was regional policy (government assistance to less prosperous areas) by another name.³⁵⁷ Lastly, the role of the state such as the 'pump-priming' by the LDDC has often been overlooked.

In summary, enterprise zones have had their critics but were important for acting as a signal of intent. The policy showed that the Thatcher government would favour the

³⁵⁴ Peter Stoney, 'Enterprise Zone: Incentive or Intervention?', In: *Economic Affairs*. 8:1, October/November 1987, p 30.

³⁵⁵ Butler, *Enterprise Zones*, p. 115.

³⁵⁶ Butler, *Enterprise Zones*, p. 127.

³⁵⁷ Butler, *Enterprise Zones*, p 127. *The Economist*, 12-18 March 2011, p. 15.

private over the public sector, and that economic liberalization measures would be one of its preferred tools. The lineage of the idea was a combination of the broad ethos of liberal economics but with a role for the state in fostering markets, while simultaneously attempting to draw back the role of government. In this respect enterprise zones were a good example of a neo-liberal policy, in the Friedmanite sense. As other writers have identified, the nominal rise in neo-liberal influence often translated into pro-business rather than pro-market policies.³⁵⁸ Enterprise zones looked less a ‘market fundamentalist’ measure in the Austrian tradition, which implementation of Hall’s model could have resembled, than a political compromise. Another early indicator that the Thatcher governments would back markets to restore Britain’s economy to health, and consistently cited as crucial by neo-liberals, was the abolition of exchange rate controls.³⁵⁹

Removal of Exchange Controls

The removal of exchange controls in 1979, according to Geoffrey Howe, ‘sent out a message to the world about our commitment to liberal economics as the means of reviving Britain’.³⁶⁰ Howe wrote in his memoirs that the decision was the only he lost a night’s sleep over due to politics.³⁶¹ It was a move that the revival in liberal economics in the previous years had helped create space for, that of freer trade and markets. Howe made a clear case for abolishing the controls, saying the system had

³⁵⁸ Neil Rollings, ‘Cracks in the Post-War Keynesian Settlement? The Role of Organised Business in Britain in the Rise of Neoliberalism Before Margaret Thatcher’, In: *Twentieth Century British History*, (24:4, 2013, pp. 637-659), Ben Jackson, ‘The think-tank archipelago: Thatcherism and neoliberalism’, In: *Making Thatcher’s Britain*, B. Jackson and R. Saunders, eds, (Cambridge: Cambridge University Press, 2012), pp. 47-49.

³⁵⁹ Richard Vinen, *Thatcher’s Britain. The Politics and Social Upheaval of the 1980s*, (London: Simon and Schuster), p. 108.

³⁶⁰ Howe, *Conflict*, p. 143.

³⁶¹ *Ibid.*, p. 142.

‘cost us dear’ by stifling financial markets and competition.³⁶² He cited a pamphlet published by the IEA, written by John Wood and Robert Miller in February 1979, which helped break the ‘intellectual icepack.’³⁶³ Adam Ridley said the two main reasons for removal were the increasing cost of operating them and ‘the long standing liberal economic tradition of open markets and freedom from control’.³⁶⁴ Nigel Lawson also favoured abolishing exchange controls, including the issue in his maiden speech in the House of Commons in 1977 and wrote to Margaret Thatcher about it in October 1978: ‘Removal of exchange control would be highly beneficial in itself.’³⁶⁵ Geoffrey Howe relaxed investment restrictions in summer 1979 and then completely abolished them in October later that year.

Exchange controls were introduced in 1939 as a means of buttressing the pound and preventing capital flight. They existed as part of the ‘sterling area’ that consisted of colonies of the British Empire and its dominions. This was what Geoffrey Howe described as further evidence that the UK was ‘statist’, using measures that were intended to protect British interests but actually acted as an impediment to enterprise. The controls also led to a layer of bureaucracy in Whitehall and Customs (at a cost according to Nigel Lawson of 750 staff and £14.5 million per year) that monitored the controls.³⁶⁶ Permission was required for importing and exporting and this curtailed investment and trade. Other Western European countries had removed their exchange controls after World War Two but there was strong institutional resistance to ending

³⁶² Ibid., pp. 140-141.

³⁶³ Ibid., p. 141.

³⁶⁴ Sir Adam Ridley, personal correspondence with the author, 15 May 2013.

³⁶⁵ Nigel Lawson, *The View From No.11*, (London: Corgi Books, 1993), p.38, The Papers of Margaret Thatcher. (Cambridge: Churchill Archives, hereafter THCR), 2/1/2/12A Paper written by Nigel Lawson to Margaret Thatcher on 30 October 1978, regarding the European Monetary System.

³⁶⁶ Lawson, *View*, p. 40.

them in Britain.³⁶⁷ The country's entry into the European Community, however, made a tacit commitment to remove controls.³⁶⁸ In her memoirs Margaret Thatcher said the reason for exchange controls was 'in the hope of increasing industrial investment in Britain and of resisting pressures on sterling.'³⁶⁹ She said that the controls had not, if ever, achieved their objectives and by 1979 'with sterling buoyant and Britain beginning to enjoy the economic benefits of North Sea oil, the time had come to abolish them entirely.'³⁷⁰ The former Prime Minister, however, omitted the fact that she equivocated over whether to impose inflow controls in 1980 and 1981.

Benefits and Risks of Abolition

The case for abolishing exchange rate controls called on several liberal themes. The liberalization of capital flow would potentially increase the amount of trade and promote foreign direct investment (FDI). It can be seen as favouring risk and entrepreneurship over the cautiousness of exchange controls, promoting wealth creation over state planning. Abolishing exchange controls also sat neatly with the general ethos of the New Right and in particular of Public Choice theory and the Hayekian critique of the state. A layer of bureaucracy was removed by the implementation of the policy and the general paternalist government approach was reduced by this example of liberalization.

³⁶⁷ In her memoirs Margaret Thatcher described her position in the memorable phrase, 'not every capitalist had my confidence in capitalism.' One City expert allegedly exclaimed 'Steady on!' when they heard of the plans to remove exchange controls. (Thatcher, *Downing Street Years*, p. 44)

³⁶⁸ John Campbell, *Edward Heath. A Biography*, (London: Pimlico, 1993), pp. 355-357.

³⁶⁹ Thatcher, *Downing Street Years*, p. 44.

³⁷⁰ *Ibid.*, p. 44.

The arguments against exchange rate abolition were a combination of conservatism and the uncertainty of the impact of North Sea oil. Removing exchange controls exposed British industry and companies to international markets. This was potentially a problem for unproductive UK firms that but not a plausible ideological reason for a government committed to the virtues of capitalism, as well as its associated risks and instability. The more difficult issue was the impact of North Sea oil and the government's monetary policy. A CPRS paper in the first week after the 1979 election described Britain as being potentially at risk of the 'Dutch disease'. The report said that this would mean 'the tendency for oil and gas revenues to raise the exchange rate and so, in the short term at least, to lower competitiveness. The Government's commitment to a strict monetary and fiscal stance will reinforce the strength of sterling.'³⁷¹

The exchange rate began to rise as the benefits of North Sea oil started to be felt, effecting Britain's export capacity. Removing exchange controls caused sterling to appreciate and the strong currency exacerbated factory closures and the manufacturing collapse in the recession of the early 1980s. Geoffrey Howe is said to have initially favoured liberalising exchange controls solely on capital outflows to prevent North Sea oil tax revenues rising too far.³⁷² Exchange control abolition did play havoc with the government's economic strategy, making monetary aggregates harder to predict due to easier movement of capital.³⁷³

³⁷¹ PREM19/37. CPRS 'Paper on the Economy of the UK', 08 May 1979.

³⁷² HOSK/1/33

³⁷³ Campbell, *Iron Lady*, p. 51.

Exchange Control Abolition: New Right Themes

The removal of exchange controls in 1979 has not been studied in as great detail as the flagship reforms of Thatcherism. The policy, however, was consistent with several New Right themes and important in charting the general direction of the government. Removing controls reduced bureaucracy in Whitehall and in the customs service. In his memoirs, Lord Howe quipped: ‘the consequent loss of jobs for 750 controllers at the Bank of England, so far from being a cause for concern, provoked the production of a celebratory tie, which I wear to this day.’³⁷⁴ Nigel Lawson said of those 750 that ‘some took early retirement and others were redeployed, most finding jobs in the City.’³⁷⁵ The latter point is of some importance by setting out the liberal thinking (in line with Public Choice theory) that superfluous jobs in bureaucracy can be absorbed by a vibrant private sector.

The policy also encouraged competition and choice, consistent New Right mantras, by reducing the barriers to trade and investment. It was also an example of how market forces were given priority by the Conservative government in an attempt to promote wealth creation, economic growth and to allow markets to function more efficiently. Removing exchange controls reduced barriers to entry and therefore theoretically increased producers in a particular market. In this respect removing exchange controls satisfied all strands of neo-liberal thinking. Hayek had stated in *The Road to Serfdom* that government control of ‘foreign exchange’ was a ‘decisive advance on the path to totalitarianism and the suppression of individual liberty’.³⁷⁶

³⁷⁴ Howe, *Conflict*, p. 143.

³⁷⁵ Lawson, *View*, p. 41.

³⁷⁶ F.A. Hayek, *The Road to Serfdom*, (London: Routledge, 2007, originally published 1944), p. 127.

Also important, and in a similar way to enterprise zones, abolishing exchange controls acted as a signal of the policies of the Thatcher government and showed a faith in liberal economics. Geoffrey Howe said ‘it *was* an act of faith, but it worked.’³⁷⁷ It also showed the dynamic of the early cautiousness of the Prime Minister compared to her more committed pro-market ministers, such as Howe. Despite Margaret Thatcher’s firmness in her own memoirs, Lord Howe’s opinion fitted in with other accounts of the early years of the government. After the initial relaxation in summer 1979 a full move to abolition was urged by the Chancellor. Margaret Thatcher’s ‘initial reaction was against further action.’³⁷⁸ Nigel Lawson went further by suggesting that Howe was also ‘cautious’ in moving to complete abolition (which Lawson favoured) while the Prime Minister was ‘even more hesitant.’³⁷⁹ In any case, the combination of pragmatism and commitment to economic liberalism led to a result that was satisfactory to neo-liberals such as Milton Friedman, who believed it was the precondition for later reforms.³⁸⁰ Exchange controls also show a tension between nationalism and economic liberalism. Nationalist sentiment in the government might well have been attracted to a measure that protected British interests. In this case though, a commitment to free markets was favoured over protectionism. Geoffrey Howe wrote, ‘Abolition improved the return on capital, and thus the efficiency of our economy. It enabled us to build up huge overseas assets and earn a substantial income from them.’³⁸¹

³⁷⁷ Howe, *Conflict*, p. 143.

³⁷⁸ *Ibid.*, p. 142.

³⁷⁹ Lawson, *View*, p. 40.

³⁸⁰ Milton Friedman commented that ‘the most important thing that Margaret Thatcher did was...to end foreign exchange control. That was a precondition for other measures.’ In: *Margaret Thatcher’s Revolution. How it happened and what it meant.* S.Roy, J. Clarke, eds, (London: Continuum, 2005), p. 66.

³⁸¹ Howe, *Conflict*, p. 143.

Lastly, although only a relatively small measure in one economy - albeit still a major one despite all the talk of decline - removal of exchange controls can be seen as providing impetus to the globalization of trade. A number of catalysts can be identified in this trend. The end of the Bretton Woods system in 1971, when US President Nixon ended the convertibility of the dollar to gold (allowing floating exchange rates and accelerating international trade and finance) was an earlier, and crucial step in this process. Geoffrey Howe said 'the success of that approach (removing exchange controls) helped fortify the commitment of other countries, not least those in the European Community, to the same course.'³⁸² After exchange control removal this was to continue further with Big Bang in 1986.

The 1980/81 Wobble

Documents released from the 1980 and 1981 Prime Minister's papers indicate the second thoughts some, including Margaret Thatcher, had about removing exchange controls. This was due to the appreciating exchange rate caused by North Sea oil and the effects this was having in worsening the recession. The Prime Minister's private secretary, Tim Lankester, sent a note to Chancellor Geoffrey Howe on 14 February 1980 saying that 'the Prime Minister is concerned about the upward pressure on sterling which the current level of interest rates appear to be causing, and has asked whether we should not be urgently considering the imposition of controls on inward flows.'³⁸³ This indicated the priorities of Margaret Thatcher. She was still anxious to reduce inflation but a pro-market measure like free movement of capital was considered as subordinate to that. In addition, Robin Ibbs (head of the CPRS) wrote to

³⁸² Howe, *Conflict*, p. 143.

³⁸³ PREM 19/437 Note from Tim Lankester to Geoffrey Howe 14 February 1980.

the Prime Minister in October that year urging reconsideration of inflow controls: 'I suggested that in considering ways in which industry can be helped high priority should be given to finding methods of reducing the exchange rate. Some system of inflow controls might provide necessary relief.'³⁸⁴ Different viewpoints amongst economic liberals could also be seen. Monetarist economist Gordon Pepper's main concern was stable monetary conditions. Lankester wrote to the Prime Minister: 'I spoke to Gordon Pepper this evening. He is very worried about the continued upward pressure on Sterling, and thinks the Treasury should be seriously considering introducing exchange controls and/or negative interest rates on inward flows.'³⁸⁵ Alan Walters, however, saw matters in a more free market way. He also wrote to Thatcher about the issue in 1981 stating concern about the rumours that controls were about to be re-imposed. Walters said that would be 'very damaging.'³⁸⁶

Although investigating the impact of introducing inflow controls, the Chancellor would not be moved on the subject. He wrote to the Prime Minister towards the end of 1980 saying 'I do not see inflow controls as offering a secure or apt way forward. I understand very well the concern which the CPRS expressed. This sort of device is not simply one that I find philosophically unattractive; it can offer no substitute for the far reaching changes we need in the economy (which will inevitably have to come to terms with a higher real exchange rate than in the past because of the fact of our North Sea oil).'³⁸⁷ This passage revealed some of the dynamics in the first Thatcher government. Geoffrey Howe often behaved as the most steadfast economic liberal in the Cabinet (including Keith Joseph) and invested most faith in market forces.

³⁸⁴ PREM 19/437. Note from Robin Ibbs to Margaret Thatcher 6 October 1980.

³⁸⁵ PREM 19/437. Note from Lankester to Margaret Thatcher 14 February 1980.

³⁸⁶ PREM 19/437. Letter from Alan Walters to Margaret Thatcher 22 October 1981.

³⁸⁷ PREM 19/437. Letter from Geoffrey Howe to Margaret Thatcher on 17/09/1980.

Margaret Thatcher too had some commitment to the ideas of the New Right but was more constrained by political expediency. Her claim that she was ‘not for turning’ was in some cases a presentational device with the historical shadow of the Heath government in mind. Behind the scenes the Prime Minister could equivocate about policy decisions. On several neo-liberal measures, such as enterprise zones and exchange control abolition, it was Geoffrey Howe that seemed most committed to reform.

The abolition of exchange controls was the forerunner of the Big Bang of 1986 when financial markets in the City of London were liberalised. In his memoirs Lord Howe said that removing controls ‘forced the City to become more competitive, and helped consolidate it as a world financial centre.’³⁸⁸ Former Chairman of the London Stock Exchange (LSE), Nicholas Goodison, said the catalyst for financial deregulation and later Big Bang was this early act of the Thatcher government: ‘The real cause I think was the abolition of exchange controls in 1979, because that completely freed international capital markets as far as London was concerned.’³⁸⁹ The early liberalization measures were important in the process of globalization and acted as significant indicators on how the government intended to proceed. Nigel Lawson put these policies in their wider terms:

We had, by the time of the 1980 Budget, not only abolished exchange control: we had also abolished all forms of pay controls, price controls, and dividend controls, all of which had been in operation, under governments of both parties, for most of the previous decade. It all added up to a coherent and far-reaching

³⁸⁸ Howe, *Conflict*, p. 143.

³⁸⁹ N. Goodison, Witness Seminar I ‘Big Bang’: The October 1986 stock market deregulation, M.D. Kandiah, ed, In: *Contemporary British History*, (13:1, pp 100-132, London: Routledge), p. 104.

programme of deregulation, whose magnitude and importance was not, in those early days, clearly recognized.³⁹⁰

Conclusion

The Thatcher government did introduce some far-reaching economic reforms. Inflation was drastically reduced for much of the 1980s and the more secure monetary climate provided a degree of economic stability and a basis for growth. The assault on inflation was ideologically based and made a priority from the beginning of the Thatcher years. Both exchange control abolition and enterprise zones were less visible policies but were also rooted in liberal economic principles. They acted as important signals that Britain was once more a place to do business, showed a faith in the processes of capitalism and a shift towards wealth creation over state directed policies. As such, economic policy to defeat inflation, exchange control abolition and enterprise zones can be seen as policies most faithfully based on New Right principles. These economic case studies show the broad influence of liberal thinkers such as Hayek, think-tanks like the IEA and Bow Group, and journalists like Samuel Brittan. In ideological terms they are most closely linked with the neo-liberalism of Milton Friedman and the Chicago School, using the state to create stable monetary conditions and incentives to promote markets and economic activity. Friedman was concerned with a shift towards more liberal societies and economies. In this respect he was more willing to engage with the world as it really was, particularly the state, than his more idealistic Austrian counterparts. This was most clearly seen in the techniques he advocated to provide stable monetary and inflationary conditions.

³⁹⁰ Lawson, *View*, pp. 52-53.

Although not a Friedmanite policy, enterprise zones, particularly the LDDC's role in the success of the Isle of Dogs followed a similar pattern: that of the state being utilized to create conditions for business if not necessarily freer markets. Exchange control removal, on the other hand, was a measure that broadly satisfied neo-liberalism as a whole for its effect on more open trade, markets and movement of capital.

In summary, a spectrum of New Right influence and 'success' existed in these domestic case studies. On the one hand, monetarism, exchange control abolition and enterprise zones can be seen as the clearest early Thatcherite applications of liberal economic ideas. These will contrast with social reforms, examined in the next chapter, which represent only partial, and further compromised, application of New Right models.

**Chapter Three: Social Policy Case Studies: council house sales,
education and NHS reform**

Neo-liberal thinking had greater influence on the Thatcher government's economic strategy than on its social policy. This is unsurprising due to the neo-liberal preoccupation with economics and free markets. However, while it may not have spent as many pages criticising or making recommendations towards social policy, the latter was still important to those on the New Right. In straightforward economic terms social policy impacted on the public finances and state spending. Ideologically, areas like education represented the contested role and view of the state. Social reform had the potential to introduce liberal principles such as competition, ownership and incentivization while realigning the broader political ethos away from the state and vested interests towards the individual. This chapter will examine three case studies: council house sales, education and health policy. All three areas were influenced to some extent by liberal economic thought, although in some cases only in a broad fashion. Other factors and forces will be shown to have been important too. The political reasons for liberal economic ideas being relatively diluted in this sphere will also be explored. These examples, more so than the other cases looked at in this study, will highlight the limits of liberal economic ideas on the policies of Thatcherism.

Matthijs has written that Margaret Thatcher saw a 'spreading network of corporatist institutions as the main obstacle to achieving a free economy.'³⁹¹ Indeed the Thatcher government had in its sights the central pillars of the post-war British state. The last

³⁹¹ Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to Blair (1945-2005)*, (Abingdon: Routledge, 2011), p. 114.

chapter examined several economic case studies of early Thatcherism. Social reforms were to prove more difficult. The monolithic NHS (National Health Service), state education and social (council) housing were to present major resistance to change. Nevertheless they were subject to significant reorganisation during the Thatcher years, although to different extents. These three areas: education, health, and housing will be examined in order to show the perceived successes, failures and limits of liberal economic influence on the social policy of the Thatcher years.

Although initially focusing on inflation and trade union reform, the various components of post-war Britain subsequently proved targets for economic liberals. Neo-liberals stressed several pervading themes that could be applied to these case studies: supply side reforms that would increase productivity and efficiency; decreased bureaucracy and state intervention; increased competition and choice; a transfer of power from the producer to the consumer; increased ownership and individual responsibility; and emphasis on what makes the market effective such as lower entry barriers. This chapter will examine to what extent these principles were applied in these domestic case studies.

The Role of the State

A question that preoccupied liberals was the role of the state. Its role and scope has differed throughout modern British historical periods. For instance, in Victorian Britain there existed the idea of deserving and undeserving poor. Welfare was often administered by charities. Subsequently Seebohm Rowntree's research on living conditions, *Poverty, A Study of Town Life* (published in 1901), acted as a catalyst to

erode Victorian opinions. That poorer families might need assistance from the state to break out of poverty became accepted by the Liberal governments of Herbert Asquith and David Lloyd George. An expanding system of welfare insurance, some state built housing and schools existed until the Second World War. The 1942 Beveridge Report then marked another catalyst, as well the results of central planning in the War, for the wider provisions of the welfare state constructed by the Attlee government. This phase, although promising assistance from ‘cradle to grave’, essentially set up a safety net or ‘security from loss of wages.’³⁹² This was extended by the more complex interventions of the Labour government of Harold Wilson in the 1960s. Wilson came under pressure after the 1965 report by Peter Townsend and Brian Abel-Smith, *The Poor and the Poorest*, indicated relative poverty was still widespread in the UK. This led to increased state involvement in welfare.³⁹³ Economically, Keynesian counter-cyclical fiscal policy was nominally practiced to maintain employment.³⁹⁴ Intrusive prices and incomes policies were intended to hold back inflation and excessive wage demands. Planning was in vogue and, to some on the New Right, government virtually controlled where the citizen should live, where their children went to school and how much businesses should charge for goods.

At the same time as collectivism appeared to be strengthening, social individualism was growing. In particular the ‘permissive society’ reforms of the 1960s allowed many in Britain to act in a more socially liberal and individualistic manner. These two trends - growing state planning in the economy and public services alongside increasing individualism - were set on a collision course in the 1970s and 1980s. In

³⁹² Virginia Noble, *Inside the Welfare State. Foundations of Policy and Practice in Post-War Britain*, (London: Routledge, 2009), p. 3.

³⁹³ Noble, *Welfare*, p. 5.

³⁹⁴ That is to say that deficits were run to maintain employment but generally without Keynes’ recommendation to run surpluses during a boom.

opposition the Conservatives bemoaned the intrusive nature of the state (potentially absorbing the Hayekian ideas of Public Choice theory) and the loss of morality and responsibility after the 'permissive society'. Matthew Grimley has identified Thatcherism as 'part of a wider reaction against permissiveness in 1970s Britain' while David Marquand identified a 'paradoxical continuation' of the social changes of the 1960s.³⁹⁵ Florence Sutcliffe-Braithwaite has described a Conservative shift in opposition from 'paternalistic, state-centred policies to a radical skepticism about the virtues the state can inculcate'.³⁹⁶ In government Thatcherism utilized the growing desire for choice and individualism to change the role of the state. Council houses were sold to their tenants, parents were encouraged to actively choose from a variety of possible schools and personal taxation reduced, allowing a higher percentage of take home pay to be spent as each person desired. The size of the state, however, by some measurements did not alter much during the Thatcher years. Yet the constant battle by successive Chancellors to reduce the PSBR (Public Sector Borrowing Requirement) and lower capital investment in the public sector suggested that the state did retreat from several areas of British life.

The oft-cited 'Victorian values' of Margaret Thatcher also altered the relationship between poverty and the role of the state. The concept of deserving and undeserving poor returned in the 1980s. Critics claimed Thatcher 'exploited and magnified popular resentments to redefine the welfare state'.³⁹⁷ Arch-Thatcherite Norman Tebbit famously suggested that if someone could not find a job, they should emulate his

³⁹⁵ Matthew Grimley, 'Thatcherism, morality and religion', In: *Making Thatcher's Britain*, B. Jackson and R. Saunders, eds., (Cambridge: Cambridge University Press, 2012, pp. 78-94), p. 79. Marquand's idea was taken from David Marquand, 'The Paradoxes of Thatcherism', In: *Thatcherism*, R. Skidelsky, ed., (Oxford: Blackwell, 1988), p. 165.

³⁹⁶ Florence Sutcliffe-Braithwaite, 'Neo-Liberalism and Morality in the Making of Thatcherite Social Policy', In: *The Historical Journal*, (55:2, June 2012, pp. 497-520), p. 499.

³⁹⁷ Noble, *Welfare*, p. 6.

father and ‘get on their bike’ and find one. Therefore this role altered as a result of several reasons, including the social changes of the 1960s as well as the liberal critique of planning. The separate strands of neo-liberal thinking viewed social policies in different ways. The *ordoliberalism* that stemmed from the Freiburg School saw social outcomes as of prime concern. To avoid ‘proletarianization’ of the working classes, markets could be utilized for social purposes, hence the idea of a ‘social market economy’.³⁹⁸ Austrians saw things in a more *laissez-faire* way. Although accepting some level of welfare Hayek was generally antagonistic to social policy. He once said that “‘social justice’ is nothing more than an empty formula and intellectually disreputable’ and that egalitarianism was ‘fundamentally immoral’.³⁹⁹ Others in or close to the Austrian tradition, such as Murray Rothbard and Robert Nozick went further in calling for a ‘nightwatchman’ or ‘ultraminimal’ state that did little apart from guarantee law and order.⁴⁰⁰ Chicago School academics like Milton Friedman sought a more pragmatic path, sympathetic to the kind of liberal society Hayek envisaged but astute enough to provide practical recommendations. One example of this was Friedman’s long running support for education vouchers, which would have some impact on the Thatcher government.

³⁹⁸ Werner Bonefeld, ‘Adam Smith and ordoliberalism: on the political form of market liberty’, In: *Review of International Studies*, (39:2, July 2012, pp. 233-250), p. 238, Taylor Boas and Jordan Gans-Morse, ‘Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan’, In: *Studies in Comparative International Development*, (44:2, June 2009), p. 146.

³⁹⁹ F.A. Hayek, *Social Justice, Socialism & Democracy. Three Australian Lectures by F.A. Hayek*. (Turramurra: Centre for Independent Studies, 1979), pp. 2, 39.

⁴⁰⁰ Jeffrey M. Herbener, ‘Ludwig von Mises and the Austrian School of Economics’, In: *Review of Austrian Economics*, (5:2, 1991, pp. 33-50), p. 37, Robert Nozick, *Anarchy, State, and Utopia*, (Oxford: Blackwell, 1974).

Council House Sales

The sale of council houses to their tenants has been widely acknowledged as one of the most popular, if not the most popular, reform of the Thatcher government. Housing was, and still is, a defining feature of British life. The country is sometimes considered unique in its obsession with home ownership.⁴⁰¹ Since the mid-1800s as urban areas expanded and throughout the twentieth century, how to improve housing for the poorest people had been of concern, often in a paternalistic fashion. Some of the industrialists of the Victorian-era provided homes for their employees. The Cadbury family, famous for its confectionary business in Birmingham, was one example: they built an entire village in Bourneville for the workers of their factory and very much in their image - the family were Quakers so pubs were prohibited and exercise was encouraged.

Government subsequently began to build social housing and this was accelerated after each world war. The period after 1945 saw a huge increase in council house building, including the numerous 'new towns' allocated by the state. The situation for many who moved into these homes was a drastic improvement from inner city overcrowding. Yet post-war council housing was to lead to problems. The housing was mostly built in concentrated areas and, especially in the 1960s, in the architectural fashion of the time for 'brutalism': huge tower blocks in a futuristic style that soon lost its allure. Margaret Thatcher, although no architecture critic, described post-war high-rise flats as 'badly designed monstrosities'.⁴⁰² Third, there was usually a waiting list to gain a place in a council home. Rents were cheap and once in a house

⁴⁰¹ *The Economist*, 'Gaponomics', 12 March 2011, p. 15, Robin Harris, *Not For Turning. The life of Margaret Thatcher*, (London: Bantam Press, 2013), p. 245.

⁴⁰² Margaret Thatcher, *The Path to Power*, (London: HarperCollins, 1995), p. 117.

there was little advantage in losing this (relatively) privileged position. Cheap rents also often meant low maintenance. This created a situation that was not propitious for labour mobility or a dynamic economy.

Labour mobility was a consistent liberal theme and often linked with a critique of rent controls.⁴⁰³ These were also branded a hindrance to good quality housing in Britain. The issue had been identified in the 1950s by Geoffrey Howe (and Colin Jones for the Bow Group in the 1956 pamphlet *Houses to Let*) as a problem and had other liberal critics over several years (Milton Friedman and George Stigler as far back as 1946), including another future Chancellor of the Exchequer, Nigel Lawson.⁴⁰⁴ The 1957 Rent Act was attacked for creating perverse incentives for landlords, who in return for artificially low rents meant they often did not maintain their properties. Rent controls were introduced in 1915 due to the wartime shortage but continued after 1918 as insufficient houses were built.⁴⁰⁵ In their 1956 pamphlet, Howe and Jones wrote that rent controls fed inflation elsewhere in the economy, removed an incentive for private enterprise to build houses and limited supply and quality.⁴⁰⁶ They concluded that rent control ‘betokens wastage of housing, distortion in the economy and injustice for many.’⁴⁰⁷ Hayek wrote, in *The Constitution of Liberty*, that rent controls meant property was essentially ‘expropriated’ and led to ‘weakening the respect for property and the sense of individual responsibility’.⁴⁰⁸

⁴⁰³ F.A. Hayek, *The Constitution of Liberty*, (London: Routledge, 2007, first published 1960), p. 298, Richard Vinen, *Thatcher's Britain. The Politics and Social Upheaval of the 1980s*, (London: Simon and Schuster), p. 201.

⁴⁰⁴ Stigler and Friedman collaborated on *Roofs or Ceilings? The Current Housing Problem* in 1946.

⁴⁰⁵ Geoffrey Howe and Colin Jones, *Houses To Let. The Future of Rent Control*, (London: Conservative Political Centre, 1956), p. 5.

⁴⁰⁶ Howe and Jones, *Houses*, pp. 32-34.

⁴⁰⁷ Howe and Jones, *Houses*, p 64.

⁴⁰⁸ Hayek, *Constitution*, p. 297.

Limits on rents could be understood as a way of protecting tenants from exploitative landlords and to keep housing affordable, similar to subsidised building of council houses. Maintaining rent at below market levels, however, acted as a disincentive to the private construction of new property, therefore increasing demand on existing houses, which led to shortages and, to many, reduced quality. The state was then further relied upon to provide new homes. The Conservatives made a commitment to build more social housing than Labour at their 1950 conference – much of it in the public sector.⁴⁰⁹ After the subsequent government's target was reached in 1953, however, the Conservatives turned more towards private housing provision. Nevertheless, though Labour was more inclined towards social housing than the Conservatives, council housing building continued at various levels until 1979.⁴¹⁰ Governments also continued to subsidise rents. These policies exposed one ideological divide between economic liberals and post-war socialists (or social democrats). In 1978 Margaret Thatcher said of rent control, 'Labour's policy in fact produced derelict property and more homeless people.'⁴¹¹

Hugh Rossi, one of the architects of the Right to Buy legislation, also commented on the decline of private rented property. 'The 1974 Rent Act was part of Labour's deliberate policy to break the private landlord, to drive him out of business and, at the same time, provide local authorities with the funds to buy him out.'⁴¹² This assertion, however, has been disputed. Alec Nove, writing in *Economic Affairs* in the 1980s, questioned whether rent controls had negative effects on housing by comparing inner

⁴⁰⁹ John R. Short, *Housing in Britain. The Post-War Experience*, (London: Methuen, 1982), p. 47.

⁴¹⁰ Short, *Housing*, pp. 49-58.

⁴¹¹ Margaret Thatcher Foundation, (hereafter MTF) 103662, Margaret Thatcher, interview for Hornsey Journal, 21 April 1978, [<http://www.margaretthatcher.org/document/103662>], accessed 16 March 2011.

⁴¹² MTF 103662, Hugh Rossi, interview for Hornsey Journal, 21 April 1978, [<http://www.margaretthatcher.org/document/103662>], accessed 16 March 2011.

city areas where rent controls existed and those that did not. Nove claimed there was little or no difference.⁴¹³ It was a counterfactual claim that was difficult to quantify. Nevertheless, rented property was an issue that was important to economic liberals because it was closely aligned with labour mobility.⁴¹⁴

The idea to sell council houses

One of the key ideas of classical economics was that private property was sacrosanct. For many on the left the principle was heretic, and land should be put into common ownership. The tension between these two positions appeared to lie behind housing policy in Britain. Council housing, built and owned by the state, allocated to those most in need was a project inspired by socialism and state planning. Some Conservatives believed Labour's council house building strategy in London was intended to gain political advantage, part of a 'longstanding gerrymander'.⁴¹⁵

The vast expansion of trade during the industrial revolution and the huge improvements in quality of life for many in Britain, according to liberals, had been possible because human beings act in a self-interested way. Private property and the ability to enjoy the fruits of labour lay behind this rapid development. These instincts, according to the New Right, would be reignited if ownership and private property could be expanded. Margaret Thatcher tellingly commented on a large and particularly down-trodden council estate in Toxteth in Liverpool, that the residents took little pride in their neighbourhood, questioning 'how people could live in such

⁴¹³ Alec Nove, 'Markets? Yes, but...', In: *Economic Affairs* (5:2, Jan-March 1985), p. 47.

⁴¹⁴ Hayek, *Constitution*, p. 329.

⁴¹⁵ Ken Young and John Kramer, *Strategy and Conflict in Metropolitan Housing. Suburbia versus the Greater London Council 1965-75*, (London: Heinemann, 1978), p. 68.

circumstances without trying to clear up the mess and improve their surroundings'.⁴¹⁶ To this line of thinking private ownership could reverse these trends. Indeed Conservative activists claimed, following the Right to Buy scheme, they could tell who owned their home 'at a glance' by the improvements they had carried out to their property.⁴¹⁷

Alan Peacock, liberal academic, writer and subsequently a government adviser, lays claim to introducing the idea of council house sales (and that councils should retain fixed term freeholds) in the UK in 1961.⁴¹⁸ Yet the idea of transferring housing away from the state and to the individual had germinated some time before this. An unlikely source of liberal inspiration was Anthony Eden, who became an advocate of a 'property owning democracy' in the 1940s and himself revived the term from the 1920s 'constructive conservatism' of Noel Skelton who feared that 'socialism has force, fire, energy indeed' but that it meant 'economic disaster and moral despair.'⁴¹⁹ Skelton rejected state ownership, saying 'what everybody owns, nobody owns' and came to have a profound impact on a generation of Conservative politicians.⁴²⁰ Although it did not solely mean home ownership Skelton wrote in 1924 a sentiment that would infuse Conservative thinking all the way through to the 1980 Housing Act:

⁴¹⁶ Margaret Thatcher, *The Downing Street Years*. (London: HarperCollins, 1993), p. 145.

⁴¹⁷ Charles Moore, *Margaret Thatcher. The Authorized Biography. Volume One: Not For Turning*, (London: Allen Lane, 2013), p. 471.

⁴¹⁸ Interview with Sir Alan Peacock, 26 January 2010.

⁴¹⁹ Noel Skelton, *Constructive Conservatism*, (London: William Blackwood and Sons, 1924), p. 7.

⁴²⁰ Skelton, *Constructive*, p. 19.

Until our educated and politically minded democracy has become predominantly a property-owning democracy, neither the national equilibrium nor the balance of the life of the individual will be restored.⁴²¹

Stanley Baldwin and Harold Macmillan both used the phrase ‘property owning democracy’ in the 1920s and Skelton also encouraged Anthony Eden to use it.⁴²² Eden aligned the term more toward home ownership with his speech to the Conservative Party Conference in 1946 while Winston Churchill later said in 1950 that this was an essential part of Conservative policy.⁴²³

The Bow Group published a piece aimed at increasing home ownership in its 1954 pamphlet, *Industry and the Property Owning Democracy* by Russell Lewis. Three reasons for home ownership were set out. Firstly, it was a bulwark against socialism, secondly it had an ‘excellent effect on character’ and lastly encouraged independence and self-confidence.⁴²⁴ Lewis said that property ownership catered for the ‘country’s real needs.’⁴²⁵ In opposition during the 1960s the idea of selling council houses to their tenants took shape for the Heath Shadow Cabinet following a local government initiative in Birmingham.⁴²⁶ Subsequently Geoffrey Howe wrote to Margaret Thatcher in September 1978 that ‘property-owning democracy is undoubtedly a most important theme’ and this should be focused ‘overwhelmingly on council house sales.’⁴²⁷ In short, property ownership had long been favoured by Conservative Party politicians.

⁴²¹ Skelton, *Constructive*, p. 17.

⁴²² David Torrance, *Noel Skelton and the Property-Owning Democracy*, (London: Biteback, 2010), p. 140.

⁴²³ Torrance, *Skelton*, pp. 140, 211.

⁴²⁴ Russell Lewis, *Industry and the Property Owning Democracy*, (London: The Bow Group, 1954), pp. 3, 30.

⁴²⁵ Lewis, *Industry*, p. 30.

⁴²⁶ Tim Bale, *The Conservatives Since 1945*, (Oxford: Oxford University Press, 2012), p. 137.

⁴²⁷ The Papers of Margaret Thatcher, (Cambridge: Churchill Archives, hereafter THCR), 2/1/3/9, Note from Geoffrey Howe to Margaret Thatcher 7 September 1978.

They articulated a belief that home ownership was the natural order of things in British life.

Another unlikely liberal reformer, Peter Walker - considered a 'wet' subsequently in Margaret Thatcher's government - championed the idea of selling council houses to their tenants and managed to include the proposal into the October 1974 Conservative Election Manifesto, with agreement from Thatcher who was briefly Shadow spokesperson for the Environment. It said its 'proposal for extending home ownership is to give a new deal to every council tenant who has been in his home for three years or more. These tenants will have the right to purchase their homes at a price one-third below market value.'⁴²⁸ Of course the manifesto pledge was unable to be implemented as Labour won the election but by 1979 the Conservatives had expanded the policy. Walker had initially floated giving away council houses to long-term tenants but Margaret Thatcher resisted this on the grounds that it would appear to punish those who had worked to buy their home. Walker pointed out that this could also be applied to those who had paid years of council rents but Thatcher was concerned on how that would look to 'our people'.⁴²⁹ The 1979 manifesto said that 'discounts will range from 33 per cent after three years, rising with length of tenancy to a maximum of 50 per cent after twenty years. We shall also ensure that 100 per cent mortgages are available for the purchase of council and new town houses.'⁴³⁰ Michael Heseltine, similarly to Walker, justified the large discounts in a 1978 paper

⁴²⁸ Conservative Party Election Manifesto October 1974. [<http://www.conservative-party.net/manifestos/1974/Oct/october-1974-conservative-manifesto.shtml>], accessed 16 March 2011.

⁴²⁹ Peter King, *Housing Policy Transformed. The Right to Buy and the Desire to Own*, (Bristol: The Policy Press, 2010), p. 58.

⁴³⁰ Conservative Party Election Manifesto 1979 [<http://www.conservative-party.net/manifestos/1979/1979-conservative-manifesto.shtml>], accessed 16 March 2011.

he wrote in opposition: ‘The tenant in an older house has in some cases paid out more in rent than the cost of the house to the local authority.’⁴³¹

Another influential political figure regarding the council houses was Horace Cutler, a leading member of, and leader of between 1977 and 1981, the Greater London Council (GLC). In the late 1960s Cutler advocated, and put into motion, selling council houses to tenants. Margaret Thatcher (and Hugh Rossi in the same 1978 interview) praised Cutler for transferring power from the state to the people.⁴³² Upon gaining power in 1979, Thatcher turned to another moderate not particularly known for his liberal leanings, Heseltine (as Secretary of State for the Environment), to implement the policy of council house sales. Therefore compared to several other Thatcherite reforms, the Right to Buy legislation and lineage had as much to do with One Nation and traditional conservatism as economic liberals like Keith Joseph or Geoffrey Howe. The details of the scheme for the 1979 manifesto were worked through by Hugh Rossi, who had been a long-time proponent of the idea, but was also considered closer to Edward Heath than Margaret Thatcher.⁴³³

Neo-liberal themes and Council House Sales

Although several of the prominent personalities involved in implementing the policy of selling council houses may have not been typical economic liberals the policy idea itself could be viewed as a barometer of the shift to liberal economic thinking under the Thatcher government. Peter Mandelson later wrote Labour dogma in this period

⁴³¹ THCR 2/6/2/187 Paper by Michael Heseltine, ‘The Sale of Council House Sales’, 28 June 1978.

⁴³² MTF 103662

⁴³³ Michael Heseltine, *Life In The Jungle. My Autobiography*, (London: Hodder and Stoughton, 2000), p. 181.

‘could leave us [the Labour Party] opposing policies of far greater benefit to our own voters than anything we were offering’. Council house sales was the one Conservative policy that Labour should have admitted was worthy of reversing their position on, according to Mandelson, and opposition against it in the 1983 election was a vote loser.⁴³⁴

Council house sales satisfied broad liberal principles for several reasons. Council house provision was a state subsidy. Some saw Right to Buy as a ‘cut’ and a means of reducing government spending.⁴³⁵ In terms of a broadly Austrian microeconomic view of the market this would distort prices and drive out producers (private landlords and construction) from the housing market.⁴³⁶ Social housing was planned from central government. This would allocate resources in the way a bureaucrat saw fit and not, to the Austrian School’s way of thinking, by the price mechanism in a market that would respond to demand more quickly and efficiently. A constant idea alluded to in the writing of the New Right was dependency. In creating the welfare state, British governments provided numerous methods of free assistance to its citizens, from the NHS to child benefit to cheap council housing. Once initiated, this help was difficult to withdraw. This was of course anathema to economic liberals who believed people themselves should decide how to spend their own money and that they were better at doing this than the paternalist state. Home ownership was, in part, a way of achieving this. If tenants became property owners it would widen ownership of capital, reducing

⁴³⁴ Peter Mandelson, *The Third Man. Life at the heart of New Labour*, (London: HarperPress, 2010), p. 77. Mandelson wrote that Labour ‘could not make policy on the simple basis that everything that the Tory government did was wrong.’

⁴³⁵ Moore, *Margaret Thatcher*, p. 469.

⁴³⁶ See previous chapter. Using Austrian microeconomic principles this study defines a ‘perfect’ market as free entry, large numbers of producers and consumers and information flows that manifest in price signals. The Austrian view is that dynamic markets moving towards equilibrium through price signals act as a discovery process and a means to efficiently allocate resources.

state control and planning from the centre. Nigel Lawson expanded on this in his 1988 lecture, 'The New Britain, The Tide of Ideas', when he said that the 'moral' basis of capitalism was shown in home ownership and this represented a desire of the British people for 'self improvement', denied to them by previous housing policies.⁴³⁷

Housing and the role of the state cut further into liberal thinking. Friedrich Hayek's warning that bureaucracy was self-perpetuating and Keith Joseph's 'ratchet effect' of socialism could be interpreted in one respect by the increasing number of council houses built in the post-war period, and the combination of that and rent controls pushed private provision out of the market. Furthermore, according to Public Choice theory it would be in the interest of those working in government to expand their control over housing policy. Selling state assets, in this case housing stock, showed a fundamental realignment in the relation between the government and the private sector. The New Right believed, to sum up, that the state should only concern itself in areas where private provision was flawed, in effect where there was either a missing market or 'market failure'. The building, buying, selling and renting of houses was not, according to liberals, one of these areas.⁴³⁸ Therefore the policy of council house sales, or property ownership in general, had been a favourite principle of Conservative politicians. It was also a component in the Party's strategy to widen its support to traditional Labour supporters. Nevertheless, as a result of the prevailing ideological climate, the policy also aligned with several neo-liberal ideas.

Implementation

⁴³⁷ Nigel Lawson, *The New Britain. The Tide of Ideas from Attlee to Thatcher*, (London: CPS, 1988), p. 13.

⁴³⁸ Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962), p. 36.

As seen from the differences between the 1974 and 1979 Conservative Party manifestos, the terms that council houses would be sold on became more generous. A maximum discount to tenants was proposed as 33% in 1974, while by 1979 a reduction of up to 50% was on offer. As Secretary of State for the Environment, Michael Heseltine decided to allocate the job of preparing the legislation to Minister of State John Stanley.⁴³⁹ The Housing Act of 1980, also known as the 'Right to Buy' legislation, included several core features. The level of discount offered on the sale of a house depended on the length of time that person or family had lived there. This ranged from 33% on a minimum of three years tenancy to 50% maximum after 20 years incumbency. If a tenant wanted to sell the house within five years of buying it they would have to repay the discount. A statutory right to buy would exist for tenants who had been in either a council house or non-charitable housing association residence for at least three years.⁴⁴⁰ These conditions were extended in 1984, such was the success of the scheme, allowing tenants that had lived in their houses the right to buy after two years and increasing the discount to 60% for over 30 years incumbency.⁴⁴¹

The Politics and Economics of Council House Sales

The policy of selling council houses to their tenants proved wildly popular.⁴⁴² When the Housing Act was passed in 1980 approximately 53% of British homes were owner occupied. At the end of the decade this figure rose to 66% with 1.5 million council

⁴³⁹ Heseltine, *Life*, pp. 181, 195.

⁴⁴⁰ 1980 Housing Act. [<http://www.legislation.gov.uk/ukpga/1980/51>], accessed 19 March 2011.

⁴⁴¹ David Stafford, 'Speed Up Council House Sales', In: *Economic Affairs*, (4:2, Jan 1984), pp. 25-26.

⁴⁴² Tom Clark, 'Thatcher's flagship policies draw mixed support at her death, poll shows', In: *The Guardian*, 9 April 2013, [<http://www.guardian.co.uk/politics/2013/apr/09/thatcher-flagship-policies-guardian-icm-poll>], accessed 26 June 2013.

houses sold.⁴⁴³ Cynics have said the policy was primarily a electoral winner and effectively converted many traditional Labour supporters into Conservative voters.⁴⁴⁴ It has already been noted that architect of New Labour Peter Mandelson, thought that his party in the 1980s should have accepted this was a successful and popular policy. Tony Blair, in his memoirs, went further. He described strategies such as Right to Buy as chiming with the ‘aspirational’ nature of the British people, something that ‘old’ Labour never understood or recognised and that his New Labour project did.⁴⁴⁵ As outlined previously, Conservative politicians since the 1920s believed capital ownership would strengthen the Party’s support and predated its relationship with neo-liberalism.

The 1976 policy document, *The Right Approach*, criticized what it believed was socialism’s tendency to heighten ‘class feeling’ through industrial unrest and municipal housing. Home ownership was one mechanism to dilute this feeling.⁴⁴⁶ It should also be noted that home ownership had been rising over the previous decades and in this respect favoured the Conservatives’ housing policy.⁴⁴⁷ Daniel Stedman-Jones goes as far to say that the Thatcher government simply expanded a trend backed by both major parties over several years, but that the Conservatives added ‘a thick coating of ideological paint’.⁴⁴⁸ Margaret Thatcher certainly acknowledged that home

⁴⁴³ Peter Riddell, ‘Ideology In Practice’. In: *A Conservative Revolution? The Thatcher-Reagan Decade in Perspective*, A. Adonis and T. Hames, eds., (Manchester: Manchester University Press, 1994), p. 31.

⁴⁴⁴ Geoffrey Garrett, ‘The Political Consequences of Thatcherism’, In: *Political Behavior*, (14:4, December 1992, pp. 361-382), pp.377-378.

⁴⁴⁵ Tony Blair, *A Journey*, (London: Hutchinson, 2010), pp. 90-91. Blair wrote that Labour had lost touch. ‘It was all about opportunity not in general but in particular: for you, as an individual. That echoed and captured something deep within human nature: the desire to be free, to be the best you can be.’

⁴⁴⁶ King, *Housing*, p. 53.

⁴⁴⁷ Jon Lawrence and Florence Sutcliffe-Braithwaite, ‘Margaret Thatcher and the decline of class politics’, In: *Making Thatcher’s Britain*, B. Jackson and R. Saunders, eds., (Cambridge: Cambridge University Press, 2012, pp. 132-147), p.135.

⁴⁴⁸ Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal*

ownership favoured her government and the ethos of her domestic programme. It could, at times, even override the need to reduce inflation. In a 1979 meeting with Gordon Pepper the monetarist admitted he was ‘very worried about the money supply figures’, hinting at an interest rate increase. The Prime Minister replied that ‘it would be disastrous if the mortgage rate rose.’⁴⁴⁹

The Prime Minister came into conflict with Chancellors Geoffrey Howe and Nigel Lawson over interest relief on mortgages. Mortgage Interest Relief at Source (MIRAS) allowed home-owners to claim tax relief on the interest payments of their mortgages. Although MIRAS was actually introduced by then Labour Chancellor Roy Jenkins in 1969, also to encourage home ownership, it was expanded under the Thatcher government. The Prime Minister said that MIRAS was a reward for ‘our people’.⁴⁵⁰ Tax relief on mortgages was considered cheaper for the state than council housing. *The Right Approach* estimated that the average annual subsidy on a newly built council house was about £1300, while the tax relief on a new mortgage was about £300.⁴⁵¹ Documents show Thatcher and Howe clashing over raising the mortgage relief ceiling in 1982 and 1983.⁴⁵² The Prime Minister consistently wanting it to rise further than the Chancellor thought acceptable.

If the politics of council house sales looked like a one-way street, the economics were not as clear. The wider ownership of capital was a success, it later encapsulated the

Politics, (Oxford: Princeton University Press, 2012), p. 309.

⁴⁴⁹ Records of the Prime Ministers Office: Correspondence and Papers, 1979-1997, (The National Archives: Public Record Office, Kew, hereafter PREM19), 19/183, meeting between Gordon Pepper and Margaret Thatcher on 18 July 1979.

⁴⁵⁰ Geoffrey Howe, *Conflict of Loyalty*. (Basingstoke: MacMillan, 1994), p. 280. Then Chancellor of the Exchequer Geoffrey Howe said the Prime Minister had ‘long wanted it (MIRAS) to be extended because it was of special value to ‘our people’.

⁴⁵¹ King, *Housing*, p. 56.

⁴⁵² MTF 124569, No.10 letter to HMT, 25 Feb 1982, MTF 131524, MT personal minute to Chancellor of the Exchequer, 28 Feb 1983.

Thatcherite idea of ‘popular capitalism’ and paved the way for a programme of privatization that accelerated during the second and third Thatcher terms. Yet it did little to tackle the problem of labour mobility. By addressing home ownership and not the rental market, and also by setting the seemingly sensible five-year resale restrictions, Right to Buy may have contributed to continued inertia in regional mobility.⁴⁵³ This in turn may have worsened the employment difficulties of the 1980s. The lack of new council housing stock following the 1980 Act increased demand and therefore prices, working against one of the central targets of the Thatcher government. Critics of council house sales and its implementation were to appear on both left and right.

Criticism of Right to Buy

The Right to Buy legislation satisfied some general New Right themes. It widened ownership of housing and capital, reduced state control and provision of housing, dependency on central government and created over a million ‘capitalists’ that previously may have identified more with the Labour Party. Economic liberals were less impressed, however, with the way the scheme was implemented. Firstly, prices were subsidised and discounted, in some cases heavily. Price is a key consideration in the market process, particularly to the Austrian School. Subsidies distort this market mechanism, government intervention can lead to inflation and one criticism that stood out from the Austrian School was that subsidising prices generated queues.⁴⁵⁴ This tied in with a criticism of council house sales from the left. The Thatcher government prevented local authorities from using the revenues to replenish housing stock. Social

⁴⁵³ Vinen, *Thatcher's Britain*, p. 201.

⁴⁵⁴ Norman Barry, ‘Austrian Challenge to Orthodoxy’, In: *Economic Affairs*, (4:3, April-June 1984), p. 59.

housing was then left to housing associations. This led to a shortage of new houses which in turn caused increased homelessness (exacerbated by the 1983 Mental Health Act that meant many more patients were treated in the community). This problem was made worse by elevated rents in existing council housing.⁴⁵⁵

Subsidised prices and reduced housing stock did increase demand for homes in the 1980s, with some negative consequences. Going back to the question of where government should step in after a market failure, many on the left would consider the advent of increased homelessness as just that. Liberals, on the other hand, thought that state interference in the implementation of Right to Buy created new market distortions. Housing policy and the implementation of strategies such as Right to Buy were advantageous to many but disastrous for others. The liberal criticism focused on Austrian microeconomics, the market mechanism and the primacy of price. This is a pervading theme of much of Thatcherism, namely that Hayekian politics were more influential than its economics, or at least the wider school of thought Hayek encapsulated.

Right to Buy, as Skelton predicted in the 1920s, reignited (or consolidated) the British obsession with home ownership. To many it was a situation from which you could only benefit. As well as subsidizing prices of council houses the government provided further incentives with privately owned homes in general with MIRAS tax relief. Nigel Lawson, following in Howe's footsteps, wanted to limit MIRAS but met fierce opposition from Margaret Thatcher. MIRAS and price subsidies worked against the principles of economic liberalism and distorted market forces.

⁴⁵⁵ John Campbell. *Margaret Thatcher. Volume Two: The Iron Lady*, (London: Pimlico), p. 174.

The rules that governed Building Societies mortgage lending also changed in the mid-1980s, which generally made it easier to buy a house.⁴⁵⁶ Credit further fuelled an increase in owner occupation during Thatcherism and beyond. Figure 3 shows how owner occupation expanded

between 1981 and 2006 in comparison with housing associations, local authority housing and private renting.

The overall critique of Margaret Thatcher's

Figure 3: Trends in Home Ownership, 1981-2006

	1981	2006
Owner Occupation (%)	57.7	70.1
Private renting (%)	11.1	11.4
Housing Association (%)	2.2	8.4
Local authority (%)	29.0	10.1

Source: Wilcox, *UK Housing Review 2007/08*

housing policy is consistent with much of the government's programme. Political strategy appeared to align with the principles of economic liberalism policy formulation. Yet a purer adherence to New Right models, particularly Austrian microeconomics, was jettisoned when actually implemented. In some respects this again showed that Thatcherism was closer to Friedmanite neo-liberalism than the more puritan classical liberalism of Hayek. That is to say the Government utilized the state to liberalise or create markets, but that the methods introduced their own contradictions. In addition the reform of the rental market, important for labour mobility and identified as such by thinkers like Hayek as well as Tory politicians like Howe and Lawson, was not attempted. Robin Harris has noted that any attempts at reform of the rental market met a 'wall of prejudice'.⁴⁵⁷ Margaret Thatcher compromised her free market beliefs in housing policy in the 1980s by endorsing subsidisation and price distortion; encouraging more borrowing and fuelling

⁴⁵⁶ Vinen, *Thatcher's Britain*, p. 205.

⁴⁵⁷ Harris, *Not For Turning*, p. 245.

inflation.⁴⁵⁸ A focus on home ownership in the UK, as well as the United States is a long-term trend that has been encouraged by governments. This can, most notoriously, be seen in the subprime housing market in the US, where owner occupation was promoted aggressively and acted as a trigger for the financial crisis of 2007-08.⁴⁵⁹ *The Economist* gave its verdict on housing in 2011: ‘In Britain the main problem is the fetish for home-ownership and high house prices in the south-east, partly the result of severe shortages of supply.’⁴⁶⁰ As such, the Thatcher government went about decreasing the potency of one vested interest (state sponsored council housing) while creating another (home owners, given their own benefits and perks, sponsored by the state). This is seen in several of the Thatcher government’s policies and is dealt with in more detail in chapter four.

Education Vouchers

State education had long been criticised by economic liberals. The IEA has claimed it ‘damaged the poor and led to lower literacy rates than those in pre 1870 Britain.’⁴⁶¹ One idea to improve education that emanated from neo-liberals, and a favourite policy recommendation of both Milton Friedman and the IEA, was education vouchers. It was one model that had taken form before 1979 and had some level of support in the UK in the shape of FEVER (Friends of the Education Voucher Experiment in Representative Regions). The period that was considered the possible window when

⁴⁵⁸ Campbell, *Iron Lady*, p. 233.

⁴⁵⁹ King, *Housing*, p. 2.

⁴⁶⁰ *The Economist*, ‘Gaponomics’, 12 March 2011, p.15.

⁴⁶¹ E.G. West, *Government Failure: E.G. West on Education*, (London: IEA, 2003), On page 38 the author wrote ‘on my calculations (West, 1978), in 1880, when national compulsion was enacted, over 95 per cent of fifteen-year-olds were literate. This should be compared to the fact that over a century later 40 per cent of 21-year-olds in the UK admit to difficulties with writing and spelling’,(Central Statistical Office, 1995).

education vouchers could have been introduced was the end of the first Thatcher term, with Keith Joseph as Secretary of State for Education. When this opportunity was missed it appeared that education vouchers would not be trialed. Instead there were some attempts at creating competition and improving standards in the Education Reform Act of 1988, which set out a public sector reform agenda that was to be followed in a similar way with the NHS legislation of 1990.

Statutory state education can be traced back to the Elementary Education Act of 1870, which set out the provision of compulsory education, delivered by local boards, up to the age of 12. To this point schooling had been provided privately and as the quote above claimed, many liberals even today consider this to be a better way to deliver education for all. Typically Friedrich Hayek saw little role for government in providing education.⁴⁶²

State funded education was expanded in the twentieth century. One of the key pieces of legislation regarding the modern British system was the 1944 Education Act. This split state funded schools into three categories: grammar schools, secondary technical schools and secondary modern schools. Grammar schools proved to be the most contentious because they had a selection procedure, which only allowed pupils admission if they passed an exam. This selection, at age 11, was increasingly resisted by the Labour Party in the post-war period. They felt that the process discriminated against children from working class or poorer backgrounds. From 1965, Secretary of State for Education in Harold Wilson's government, Anthony Crosland, attempted to force local authorities to convert all schools to non-selective comprehensives.

⁴⁶² Hayek, *Constitution*, p. 329.

Crosland was vehemently opposed to grammar schools and most became comprehensives over the next 15 years. Margaret Thatcher was Education Secretary in the Heath Government 1970-74 and as Shirley Williams pointed out in 2008, closed more grammar schools than any other minister.⁴⁶³ This, however, is misleading. The future Prime Minister actually ended the compulsory shift from grammar schools to comprehensives but by this point the process was politically difficult to reverse.

The end of the 'tripartite' schooling system (grammar, secondary technical and secondary modern schools) was associated by some with the general malaise in Britain by the 1970s and fitted in with the mood of declinism.⁴⁶⁴ What the demise of grammar schools signified to its critics was not a move towards egalitarianism but to a reduction in academic standards and opportunities for children from poorer families. Post-war British politicians had attempted to reduce elitism and in so doing create equal opportunities in education. After most of the grammar schools closed, parents paying to send their children to independent schools increased, potentially reinforcing elitism.⁴⁶⁵

Development of the Education Voucher idea

Liberal economic thinkers had an alternative to the state education system which developed over a number of years: the education voucher scheme. It appealed to

⁴⁶³ Shirley Williams comment came in Michael Cockerell's 2008 BBC film *The Making of the Iron Lady*.

⁴⁶⁴ Dominic Sandbrook, *Seasons In The Sun. The Battle For Britain 1974-79*, (London: Penguin, 2013), p. 216.

⁴⁶⁵ Between 1975 and 1990 the number of pupils enrolled in private (or independent) schools rose from 5.9% to 7.4% of the total in education. Source: House of Commons Library, 'Education. Historical statistics', (P. Bolton, 2012), p. 17.

Conservatives like Margaret Thatcher and Keith Joseph because it challenged sedentary, LEA-organised comprehensives. In its basic form parents would be given a voucher for each of their children, which they could use to send them to a school of their choosing. The idea was intended to promote competition between schools, raise standards of teaching and induce some degree of market discipline into the state school system. It was initially proposed by Milton Friedman in 1955, in an article titled 'The Role of Government in Education'.⁴⁶⁶ Friedman wrote that government-led education was neither 'required' nor 'justifiable in a predominantly free enterprise society.' He said a voucher scheme 'would be a sizeable reduction in the direct activities of government, yet a great widening in the educational opportunities open to our children.' Lastly, 'Government would serve its proper function of improving the operation of the invisible hand without substituting the dead hand of bureaucracy.' Friedman's idea was an example of the neo-liberalism with which he came to be associated. That is to say that the state should act to promote market forces, creating markets if they did not exist. In this sense Friedman saw the potential of government as an enabler. Hayekians (or the more classical liberals of the Austrian School) saw no role for the state in education and that the private sector would operate effectively without government interference. In *The Constitution of Liberty* Hayek applauded Friedman's voucher idea but nevertheless said that 'it would undoubtedly be possible to leave the organization and management of education entirely to private efforts' and that 'the case against the management of schools by government...[is] stronger than ever'.⁴⁶⁷ It may have been another attempt to conceal the real differences Hayek had with his fellow Mont Pelerin member. Again we see similar thinking between Austrian and Chicago schools, diverging with the former's more puritanical liberal

⁴⁶⁶ Friedman, *Capitalism*, pp. 85-107, originally published as 'The role of government in education', In: *Economics and the Public Interest*, R.A. Solo, ed., (New Jersey: Rutgers University Press, 1955).

⁴⁶⁷ Hayek, *Constitution*, p. 329.

view compared to Friedman's more practical engagement. The Chicagoan's support for vouchers administered by government was a prime reason he would have to defend himself against accusations of being 'statist' by more idealistic, or as he put it 'utopian', economic liberals.⁴⁶⁸

The first advocates of the voucher scheme in the UK were Alan Peacock and Jack Wiseman in their 1964 IEA pamphlet *Education for democrats. A study of the financing of education in a free society*. Peacock, in 2010, said that he had been looking at post-war social policy and wanted to improve education for the poorest families in Britain. He originally looked at vouchers in health policy but thought this would be too controversial, subsequently transferring his focus to education. Peacock wanted to increase the power and choice of the consumer, in this case the parent.⁴⁶⁹ He was a member of the Liberal Party at this time and later said that most Conservatives were against the idea when it was first suggested, with the exceptions of Keith Joseph and Geoffrey Howe.⁴⁷⁰

The Institute of Economic Affairs became closely associated with education vouchers from the 1960s, in particular its president Arthur Seldon and his wife Marjorie, who was the Founder Chair of FEVER. The pressure group was set up in 1974 to promote the voucher scheme. During this period some Conservative MPs began to look at the idea, including Rhodes Boyson, who backed the scheme in a 1975 paper called *The Fight for Education*.⁴⁷¹ Milton Friedman returned to his idea in *Free to Choose* in

⁴⁶⁸ Milton Friedman, 'Say "No" to Intolerance', In: *Liberty*, (4:6, July 1991, pp. 17-20), [http://mises.org/journals/liberty/Liberty_Magazine_July_1991.pdf], accessed on 28 November 2013, p. 20.

⁴⁶⁹ Interview with Sir Alan Peacock, 26 January 2010.

⁴⁷⁰ Interview with Sir Alan Peacock, 26 January 2010

⁴⁷¹ Andrew Denham, *Think-Tanks of the New Right*, (Aldershot: Dartmouth, 1996), p. 80.

1980, and the accompanying television series devoted a whole episode to education vouchers.⁴⁷²

Like many liberal economic policy recommendations, education vouchers were seen by many as eccentric. It is apparent, however, that the education strategies in the 1960s and 1970s had caused some disquiet and there was space for new thinking. Central to this was the end of the tripartite system. What the voucher scheme attempted to do was represent the same amount of money that the state allocated to a child's education but in a mobile form that could follow the best performing and sought after schools. The intention was to force institutions and teachers to improve their standards. Vouchers were a typically neo-liberal proposal, attempting to impose market forces and discipline on a state-run system, in the belief this would increase quality and productivity.

Education Policy of the Conservative Party, 1979

By 1979 the principles set in train by Crosland's policies in the 1960s had taken root. It would prove difficult for the Thatcher government to alter the establishment's consensus on education. One example was that of grammar schools. Selection aged eleven for elite schools was an idea that appealed to Conservatives. Grammar schools and elitist education, however, has proved divisive for the Conservative Party. Even in 2007 David Cameron had to announce that his party would not reintroduce selection and grammar schools if returned to government, receiving an 'angry

⁴⁷² Milton and Rose Friedman, *Free to Choose*. (London: Pan Books, 1990 (originally published 1980)). Episode six of the 1980 series was 'What's wrong with our schools?'

backlash' for his troubles from backbench MPs.⁴⁷³

It might have been expected that the Thatcher government would be keen to alter the education status quo. Within Thatcherism's broader strategy there were several reasons for this, economic and political. Comprehensive schools were seen to be under the control of LEAs (Local Education Authorities). Politically this layer of bureaucracy was deemed as being left leaning and inclined to support Labour. From a New Right perspective LEAs would have been a target for advocates of Public Choice theory. LEAs had been seen as a particularly inflexible arm of government. Chancellor Nigel Lawson said in a speech in 1988 that he saw one of the central government's roles as empowering the individual. Regarding education, Lawson said that since local government (in most cases) showed no signs of divesting power voluntarily, central government had to step in. The aim was to transfer power from bureaucratic and often obstructive bodies directly to the people. This explained several reforms of the Thatcher government and why it wanted to reduce the influence of LEAs.⁴⁷⁴ Although vouchers would still require administration the policy could remodel this type of bureaucracy, which allocated pupils to schools and the associated resources. Public Choice theorist Gordon Tullock believed education vouchers could reduce the power and prestige of civil servants.⁴⁷⁵ In addition, the Labour Party had become the champion of producer groups such as teachers. Economic liberals felt that education policy should be aimed at the consumers (parents and their children) and not the producers (teachers and bureaucrats). As with council house sales, education vouchers had the potential to reduce the influence of forces antagonistic to the

⁴⁷³ Graeme Wilson, 'Cameron rules out grammar schools revival', In: *The Daily Telegraph*, 17 May 2007, [<http://www.telegraph.co.uk/news/uknews/1551789/Cameron-rules-out-grammar-schools-revival.html>], accessed 28 April 2011.

⁴⁷⁴ Lawson, *Tide*, pp. 14-15.

⁴⁷⁵ Gordon Tullock, 'No Public Choice in State Education', In: *Economic Affairs*, (6:3, April-May 1986), p. 19.

Conservative Party. Unlike housing though, vouchers in education would not be a vote winner in the short term (particularly the electoral cycle) and would possibly take several years to produce results.

The Thatcher government's desire to reform education had another dimension. The Prime Minister herself has been characterised as being driven by the need to defeat 'enemies'. In his biography of Thatcher, John Campbell wrote a chapter, titled 'Enemies Within' that described a 'need for enemies' and a 'taste for confrontation'.⁴⁷⁶ During her tenure Margaret Thatcher identified and took on, for the most part shrewdly, a number of individuals and groups that she saw as reactionary. The trade union movement and the coal miner's leader Arthur Scargill, the civil service, the communist world, the European Community: all were targets. Local authorities and the education establishment were seen as intransigent, another bastion of leftism in the UK. Education reforms that reduced their power, however, could (and later did) enhance the power of central government. The Prime Minister also saw academics as another foe. She would criticise universities and the anti-capitalist sentiments they would (according to her) encourage.⁴⁷⁷ Shirley Letwin wrote that Margaret Thatcher saw education as a means to improve economic efficiency and therefore treated individuals as a means of production, not independent agents.⁴⁷⁸ Famously her alma mater Oxford University did not award the Prime Minister an honorary degree in 1985 due to the sizeable resistance of the academic world to the government's measures.

⁴⁷⁶ Campbell, *Iron Lady*, pp. 351-418.

⁴⁷⁷ Campbell, *Iron Lady*, p. 395. Campbell wrote that 'the great majority of university teachers loathed her, and she candidly despised them.'

⁴⁷⁸ Shirley Robin Letwin, *The Anatomy of Thatcherism*, (London: HarperCollins, 1992), p. 325.

Therefore it is unsurprising the Thatcher government saw radical education reform as desirable and part of its wider objectives. Attacking the entrenched education establishment was not only an opportunity to improve school standards but also to shape British political thinking and practices to Thatcherism's broader programme. Secretary of State for Education between 1986 and 1989 Kenneth Baker summed up many Conservative's opinion of the education establishment. He believed there had been a deterioration in standards of education due to the '1960s ethos' of the Department of Education and Science (DES) which had left it 'rooted in [the] "progressive" orthodoxies' of the comprehensive system, and 'in league' with teaching unions.⁴⁷⁹

Education Vouchers: Keith Joseph's opportunity

Keith Joseph had been Secretary of State for Industry from 1979, taking over from Mark Carlisle at education in 1981. He was perhaps the most ardently pro-market (intellectually if not in practice) of the politicians in the Thatcher government and was interested in the voucher scheme when he became education secretary.⁴⁸⁰ He was also the closest politician to the Institute of Economic Affairs, who had pushed the scheme hard in the previous years. Subsequently, voucher proponent Arthur Seldon said that the possible phase for introducing the idea was between October 1982 and June 1983, when the government was riding high after the victory in the Falklands and the economy was coming out of recession.⁴⁸¹ The scheme was examined in this period but was eventually shelved. It was left to Kenneth Baker to present the key piece of

⁴⁷⁹ Kenneth Baker, *The Turbulent Years. My Life in Politics*, (London: Faber and Faber, 1993), pp. 160-168.

⁴⁸⁰ Denham, *Think-tanks*, p. 81.

⁴⁸¹ Anthony Seldon, *The Riddle of the Voucher. An inquiry into the obstacles to introducing choice and competition in state schools*, (London: IEA, 1986), p. 4.

education legislation during the Thatcher era, the 1988 Education Reform Act. If education vouchers were going to be introduced it would surely have been while the economically liberal Joseph was in charge of the department. So why were they not implemented? Several reasons have been proffered: that the DES proved too resistant to the scheme, that Joseph was an ineffective Secretary of State or that it was simply unworkable.

Keith Joseph had wholeheartedly embraced economic liberalism after 1974. In opposition he toured universities around Britain delivering numerous speeches that espoused liberal ideas, such as 'Monetarism is Not Enough'.⁴⁸² In 1974 he was the driving force behind the founding of the Centre for Policy Studies (CPS), one of the more influential New Right think tanks, with the aim of trying to emulate the West German economic 'miracle'.⁴⁸³ In 1976 Joseph allegedly provided Margaret Thatcher with a list of key liberal economic texts, such as Hayek.⁴⁸⁴ One of the most original thinkers in the Thatcher government, his policy-making often changed course rapidly.⁴⁸⁵ James Prior criticised his enthusiasm for 'hare-brained schemes' while even supporters like Milton Friedman expressed disquiet over Joseph's interventionist policies at the Department of Trade and Industry.⁴⁸⁶ The latter point was based around keeping British Leyland afloat but had been identified by Michael Heseltine as electorally crucial in the contested region of the West Midlands.⁴⁸⁷ Some liberals, such as Alfred Sherman, believed Joseph became guided by his civil servants, who

⁴⁸² MTF 110796, Sir Keith Joseph, 'Monetarism is Not Enough'. The Stockton Lecture, 5 April 1976, [<http://www.margaretthatcher.org/document/110796>], accessed 28 June 2011.

⁴⁸³ Andrew Denham and Mark Garnett, Denham, *Keith Joseph*, (Chesham: Acumen, 2001), p. 140.

⁴⁸⁴ Denham and Garnett, *Joseph*, p. 323.

⁴⁸⁵ Interview with Lord Ryder, 23 February 2011. 'Margaret Thatcher was not as natural a thinker as Keith Joseph.'

⁴⁸⁶ Jim Prior, *A Balance of Power*, (London: Hamish Hamilton, 1986), p. 125, MTF 117172, letter from Milton Friedman to Ralph Harris, 2 July 1981. [www.margaretthatcher.org/document/117172], accessed on 12 September 2012.

⁴⁸⁷ Bale, *Conservatives*, p. 229.

were resistant to change.⁴⁸⁸ A one time advisor, Alan Peacock, thought that vouchers would have stood more chance of success if the ‘rougher’ Rhodes Boyson had led the department.⁴⁸⁹ The role of civil servants has consistently been cited as a reason education reform proved so drawn out. The Prime Minister apparently told Joseph that he headed ‘an awful department’.⁴⁹⁰

While examining the possible voucher scheme Sir Keith asked Alan Peacock for a memo and recommendations on the policy.⁴⁹¹ Peacock was an economist who had been an advisor at the DTI (Department of Trade and Industry) under Joseph during the Heath government. Peacock subsequently believed he was obstructed by civil servants while attempting to fulfill his role.⁴⁹² He described most of the top civil servants at the Ministry of Education as against the voucher idea, that it would have lessened their power and that Permanent Secretary Sir James Hamilton was ‘vehemently opposed.’⁴⁹³ These revelations were of course meat and drink to Public Choice advocates. Milton Friedman later said that bureaucrats had overstepped their remit and should have helped policy making, not be making it themselves.⁴⁹⁴

In 1982, after Rhodes Boyson announced that the government was looking into a voucher scheme in education, the civil service produced an internal paper called ‘Educational Vouchers. Some thoughts from California.’ A voucher system had at that time recently been introduced in parts of the state. It said that vouchers had met

⁴⁸⁸ Alfred Sherman, *Paradoxes of Power. Reflections on the Thatcher Interlude*, M. Garnett, ed., (Exeter: Imprint Academic, 2005), p. 102.

⁴⁸⁹ Interview with Sir Alan Peacock, 26 January 2010.

⁴⁹⁰ Baker, *Turbulent*, p. 161.

⁴⁹¹ Interview with Sir Alan Peacock, 26 January 2010.

⁴⁹² Interview with Sir Alan Peacock, 26 January 2010.

⁴⁹³ Interview with Sir Alan Peacock, 26 January 2010.

⁴⁹⁴ Interview with Sir Alan Peacock, 26 January 2010.

‘widespread opposition’ but that the idea was unlikely to fade due to ‘widespread public dissatisfaction with state education.’⁴⁹⁵ It concluded with several criticisms, perhaps most pertinently that there was ‘a real fear that the market mechanism is not appropriate in education’ but also that vouchers could encourage separatism, that parents chose schools that strengthen their own views, inequalities would be reinforced, voucher supporters underestimated true costs involved (such as transport issues) and that the view of diligent parents researching competing schools was unrealistic.⁴⁹⁶ Lastly, most parents just wanted and preferred a good local school.⁴⁹⁷ These points may have all been valid and it is worth noting, with a few exceptions predominantly in the United States but also Chile, the education voucher scheme has not been used extensively.⁴⁹⁸

The electoral cycle, it should also be said, could have worked against a radical proposal. After the victory in the 1982 Falklands War and with inflation falling and the economy recovering, an election was planned for 1983. With this looming, unemployment still high and the slump of 1980-81 still fresh in the memory, the Conservative leadership may have seen a voucher experiment as an unnecessary risk. In addition, the idea of education vouchers was not canvassed hard enough within the Conservative Party and was simply ‘not a high priority’ for Margaret Thatcher, despite her apparently liking the policy.⁴⁹⁹

⁴⁹⁵ G. Cohen, ‘Educational Vouchers. Some thoughts from California’, (Civil Service College Working Paper no 32, November 1982), p. 2.

⁴⁹⁶ Ibid. pp. 6-9.

⁴⁹⁷ Ibid. p. 7.

⁴⁹⁸ Martin Carnoy, ‘National Voucher Plans in Chile and Sweden: Did Privatization Reforms Make for Better Education?’, In: *Comparative Education Review*, (42: 3, August 1998), pp. 309–337.

⁴⁹⁹ Interview with Sir Alan Peacock, 26 January 2010.

Education Vouchers: For and Against

There were a number of cases for and against the idea of education vouchers. Two of the key components of Thatcherism were choice and competition. Choice would potentially give parents the opportunity to look at different schools and pick what they thought was the best one for their child. This would then (it was hoped) increase standards at schools, which were competing for pupils and therefore funding. Competition would mean that poorer performing schools would inevitably fail, which was a prerequisite for improving standards. Schools, as well as teachers, could not be compelled to get better without the fear of failure. Reducing the power of LEAs would lessen the role of local bureaucracy, increasing parent power. Vouchers would increase consumer power (parents) over that of the producers (teachers and schools), increase competition and inject market forces into education. Another liberal theme, ownership, could be thought of as parents taking more control of their children's education by having the power of the voucher.

There were a number of arguments against implementation of education vouchers and these were similar to the civil service report of November 1982 mentioned above. It was feared the voucher scheme was incompatible with a common culture and that its true costs would be higher than advocates hoped. Ian Gilmour, a minister in the first Thatcher government, claimed the public was hostile to the voucher idea. He also said that the Prime Minister did not understand intellectual investment as it did not produce an immediate cash return. Gilmour believed Thatcherites treated education as a simple commodity, when in fact it was more complicated.⁵⁰⁰ It was also feared that

⁵⁰⁰ Ian Gilmour, *Dancing With Dogma*, (London: Simon and Schuster, 1992), pp. 170-175.

due to the plummeting morale of teachers in the 1980s, introducing education vouchers would not have helped good teachers but only acted as a further disincentive to bad ones.⁵⁰¹

Lastly, education vouchers were criticised for potentially only standing to benefit middle class families. It is a theme that persisted with education reform, Tony Blair said in his memoirs that his academy system was different from Conservative reforms because he wanted to target poorer children, as opposed to middle class ones.⁵⁰² According to voucher opponents, the decision to research different schools, apply pressure to teachers for improvements and pay for transport to school and even relocate would be pursued more rigorously by middle class parents. Furthermore, critics declared education an inert market and by implication one of the areas where the state had to intervene. Arthur Seldon said that the economic basis for opposition to vouchers was based on this conclusion and the fear that school facilities would be inelastic to changing demand.⁵⁰³ This critique, led by civil servants and teaching unions, was central in preventing the education voucher from being attempted by the Thatcher government. Ultimately Keith Joseph concluded that vouchers would have involved ‘hugely controversial and complex legislation, splitting the Conservative Party, as well as creating a tumultuous split between the parties, alienating most teacher unions, most local authorities, perhaps the churches and leading if we went for a pilot scheme possibly to a mouse at the end.’⁵⁰⁴

⁵⁰¹ Ray Robinson, ‘Another Stick to Beat Teachers?’, In: *Economic Affairs* (6:6, August-September 1986), p. 46.

⁵⁰² Blair, *Journey*, pp. 580-581.

⁵⁰³ Seldon, *Riddle*, p. 17.

⁵⁰⁴ Denham and Garnett, *Joseph*, p. 371. Quote taken from *Contemporary Record*, Spring 1987, pp. 30-31.

Pressure Groups and the Education Voucher

The failure of the education voucher idea in 1982-83 can be examined further as an example of the underlying dynamics of British society. Who was against the idea and why were they so hostile? Those on the New Right considered that the failure to implement vouchers showed that education had in essence been captured by the producers. Parents and supporters of the voucher scheme (despite FEVER) were not a coherent and organised group, teachers were.⁵⁰⁵ As Secretary of State for Education in the early 1970s Margaret Thatcher had noted what she thought was too close an association between civil servants in the department and the National Union of Teachers (NUT).⁵⁰⁶

The resistance to education vouchers demonstrated the potency of the education establishment as a vested interest in attempting to maintain the status quo. This was broadly aligned politically with Labour, who had become the guardian of producer groups.⁵⁰⁷ The limits of democracy had been identified as problems by Hayek and Mises who saw free markets as the key component of society.⁵⁰⁸ Ordoliberalism also had a long-running dislike for organised groups that influenced the political process.⁵⁰⁹ Vested interests as powerful blocks would, according to Hayek and Mises, need placating and buying off, restricting market mechanisms and therefore a free capitalist society. Hayek thought democracies had become civil associations, when their proper

⁵⁰⁵ John Barnes, 'Political Pressure and Government Inaction', In: *Economic Affairs*, (6:3, April-May 1986), p. 23.

⁵⁰⁶ Thatcher, *Path*, p. 166.

⁵⁰⁷ Norman Barry, *The New Right*, (Beckenham: Croom Helm, 1987), p. 127.

⁵⁰⁸ Norman Barry, *On Classical Liberalism and Libertarianism*, (Basingstoke: MacMillan, 1986), p. 80.

⁵⁰⁹ Samuel Gregg, *Wilhelm Röpke's Political Economy*, (Cheltenham: Edward Elgar, 2010), p. 77.

function was to protect civil association.⁵¹⁰ This was, to the liberal economic view, in effect what had happened in Britain by 1979. Whether it was ‘beer and sandwiches’ in Downing Street or the pacifying of teachers, keeping various producer groups happy had limited how the market process could operate. Taking on these vested interests would be one of the great domestic challenges of Thatcherism (explored further in chapter four). After the failure to introduce education vouchers in the first term, economic liberal writers rallied vociferously.

Mid-1980s Education Policy: Economic liberals fight back

Looking at economic liberal periodicals in the mid-1980s such as *Economic Affairs* (the IEA’s journal), the spectre of education reform looms large. Whether it was lamenting the failure of Keith Joseph to experiment with vouchers, reinforcing the merits of vouchers or offering other market orientated strategies for state education, economic liberals had much to say on the subject. The IEA had long been proponents of education vouchers.⁵¹¹ When Keith Joseph shelved the project the think-tank was unhappy. In 1986 head of the IEA Arthur Seldon published his polemic against what he saw as the government’s failure, titled *The Riddle of the Voucher. An Inquiry into the obstacles to introducing choice and competition in state schools*. In the same year *Economic Affairs* published a special ‘Symposium on Education Vouchers’. Seldon blamed teachers, their unions and the civil service for obstructing Joseph and invoked the themes of Public Choice theory.⁵¹² Seldon rejected the idea that education was an inert market and asserted that parents had the strongest incentive to serve the interests

⁵¹⁰ Andrew Gamble, *Hayek. The Iron Cage of Liberty*, (Cambridge: Polity Press, 1996), p. 189.

⁵¹¹ Denham, *Think-tanks*, pp. 77-80.

⁵¹² Seldon, *Riddle*, pp. 1-4.

of their children, not the state or local authorities.⁵¹³ He made several suggestions: local experimentation with the scheme, extend the ‘assisted places scheme’ (a recommendation by E.G. West) and try the ‘half way house’ proposed by Alan Peacock in 1982. The latter idea involved parents ‘contracting out’ of the state system receiving a taxable voucher to help pay fees at preferred private schools. The next phase in Peacock’s plan would mean all parents would receive a voucher which, if they wanted to remain in the state system, could be surrendered to the local authority who would then allow them to apply for the school of their choice. This was, in the spirit of John Hoskyns’ approach in the late 1970s or Friedman’s broad thinking, considered a stepping stone to a wider scheme.⁵¹⁴ Seldon also concluded, invoking much neo-liberal thinking and in particular that of Hayek, that the failure of the scheme in 1982-83 had shown the flaws of British democracy.⁵¹⁵

The symposium in *Economic Affairs* included several articles. John Barnes, in ‘Political Pressure and Government Inaction’, examined the dynamics that caused the bureaucracy and teaching establishment to resist change and thought that the idea had not been pushed hard enough by those in the policy making elite. ‘Half Way House or Dead End?’ by Richard Henderson set out what he thought was a model for state education: purchase of education at the point of entry, payment with money not substitutes like vouchers, a more rational definition of what education is, a transfer of the subsidy from institution to individual, maximum obstacles to bureaucratic interference and maximal voters affected so reforms were difficult to overturn.⁵¹⁶

⁵¹³Seldon, *Riddle*, p. 24.

⁵¹⁴ Seldon, *Riddle*, pp. 46-50.

⁵¹⁵ Seldon, *Riddle*, p. 66.

⁵¹⁶ Richard Henderson, ‘Half Way House or Dead End?’, In: *Economic Affairs*, (6:6, August-September 1986), p. 45.

Ray Robinson, in ‘Another Stick to Beat Teachers?’ countered that vouchers would further demoralise the teaching profession. Public Choice theorist Gordon Tullock described the ‘extreme hostility by civil servants to vouchers’, that bureaucrats were no more unethical than anyone else but they pursued their own interest, which often meant defending the status quo.⁵¹⁷ Finally, in ‘Education Reform: Administrative Objections Over-ruled’, E.G. West challenged the criticism that vouchers would be impracticable due to buildings, travel costs and administrative issues. He argued that transport costs should be factored into the price of the voucher and that independent schools were generally cheaper per pupil than state schools, so if pupils migrated then the state would make a saving. The suggestion that certain schools may not accept students if demand was too high was said by West to still be preferable to the then current system, where there was no choice at all.⁵¹⁸

Another liberal economic think tank, the Adam Smith Institute (ASI), also joined the education debate. They thought education vouchers would be an impractical ‘overnight revolution’ and therefore proposed an ‘invisible’ voucher scheme.⁵¹⁹ The ASI recommended what it called ‘micropolitical reforms’: ‘open entry’ to state schools and to make the schools more independent in operation, determined by a board of governors. Lastly, central funding should be on a basis of the number of children enrolled.⁵²⁰ The Adam Smith Institute had always been keener on making precise policy prescriptions than the IEA. The ASI claimed its suggestions were included in the 1987 Conservative Party Election Manifesto, the basis for the eventual

⁵¹⁷ Gordon Tullock, ‘No Public Choice in State Education’, In: *Economic Affairs*, (6:6, August-September, 1986), p. 18.

⁵¹⁸ E.G. West, ‘Education Reform: Administrative Objections Over-ruled’, In: *Economic Affairs*, (6:3, April-May 1986), pp. 24-26.

⁵¹⁹ Denham, *Think-tanks*, p. 87.

⁵²⁰ Denham, *Think-tanks*, pp. 87-91.

legislation of 1988.⁵²¹ What both the ASI and IEA agreed on was the initial 1982-83 proposal was too radical and that a step-by-step approach was required.

The 1988 Education Reform Act

The Thatcher government did not implement the education voucher scheme. Its most important piece of legislation on education however, the 1988 Education Reform Act, did include a number of elements of the liberal economic critique of the period. The results were an attempt to initiate an ‘internal market’ in state schools. A group of Conservative MPs published a pamphlet in 1985, which made similar suggestions to that of the ASI.⁵²² In 1986 Keith Joseph left the Cabinet and was replaced as Secretary of State for Education by Kenneth Baker. He had few liberal economic credentials but Margaret Thatcher liked him (as with many of the more ‘One Nation’ Tories in her cabinet) for his ‘presentational’ ability. He shared much of the Conservative sentiment towards the education establishment of the time. Baker believed the voucher scheme had been ‘scuppered’ by civil servants first delaying the proposal and then suggesting a ‘super-voucher’ so radical that it frightened the Cabinet.⁵²³ He aimed to take a more robust approach to the DES.

The eventual legislation introduced the National Curriculum and several reforms that were intended to fulfill the new Secretary of State’s two ‘watchwords’: standards and choice.⁵²⁴ Baker apparently thought that the CPS Education Study Group was setting the agenda regarding education policy recommendations. This was set up in 1980 and

⁵²¹ Denham, *Think-tanks*, p. 91.

⁵²² Denham, *Think-tanks*, p. 92. The pamphlet was published by the Conservative Political Centre (CPC).

⁵²³ Baker, *Turbulent*, p. 166.

⁵²⁴ Baker, *Turbulent*, p. 165.

included Caroline Cox, John Marks, Fred Naylor, Lawrie Norcross, Stuart Sexton and Marjorie Seldon.⁵²⁵ The Education Study Group did exert some influence in pushing for more accountability, parent choice and improving standards.⁵²⁶ Four members of this group set up the Hillgate Group and published *Whose Schools* in 1986. It wanted to reduce the funding difference between state and private schools and to weaken LEAs.⁵²⁷ The 1987 Conservative Manifesto outlined four areas for reform in education. The first was to set up a National Curriculum that would have a standardised syllabus and exams for a number of basic subjects. The second was to allow head teachers and governing bodies to control their own budgets. Thirdly, funding would be provided by the number of pupils enrolled at each school and parents would have the opportunity to choose between a number of types of schools, such as a pilot scheme for City Technical Colleges. Lastly, schools would have the choice to ‘opt-out’ of LEA control, receiving funding from the central government and becoming charitable trusts.⁵²⁸

These points drew inspiration from both the CPS Group and the ASI, and provided the basis for the 1988 Act. The opt-out scheme had been put together by Kenneth Baker, Nigel Lawson and Margaret Thatcher (with four years as Secretary of State for Education herself), although Ian Gilmour later said the idea had come from Nick Ridley.⁵²⁹ The opt-out system was a way to bypass a layer of bureaucracy and an attempt to improve standards by promoting choice and school autonomy. The key link

⁵²⁵ Denham, *Think-tanks*, p. 93.

⁵²⁶ Richard Cockett, *Thinking the Unthinkable. Think-tanks and the Economic Counter Revolution 1931-1983*, (London: Harper Collins, 1995), p. 303.

⁵²⁷ Denham, *Think-tanks*, p. 94.

⁵²⁸ 1987 Conservative Party Manifesto, [<http://www.conservative-party.net/manifestos/1987/1987-conservative-manifesto.shtml>], accessed 9 May 2011.

⁵²⁹ Gilmour, *Dancing*, p. 169, Geoffrey Fry, *The Politics of The Thatcher Revolution. An Interpretation of British Politics, 1979-90*, (Basingstoke: Palgrave Macmillan, 2008), p. 136.

to the previous voucher proposal was per capita funding, which was similar to the ASI's suggestion. Baker believed this was an essential step to achieving the results of a voucher system, without actually implementing one.⁵³⁰ This and the other main themes of the 1988 legislation was the compromise the Thatcher government made with already entrenched interests and neo-liberal recommendations. The National Curriculum was an attempt to raise standards to a minimum of what was deemed acceptable in core skills such as maths, English and science. The range of schools available was intended to promote choice. Funding per child enrolled in a school was a 'follow the money' measure that had some similarity with the later NHS internal market. City Technical Colleges were again institutions that operated outside LEA control where pupils who were less academic could gain skills that would equip them for the workplace.

A brief appraisal of the 1988 Act shows the aims of the government only partially matched those of the New Right. Some market style discipline was introduced into state funded education. The reforms were intended to encourage choice and standards and reduce the power of LEAs and bureaucratic interference. The National Curriculum, however, led to increased centralised control, and reduced the autonomy of teachers. The much maligned assessment system of SATs, GCSEs and A-levels has seen grades annually increase, classifications adjust accordingly (the top grade in GCSEs was altered from A to A*) with the overriding suspicion that standards of attainment were not rising in line with the marks, that is to say this was grade inflation. Nigel Lawson wrote that central government had to intervene as local authorities were incapable of delivering improvements in education. The reforms have

⁵³⁰ Baker, *Turbulent*, pp. 212-213.

led to more bureaucracy. The International Baccalaureate (IB), based in Switzerland, has been increasingly used in the UK during recent years due to disillusionment with the state system of assessment.⁵³¹ This point of view was indicative of one element of both the legacy of the Thatcher government and the potential long-term impact of Hayekian and Public Choice thinking: a distrust of the state. The opt-out system did not prove particularly popular but it was a principle Tony Blair's government built on, allowing schools (mainly in inner city areas) to apply for 'academy' status, gaining more autonomy and by some measures raising standards. In 2011, one in six state schools was an academy.⁵³² The academy scheme, in keeping with much of Thatcherism, suggested the problem with British schools lay with local government. Clearly, school autonomy that bypasses some level of bureaucracy is an idea that has endured and is seen by politicians as a means to increase standards. Choice in schools did increase following the 1988 legislation. Whether standards increased because of this is much more difficult to quantify due to the relationship between exam results and government policy. A constant criticism of school reforms has been that the beneficiaries tend to be middle class families. Alan Peacock said his aim was to improve education for the poorest.⁵³³ Whether this has been achieved by the reforms of the Thatcher government or afterwards, is disputed. What we can say, however, is that the eventual education reforms of Thatcherism had some lineage, albeit much compromised and diluted, with the ideas of Milton Friedman and latterly neo-liberal think-tanks.

⁵³¹ Rowenna Davis, 'Go For Growth: The International Baccalaureate is Still on an Upward Curve', In: *The Independent*, 18 February 2010. "Latest figures show a 600 per cent rise in schools offering the diploma as an alternative to A-levels over the past 10 years, with a total of 210 UK schools now running it. " [<http://www.independent.co.uk/news/education/schools/go-for-growth-the-international-baccalaureate-is-still-on-an-upward-curve-1903921.html>], accessed 28 June 2012.

⁵³² *The Economist*, 14 April 2011, [<http://www.economist.com/node/18561268>], accessed 12 May 2011.

⁵³³ Interview with Sir Alan Peacock, 26 January 2010.

The Health Reforms of the Thatcher Government

The education reforms of the late 1980s attempted to create choice and greater competition within a state-financed system. This was intended to improve efficiency, productivity and accountability without privatizing a public service. Standards would be improved as good practice ‘followed the money’. Something similar was introduced in the National Health Service (NHS) in the third Thatcher term. NHS reform, however, represented the absolute limit to the reforms of Thatcherism. If neo-liberal recommendations encountered resistance from producer groups in education, both the health establishment and the public opposed the government in its strategy toward the NHS.

The NHS, founded in 1948, incorporated the then system of insurance-based healthcare and essentially nationalised hospitals. At the time, ironically in light of later events, the medical profession put up some resistance to the formation of the NHS, fearing they would lose autonomy and managed to secure the treatment of private patients in public hospitals. Hayek identified the role of doctors as key in his critique of the increasingly intrusive state. He laid out the sort of argument that inspired the Virginia School, writing in 1960 that nationalised healthcare transformed doctors from ‘members of a free profession primarily responsible to their patients, into paid servants of the state.’⁵³⁴ Nevertheless, the NHS became the central pillar of the post-war welfare state and the most enduring reform of the Attlee government. Yet the context in which the NHS operated had changed by the 1970s. Britain was not well placed to meet the rising costs of free healthcare. In some respects the NHS was

⁵³⁴ Hayek, *Constitution*, p. 260.

a victim of its own success (life expectancy rose from 64 years in 1940 to 74 years in 1980) and the rapid developments in science.⁵³⁵ Where as in 1948 drugs such as basic (and relatively cheap) antibiotics had only recently been discovered, within the space of a few years there were numerous diagnostic techniques and treatments available, and were often very expensive.⁵³⁶ The cost weighed heavily on a free service for a country the size of Britain.⁵³⁷ The principle, however, remained unassailable when the Conservatives took power in 1979 and throughout its time in power.⁵³⁸ Robin Harris has written that Margaret Thatcher's caution at reforming the NHS was justified due to its 'quasi-mythological status'.⁵³⁹

The New Right and Healthcare

During the 1960s and 1970s the New Right concentrated on the defeat of inflation and trade union reform. Other areas were pursued but healthcare was not widely tackled. Alan Peacock says that as part of his examination of post-war social policy he had looked at health vouchers as a way to improve conditions for the poorest. Healthcare was so controversial, however, that he moved onto looking at vouchers for education.⁵⁴⁰ It is clear that the whole ethos of writers on the New Right would have considered private rather than state provision of healthcare to be more effective. Arthur Seldon launched an attack on free health care in his 1968 IEA work *After the NHS* while Hayek characteristically lambasted the British system in *The Constitution*

⁵³⁵ Source: National Vital Statistics System, [<http://www.efmoody.com/estate/lifeexpectancy.html>], accessed 12 May 2011.

⁵³⁶ Harris, *Not For Turning*, p. 246.

⁵³⁷ For instance, spending on prescriptions in real prices by GPs increased by 67% per capita 1968-78 and 60% 1978-88. Source: Compendium of Health Statistics 1989, In: *The NHS Reforms: Whatever Happened to Consumer Choice?*, Green et al., ed, (London: IEA, 1990).

⁵³⁸ MTF 105032, Margaret Thatcher, speech at the 1982 Conservative Party Conference, [<http://www.margarethatcher.org/document/105032>], accessed 12 May 2011.

⁵³⁹ Harris, *Not For Turning*, p. 246.

⁵⁴⁰ Interview with Sir Alan Peacock, 26 January 2010.

of Liberty. The Virginia School's James Buchanan turned his attention to Britain in 1965, writing *The Inconsistencies of the National Health Service* for the IEA. In keeping with the rest of his Public Choice theory, Buchanan deemed the 'failure' of the NHS a result of bureaucracy and the 'structure of the institutions'.⁵⁴¹ Buchanan's chosen remedy was a 'market-like set of institutions which supplement the publicly-financed, publicly-supplied facilities' and that would impose 'limits'.⁵⁴² This had a flavour of the internal market reforms that were enacted 25 years later by the Thatcher government.

The NHS and the Thatcher government

In the 2010 general election, David Cameron's Conservative Party promised to 'ring-fence' NHS spending from cuts. This was a legacy of Thatcherism, which faced persistent accusations that free healthcare was under threat. Thatcher had to make repeated statements that the NHS was 'safe' under the Conservatives but plainly many in the media and the public did not agree. It is difficult, however, to trace the precise pattern of spending on health during the Thatcher years. By some estimation spending actually increased in real terms from 1979 to 1990. The first Thatcher government made an election pledge to honour the Clegg Commission, which guaranteed certain increases in public sector wages. Margaret Thatcher wrote that in their desire to cut public borrowing and spending, the Clegg Commission 'boxed in' her new government.⁵⁴³ One way to make a small dent in the funding gap was to raise NHS prescription charges, which had not been increased for eight years, during a

⁵⁴¹ James Buchanan, *The Inconsistencies of the National Health Service*, (London: IEA, 1965), p. 4.

⁵⁴² Buchanan, *Inconsistencies*, p. 18.

⁵⁴³ Thatcher, *Downing Street*, p. 50.

period of high inflation.⁵⁴⁴ Charges for drugs had finally been introduced by the Conservatives in 1952 and then abolished by Labour in 1964, only to be reintroduced by it in 1968 but with several exemption categories.⁵⁴⁵ This set the tone for the health policy of the Thatcher government. They, like previous Conservative administrations, were tougher on NHS spending. Prescription charges were to carry on rising during the 1980s, as were the costs of dental and eye treatment.

As the economy began to move out of recession in 1982 and after the military victory in the Falklands the Prime Minister started to think about re-election. In September 1982, however, Margaret Thatcher was ‘horrified’ to learn that a Central Policy Review Staff (CPRS) report was leaked. The report, written in the summer of 1982, had made several controversial suggestions for cuts if the economy did not pick up, such as education vouchers and an insurance-based health system (replacement of part of the NHS with private insurance according to Nigel Lawson).⁵⁴⁶ At the core of the CPRS report was that the government would need to look at other methods to reduce the PSBR in the economic conditions of 1982. Geoffrey Howe had circulated the paper to the Cabinet and it was believed that Peter Walker leaked it to *The Economist*.⁵⁴⁷ Nigel Lawson said that ‘Geoffrey certainly did not recommend all or any of these specific proposals’ but that it was the ‘nearest thing to a riot in the history of the Thatcher administration.’⁵⁴⁸ The Prime Minister’s response also shed light on why another sensitive idea, the education voucher scheme, was not introduced during this pre-election period.

⁵⁴⁴ Thatcher, *Downing Street*, p. 50. Thatcher wrote that while prescription charges had remained the same, prices had risen two and half times.

⁵⁴⁵ BBC online 2 March 1998, ‘The Cost of Being Sick’, [<http://news.bbc.co.uk/1/hi/uk/61404.stm>], accessed 12 May 2012, exemptions include age, chronic disease and those receiving certain benefits.

⁵⁴⁶ Campbell, *Iron Lady*, pp. 171-172.

⁵⁴⁷ Campbell, *Iron Lady*, pp. 171-172.

⁵⁴⁸ Lawson, *View*, p. 303.

The leaked document provoked suspicion and criticism of Thatcher and her government. It confirmed to many that the Conservatives were extreme and capable of dismantling a key institution of the British welfare state, potentially leaving many without access to healthcare, or at least with inferior treatment. The Prime Minister acted quickly to dampen the furore caused by a brainstorming document that her government had (apparently) no intention of implementing. This led to the well-worn rhetoric that the NHS was ‘safe in our hands’, ‘safe with us’ and generally ‘safe’. It also hampered the ability of the government to reform the health service. The episode invoked a feeling amongst the public that the Thatcher government was planning to privatize the health service, possibly by stealth. If not then many thought treatment, waiting times, spending, investment, working conditions and pay for NHS workers worsened under the Conservatives.⁵⁴⁹ It was a reputation that the government was unable to shake. Right up until the 1997 general election Labour gained from the poor standing of the Thatcher and Major governments on health. Investment in the NHS was a key plank of the New Labour programme.

In 1983, the Griffiths Report (led by businessman Sir Roy Griffiths) was published looking into management of the NHS. The result was a drive to make more use of the often scarce resources available to the health service. The Griffiths Report followed in the footsteps of the Efficiency Unit, run in the first Thatcher government by fellow businessman Sir Derek Rayner. The unit looked at ways of making savings across Whitehall and in the first four years of its existence had cut civil service jobs by

⁵⁴⁹ Ray Robinson, *Efficiency and the NHS: A Case for Internal Markets*, (London: The IEA Health Unit, 1988), p.11. ‘Among the population at large – and among many health service workers – there is concern that the drive for greater efficiency has actually involved cuts in services and a deterioration in the quality of care.’

14%.⁵⁵⁰ After the 1983 Report a number of efforts were made to improve the management of budgets. Some services, such as laundry and cleaning in hospitals, were put out to private tender while pressure was exerted on clinicians to economise.⁵⁵¹ Cost Improvement Plans (CIPs) were introduced such as restrictions on prescribing. Drugs for self-limiting conditions, such as indigestion or common colds, were no longer prescribable on the NHS and therefore 'blacklisted'.⁵⁵² Hospitals were encouraged to generate income, such as charging for car parking, and to become more efficient. The Thatcher government also encouraged private healthcare and there was an increased number of non-NHS hospitals built after 1979 as well as a growing number of American insurance companies operating in the UK.⁵⁵³ These changes indicate the potential influence of neo-liberal thinking, that market forces needed to be injected into the state sector to reduce spending and increase efficiency.

Public Health Policy in the 1980s

The popular image of health provision for the poorest in the 1980s was one of neglect. There was a perception that waiting times and quality of treatment worsened, often delivered by overworked and underpaid staff in crumbling facilities. A number of front-page newspaper articles were indicative of the public anxiety toward the NHS in 1987 and 1988.⁵⁵⁴ Yet by some estimates spending on the NHS actually increased under the Thatcher government, by as much as a third in real terms between 1979 and

⁵⁵⁰ Campbell, *Iron Lady*, p. 40.

⁵⁵¹ Anthony Seldon and Daniel Collings, *Britain Under Thatcher*, (London: Longman, 2000), p. 45.

⁵⁵² Ken Judge, *Health Policy in the Thatcher Era*. (London: Institute for Health Policy Studies, 1990), pp. 8-12.

⁵⁵³ Campbell, *Iron Lady*, p. 171.

⁵⁵⁴ David G. Green, 'Introduction: A Missed Opportunity', In: *The NHS Reforms: Whatever Happened to Consumer Choice?*, D.G. Green, M.L. Burstall, J. Neuberger, M. Young, eds., (London: IEA Health and Welfare Unit, 1990), p. 1.

1990.⁵⁵⁵ The problem was that the costs of treatment, including state of the art diagnostic techniques, procedures and medicines, were growing much faster, as was demand. Public Health policy under the Thatcher government was also seen as ineffective.

One of the most common accusations aimed at the Conservative government of Margaret Thatcher was that it amplified inequality and was indifferent to the plight of the poorest in British society. The influential 1980 Black Report on public health made the direct correlation between deprivation and health. The report said that mortality could be associated with class and income.⁵⁵⁶ Thatcherism was perceived to have done little to address this in its public health strategy and even to have ‘buried’ the Black Report.⁵⁵⁷ Their thinking was, like much else in its programme, focused on individual responsibility and choice. Public health policy had two strands; which sought to change individual lifestyle by education and through mass media campaigns (for instance the 1986 ‘Drugwatch’ campaign that urged youngsters to ‘Just Say No’).⁵⁵⁸ The Conservatives’ attempts to improve public health were criticised for being too narrowly based and at times counterproductive. Education, critics said, should have been linked to complementary social and public policy and advertising was often of poor quality and inconsistent.⁵⁵⁹ Sir Donald Acheson, the Government’s Chief Medical Officer, blamed the increasing number of poverty related illnesses over the Thatcher years on poor diet and poor housing.⁵⁶⁰ If this was the case the increased pressure on secondary care had some root in the broader policies of Thatcherism and

⁵⁵⁵ Seldon and Collings, *Britain*, p. 72.

⁵⁵⁶ Judge, *Health*, p. 17.

⁵⁵⁷ Campbell, *Iron Lady*, p. 547.

⁵⁵⁸ Judge, *Health*, pp. 24-25.

⁵⁵⁹ Judge, *Health*, p. 26.

⁵⁶⁰ Campbell, *Iron Lady*, p. 547.

the associated unemployment of the era. The individual responsibility the Conservatives tried to promote in public health may have been ineffective.

The picture of healthcare by the end of the second Thatcher government in 1987 was not favourable. Over the previous eight years the Government had initiated numerous bold policies, often tied in part with the thinking of liberal economics. Health policy, however, despite some efforts to improve efficiency, had been notably immune from reform. This torpor reflected the highly sensitive political nature of the NHS and the fear that change would alienate the electorate. It appeared that the NHS represented the limits of what was politically possible for either a Thatcherite or neo-liberal agenda. Yet at the end of the Thatcher years, legislation was passed that finally brought change to the health service. Like education, health reform was a combination of marketisation measures, while remaining state funded. The result reflected the overriding ethos of the Thatcher government and also the broad influence of the New Right, which adapted to the political realities of the 1980s. The ‘internal market’ that was set up in the NHS was an idea taken up from the CPS, which was influenced by an American economist.

The NHS and the internal market

The third Thatcher government, between 1987 and 1990, embarked upon a programme of housing, education and health reform; areas that had avoided major restructuring in the first terms. Coined ‘Social Thatcherism’, a term the Prime Minister disliked (presumably as it sounded too similar to socialism), the key changes included the introduction of the National Curriculum and an internal market in the

NHS.

Alain Enthoven, an American economist from Stanford University, published two articles: *Health Plan: The Only Practical Solution to the Soaring Cost of Medical Care* in 1980 and *Reflections on Improving Efficiency in the National Health Service: An American Looks at Health Services Organization and Management in the U.K.*, the latter commissioned by the Nuffield group in 1985. Enthoven tabled a plan for the NHS that was taken up by the Centre for Policy Studies (CPS) and later by the IEA, that of an internal market. Enthoven also concluded that the NHS was inherently a system that created ‘perverse incentives’ that meant the more funding the state allocated, the more problems it received for its trouble.⁵⁶¹ David Willetts, head of the CPS at this time, became interested in the idea and conducted an inquiry into the proposal. The think-tank produced a pamphlet in 1986, *NHS. The road to recovery*, that made several controversial suggestions. These included, along with tax incentives for private healthcare, that ‘fees at point of service should be levied on patients except those on family credit when they use GP or in-patient services. This would help instil some awareness of cost and an incentive to participate in the service.’⁵⁶² This was, however, never likely to be implemented. Although not popular with the New Right one of Thatcherism’s mantras on health was that it would remain free at the point of use.

Other ideas, however, such as the proposed internal market, were assimilated into Secretary of State for Health Ken Clarke’s 1989 White Paper ‘Working For Patients’. The internal market reforms were to offer GPs the opportunity to become

⁵⁶¹ Nick Bosanquet, ‘Origins and Establishment of the Internal Market in the NHS’, seminar held 3 July 2000, M. Isom, M.D. Kandiah, eds, (*Institute of Contemporary British History*, 2002), p. 32.

⁵⁶² Hugh Elwell, *NHS. The Road to Recovery*, (London: CPS Policy Study No. 78, 1986), p.11.

‘fundholders’, giving them control over their budgets and the ability to purchase services from other providers. This principle went across the service as hospitals were offered the chance to become self-governing ‘trusts’.⁵⁶³ The idea was that purchasers and providers would be separated so that there would be competition to gain contracts by health authorities, GPs and even private insurers. This competition, in keeping with economic liberal ideology, would increase efficiency and standards while patient treatment would ‘follow the money’ - a term the IEA later poured scorn upon. The paper also introduced charges for eye and dental tests. The medical establishment again resisted the proposed changes, with a poster campaign stating the NHS was ‘under threat’.⁵⁶⁴ The IEA identified the medical profession as a vested interest resistant to change, criticising their monopoly position and market entry barriers.⁵⁶⁵ Nevertheless Ken Clarke launched a robust defence of the reforms, apparently keener on them than the Prime Minister, and the proposals were introduced after opposition to them was dampened.⁵⁶⁶

The result of the ‘Working for Patients’ agenda was to focus the health service much more on value for money. It was widely accepted that the NHS needed reform by the late 1980s and not to have done so would have further impacted on the quality of treatment available.⁵⁶⁷ The changes worked in a similar way to that of the Education Reform Act of 1988. Some improvements were made using market style disciplines but the main, presumably inadvertent, problem was that it caused a centralisation of power, and more intrusive bureaucracy. Despite certain aspects of the reforms being

⁵⁶³ Judge, *Health*, p. 16.

⁵⁶⁴ Campbell, *Iron Lady*, p. 553.

⁵⁶⁵ Robinson, *Efficiency*, p. 29.

⁵⁶⁶ Sir Adam Ridley, personal correspondence with the author, 15 May 2013. Ridley noted Clarke’s determination to reduce the ‘Spanish practices’ of traditional professions.

⁵⁶⁷ Green, ‘Introduction’, pp. 1-14.

compatible with the New Right, these effects would have been problematic to Public Choice proponents. This paradox stemmed from an innate distrust of local authorities by the Thatcher government. The result was an administration committed to liberalism restricting autonomy, and increasing control as much as yielding it.

In other respects, the health reforms satisfied aspects of liberal economic thinking. Competition for funding and greater choice could increase productivity and efficiency. Increased entry into the market for providers had the potential to drive up standards while GPs and hospitals would become both consumers and producers. Reform of the NHS during the Thatcher years was difficult and proved to be one of the most intractable problems of the era. Falling well short of what economic liberals would favour, the changes made at the end of the 1980s did go some way to instilling market disciplines. The IEA, however, soon turned on the reforms by reinforcing its criticism that the NHS was a ‘rationing device’ and a monopoly that denied the consumer choice.⁵⁶⁸ It has also called the health service an example of ‘state failure’ and called for complete privatization.⁵⁶⁹ Nevertheless, the model had been established. In health policy, all subsequent governments have followed similar policies to those set out by the Thatcher administration.

Conclusion

The social policy examined here took inspiration from long-term Conservative thinking, the political realities of the time and to a limited extent, liberal thinkers and

⁵⁶⁸ Green, ‘Introduction’, p. 13.

⁵⁶⁹ Helen Evans, ‘NHS as state failure: lessons from the reality of nationalised healthcare’, In: *Economic Affairs*, (28:4, December 2008), p. 9.

think-tanks. The sale of council houses has been seen as one of the most successful reforms of Thatcherism. It was a populist measure that was backed by moderate Tories from Anthony Eden to Peter Walker as well as more Thatcherite ones like Geoffrey Howe. The scheme did expand home ownership and satisfied the broad themes of the New Right. The implementation (large discounts as well as other housing subsidies like MIRAS), however, proved to be problematic. In effect the government offered different types of subsidy from social housing, which favoured different interest groups (homeowners) for political reasons (making traditional Labour supporters into Conservative voters) and distorted market forces. This was to have some negative long-term consequences: increased homelessness, soaring property prices and shortage of supply. For these reasons the policy of council house sales, as well as the wider housing policy of the Thatcher government, can be viewed as a popular success but with caveats for economic liberals, particularly the focus on price of the Austrian School. Another long-term liberal project was the reform of the rental market as a means of increasing labour mobility. This was not attempted during the Thatcher years.

Education and health policy showed the limits of liberal economic ideas in the 1980s. They were both seen as politically sensitive and possibly as inert markets, which had to be provided for by government. After the frustration of unsuccessfully proposing education vouchers and increased private provision of healthcare, neo-liberals adapted to the obstructive climate that reform entailed. Recommendations by the CPS and ASI for internal market orientated policies were reflected in the 1988 Education Reform Act and 1989 *Working For Patients* white paper. This legislation attempted to increase efficiency, competition and choice in public services. The ‘value for money’

ethos of this period has provided the platform for the changes introduced in the subsequent 20 years and feeds into the thesis that there exists a ‘Thatcherite consensus’.

The influence of liberal economic ideas on the case studies examined in this chapter was less apparent compared to economic policy. There was a broad strand of Hayekian thinking in evidence in promoting ownership and attempting to make the state more accountable and leaner. Other classic liberal recommendations, such as private provision of education and healthcare, were never options or seriously entertained by the Thatcher government. Even more typically neo-liberal ideas such as Friedman’s education vouchers were deemed politically impossible. Education and health reform met with fierce resistance from vested interests, and in the case of the NHS by suspicion from the public. The wider implications of this institutional opposition will be looked at in the next chapter. Council house sales had as much to do with long-term Conservative thinking, which from the 1920s had prescribed a ‘property-owning democracy’. Nevertheless the results of right to buy, and to a lesser extent the NHS and education internal market reforms, did have some semblance with the general aims of neo-liberalism. That is to say the state encouraged private provision for political purposes (housing) or created markets where they barely existed (health and education), while focusing on broader liberal themes as opposed to micro-economic models.

Chapter Four: Vested Interests, Monopolies and Thatcherism. Trade Union Reform, Privatization, Big Bang and Broadcasting Policy.

Neo-liberals perceived that by the 1970s the British economy was impeded by a number of entrenched interests, seen most clearly during the Winter of Discontent. To Austrians like Friedrich Hayek and Ludwig von Mises this was also a by-product of democracy, where organized groups managed to exert influence over politicians who then attempted to satisfy their demands.⁵⁷⁰ This was most obvious in the Labour Party's relationship with the trade unions as well as other producer groups. Influence of this kind would, according to the New Right, trigger government action that would distort markets and prices, and drive up inflation and potentially unemployment. A leading member of the Treasury for most of the Thatcher years, Lord Burns, has said the Prime Minister and Nigel Lawson were naturally hostile to organised entities in general, whether this was the CBI (Confederation of British Industry) or the trade unions.⁵⁷¹ In addition, one of the broad aims of Thatcherism was reasserting order and government autonomy. This included reducing the kind of disorder seen during picketing in strikes and allowing government to make decisions without overwhelming pressure from various interest groups. It is this dual purpose identified by Andrew Gamble in his critique of Thatcherism: 'The Free Market and the Strong State'. This made a link between the Thatcher government and Freiburg neo-liberals of the 1930s and 1940s. Indeed, Thatcherites characterised the British state in the 1970s as both too big and too weak.⁵⁷² Crucially though, ordoliberalism generally

⁵⁷⁰ Norman Barry, *On Classical Liberalism and Libertarianism*, (Basingstoke: Macmillan, 1986), p. 80. Hayek and Mises were wary of 'unlimited democracy' but accepted this as preferable to violence.

⁵⁷¹ Interview with Lord Burns, 12 May 2011.

⁵⁷² Richard Vinen, *Thatcher's Britain. The Politics and Social Upheaval of the 1980s*. (London, 2009), p. 282.

advocated measures that they considered ‘market compatible’.⁵⁷³ It may be, however, that by restructuring the British economy the Thatcher government reduced the power of some vested interests but created others. As noted in the last chapter the Thatcher government’s success in achieving liberal economic goals varied considerably. This chapter aims to show that it ranged from effectively nullifying a previously powerful group’s influence (trade union reform) to eliminating one but allowing another to appear (the City, privatization) and lastly, failing in its attempt to tackle one interest (the BBC) yet permitting another to form (BSkyB).

Neo-liberalism, vested interests and monopolies

Economic liberals dislike the impact of vested interests on markets. Groups influence policy makers, sometimes as a *quid pro quo* in the democratic process. They can behave as ‘rent-seekers’, elevate prices and raise barriers to market entry. Some liberals wanted to reduce formation of monopolies, whether publically or privately owned. Although theories of monopolies and competition in markets are complex, it is worth setting out some of the broad principles here.

Where the Hayekian and Friedmanite strands of thought converged was on the deleterious implications on markets of bureaucratic intervention. Although developing his own brand of economics, Friedman became an ardent proponent of the political principles found in *The Road to Serfdom*.⁵⁷⁴ He explained one of the ways in which he thought government was ‘the problem’ through the influence of special interest

⁵⁷³ Christian Watrin, ‘Alfred Muller-Armack – Economic Policy Maker and Sociologist of Religion’, In: *The Theory of Capitalism in the German Economic Tradition*, Peter Koslowski, ed, (London: Springer, 2000, pp. 192-220), p. 209. Samuel Gregg, *Wilhelm Ropke’s Political Economy*, (Cheltenham: Edward Elgar, 2010), p. 89.

⁵⁷⁴ Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 2002, first published in 1962), p. 11.

groups: ‘Government actions often provide substantial benefits to a few while imposing small costs on many.’⁵⁷⁵ Austrians like Hayek thought that government acted as a civil association, when ideally it should simply *protect* civil association.⁵⁷⁶ Likewise Hayek believed, and in this respect he agreed with Chicagoans, that monopolies were often created by governments, either directly or indirectly.⁵⁷⁷ Once monopoly status was achieved, which the associated vested interest lobbying preserved, it could only worsen when an industry was state owned. Early neo-liberal thought, however, converged on the belief that monopolies should be prevented and competition promoted. Hayek, writing to Walter Lippman in the 1930s, did show some interest in using corporate law to limit the size of large corporations.⁵⁷⁸ Hayek’s contemporaries at the Freiburg School, the ordoliberals, took a more activist line on these issues. The ordoliberal model, used in part by post-war West German governments, had price and markets at its core, but believed the state should intervene to prevent monopoly formation.⁵⁷⁹ Ordoliberals advocated competition rules embedded in law, rather than discretionary and often political decisions.⁵⁸⁰ Wilhelm Röpke, in particular, had a lifelong interest in wanting to curb cartels and monopolies.⁵⁸¹ He believed that capitalism had fallen into disrepute because competition had been corrupted by monopoly, and because sectional interests had

⁵⁷⁵ Milton Friedman, *Why Government is the problem*, (Stanford: Stanford University Press, 1993), p. 7.

⁵⁷⁶ Andrew Gamble, *Hayek. The Iron Cage of Liberty*, (Cambridge: Polity Press, 1996), p. 189.

⁵⁷⁷ Alexander Shand, ‘Austrian Policy for the Thatcher Government’, In: *Economic Affairs*, (4:1, October 1983), p. 14.

⁵⁷⁸ Ben Jackson, ‘Freedom, the Common Good, and the Rule of Law: Lippmann and Hayek on Economic Planning’, In: *Journal of the History of Ideas*, (73:1, January 2012, pp. 47-68), p. 65.

⁵⁷⁹ Ralf Ptak, ‘Neoliberalism in Germany. Revisiting the Ordoliberal Foundations of the Social Market Economy’, In: *The Road From Mont Pelerin. The Making of the Neoliberal Thought Collective*. P. Mirowski and D. Plehwe, eds. (Harvard: Harvard University Press, 2009), p. 102.

⁵⁸⁰ Wernhard Möschel, ‘The Proper Scope of Government Viewed from an Ordoliberal Perspective: The Example of Competition Policy’, In: *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift für die gesamte Staatswissenschaft*, (157:1, 2001, pp. 3-13), p. 4.

⁵⁸¹ Gregg, *Wilhelm Ropke*, p. 7.

exploited state power.⁵⁸² The ‘social market economy’ constructed by the ordoliberalists had at its core a strong state, tasked with maintaining competition and monopoly, and constrained by law: the *Rechtsstaat*.⁵⁸³ Daniel Stedman-Jones has identified the convergence between the ordoliberalists and the ‘first’ Chicago School of the 1930s. For instance, Chicagoan Henry Simons envisaged a role for the state in preventing monopoly.⁵⁸⁴ Ben Jackson has also described how many of the early neo-liberals, generally including Hayek but exempting Mises, produced literature in the 1930s and 1940s that advocated state regulation to break up large corporations.⁵⁸⁵ Indeed Simons wrote in 1934 that ‘the great enemy of democracy is monopoly, in all its forms’.⁵⁸⁶ This was in conflict markedly with later neo-liberal thinking, that privileged the sovereignty of the individual over the wider community.

The views of neo-liberals toward monopolies and competition diverged in the 1950s. If the early neo-liberal activist state became associated with German ordoliberalists both Austrians and Chicagoans subsequently took a more *laissez-faire* position. Hayek had included some minimal interventionist inclinations in *Road to Serfdom* but he came to represent more utopian thinking. Although Hayek feared state power, he never confronted private power and saw no need for anti-trust and anti-monopoly policies. He believed that the power of large companies should be constrained by competition.⁵⁸⁷ Other Austrian School thinkers articulated their belief that a monopoly like a trade union is more dangerous than an enterprise monopoly due to the former’s

⁵⁸² Gregg, *Wilhelm Ropke*, p. 77.

⁵⁸³ Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press, 2012), p. 122, Rachel S. Turner, *Neo-Liberal Ideology. History, Concepts and Policies*, (Edinburgh: Edinburgh University Press, 2008), p. 219.

⁵⁸⁴ Stedman-Jones, *Masters*, p. 335.

⁵⁸⁵ Ben Jackson, ‘At the Origins of Neo-liberalism: The Free Economy and the Strong State, 1930–1947’, In: *The Historical Journal*, (53:1, March 2010, pp. 129-151), p. 142.

⁵⁸⁶ Jackson, ‘At the Origins’, p. 142.

⁵⁸⁷ Gamble, *Hayek*, pp. 72, 190.

legal privileges and powers of coercion.⁵⁸⁸ Hayek thought the sort of models derived by ordoliberalists like Eucken would only serve to increasingly undermine the freedom of the individual.⁵⁸⁹ Rather than enforcing competition, which Hayek thought ‘absurd’, Austrians believed the restraint of trade should be prevented.⁵⁹⁰ For Austrians, it was not monopoly but only the prevention of competition which was harmful.⁵⁹¹ Another neo-liberal in the Austrian tradition although by this time often deemed a ‘libertarian’, Murray Rothbard, attacked the concept of ‘natural monopoly’ in the 1960s. Many thought that the provision of some essential public goods, such as water, were natural monopolies and should be controlled and administered by central government. This was dismissed by Rothbard, as well as the idea of ‘collective goods’, as fictions perpetuated by those with a vested interest in maintaining privileged positions.⁵⁹² Rothbard represented a newer generation of Austrian (in the tradition, not nationality) thinkers that took a more uncompromising line than his predecessors like Hayek. Rothbard believed the state an ‘anti-social instrument’ that should be whittled down to its prime function of upholding the rule of law.⁵⁹³

The general stance of the Chicago School towards monopoly changed under the leadership of Milton Friedman after 1946, in part due to the ‘Free Market Study

⁵⁸⁸ Alexander Shand, *Free Market Morality. The political economy of the Austrian school* (London: Routledge, 1990), p. 176.

⁵⁸⁹ Artur Woll, ‘Freiheit durch Ordnung: Die gesellschaftspolitische Leitidee im Denken von Walter Eucken und Friedrich A. von Hayek’, (‘Freedom Through Order: The Guiding Principle of Economic Policy in Walter Eucken’s and Friedrich A. von Hayek’s Thought’), In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, (‘The Ordo Yearbook of Economic and Social Order’, Stuttgart: Gustav Fischer Verlag, Band 40, 1989, pp. 87-98), p. 97.

⁵⁹⁰ Manfred E. Streit and Michael Wohlgemuth, ‘The Market Economy and the State. Hayekian and Ordoliberal Conceptions’, In: *The Theory of Capitalism in the German Economic Tradition*, Peter Koslowski, ed., (London: Springer, 2000, pp. 224-260), p. 244.

⁵⁹¹ Alexander H. Shand, *The Capitalist Alternative: An Introduction to Neo-Austrian Economics*, (Frome: Wheatshaf, 1984), pp. 130.

⁵⁹² Thomas J. Dilorenzo, ‘The Myth of Natural Monopoly’, In: *The Review of Austrian Economics*, (9:2, 1996), p. 43, Shand, *Neo-Austrian Economics*, pp. 101-103.

⁵⁹³ Shand, *Neo-Austrian Economics*, pp. 182-183.

Group’ and ‘Anti-Trust Project’.⁵⁹⁴ Guided by George Stigler, Chicagoans came to believe that monopolies were sustained by government but that large companies could replicate the competition function.⁵⁹⁵ As a result Friedman also became more relaxed about the appearance of monopolies, writing in 1962 that it is normal in most markets to observe ‘giants and pygmies side by side.’⁵⁹⁶ Chicagoans also advocated the best action to counter vested interests and monopoly was to reduce market entry barriers. According to Mark Skousen, however, the Austrian and Chicagoan positions were different because of their broader philosophical positions. Chicagoans generally believed in the possibilities of equilibrating ‘perfect competition’ while Austrians saw markets as dynamic, spontaneous and non-equilibrating.⁵⁹⁷ Austrians saw attempts to restrict predatory practices by regulation or oversight as flawed, as ‘inappropriate equilibrium theorizing’ and serving only to impede information and efficiency in a particular market.⁵⁹⁸ So while the Austrians came to embody a position that advocated competition by reducing both entry barriers and regulation, the Chicagoans moved somewhat, but never fully to that ideal.⁵⁹⁹ This was, according to Skousen, because Chicagoans sometimes supported policies prohibiting price fixing and mergers, and even worked directly with (the US) government in making ‘anti-trust’ laws.⁶⁰⁰

The various strands of neo-liberalism, then, would agree that monopoly and vested interests had injurious effects on markets. They could also converge on the desirability of private rather than state ownership, as well as many producers

⁵⁹⁴ Daniel Stedman-Jones, ‘The Influence of Transatlantic Neoliberal Politics’, seminar at Queen Mary University London, 22 October 2013.

⁵⁹⁵ Stedman-Jones, ‘Influence’ seminar.

⁵⁹⁶ Milton Friedman, *Capitalism and Freedom*, (Chicago: Chicago University Press, 1962), p. 121.

⁵⁹⁷ Mark Skousen, *Vienna & Chicago. Friends or Foes? A Tale of Two Schools of Free-Market Economics*, (Washington: Capital Press, 2005), p. 214.

⁵⁹⁸ Dominick T. Armentano, ‘Antitrust Reform: Predatory Practices and the Competitive Process’, In: *Review of Austrian Economics*, (3, 1989), pp. 61-74), p. 72.

⁵⁹⁹ Skousen, *Vienna & Chicago*, p. 218.

⁶⁰⁰ Skousen, *Vienna & Chicago*, pp. 214, 218.

operating in a market as possible. Lastly, information flows via the price mechanism would operate more efficiently if monopoly formation and special interest group influence were reduced. How this may be achieved, however, was different for each school. Ordoliberals believed action should be taken to break up monopolies while Friedman and Stigler thought reducing entry barriers was sufficient and moved away from regulation from the 1950s. Austrians shared these liberalising, rather than legislating, instincts, but often took a more utopian or 'hardline' point of view.⁶⁰¹

A government committed to the tenets of economic liberalism may have been expected to confront vested interests and monopolies. There is, however, little evidence to suggest that the Thatcher government broadly set out to do this.⁶⁰² There was no master-plan to tame vested interests. Nevertheless, economic liberals in the Conservative Party, not least the Prime Minister, did have a predisposition to this end. The thinking of the Party had long been influenced by the work of Edmund Burke, who stressed the importance of multiple sources of power and influence as well as of a pluralistic society.⁶⁰³ The Conservatives were usually considered less beholden to special interests – at least beyond big business - in comparison with their counterparts in the Labour Party.⁶⁰⁴ With this combination of long-term Conservative thinking, the pressure exerted by trade unions in the 1970s, as well as the renewed interest in liberal economics by the time the Thatcher government came to power, it may have been anticipated that they would attempt to attenuate the influence of vested interests. This will be looked at by examining several such groups: trade unions, the

⁶⁰¹ Skousen, *Vienna & Chicago*, p. 218.

⁶⁰² Email correspondence with Sir Adam Ridley, 15 May 2013.

⁶⁰³ Email correspondence with Sir Adam Ridley, 15 May 2013, Margaret Thatcher Foundation, (hereafter MTF), 108087, Margaret Thatcher Speech to Scottish Conservative Party Conference, 12 May 1990.

⁶⁰⁴ Tim Bale, *The Conservatives Since 1945*, (Oxford: Oxford University Press, 2012), p.290, Norman Barry, *The New Right*, (Beckenham: Croom Helm, 1987), p. 127.

nationalised industries, the BBC and the City of London. Margaret Thatcher had a long-standing antipathy to trade unions as well as the BBC.⁶⁰⁵ Documents show how privatization of nationalised industries was a political objective from the early years of the Thatcher government while the emphasis on trade made financial liberalization another implicit goal. Taken together these policies may have represented a cross-section of a broad, but ill-defined, effort to reduce the power of entrenched interests. This chapter explores to what extent this assertion was true.

Trade Union Reform

The most urgent problem the new Conservative government had with overbearing special interest groups in 1979 was the trade union movement. The influence of trade unions had increased over the twentieth century to the point when one of the abiding memories of 1978 and 1979 in Britain is still the widespread strikes that crippled the country, from Ford workers to gravediggers to refuse collectors. Revisionists have questioned the commonly held assumption that the unions wielded as much power as has often been thought, or if there was even a series of crises in the 1970s.⁶⁰⁶ That assertion, however, is at odds with the statistics, and that both Labour and Conservative leaders were ‘governing against pressure’ from the unions.⁶⁰⁷ The amount of days lost due to strikes over this period, for example, was thirty-one times greater in 1972, compared to what it was in 1991.⁶⁰⁸ In addition, successive incomes

⁶⁰⁵ Interview with Sir Alan Peacock, 26 January 2010, Charles Moore, *Margaret Thatcher. The Authorized Biography. Volume One: Not For Turning*, (London: Allen Lane, 2013), p. 136.

⁶⁰⁶ David Marsh, *The New Politics of British Trade Unionism. Union Power and the Thatcher Legacy*, (Basingstoke: Macmillan Press, 1992), p. 52. Marsh wrote that union power was limited even at its height and that the assertions of overwhelming power enjoyed by the unions between 1974-79 were exaggerated.

⁶⁰⁷ J.P.F. Thomsen, *British Politics and Trade Unions in the 1980s: Governing Against Pressure*, (Aldershot: Dartmouth, 1996), p. 230.

⁶⁰⁸ Figures taken from www.unionancestors.co.uk, accessed 20 September 2011.

policies and the high position in political life accorded to trade union leaders reflected their pre-Thatcher influence. ‘Beer and sandwiches’ at Downing Street to work through the issues of the day was a cliché of corporatist Britain, but a telling one nevertheless. What is clear, though, is that the problems of the 1970s and in particular the strikes of 1978 and 1979 gave the Conservative Party the chance to demonise the unions and play on the public’s widespread frustration with them. Robert Saunders has identified the importance of the ‘crisis’ narrative formulated by Margaret Thatcher in the 1970s and how her political programme was initially based on its diagnostic, rather than prescriptive nature.⁶⁰⁹ This crisis narrative was exploited remorselessly over the next decade, while the antipathy towards trade unions helped to discredit the Labour Party for a generation.⁶¹⁰

Development of the trade union movement

The rise of the trade union movement from the mid-1800s was consolidated by legislation in granting it privileges in 1871 and 1875, and in particular the 1906 Trade Disputes Act as a result of the Taff Vale railway action of 1901.⁶¹¹ The impact of the then recently formed Labour Party can be seen in the latter.⁶¹² Therein lay the seemingly intractable problem Labour had when actually in power. It was backed by and represented the trade union movement and would be in a difficult position if the parliamentary party opposed the union leadership. George Dangerfield, in *The*

⁶⁰⁹ Robert Saunders, ‘“Crisis? What crisis?” Thatcherism and the seventies’, In: *Making Thatcher’s Britain*, B. Jackson and R. Saunders, eds., (Cambridge: Cambridge University Press, 2012, pp. 25-42), pp. 25, 42.

⁶¹⁰ Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to Blair (1945-2005)*, (Abingdon: Routledge, 2011), p. 115.

⁶¹¹ Sidney and Beatrice Webb, *A History of Trade Unionism 1666-1920*, (Edinburgh: R & R. Clark, 1920), pp. 180-232, M. Davis, ‘“New Model” unionism’, TUC History Online. www.unionhistory.info/timeline/1850_1880.php, accessed 19 September 2011.

⁶¹² ‘Labour Party History’, www.labour.org.uk/history_of_the_labour_party, accessed 19 September 2011.

Strange Death of Liberal England (1935), was scathing about the breadth of the 1906 law. He wrote, 'The Liberal Government, crowned with the laurels of an unparalleled victory at the polls, seemed unaware that a new and uncompromising voice had been added to its deliberations.' He went onto to say that 'Labour was jubilant. The most powerful Government in history had been compelled, by scarcely more than a single show of power to yield to the just demands of organized workers.'⁶¹³ Austrian economic liberal Joseph Schumpeter wrote in 1943 that the Act gave unions 'astonishing privileges'. He believed the law 'practically amounted to enacting that trade unions could do no wrong – this measure in fact resigned to the trade unions part of the authority of the state and granted to them a position of privilege.'⁶¹⁴ Yet industrial organization was crucial in both war efforts. Keith Middlemas, in his exhaustive study on the post-war British economy wrote that 'organized labour remained on the margin of actual power until government needed it again in 1940, as it had in 1915-18.'⁶¹⁵

The influence of the trade unions became consolidated in Britain after the Second World War, in particular after the Attlee government's programme of nationalisation. The Conservatives had put some corporations into state hands, such as the National Grid and the BBC under Stanley Baldwin in the 1920s, but it was a policy that was to become synonymous with Labour. During its period in government between 1951 and 1964, Conservative leaders have been charged with showing a degree of accommodation and co-operation with trade union leaders not seen before or after.

⁶¹³ George Dangerfield, *The Strange Death of Liberal England*, (Geneva: Edito-Service, 1966, first published in 1935), pp. 186-87.

⁶¹⁴ Joseph Schumpeter, *Capitalism, Socialism and Democracy*, (Abingdon: Routledge, 2010, first published in 1943), p. 321.

⁶¹⁵ Keith Middlemas, *Power, Competition and the State. Volume I. Britain in search of Balance 1940-61*, (Basingstoke: Macmillan, 1986), p. 6.

The dominant One Nation strand of the Party wanted good relations with unions, between employers and management and refrained from legislating in this area.⁶¹⁶ One Nation Tories may have sought to limit the inequality that could threaten capitalism and parliamentary democracy and drive some towards Marxism. It was in keeping with ideas of enlightened self-interest to mollify the trade unions.⁶¹⁷ In addition politicians such as Harold Macmillan's and Anthony Eden's experiences in World War I, as well as their having seen the effects of the Depression in the 1930s, gave them a certain sympathy and even respect for the working class.⁶¹⁸ Former civil servant and author Alec Cairncross, however, believed the Conservatives relationship was not as harmonious during this era and that the Party 'was never able to obtain the agreement of the trade unions...to a period of wage restraint.'⁶¹⁹ Some in the Conservative Party were concerned at the growth in union influence in their thirteen years in government. In 1958 the Inns of Court Conservative Association produced *A Giant's Strength*, which advocated taming growing trade union power.⁶²⁰ During the following decades, 'wildcat' strikes began to proliferate.⁶²¹ Days lost through strikes rose from 2.277 million days in 1964 to 4.69 million in 1968 and to a peak of 23.909 million during 1972 (as a comparison by 1991 the figure was down to 0.761 million).⁶²² From the legislation of the late nineteenth century until the 1970s, trade unions appeared to be exerting ever greater influence over political decisions. Hayek had identified the growth in power he believed organized labour increasingly enjoyed

⁶¹⁶ Peter Dorey, *British Conservatism and Trade Unionism, 1945-1964*, (Farnham: Ashgate, 2009), p. 168.

⁶¹⁷ Dorey, *British*, p. 170.

⁶¹⁸ Dorey, *British*, p. 171.

⁶¹⁹ Alec Cairncross, *The British Economy since 1945*, (Oxford: Blackwell, 1995), p. 112.

⁶²⁰ Bale, *Conservatives*, p.139, Margaret Thatcher, *The Path to Power*, (London: HarperCollins, 1995), p. 110.

⁶²¹ Dorey, *British*, pp. 175-179. A 'wildcat' strike is an action taken by workers without the consent of the union leadership.

⁶²² Figures taken from www.unionancestors.co.uk, accessed 20 September 2011.

were steps towards excessive state control, while warning of the effects of ‘unlimited democracy’ on individual freedom.⁶²³

Harold Wilson, recognizing that industrial relations needed improvement, backed Barbara Castle’s 1969 White Paper, *In Place Of Strife*. It aimed to bring unofficial strikes to an end by proposing ballots before action, and also made provision for an Industrial Relations Court to settle disputes. There was vehement opposition to *In Place Of Strife*, from trade union leaders and within the Labour Party itself. Margaret Thatcher later wrote, outlining the neo-liberal linkage between vested interests and politics, that Callaghan ‘had built his career on giving the trade unions whatever they wanted. So I felt that he was to blame, in a uniquely personal way, for the scenes of the winter of 1978/79.’⁶²⁴ Wilson’s relatively moderate stance was not helped by growing left wing inclinations within his Party and the trade union movement as a whole during this period.⁶²⁵

The 1970s: widespread strikes and the crises of state power

The governments of the 1960s had attempted to restrain wage demands but had not been able to prevent strikes. Labour had blinked when they had the chance to alter their relationship with the unions in 1969. The underlying problem for the Party was the influence trade union sentiment exerted on its leaders, and for the economy as a

⁶²³ F.A. Hayek, *Social Justice, Socialism & Democracy. Three Australian Lectures by F.A. Hayek*. (Turrumurra: Centre for Independent Studies, 1979), pp. 39-45, F.A. Hayek, *The Road to Serfdom*, (London: Routledge, 2007, originally published 1944), p. 204, Jackson, ‘At the Origins’, p. 145.

⁶²⁴ Thatcher, *Path*, p. 444.

⁶²⁵ Seamus Milne, *The Enemy Within. The Secret War Against the Miners*, (London: Verso, 2004), p. 14, Richard Hyman, ‘Trade Unions, the Left and the Communist Party in Great Britain’, In: *Comrades and Brothers: Communism and Trade Unions in Europe*, W. Waller, S. Courtois and M. Lazar, eds., (London: Frank Cass, 1991), pp. 148, 156-57.

whole by the immunities granted in the 1906 Act. The Conservatives were elected in 1970 and tried to deal with the issue in one piece of legislation, the 1971 Industrial Relations Act. Put together by then Solicitor General Geoffrey Howe and Secretary of State for Employment Robert Carr, the Act covered much the same ground as *In Place Of Strife*, while also limiting authorized strike action. The law was not widely enforced, however, undermining the credibility of the Heath government and added to the growing divide between it and the trade union movement.

After changing course at the end of 1971 - one of several derided 'U-turns' - the Heath government struggled to control inflation through a prices and incomes policy. His government was fatally damaged by the National Union of Mineworkers (NUM) strikes between 1972 and 1974, in conjunction with the 1973 oil crisis that caused a surge in inflation and increased the cost of energy. For a time in the late 1970s, James Callaghan's Labour government had managed to reduce inflation with a nominal 5% wage limit, during the 'social contract' period. The policy unraveled in late 1978 as the Winter of Discontent took hold amid widespread strikes. This gave Margaret Thatcher the rhetorical space to appear to offer an alternative.⁶²⁶

The New Right and the trade unions

The Conservatives in the late 1970s were guarded about how they would tackle the problem of trade union militancy. While in other areas they would overtly profess interest in liberal economic recommendations, such as monetarist economics, when it came to industrial relations the Party had to tread carefully. Conservative politicians

⁶²⁶ Thatcher, *Path*, p. 395.

were scarred by the events of the Heath government. They had attempted to deal with the issue in one law, the 1971 Act, but been humiliated by the non-compliance and the strikes that followed. Yet if there was one topic the New Right had produced reams of material on it was trade union reform.

During the 1960s and 1970s, the Institute of Economic Affairs (IEA) concentrated primarily on two issues: monetarism to combat high inflation and trade union reform.⁶²⁷ In 1975, the IEA reprinted a pamphlet titled *The Theory of Collective Bargaining* by a neo-liberal contemporary of Hayek, W.H. Hutt. Originally written in 1931, Hutt wrote that trade unions had operated as a ‘regressive and impoverishing influence’ and that the strike-threat had led to a diminishing of Britain’s power in the world. Hutt said that the main beneficiaries had been union hierarchies, that leaders were well paid in comparison with the rank and file, and the politicians who profited by supporting them.⁶²⁸ Targeting union leaders and not rank and file members was a consistent liberal device. Friedrich Hayek criticized unions as being organized minorities pursuing self-interest at the expense of the wider community, who pay in terms of both monopoly prices and disorder. Hayek also said that collective bargaining worsened conditions for highly skilled workers who had the same position as others in the union.⁶²⁹

The Centre for Policy Studies (CPS), founded in 1974 by Keith Joseph, was initially charged with examining the West German *Soziale Marktwirtschaft* (social market economy). Interestingly in light of how the Thatcher government would treat

⁶²⁷ Richard Cockett, *Thinking the Unthinkable. Think-tanks and the Economic Counter-Revolution, 1931-83*, (London: Harper Collins, 1995), p. 148.

⁶²⁸ W.H. Hutt, *The Theory of Collective Bargaining 1930-75*, (London: IEA, 1975, originally published 1931), pp.124-25.

⁶²⁹ Shirley Robin Letwin *The Anatomy of Thatcherism*, (London: HarperCollins, 1992), p. 142.

monopoly and competition, Joseph initially planned to name the CPS the ‘Erhard Foundation’, after the West German leader and political embodiment of *ordoliberalism*.⁶³⁰ Joseph identified good industrial relations as key to West Germany’s success.⁶³¹ Nigel Lawson also showed interest in the German model of ‘work’s councils’, although the subsequent Thatcher government’s attitude to industrial relations looked very different from the more consensual German approach.⁶³² Joseph addressed the Bow Group in 1979 by framing the issue in a long-term and declinist context. ‘If the debate is to be productive and honest, setting the union problem in the context of our economic decline, rather than at the centre of today’s crisis [is crucial].’⁶³³ The Bow Group, particularly under the leadership of Peter Lilley, also identified the importance of reducing union influence. The Group formulated an ‘Alternative Manifesto’ ahead of the February 1974 election and later ‘Lessons for Power’ that argued against incomes policies.⁶³⁴

Neo-liberal themes and Trade Union Reform

Pro-market economists and writers targeted trade union reform as an urgent priority in the 1960s and 1970s for a number of reasons. The most obvious one was that Britain suffered a series of debilitating strikes that hampered the economy and caused social unrest. The second was that excessive wage demands fuelled inflation. According to neo-liberals like Milton Friedman, intervention in the economy from government

⁶³⁰ MTF 114760, ‘Sir Keith Joseph note (“The Erhard Foundation”)', 21 March 1974.

⁶³¹ Richard Vinen, *Thatcher’s Britain. The Politics and Social Upheaval of the 1980s*, (London: Simon and Schuster), p. 92.

⁶³² Vinen, *Thatcher’s Britain*, p. 89.

⁶³³ The Papers of Margaret Thatcher, (Cambridge: Churchill Archives, hereafter THCR), 2/6/2/93, ‘Talk to the Bow Group’ by Sir Keith Joseph, on 05 February 1979.

⁶³⁴ Interview with Peter Lilley, 7 February 2011.

would cause inflation.⁶³⁵ Neo-liberals thought vested interests affected markets in a number of ways. The collective power of trade unions restricted market entry to other producers through practices such as the closed shop, excessive wage demands and potentially by picketing. Unions collectively prevented competition and therefore choice for consumers. Barriers to entry would hamper productivity and cause price distortions. Power rested with the producer. Liberals wanted to shift this emphasis towards the consumer. Trade unions also impacted on liberal themes of maintaining the sanctity of contracts and respecting the sovereignty of the individual. Some on the New Right believed that unions priced out new labour and had an impoverishing effect, while impeding the growth of the economy as a whole. These last points were adopted by Margaret Thatcher in the 1970s.⁶³⁶

Trade Union Reform: the Conservative Party in Opposition

The strikes of the 1970s energized the Conservative Party as a whole, not simply its free market wing. Cecil Parkinson later wrote that the coal mining industry in particular ‘was given a privileged position and it abused the privilege.’⁶³⁷ When returned to opposition many in the Party were keen not to alienate voters with tough rhetoric towards the unions, but behind the scenes there was furious debate on how they should be tackled. The work done by the Conservatives in opposition between 1974 and 1979 is documented in detail elsewhere in this thesis (see chapter one). *The Right Approach* (1976) and *The Right Approach to the Economy* (1977) were both relatively subdued on the issue of trade union reform. They employed statements such

⁶³⁵ Milton Friedman, *Inflation and Unemployment: The New Dimension of Politics. The 1976 Alfred Nobel Memorial Lecture*, (London: IEA, Occasional Paper 51, 1977), pp. 1-18.

⁶³⁶ Thatcher, *Path*, p. 140.

⁶³⁷ Cecil Parkinson, *Right at the Centre*, (London: Weidenfeld and Nicolson, 1992), p. 281.

as ‘We shall need to use every available means of making collective bargaining a more orderly and responsible process. Our purpose must be to exclude the need for any further resort to a formal incomes policy’ and ‘If, however, we should find some within the ranks of organised labour who are determined to mount a direct *political* challenge to a newly elected Conservative government, we say now quite plainly that they will be resisted firmly and decisively.’⁶³⁸ The unpublished Stepping Stones project was more combative and forthright towards industrial relations.

John Hoskyns, in charge of Stepping Stones, believed the trade union issue had to be dealt with urgently and comprehensively. Richard Ryder, then political secretary to Margaret Thatcher, described Hoskyns’ approach (as well as that of Alfred Sherman at the CPS) as ‘hard at it’ and impatient for change compared to many in the Party.⁶³⁹ Chris Patten, head of the Conservative Research Department (CRD) did not want to estrange voters and thought the emphasis should be on other policies.⁶⁴⁰ Hoskyns accused Patten, in a 1978 letter, of ignoring the union issue.⁶⁴¹ Shadow Secretary for Employment, Jim Prior, also took a more moderate stance towards the unions.

This was at odds with Conservatives who wanted to confront the unions, such as Geoffrey Howe, Nigel Lawson and Keith Joseph. Lawson wrote a letter to Joseph in 1978 complaining that the unions should be higher up the agenda and that the Stepping Stones project was drifting.⁶⁴² Geoffrey Howe set out a key component of

⁶³⁸ MTF 109439, *The Right Approach*. Conservative Policy Statement, (London, 1976), p. 38, MTF 112551, *The Right Approach to the Economy*. Conservative Policy Statement, (London, 1977), p. 16

⁶³⁹ Interview with Lord Ryder, 23 Feb 2011.

⁶⁴⁰ The Papers of John Hoskyns, (Cambridge: Churchill Archives, hereafter HOSK), 1/79. ‘A note by Christopher Patten, further thoughts on strategy’ on 23 February 1978.

⁶⁴¹ HOSK 1/80, ‘Copy of a letter by John Hoskyns to Keith Joseph relating to a note by Christopher Patten’, 27 February 1978.

⁶⁴² HOSK 1/98, ‘Copy of a letter on 27 March 1978 by Nigel Lawson to Sir Keith Joseph relating to the Policy Search Group meeting’ of 20 March 1978.

the Conservative trade union strategy as early as 1977. It echoed the thoughts of Hutt's 1975 IEA pamphlet. Howe thought that a fruitful tactic could be to identify 'enemies' in the battle with the unions. He said that both trade union leaders and the Labour government should be singled out as adversaries, whereas rank and file trade union members and Labour supporters should be framed separately.⁶⁴³ This became a key element in the policy of the Thatcher government. Although it was the Prime Minister herself who was often viewed as identifying enemies and relishing battles here it can be seen that the apparently more placid Howe was articulating this strategy.⁶⁴⁴ In addition, the insinuation itself, that trade union members were more moderate than their leaders, may have been false.⁶⁴⁵

Although attempting to appear reasonable towards trade unions in opposition, Margaret Thatcher's real thoughts on them were much tougher. A document from 1978 demonstrated how the future Prime Minister underlined text from a speech from Friedrich Hayek that berated the unions, such as that 'nobody ought to have the right to force others to strike' and that unions were 'abusing this power which the law has granted to them.'⁶⁴⁶ The 1979 Conservative Election Manifesto said trade unions were a 'single powerful interest group', led by 'a minority of extremists' that Labour had

⁶⁴³ HOSK1/33, 'Detailed notes by Hoskyns for Norman Strauss and Terry Price relating to a meeting with Geoffrey Howe' on 26 August 1977.

⁶⁴⁴ John Campbell, *Margaret Thatcher. Volume Two: The Iron Lady*, (London: Pimlico, 2004), pp. 361-362.

⁶⁴⁵ '1971: Workers Down Tools Over Union Rights', BBC online, http://news.bbc.co.uk/onthisday/hi/dates/stories/march/1/newsid_2514000/2514033.stm, accessed 4 October 2011.

⁶⁴⁶ THCR 2/2/1/14, A series of three lectures by Professor F.A. Hayek. 3: 'The Exploitation of Workers by Workers', transmitted on 12 August 1978, interview with Lord Ryder, 23 February 2011. Ryder and John Hoskyns both subsequently said that Thatcher's underlining of text usually represented an interest in a document. Hoskyns comment came on a Radio 4 programme on release of new Thatcher documents in December, 2011.

allowed to 'abuse individual liberties and to thwart Britain's chances of success.'⁶⁴⁷

The manifesto made three proposals. Firstly the limiting of picketing, secondly a review of the closed shop and thirdly a wider use of secret ballots, provided for by public funds. Coming soon after the Winter of Discontent, the issue of industrial relations was clearly a major one in 1979.

The First Thatcher Government's Trade Union Reforms

James Prior continued in the role he had held in opposition and became Margaret Thatcher's first Secretary for Employment in 1979. Prior was seen as more open to compromise with trade union leaders and less hostile than others in the Party, including the Prime Minister. He described his difficult task of introducing reform in his memoirs. 'I was having to fight on two fronts – I was striving to impose some form of legislation on the unions while repelling the right wing demands for extreme measures. It was an uncomfortable stance, but made me look the reasonable man and therefore difficult for the TUC to attack.'⁶⁴⁸ While in opposition, Nicholas Ridley chaired a group on the nationalised industries. Ridley had written a report on the trade unions after the demise of the Heath government, which was leaked to the *The Economist* in 1978. The report concluded that a new Conservative government would face a union challenge within its initial two years in power, probably from coal, electricity or dock workers. The Government was advised to choose its opponents carefully, preferably British Leyland, the railways or civil service. The Ridley Report

⁶⁴⁷ Conservative Party Manifesto 1979, <http://www.conservative-party.net/manifestos/1979/1979-conservative-manifesto.shtml>, accessed 27 September 2011.

⁶⁴⁸ James Prior, *A Balance of Power*, (London: Hamish Hamilton, 1986), pp. 154-155.

also outlined the need for mobile police tactics.⁶⁴⁹ Leonard Neal advised Margaret Thatcher on union reform early in the first term and did not see eye to eye with Prior.⁶⁵⁰ Lord Ryder, as we have seen, explained how free market liberals close to the Prime Minister like Alfred Sherman and John Hoskyns, urged a tough stance towards the trade unions.⁶⁵¹ The pressure on Prior (as well as Margaret Thatcher) from the likes of Ridley, Neal, Sherman and Hoskyns as well as Nigel Lawson, was strong. Yet Prior used this to his advantage and the union leaders may have been more flexible as a result.

After the fact there has been some suggestion that the Thatcher government had a pre-planned strategy towards trade union reform. Prior wrote in his memoirs that he argued for 'step-by-step' reform.⁶⁵² There is, however, little evidence that this was part of a pre-conceived grand plan.⁶⁵³ What we can say, however, is that the Conservatives proceeded with some caution and gradually eroded union privileges when the opportunity arose. The first step was the 1980 Employment Act.

1980 Employment Act

There was some evidence to show the public backed trade union reform. Polls sent by Party researcher Keith Britto to the Prime Minister in November 1979 suggested a majority of union members themselves backed the proposed government reforms.⁶⁵⁴

⁶⁴⁹ Geoffrey Fry, *The Politics of The Thatcher Revolution. An Interpretation of British Politics, 1979-90*, (Basingstoke: Palgrave MacMillan, 2008), p. 100.

⁶⁵⁰ Cockett, *Thinking*, pp. 267, 298.

⁶⁵¹ Interview with Lord Ryder 23 February 2011.

⁶⁵² Prior, *Balance*, p. 156.

⁶⁵³ Marsh, *New*, pp. 80-81. Bale, *Conservatives*, p. 289.

⁶⁵⁴ MTF 112198, 'Memo by Keith Britto', 21 November 1979, 'Public Opinion after the First Seven Months of the New Government,' [<http://www.margarethatcher.org/document/112198>], accessed 10 October 2011.

A 1980 CRD report carried out by Party Chairman Peter Thorneycroft, later commented on by *The Times*, showed many rank and file trade unionists supported change. It stated that 47% of union members (against 43% that disagreed) believed reform of trade union law to be in the best interests of the country. The paper also showed strong support to ban secondary picketing in both non trade unionists (70%) as well as union members (59%).⁶⁵⁵ This may have been less to do with market liberalization than the hope that a repeat of the Winter of Discontent might be avoided and frustration at the loss of income suffered when workers were forced out in supposed solidarity with fellow trade unionists with whom, in reality, they had little sympathy.

Jim Prior himself mused on the opposition's failure in government, alluding to the weight of the vested interest on its closest political representatives: 'It may be that because of the Labour Party's relationship with the unions it is not possible for a Labour Government ever to take the necessary steps, even though in their hearts many members of Labour Governments know that they should do so.'⁶⁵⁶ Prior, mindful of the failure of the 1971 Act, charted a more moderate course. The eventual legislation modified the law on the closed shop, made most secondary picketing illegal, removed immunity from trade union officials organizing certain secondary strikes and provided public money for secret ballots.⁶⁵⁷ Prior devised legislation that was politically possible at that point with the recent past in mind. In this sense, like so much else in Thatcherism, the policy was opportunistic.

⁶⁵⁵ THCR 2/6/2/174, CRD Paper led by Peter Thorneycroft on a survey regarding trade union reform.

⁶⁵⁶ James Prior, *Parliamentary Debates* (Commons), 976, 17 December 1979, 58-174.

⁶⁵⁷ C.G. Hanson, *Taming the Trade Unions. A Guide to the Thatcher Government's Employment Reforms, 1980-90*, (Basingstoke: Macmillan, 1991), p. 17.

The legislation introduced by the Thatcher government was part of a wider strategy that reduced trade union influence and would satisfy most strains of neo-liberalism. After two years of Conservative government, however, Hayek was unhappy at the progress being made on the issue. He commented on trade union reform on the BBC programme 'Panorama' in March 1981, criticising Prior. 'The minister in charge of it is not in favour of radical alteration. I have no hope that so long as the matter is in his hands the necessary things will be done.'⁶⁵⁸ What was not appreciated by many at the time, however, was that Prior's role and the incremental approach, intended or otherwise, was important in reducing the power of organised labour. There were several other components that reduced its power as a vested interest, but that this early legislation survived played one part.

Prior was succeeded at the Department of Employment by the more Thatcherite Norman Tebbit, who later wrote that the 1982 Employment Act was the highlight of his political career, concentrating the legislation on union immunity from liability in tort.⁶⁵⁹ Tebbit wrote, 'I have no doubt that the (1982) Act was my greatest achievement in Government and I believe it has been one of the principal pillars on which the Thatcher economic reforms have been built.'⁶⁶⁰ The Act introduced stricter controls on the closed shop and narrowed the definition of a 'trade dispute' to reduce the legal protection available to union officials. It removed the immunity from trade unions in four cases: when action was outside the new definition of a dispute, unlawful picketing, unlawful secondary picketing and if it was taken to impose union membership. The 1982 law was significant because it removed privileges that had

⁶⁵⁸ MTF 114507, 'Economists criticize Government', In *The Times*, 10 March 1981. [www.Margareththatcher.org/document/114507], accessed 12 September 2012.

⁶⁵⁹ Norman Tebbit, *Upwardly Mobile*, (London: Weidenfeld and Nicolson, 1988), pp. 182-84.

⁶⁶⁰ Tebbit, *Upwardly*, p. 184.

existed since the 1906 Trades Disputes Act.⁶⁶¹ The 1982 legislation saw a tightening of that which was introduced in 1980 and signified the next step in Conservative trade union reform. Despite the hostile protestations from Labour, the opposition was in disarray by 1982.

The gradual erosion of the ability of organised labour to disrupt the economy through legislation may appear to be an example of the 'free economy-strong state' thesis. The importance of the changes in law, however, have not been considered crucial by some historians. Martin Holmes thought that the 1980 and 1982 Employment Acts were not as significant on industrial relations as the abandonment of both corporatism and an incomes policy during the first Thatcher government.⁶⁶² Certainly the ending of the arrangement between government and industry about setting prices and income levels was important in giving the market more credence. It was also notice that the influence of a vested interest like the trade unions was not going to be as close to central policy making, as well as setting the government on a more adversarial course as communication ceased with union leaders. The 1980 and 1982 Acts, however, demonstrated that the government was going to take legal steps to reduce union power and the strike threat to the country and its economy. The legislation showed that agreement and voluntarism could not be trusted without the force of law. They rolled back the privileges of 1906 that had been the core component of union militancy throughout the century and partially curbed the restrictive practices of the closed shop, strikes without secret ballots and secondary picketing. In addition, like the ending of exchange controls in 1979 economic policy, the legislation acted as a signal that the government was going to reduce the power of trade unions and privilege

⁶⁶¹ Hanson, *Taming*, pp. 17-18.

⁶⁶² Martin Holmes, *The First Thatcher Government, 1979-83*, (Brighton: Wheatsheaf, 1985), pp. 34, 203.

market forces. The 1980 and 1982 Acts were reinforced by subsequent legislation. A rules-based system of reducing political interference in the economy is an ordoliberal theme, despite the actual arrangement between business and unions in post-war Germany being less formal.

The 1984 Trade Union Act set out that industrial action could only be taken after a majority in a secret ballot, made every voting member of a union's governing body be re-elected after five years and insisted unions keep a register of all members' names and addresses.⁶⁶³ The erosion of union power was to culminate in the miners' strikes. It took longer than the Ridley Report envisaged, five years as opposed to two, but the NUM took on the Government in 1984. In the popular consciousness, this was the focal point of the confrontation between the Thatcher government and the trade union movement.

The National Coal Board (NCB)'s announcement of accelerated pit closures prompted strikes, incited by NUM leader Arthur Scargill, across the country in March 1984. The action lasted for a year and violent picketing reached a peak at Orgreave in Yorkshire in June 1984. The violence was robustly fought by 'mobile policing', as had also been recommended in the Ridley Report. The schism in the union between the UDM (Union of Democratic Mineworkers) and NUM in Nottinghamshire and South Derbyshire, the lack of a ballot for action and Scargill's belligerent stance gave credence to the long-standing Conservative assertion that union leaders were extreme and did not represent the views of rank and file members.⁶⁶⁴ Trade union legislation itself was not necessarily crucial in the strike as secondary picketing laws were

⁶⁶³ Hanson, *Taming*, p. 18.

⁶⁶⁴ Paul Willman, Tim Morris and Beverly Aston, *Union business: trade union organisation and financial reform in the Thatcher years*, (Cambridge: Cambridge University Press, 1993), p. 124.

flagrantly ignored.⁶⁶⁵ Secretary of State for Energy Peter Walker vetoed using the recent laws as he thought this could increase sympathy for the striking miners from other workers.⁶⁶⁶ Also important was that after 1979 courts were more inclined to interpret the previous legislation (for instance the police had the same powers in 1984 and 1985 as they did before 1979) in a way that restricted the privileges that unions enjoyed.⁶⁶⁷ The determination of the Government to support the police during the strike does give more credence to the 'strong state' principle. The new laws were to be more important subsequently. The resolve of the government, the police methods used and the flawed strategy of the NUM were all central. The identification of the union leadership as 'enemies' and the tactics of Scargill himself (calling a strike in the Spring, without a ballot and encouraging violent picketing) all played their part in the eventual outcome. Defeating the miners' was of huge significance to the overall programme of Thatcherism. David Owen identified the Prime Minister's role in this in April 1989.

But the legislation would, of itself, have been insufficient. A successful confrontation with mindless militancy was the essential buttress. Until Arthur Scargill was soundly and humiliatingly defeated, the spectre of 1979's winter of discontent hung over the country. It was Mrs Thatcher who, virtually alone, understood this.⁶⁶⁸

⁶⁶⁵ Hanson, *Taming*, p. 45.

⁶⁶⁶ Vinen, *Thatcher's Britain*. p. 165.

⁶⁶⁷ Marsh, *New*, pp. 108-109.

⁶⁶⁸ David Owen, writing in *The Times*, 19 April 1989, In: Hanson, *Taming*, p. 111.

The Wider Strategy to Curb Union Influence

In addition to legislation and the defeat of the miners' strike there were other efforts to reduce the power of the trade unions. The privatization of several industries moved employees out of the state sector, although many retained union membership. The amount of workers belonging to a union decreased during the 1980s, falling to less than 9 million members in 1990 from a high of over 12 million in 1979.⁶⁶⁹ This was also connected to the sharp rise in unemployment in the early 1980s. Often people that lost their jobs, for example in manufacturing industries, subsequently found work in the service sector where the norm was to be non-unionised.⁶⁷⁰ The realignment of the British economy had the effect of reducing union power. Another strategy the Thatcher government pursued was that of 'contracting-out', which meant that services nominally provided by the state (such as cleaning in hospitals or refuse collection) were put out to tender to private companies. This contract work also reduced the power of union members to wield influence in the state sector.⁶⁷¹ Contracting out acted as a half way house to increase competition in public utilities.⁶⁷² Again this had its liberal critics. The IEA, for instance, believed contracting out tended to cause rent-seeking behaviour as once gained, there were no commercial pressures to improve

⁶⁶⁹ BBC online, 'TUC Membership 1940-2002', <http://news.bbc.co.uk/1/hi/business/3526917.stm#membership%20graph>, accessed 4 October 2011.

⁶⁷⁰ Joseph Stiglitz, 'Employment, social justice and societal well-being', In: *International Labour Review*, (141:1-2, 2002), p. 13.

⁶⁷¹ Thomsen, *British*, p. 240.

⁶⁷² Celia Veljanovski, 'Privatization: Monopoly Money or Competition?', In: *Privatization and Competition. A Market Prospectus*, C. Veljanovski, ed., (London: IEA Hobart Paperback 28, 1989, pp. 26-51), p. 48.

performance.⁶⁷³ Austrians also thought contracting-out did little to address liberal objectives such as greater efficiency or greater individual liberty.⁶⁷⁴

It has also been argued that class-consciousness and class-based solidarities waned during the 1980s.⁶⁷⁵ There may have been splintering of the working class, helped by social and economic policy that led to a flexible and skilled ‘top end’ working class, leaving the worse off poorer by 1990.⁶⁷⁶ This was helped by policies such as Right to Buy, where council house sales may have helped to convert some traditional Labour supporters into property-owning Conservative voters. Other trends, such as an increasingly right-leaning media (from tabloids like *The Sun* and *The Daily Mail* to broadsheets like *The Daily Telegraph*) supported many of the policies of Thatcherism, became hostile to both the European Community and the ‘Loony Left’ characterized by Labour politicians like Derek Hatton and Ken Livingstone. In summary, the 1980s saw an erosion of the solidarity for trade union action through a combination of long-term trends and the policies of the Thatcher government.

Trade Union Policy after the Miners’ Strike

The miners’ strike was not the end of industrial unrest in Britain. The teaching unions NUT (National Union of Teachers) and NASUWT (National Association of Schoolmasters/Union of Women’s Teachers) were on strike intermittently between

⁶⁷³ John Blundell, ‘Privatization – by Political Process or Consumer Preference?’, In: *Economic Affairs*, (7:1, Oct-Nov 1986), p. 62.

⁶⁷⁴ Bruce L. Benson, ‘Third Thoughts on Contracting Out’, In: *Journal of Libertarian Studies*, (11:1, Fall 1994), pp. 44-78), pp. 46-47.

⁶⁷⁵ Heather Nunn and Anita Biressi, ‘Shameless?: Picturing the “underclass” after Thatcherism’, In: *Thatcher and After. Margaret Thatcher and her afterlife in contemporary culture*, L. Hadley and E. Ho, eds., (Basingstoke: Palgrave Macmillan, 2010), pp 137-38.

⁶⁷⁶ Nunn and Biressi, ‘Shameless?’, p. 138.

1985 and 1987. More significantly, strikes broke out when News International moved its printing operation from Fleet Street to Wapping in the London Docklands in 1986. Rupert Murdoch had built up a large multinational media empire that included British newspapers like *The Sun*, *The News of the World* and *The Times*. In 1986 the group moved its offices to Wapping and as a result, 6000 of its workers went on strike in protest. The national union called action amid redundancies but despite the strikes lasting for over a year, production of the newspapers continued. Industrial relations had been notoriously bad in newspaper printing and this dispute, not the miners' strike, was where the laws enacted by the Thatcher government were initially put to use.⁶⁷⁷

The Conservatives introduced two more pieces of trade union legislation under Margaret Thatcher, the 1988 Employment Act (when Norman Fowler was Secretary for Employment) and its 1990 counterpart, by Michael Howard. The 1988 Act removed all statutory support for the closed shop, tightened balloting procedures and removed sanctions that unions could levy on members for breaking strikes.⁶⁷⁸ It was not until the 1990 law, however, that the government attempted to eliminate the closed shop altogether.⁶⁷⁹ It also made all secondary action unlawful and unions responsible for unofficial strikes liable for acts of all of their officials.⁶⁸⁰

Lastly, the Dock Labour Scheme was abolished by Nigel Lawson as Chancellor and Norman Fowler as Secretary for Employment in 1989. The NDLS (New Dock Labour Scheme) had been established after the Second World War in recognition of the

⁶⁷⁷ Hanson, *Taming*, p. 74.

⁶⁷⁸ Hanson, *Taming*, p. 18.

⁶⁷⁹ Vinen, *Thatcher's Britain*, p. 121.

⁶⁸⁰ Hanson, *Taming*, p. 19.

importance of the docks.⁶⁸¹ The scheme, however, allowed the docker's union to exercise a grip on what occurred at Britain's docks. It was described as 'slowly strangling' the British dock industry while losing out to non-scheme and foreign ports.⁶⁸² Lawson called the scheme a 'vested interest' and a 'statutory racket'.⁶⁸³ The scheme ended in 1989 and evidence showed the productivity of the docks improved as well as the performance and skills base of dock workers.⁶⁸⁴ Union influence as a vested interest was drastically reduced by 1990, in effect becoming an 'outsider' group excluded from the policy-making process.⁶⁸⁵ The Thatcher government achieved this through a combination of policies, laws, confrontation with the NUM and other long-term trends. Although as already noted this was not all by pre-planned design, some writers have said the trade union strategy of Thatcherism bore some semblance to tactics outlined in *Stepping Stones*.⁶⁸⁶

Within the Labour Party, Neil Kinnock had managed to reduce union influence there too, reasserting the primacy of the Parliamentary Labour Party (PLP) over party policy.⁶⁸⁷ From a liberal economic point of view markets received less pressure from unions as a vested interest. The rise of non-unionised jobs in the service sector allowed for the more flexible labour market favoured by liberals. In 2013 *The Economist* described Britain's labour market as 'Europe's most flexible'.⁶⁸⁸ The Labour government of Tony Blair and Gordon Brown did not repeal any of the

⁶⁸¹ T.M.J. McNamara, S. Tarver, 'The strengths and weaknesses of dock labour reform – ten years on.' In: *Economic Affairs*, (19:2, June 1999), p. 12.

⁶⁸² McNamara and Tarver, 'strengths', p. 14.

⁶⁸³ Nigel Lawson, *The View From No.11. Memoirs of a Tory Radical*, (London: Corgi Books, 1993), pp. 444-446

⁶⁸⁴ McNamara and Tarver, 'strengths', p. 12.

⁶⁸⁵ Thomsen, *British*, p. 233.

⁶⁸⁶ Matthijs, *Ideas and Economic Crises*, p. 132.

⁶⁸⁷ Marsh, *New*, p. 162.

⁶⁸⁸ *The Economist*, 'British immigration. You're welcome', 21 December 2013, [<http://www.economist.com/news/leaders/21591865-open-letter-citizens-bulgaria-and-romania-youre-welcome>], accessed 26 December 2013.

Conservative trade union legislation, whilst attempting to appear business-friendly.⁶⁸⁹ In this respect Thatcherism achieved one of its, and neo-liberalism's, long-term goals of reducing trade union's influence on political and economic processes. Both Hayek and Friedman had long desired turning back the privileges of organised labour. Trade union reform was the clearest example of how the Thatcher government tamed a vested interest.

Electricity Privatization

Privatization was one of the flagship policies of Thatcherism. The largest utilities were privatized during the second and third terms and have not been re-nationalised by subsequent governments. In fact, the policy has been extended. Privatization was also one of the most prominent Thatcherite policy exports. The Know How Fund to Eastern Europe in the late 1980s and early 1990s specifically offered the advice of British experts in how to sell state assets. The scheme was incremental during the 1980s and grew after early sales of smaller companies. With little opposition to these, renewed political capital after the Falklands War and 1983 election as well as the success of Right to Buy, the Thatcher government privatized large utilities like British Gas and British Telecom. The British Electricity Authority (BEA) was privatized at the end of the Thatcher years, and was completed after the Prime Minister herself had stepped down. The results may not have satisfied some economic liberal thinking but privatization was an ideological policy. This was because it went to one of the core themes of liberalism: ownership and private property rights. Even when answering criticism of the project, that electricity was rushed through for political expediency

⁶⁸⁹ For instance Peter Mandelson's remark in 1998 that New Labour were 'intensely relaxed about people getting filthy rich as long as they pay their taxes' or Gordon Brown's courtship of the City whilst Chancellor.

and that competition was not created, Nigel Lawson saw the primary goal of the policy as changing the terms of ownership.⁶⁹⁰ What happened to these bodies when they became privately owned has been the subject of much debate. Ordoliberals advocated the breaking up of monopolies and promotion of competition, Austrians as little government intervention as possible and entry barriers reduced. Chicagoans were closer to the latter, tolerating monopolies but accepting some state action to create market conditions if necessary. The Thatcher government will be shown to be closest to Friedman and Stigler's position although showing some inclinations, presumably without design, towards ordoliberal-esque competition enforcement during electricity privatization.⁶⁹¹

Electricity privatization built on the experience of previous sales and as such is a convenient lens through which to view the strategy as a whole. The promise of putting the industry into the private sector came in the 1987 election manifesto and was finally implemented during 1990 and 1991. One of the challenges of electricity privatization was that it existed in the state sector as a series of regional monopolies. How would shares be sold in 12 different (regionally based) companies? How could competition be created in both supply and generation of electricity and what would happen to the politically sensitive issue of nuclear power? The eventual system, power supplied by the private sector and watched over by a regulator was to have its critics. Energy privatization, internationally as well as in Britain, was sometimes viewed as providing little benefit to consumers or worse allowing them to be prey to unscrupulous companies.⁶⁹² In Britain windfall taxes on power companies were levied

⁶⁹⁰ Lawson, *View*, p. 239.

⁶⁹¹ Skousen, *Vienna & Chicago*, pp. 214, 218.

⁶⁹² Warwick Funnell, Robert Jupe, Jane Andrew; *In Government We Trust. Market Failure and the Delusions of Privatization*, (London: Pluto Press, 2009), pp. 190-195, pp 200-209. Besides the UK,

during the first Labour government of Tony Blair, while pensioners were subsidised by the government with a ‘winter fuel allowance’ from 1997. A more recent furore over the cost of energy erupted in 2013 when Labour leader Ed Miliband claimed he would freeze energy prices. Clearly energy privatization and deregulation have not been universally popular and this may be due to the way the schemes were implemented.

Nationalisation after 1945

The BEA was formed in 1948 when it amalgamated over 600 small companies into 14 regional bodies and one central authority, the Central Electricity Generation Board (CEGB), responsible for generation. It formed part of the wider programme of nationalisation by the Attlee government. Many of these utilities were considered natural monopolies by policy makers, such as water, although the concept was opposed by some neo-liberals.⁶⁹³ Alfred Sherman, director of the CPS in the 1970s, wrote that nationalisation was counterproductive, that it became a parasitic burden on the economy that awarded privileged conditions of employment to selected, highly unionised groups.⁶⁹⁴

The Attlee government succeeded in nationalising all the major industries, except steel, which was moved late in the government’s tenure and reversed by the Churchill government. It was later re-nationalised by Harold Wilson in 1967. Edward Heath

Funnel et. al. pay particular attention to the deregulation of electricity in New Zealand in the early 1990s and the Enron scandal at the end of the decade.

⁶⁹³ Sir Adam Ridley, personal correspondence with the author, 15 May 2013. Ridley stated that ‘it being the old standard view (never properly spelt out) that most of these utilities were intrinsic monopolies’, Dilorenzo, ‘Myth’, p. 43.

⁶⁹⁴ Alfred Sherman, *Paradoxes of Power*, Mark Garnett, ed., (Exeter: Imprint Academic, 2005), p 72.

vowed to prevent further movement of industry into the state sector, the 1970 election manifesto saying ‘We are totally opposed to further nationalisation of British industry.’⁶⁹⁵ Heath reneged on this when his Government felt forced to nationalise the ailing Rolls-Royce company in 1973. The Labour governments of Harold Wilson and James Callaghan between 1974 and 1979 were themselves committed to more nationalisation, under pressure from an increasingly vociferous left in the party. It was one area where Keith Joseph pursued his ‘ratchet effect’ thesis as more companies moved into the public sector. Despite this, there is little evidence to show the British public were in favour of reversing this process in 1979.⁶⁹⁶

The New Right Critique of State Ownership

A key debate in the 1970s (and subsequently) was that of ownership. Those on the left and in both main political parties accepted the orthodoxy that large state utilities and industry were more effectively owned in the public sector, in part because of economies of scale. Neo-liberals, however, refuted this principle and produced literature in the 1970s and 1980s that called for a decoupling of government and industry of all kinds. Economic liberals generally accepted the state should provide security and enforce the law, but should intervene only in cases of market failure and market asymmetries. The ‘market fundamentalist’ brand of liberalism - which would include some Austrian thinkers like Rothbard - would reject the latter, seeking market-based solutions to most issues. The majority of British industry, according to neo-liberals, therefore did not require government control. Pro-market thinkers

⁶⁹⁵ Conservative Party 1970 Election Manifesto. <http://www.conservative-party.net/manifestos/1970/1970-conservative-manifesto.shtml>, accessed 7 November 2011.

⁶⁹⁶ Andrew Gamble, ‘Privatization, Thatcherism and the British State’. In: *Thatcher’s Law*, Andrew Gamble and Celia Wells, eds., (Oxford: Blackwell, 1989, pp 1-21), p. 4.

regularly wrote about the ‘sanctity’ of private property rights. The editorial stance of publications such as *The Economist* changed in the 1970s and this reflected a shift in emphasis over ownership.⁶⁹⁷ The work of John Locke and Adam Smith often provided the intellectual justification. Only if privately owned, it was argued, can business and industry operate efficiently, productively and with accountability. A poorly run and unprofitable firm will collapse if privately owned. There was never this threat with state-owned industry. A study at Liverpool University by Richard Pryke examined public and private productivity between 1958-68 and 1968-78. The second period was found less productive for both but particularly the public sector.⁶⁹⁸ Pryke commented that ‘public ownership provides a comfortable life and destroys the commercial ethic.’⁶⁹⁹

The primacy of property rights tied in with other New Right themes: Public Choice theory and theories of monopoly. Public choice theory, the ‘economics of politics’, examined the workings of government and bureaucracy. Thinkers such as Gordon Tullock and James Buchanan identified waste, inefficiency and low productivity as endemic in the public sector. They also characterised how they believed bureaucrats had a natural tendency to expand their field of influence and also towards rent-seeking behaviour (see chapter one). This fitted with Keith Joseph’s ‘ratchet effect’, that government will grow if left unchecked. The problems posed by Public Choice theorists amounted to what think-tanks such as the IEA, CPS and ASI, as well as

⁶⁹⁷ David Parker, *The Official History of Privatization. Volume 1: The formative years 1970-87*. (London: Routledge, 2009), p. 25.

⁶⁹⁸ Richard Pryke, *The Nationalised Industries. Policies and Performance since 1968*, (Oxford: Martin Robertson, 1981), pp. 250-257.

⁶⁹⁹ Brian Dick, *Privatization in the UK: the Free Market versus State Control*, (York: Longman, 1988), p. 22.

other neo-liberals, deemed ‘government failure’.⁷⁰⁰ This was deliberately put in economic terms to compare it with that of market failure. The New Right and politicians associated with it such as Keith Joseph and Margaret Thatcher came to believe that government failure was just as likely as market failure. The acceptance of this ideological tenet was one that could justify privatization.⁷⁰¹ As a result even a monopoly in the private sector, according to Conservatives like Nigel Lawson, had more incentive to make a profit than its state-owned counterpart.⁷⁰² Some on the pro-market right believed that even so-called natural monopolies were better in the private sector where there was the threat of bankruptcy.⁷⁰³ Those at the Chicago School, such as George Stigler, went further to suggest private monopolies could replicate the competition function within a large organisation.⁷⁰⁴

Economic liberal Jack Wiseman evoked the principles of *Road to Serfdom* when he wrote about nationalised industries: ‘the case is weak. First, their arguments of principle against private property per se are implausible and unconvincing. Second, the destruction of private property must imply the concentration of political and economic power in the same hands. This must be expected to result, and has in the past resulted, in a severe curtailment of individual freedom.’⁷⁰⁵ Both Austrians and Chicagoans believed that monopolies should not be legislated against, only that government should reduce barriers to market entry.⁷⁰⁶ Not all liberals, though, were so relaxed about privately-owned monopolies. Adam Smith wrote that monopolies

⁷⁰⁰ Parker, *Official*, p. 400.

⁷⁰¹ Funnell et al, *In Government*, pp. 9, 39.

⁷⁰² Lawson, *View*, p. 239.

⁷⁰³ Dennis Swann, *Retreat of the State*, (Hemel Hempstead: Wheatsheaf, 1988), pp. 298, 303

⁷⁰⁴ Stedman-Jones, ‘Influence’ seminar.

⁷⁰⁵ Jack Wiseman, ‘Growing Without Nationalisation’, In: *Privatization and Competition. A Market Prospectus*, C. Veljanovski, ed., (London: IEA Hobart Paperback 28, 1989, pp. 3-15), p. 4.

⁷⁰⁶ Norman Barry, ‘Austrian Challenge to Orthodoxy’, In: *Economic Affairs*, (4: 3, April-June 1984, pp. 57-62), p. 61.

maintained high prices and kept markets under stocked.⁷⁰⁷ Nevertheless, the prime goal for neo-liberals was the withdrawal of the state from owning utilities and industry.

There was a growing sympathy for these thoughts in the Conservative Party in the 1970s. Even in the 1950s Margaret Thatcher had said that consumers should be given priority over producers while party policy had consistently spoken out against nationalisation.⁷⁰⁸ By the late 1970s Geoffrey Howe believed that the Morrisonian Corporation was ‘constitutionally irresponsible’.⁷⁰⁹ There was some, if limited, mention of (what was to become) privatization in the 1979 election manifesto: ‘More nationalisation would further impoverish us and further undermine our freedom. We will offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares. We aim to sell shares in the National Freight Corporation to the general public in order to achieve substantial private investment in it.’⁷¹⁰ This amounted to a pledge to overturn recent Labour nationalisations and not to commit any further industry into the public sector. It was not, however, a programme of broad ranging privatization and echoed the similar sentiments in other post-war Conservative election manifestos.

⁷⁰⁷ Adam Smith, *The Wealth of Nations Books I-III*, (London: Penguin, 1986, originally published in 1776), p. 164.

⁷⁰⁸ Lecture given by David Willetts MP, 'Inaugural John Ramsden Memorial Lecture, Liberal Conservatism', Queen Mary University, London, 10 May 2011.

⁷⁰⁹ Parker, *Official*, p. 17.

⁷¹⁰ Conservative Party Manifesto 1979, [<http://www.conservative-party.net/manifestos/1979/1979-conservative-manifesto.shtml>], accessed 22 December 2012.

Privatization and the First Thatcher Government

The Thatcher Government was not the first to move a state owned industry into the private sector. The Churchill government had denationalised steel in 1953, although this was reversed in 1967.⁷¹¹ During this process Conservatives had been concerned at the lack of response from investors and the subsequent performance of the industry in private hands.⁷¹² Under Margaret Thatcher it was only when more economic liberals moved into the top government positions and into a cabinet majority after 1981 that privatization gained momentum. In addition, the political opportunity existed after the Falklands War and with the economy growing after 1982. Nigel Lawson's claim, however, that 'denationalisation' was a 'central plank of our policy right from the start' was also exaggerated.⁷¹³ Andrew Gamble believed the process was improvised, while Lord Burns said it was opportunistic.⁷¹⁴ It was true that the 1977 Ridley Report, concerning state owned industry, did mention denationalisation. It did not, however, recommend 'a frontal attack on this situation' rather 'a policy of preparing the industries for partial return to the private sector, more or less by stealth.'⁷¹⁵ One pertinent example of this was British Leyland. The company was broken up, saw a rise in productivity and was sold into the private sector in 1986.⁷¹⁶ Privatization was initially incremental. Politically, the successful sale of an industry would be of importance as well as its subsequent performance. Monopolies would make this more problematic.

⁷¹¹ Kathlenn Burk, *The First Privatization. The politicians, the City, and the denationalization of steel*, (London: The Historians' Press, 1988), p. 140.

⁷¹² Burk, *First*, p. 140.

⁷¹³ Fry, *Politics*, p. 95.

⁷¹⁴ Gamble, 'Privatization', pp. 4-7, Interview with Lord Burns, 12 May 2011.

⁷¹⁵ MTF 110795, 'Report of Nationalised Industries Policy Group', 30 June 1977, p. 15.

⁷¹⁶ Campbell, *Iron Lady*, p. 101.

Several smaller state-owned assets were moved into the private sector during the first term. These included the National Freight Company, Britoil and Amersham International. What was notable about these sales was the lack of opposition to them from the public.⁷¹⁷ This, along with the unexpected amount of interest in buying shares from small investors (the sale of Amersham International was often the example cited) gave ministers confidence to extend the programme. In stark contrast to denationalisation in the 1950s, the Amersham share offer was oversubscribed by 24 to 1 and raised £65 million for the Treasury.⁷¹⁸ Employees were offered free shares and were told they would see their shares matched by the government up to certain levels (the first 350 shares purchased by each employee in the case of Amersham).⁷¹⁹ This strategy was a template for later schemes.

Nigel Lawson, in particular, was emboldened by the privatizations between 1980 and 1982.⁷²⁰ The Conservatives did not include wide ranging privatization in their 1979 election manifesto or make it a centrepiece of their initial strategy when in government but it does appear they were not expecting the private ownership approach to be as successful as it proved. If the smaller privatization sales during the first term were an unpredicted success then the major policy in promoting private ownership was the Right to Buy scheme, selling council houses to tenants. These early policies appeared to illustrate the aspiration to own capital could be utilized further. To reflect this, the Number 10 Policy Unit (the Prime Minister's 'think-tank') under John Redwood claimed to have coined the term 'popular capitalism' in 1983.⁷²¹ In more practical terms the CPRS (Central Policy Review Staff) produced a paper in

⁷¹⁷ Parker, *Official*, p. 399.

⁷¹⁸ 'Privatization. The Facts', (Price Waterhouse, 1987), pp. 6-8.

⁷¹⁹ *Ibid* pp 6-8.

⁷²⁰ Fry, *Politics*, p. 97.

⁷²¹ John Redwood, *Singing the Blues* (London: Politico's, 2004), p. 69.

October 1982 that set out how monopolies might be privatized as regulated businesses.⁷²² The role of regulation would prove important. In addition, the Nationalised Industries Study Group article ‘Switching Direction’ in 1982 influenced the eventual privatization of British Telecom.⁷²³ This study group, the Policy Unit and the CPRS all had a bearing on the development of privatization.

By 1983 the opportunity presented itself to privatize a large utility. Lord Burns, then Chief Economic Advisor to the Treasury said that privatization ‘took advantage of the moment’ while the ‘Official History of Privatization’ stated that only by 1983 were there sufficient investors to launch large asset sales.⁷²⁴ Others believed that the overwhelming desire to reduce the Public Sector Borrowing Requirement (PSBR) was the prime motivation behind privatization, by both a windfall for the Treasury and removing continuing state subsidisation.⁷²⁵ Andrew Gamble wrote that among the key aims of privatization, along with choice, competition and efficiency; was the control of public sector pay, reducing the PSBR; to weaken the trade unions and remove decisions from the political process.⁷²⁶ The last point demonstrated how privatization could lessen the influence of a vested interest on government, a key neo-liberal aim.⁷²⁷ Privatization was one of several liberalization measures, or supply-side reforms, that furthered the political goals of Thatcherism.⁷²⁸ David Owen, then leader of the SDP and at the vanguard of the eventual ideological shift from old to New Labour, wrote in *Economic Affairs* in 1983 that there was some merit to privatization,

⁷²² Parker, *Official*, p. 402.

⁷²³ Cockett, *Thinking*, p. 302.

⁷²⁴ Interview with Lord Burns, 12 May 2011, Parker, *Official*, p. 159.

⁷²⁵ Dick, *Privatization*, p. 1.

⁷²⁶ Gamble, ‘Privatization’, p. 11.

⁷²⁷ Hayek, *Social Justice*, pp. 39-45.

⁷²⁸ Dick, *Privatization*, p. 1.

but little where a state monopoly becomes a private one.⁷²⁹ The latter point was a recurring argument from across the political spectrum and could be applied to the larger privatizations of the second term.

British Telecom (BT) was privatized in 1984, British Gas in 1986. They made sizeable profits for the Treasury (£5 billion for BT, £9 billion for British Gas) and appeared to capture the public imagination. Furthermore, privatization acted as an influential Thatcherite export. Lord Burns said privatization ‘led the world’ while Lord Ryder (Conservative MP and Margaret Thatcher’s political secretary in the first term) called it one of Thatcherism’s ‘greatest achievements’.⁷³⁰ In liberal economic terms however, how pro-market were these privatizations?

Criticisms of Privatization 1984-86

A repeated criticism of privatization was that it simply shifted a monopoly from the public to private sector. As we have seen many neo-liberals still thought this was preferable to public ownership. Others considered a monopoly worse in the private sector because dividends paid to shareholders could have been used for investment. The level of profit paid out has been described as ‘economic rent’.⁷³¹ There were also questions surrounding the regulators put in place during the privatization process. By the end of the 1980s some neo-liberals feared that in a monopolistic situation these regulators would be ‘captured’ by industry, while the scheme for British Gas had been

⁷²⁹ David Owen, ‘Agenda for Competitiveness with Compassion’. In: *Economic Affairs*, (4:1, October 1983), p. 28.

⁷³⁰ Interview with Lord Burns, 12 May 2011, interview with Lord Ryder, 23 February 2011.

⁷³¹ Mike Parker, ‘General Conclusions and Lessons’. In: *The British Electricity Experiment. Privatization: the Record, the Issues, the Lessons*, pp 295-304, edited by J. Surrey. (London: Earthscan), p. 298.

'hastily' put together.⁷³² The speed of privatization was attributed to the electoral cycle.⁷³³ These points, in keeping with neo-liberalism as a whole, still put the emphasis on the nature of state intervention, rather than private ownership itself. The regulatory framework was to blame, according to neo-liberals, rather than the dynamics of monopolies in the private sector.⁷³⁴ Lastly, privatization from one monopoly to another was criticized in terms of information flows. This was an argument from the left that utilized neo-liberal microeconomic principles. Monopolies, with no need to compete, were blamed for withholding information in order to maximize profits.⁷³⁵ Therefore, for some, the change in ownership and regulatory system in gas and telecoms did not do enough to promote competition and efficient markets. If the regulators of these private monopolies really were captured, with little competition, the process could hardly be labeled liberal.

There were more positive opinions of privatization. Standards of service and labour productivity were considered to have improved after privatization.⁷³⁶ There was also a fall in prices. It was claimed that there was 35% reduction in BT's main prices in real terms between 1984 and 1994. Prices of British Gas were also estimated to have fallen by 3%.⁷³⁷ All these issues were important when formulating the last major privatization of the Thatcher years, that of electricity. The Government wanted a successful sale as well as improvements in efficiency for consumers, but economic

⁷³² Colin Robinson, *Competition in Electricity? The Government's Proposals for Privatizing Electricity Supply*, (London: IEA, 1988), pp. 7, 18.

⁷³³ Parker, 'General', p. 298.

⁷³⁴ Philip Booth, 'More regulation, less regulation or better regulation?', In: *Verdict on the Crash. Causes and Policy Implications*, P. Booth, ed., (London: IEA, 2009, pp. 157-170), p. 169.

⁷³⁵ Funnell et al., *In Government*, p. 46. Swann, *Retreat*, p. 16.

⁷³⁶ Parker, 'General', p. 297.

⁷³⁷ Angela Browning, *Privatization 1979-1994. Everyone's a Winner*, (London: Conservative Political Centre, 1994), pp. 20-24.

liberals were also concerned about encouraging competition and setting up an independent and effective regulator.

Electricity Privatization 1987-1991

The Conservatives announced their intention to privatize electricity in the 1987 election manifesto, ‘following the success of gas privatization’ and ‘the benefits it brought to employees and millions of consumers’.⁷³⁸ Nigel Lawson, as Secretary of State for Energy in 1983, had asked Coopers and Lybrand (a multinational accountancy firm) to produce a report on electricity privatization.⁷³⁹ The process then stalled when Peter Walker (a ‘wet’ who Thatcher consistently accommodated in her Cabinet) moved to Energy and was not to accelerate until Cecil Parkinson took over after the 1987 election. Parkinson was keenly aware of the criticism of previous privatizations: ‘I was determined that we would not follow the pattern set by British Telecom and British Gas and take it to the market as a highly regulated monopoly. I wanted to introduce competition where possible and regulation where it was not.’⁷⁴⁰ Lawson’s last major undertaking as Secretary of State for Energy was the 1983 Energy Act, that attempted to introduce some degree of competition into the industry. One IEA critic, however, wrote that this failed because the CEGB abused its dominant position.⁷⁴¹ Lawson had helped diversify Britain’s supply of energy, for example initiating the ‘dash for gas’.⁷⁴² He also helped stockpile coal in the strategy to resist a miners strike. Cecil Parkinson also wrote that expanding production of

⁷³⁸ Conservative Party Manifesto 1987, [<http://www.conservative-party.net/manifestos/1987/1987-conservative-manifesto.shtml>], accessed 23 December 2011.

⁷³⁹ Lawson, *View*, p. 234.

⁷⁴⁰ Parkinson, *Right*, p. 260.

⁷⁴¹ Veljanovski, ‘Monopoly’, p. 26.

⁷⁴² Parker, ‘General’, p. 297.

nuclear energy was crucial during the subsequent strike.⁷⁴³ Electricity was described, however, as unsuitable for privatization due to its regional structure.⁷⁴⁴ What was to stop privatization simply becoming 14 regional (12 in England and Wales, 2 in Scotland) monopolies in the private sector? Once privatization of electricity was put into the 1987 manifesto through the 1989 Act up until implementation in 1990-91, the issue of competition dogged the scheme. In this respect, with liberal commentators as well as Cecil Parkinson aware of the issue, the Government's thinking began to move towards ordoliberal ideas, that of the state ensuring competitive markets. Using legislation and a regulation framework to enforce competition and prevent monopolies forming echoed the sentiments of the 1930s and 1940s Freiburg neo-liberals.

One critic, Michael Parker, stated there was no pressure for privatization after the miners' strike was defeated and oil prices plummeted in 1986.⁷⁴⁵ Despite efficiency gains when still under state control (possibly due to the Thatcher government's more rigorous management style influenced by Sir Derek Rayner's task force in the first term and later by that of Robin Ibbs), it was feared that these would be outweighed by the higher transaction costs in trading, metering and securing supply under smaller private companies.⁷⁴⁶ There was also the problem of how to treat nuclear power and this was initially included in the privatization plans. Asset sales were criticized as being short-termist and dominated by the financial markets in the City of London,

⁷⁴³ Parkinson, *Right*, p. 274.

⁷⁴⁴ Browning, *Winner*, p. 22.

⁷⁴⁵ Parker, 'General', p. 296.

⁷⁴⁶ Peter Hennessy, *Whitehall*, (London: Fontana, 1990), p. 593. Bale, *Conservatives*, p. 276, John Surrey, 'Introduction', In: *The British Electricity Experiment. Privatization: the Record, the Issues, the Lessons*, J. Surrey, ed., (London: Earthscan, 1996, pp. 3-13), p. 10.

which benefitted significantly from privatization.⁷⁴⁷ Lastly, there were concerns about effective regulation and that the process would be completed too hastily to fit in with the electoral cycle.⁷⁴⁸ Cecil Parkinson confirmed this latter point, stating that from the early meetings about the policy it was agreed privatization had to be completed by summer 1991, before the next probable election.⁷⁴⁹

The 1989 Electricity Act and its implementation

The British Electricity industry was finally privatized after the 1989 Electricity Act, following Cecil Parkinson's 1988 White Paper. The supply of electricity was sold off as 12 regional companies, with the two Scottish companies following in 1991. There was some debate about whether to sell the CEGB, the power generator, off as several companies (Margaret Thatcher and Cecil Parkinson said in their respective memoirs that 4 or 5 companies were floated) but in the end it was just two, in a 70%-30% split as National Power and PowerGen.⁷⁵⁰ This crucial objective, of creating competition in generation, was strongly resisted by the head of CEGB, Lord Marshall.⁷⁵¹ Nuclear power, because of the costs and the political implications, was excluded from the privatization process. There was also some disagreement over how to sell the shares. Other schemes had involved just one share, representing the giant company that was essentially a monopoly. The difficulty with electricity was that the supply companies would be numerous. Kleinwort Benson, the bank that advised the Government during this privatization, suggested the 'exploding share', where by an investor would buy one share that would then split into twelve components, representing the twelve

⁷⁴⁷ Parker, 'General', p. 303.

⁷⁴⁸ Robinson, *Competition*, p. 7.

⁷⁴⁹ Parkinson, *Right*, p. 265.

⁷⁵⁰ Margaret Thatcher, *The Downing Street Years*, (London: HarperCollins, 1993) pp. 683-684.

⁷⁵¹ Parkinson, *Right*, p. 263.

regional companies.⁷⁵² The fear was that some of the new companies would be more subscribed than others and the Government was anxious that the privatization be a success. A similar question arose over selling shares in regional water boards, which took place around the same time. In his memoirs Nigel Lawson described being unimpressed by the ‘exploding share’ idea and felt it too complex for the public.⁷⁵³ Lawson said that Kleinwort Benson went some way in persuading Cecil Parkinson and subsequently leaked the idea to the press.⁷⁵⁴ In the end though, the water sale went ahead first and sold shares in its ten different companies separately. Deemed effective in its implementation, electricity proceeded in a similar fashion and the exploding share scheme was forgotten. Electricity privatization took place in 1990 and 1991 and the proceeds made £9 billion for the Treasury.⁷⁵⁵

Electricity Privatization: analysis

Privatizing the electricity industry in Britain had a number of benefits. Firstly, standards of service improved.⁷⁵⁶ Office hours were extended and appointments were kept within a specified waiting time.⁷⁵⁷ Secondly, prices went down. The figure claimed was a 3% decrease (over 5 years).⁷⁵⁸ There was also criticism, most notably that monopoly had been retained with a resulting lack of competition. Cecil Parkinson, on introducing the White Paper, said ‘competition is the best guarantee of customers’ interests’ and also wrote that Nigel Lawson in particular insisted on the

⁷⁵² Lawson, *View*, p. 234.

⁷⁵³ Lawson, *View*, p. 234.

⁷⁵⁴ Lawson, *View*, p. 234.

⁷⁵⁵ Lawson, *View*, p. 235.

⁷⁵⁶ Parker, ‘General’, p. 302.

⁷⁵⁷ Browning, *Winner*, pp. 23-24.

⁷⁵⁸ Browning, *Winner*, p. 23.

importance of competition.⁷⁵⁹ Liberals believed the lack of competition in generation hampered the process.⁷⁶⁰ Lawson, the most committed proponent of privatization in the Thatcher government, reserved a whole section of his autobiography to rebut the critics of privatization.

Responding to criticism that privatization was a short-term strategy to deal with Government borrowing difficulties and bring funds into the Treasury (former Prime Minister Harold Macmillan supposedly said the Government was ‘selling off the family silver’), Lawson denied that this was the prime motive.⁷⁶¹ The Prime Minister, however, had written in a note in May 1979 that ‘the sale of assets could provide a significant contribution to getting the PSBR down.’⁷⁶² The actual share prices during the privatization programme also proved contentious. Even in 1979 monetary economist Gordon Pepper wrote to Margaret Thatcher regarding the sale of BP saying that ‘publicly owned assets ought not to be sold at knock down prices.’⁷⁶³

Lawson went on to write that the battle of ideas was of critical importance, in particular in widening share ownership.⁷⁶⁴ Lawson believed there was no evidence that investors were looking to make a quick gain and that electricity shareholders were in for the long-term.⁷⁶⁵ He also rebuked the suggestion that competition mattered more than ownership: ‘I believed that it was important to privatize as much as quickly as possible, and that this would itself set up pressures for more competition and other

⁷⁵⁹ Parkinson, *Right*, pp. 265, 277.

⁷⁶⁰ Robinson, *Competition*, p. 22.

⁷⁶¹ Harold Macmillan (then Lord Stockton) was paraphrased, he actually said, (to the House of Lords on 13 November, 1984) ‘The sale of assets is common with individuals and states when they run into financial difficulties. First, all the Georgian silver goes, and then all that nice furniture that used to be in the saloon. Then the Canalettos go.’

⁷⁶² THCR 2/6/2/48, note from Tim Lankester on 16 May 1979.

⁷⁶³ THCR 19/529, letter from Gordon Pepper to Margaret Thatcher 16 May 1979.

⁷⁶⁴ Lawson, *View*, p. 238.

⁷⁶⁵ Lawson, *View*, p. 238.

structural changes'.⁷⁶⁶ Answering the charge that state-owned industry improved productivity in the 1980s regardless of ownership Lawson said that this was unsurprising because the prospect of privatization acted as a motivation. He concluded by saying, 'neglect of the economic consequences of ownership is every bit as ideological as the neglect of competition.'⁷⁶⁷ Geoffrey Howe also described the political benefits of selling shares to the public during privatization: (The process) 'had the political advantage of increasing the numbers of those with a vested interest in our success.'⁷⁶⁸ It also decreased the likelihood of Labour reversing the policy when it returned to government.⁷⁶⁹ One critic wrote that the biggest losers of privatization were trade union members.⁷⁷⁰

In a 1989 Hobart Paper by the IEA, there was a pertinent critique of the government's privatization programme. George Yarrow, in his chapter 'Does Ownership Matter?', wrote that at a micro-economic level privatization had most notably promoted economic efficiency.⁷⁷¹ Yarrow went on to say that the initial phase of privatization between 1979 and 1984 involved (for instance Cable and Wireless, National Freight, Amersham International, British Aerospace, Britoil and Enterprise Oil) 'the transfer to the private sector of firms that operated in reasonably competitive product markets.'⁷⁷² The same could not be said for the monopoly industries privatized in the second and third terms, where the government was, according to Yarrow, 'distinctly less pro-competitive than would have been desirable.'⁷⁷³ Yarrow concluded that the

⁷⁶⁶ Lawson, *View*, p. 239.

⁷⁶⁷ Lawson, *View*, pp. 239-240.

⁷⁶⁸ Geoffrey Howe, *Conflict of Loyalty*, (Basingstoke: MacMillan, 1994), p. 460.

⁷⁶⁹ Parker, *Official*, p. 430.

⁷⁷⁰ Swann, *Retreat*, p. 317.

⁷⁷¹ George Yarrow, 'Does Ownership Matter?', In: *Privatization and Competition. A Market Prospectus*, C. Veljanovski, ed., (London: IEA Hobart Paperback 28, 1989, pp. 52-69), p. 52.

⁷⁷² Yarrow, 'Ownership', p. 56.

⁷⁷³ Yarrow, 'Ownership', p. 69.

key to better performance in the large utilities was ‘to get competition and regulation working in tandem to provide improved information flows and better incentive structures’.⁷⁷⁴ In 2013 the IEA returned to the British energy market. Colin Robinson stated that electricity privatization had done little in the short-term to introduce competition of the market.⁷⁷⁵ By the turn of the millennium, however, the regulator’s effort to reduce entry barriers had managed to improve market conditions for consumers by allowing increased competition.⁷⁷⁶ This was then eroded, according to Robinson, due to increased government legislation and the collusion of the new energy companies with the regulator, essentially raising market entry barriers and price.⁷⁷⁷ Robinson intriguingly suggests that liberalization can only be temporary such is the ingrained process of special interest groups wanting to protect their privileged position, whether trade unions, large companies or others.⁷⁷⁸ The paper therefore insists that the debate in 2013 around energy prices is due to the leading companies acting in concert, effectively colluding to restrict competition.⁷⁷⁹ The IEA states that politicians are attempting to deal with the symptoms rather than the cause and this can be traced back to the privatization process that occurred during Thatcherism.⁷⁸⁰ The think-tank characteristically calls for ‘less government action and more competition’, presumably in a Hayekian rather than an ordoliberal fashion.⁷⁸¹

⁷⁷⁴ Yarrow, ‘Ownership’, p. 69.

⁷⁷⁵ Colin Robinson, *From Nationalisation to State Control. The Return of Centralised Energy Planning*, IEA Discussion Paper No. 49., (London: IEA, 2013), [http://www.iea.org.uk/sites/default/files/publications/files/From%20Nationalisation%20to%20State%20Control_web.pdf], accessed 26 December 2013, p. 8.

⁷⁷⁶ Robinson, *From*, p. 9.

⁷⁷⁷ Robinson, *From*, pp. 11-12.

⁷⁷⁸ Robinson, *From*, p. 11.

⁷⁷⁹ Robinson, *From*, pp. 6-7, 11-14.

⁷⁸⁰ Robinson, *From*, p. 7.

⁷⁸¹ Robinson, *From*, p. 7.

Effective regulation as well as competition has been difficult to ensure in some industries. Yet the spirit of the times meant that less government was in vogue and that 'light-touch' regulation was desirable. Loose regulation, regulators captured by an industry or rules that created perverse incentives were the key components that prevented privatization satisfying more consumers, as well as more neo-liberals. Privatization again may have shifted the power of vested interests from one (state owned) monopoly to another (privately owned) that both had influence and in some cases subsidies, from the central government. In this way privatization, even of electricity, began to look like Friedmanite neo-liberalism. That is to say the state helped to create the conditions for a market, and then retreated from the ordoliberal goal of enforcing competition. Austrians in the Hayekian tradition still saw many barriers to more efficient markets. Like other policies of the Thatcher government it satisfied the primary aims of the New Right (private property rights, wider capital ownership, some increased efficiency and productivity, less government) but not the specifically Austrian or micro-themes that allow a market to operate effectively. This included lack of competition, preventing information flow to consumers, monopoly, lack of producers entering the market, price distortions, continued government intervention due to a flawed system or 'market failures'.

The Broadcasting Policy of the Thatcher Government

The strategy of the Thatcher government towards broadcasting likewise exposed some of the tension in their wider programme: liberalism curtailed by politics, liberal but not libertarian, tackling one vested interest but creating another. Two key points in this policy were the 1985 Peacock Report and the 1990 Broadcasting Act. The former

examined funding of the BBC and the second paved the way for the boom in satellite television in the 1990s. If the Thatcher government wanted to reduce the power of a vested interest (the BBC) it did not succeed. In addition it helped create another, BSkyB.

The British Broadcasting Corporation (BBC) was launched in 1927. It had a monopoly on television programming until 1955, when Independent Television (ITV) began screening, which had an 11% excise duty levied on its advertising by the government.⁷⁸² BBC2 was then launched in 1964 and subsequently Channel 4 in 1982. The latter was intended to satisfy fringe tastes and displeased some conservative opinion. Willie Whitelaw, unnerved by the inner-city violence of 1981, remarked that 'he preferred to see and hear minority views on television than in riots and violence on the street.'⁷⁸³ Others felt that one of the roles of Channel 4 was to provide competition and to shake up the BBC, which had become a sizeable vested interest.⁷⁸⁴

In 1981 the Government passed the Broadcasting Act, the first step towards satellite television. The IBA (Independent Broadcasting Authority) subsequently took bids to provide the new medium in Britain. The first cable supplier of satellite television began a trial service in mainland Europe in October 1981, which was officially created as the Sky Channel a year later. Rupert Murdoch's News International group,

⁷⁸² Andrew Crisell, *An Introductory History of British Broadcasting*, (London: Routledge, 2002), p. 108.

⁷⁸³ John Ranelagh, 'Channel 4: A View from Within'. In: *The Making of Channel 4*, Peter Catterall, ed., (London: Frank Cass, 1999, pp. 53-59), p. 56.

⁷⁸⁴ Peter Catterall, 'Witness Seminar: The Origins of Channel 4'. In: *The Making of Channel 4*, Peter Catterall, ed., (London: Frank Cass, 1999, pp. 79-115), p. 83.

by and large supportive of the Prime Minister, gained control of Sky in 1983.⁷⁸⁵ Sky and BSB (British Satellite Broadcasting) won the franchise bids from the IBA in 1986. Margaret Thatcher believed the BBC was not sympathetic to her government and represented much of what she wanted to sweep away from Britain. Reducing the influence of and providing alternatives to the Corporation became one of the aims of the broadcasting policy of Thatcherism. John Campbell wrote that the Prime Minister disliked state-owned television on principle and thought that the BBC coverage of Northern Ireland, in particular, was unhelpful to her administration.⁷⁸⁶ Furthermore, Thatcher believed the manner in which the 1981 riots were presented caused copycat incidents while the reporting of the Falklands War was lopsided, that it was the BBC's role to be on 'ourside'.⁷⁸⁷ Sir Alan Peacock (chair of the 1985 report) said in 2010 that Margaret Thatcher had become annoyed with the BBC and wanted it to accept advertising and competition.⁷⁸⁸ The catalyst for setting up the Peacock Report was the BBC's request for a 41% increase in the licence fee in 1984, causing uproar in the press. This triggered the Prime Minister's move against the Corporation.⁷⁸⁹ Home Secretary Leon Brittan asked a committee, to be chaired by Peacock, to look at the funding of the BBC in March 1985.⁷⁹⁰

The Peacock Report

The Peacock Report was published in May 1986. Including liberal economic writer Samuel Brittan, the committee was thought to be sympathetic to the general

⁷⁸⁵ Catterall, 'Witness', p. 230.

⁷⁸⁶ Campbell, *Iron Lady*, p. 401.

⁷⁸⁷ Campbell, *Iron Lady*, pp. 401-402.

⁷⁸⁸ Interview with Sir Alan Peacock, 26 January 2010.

⁷⁸⁹ Crisell, *Introductory*, p. 234.

⁷⁹⁰ Campbell, *Iron Lady*, p. 404.

philosophy of the Government and was expected to decide that the licence fee should be abolished. That it did not was as a surprise, infuriated the Prime Minister and was ‘kicked into the long grass’ by her private secretary Bernard Ingham.⁷⁹¹ Shadow Cabinet member Gerald Kaufman dryly said that Ingham’s subsequent ‘character assassination machine has so single-mindedly devoted its attention to Professor Peacock that one might have thought the poor man was a member of the Cabinet.’⁷⁹²

The Report did make a number of recommendations: the licence fee should be used only to fund Public Sector Broadcasting (PSB) and items of national interest and that the BBC should have to compete for buying programmes. Peacock thought that combining roles as broadcaster and producer did not work.⁷⁹³ The Report, reflecting the liberal and libertarian instincts of its authors, stated that viewers and listeners were the best ultimate judges of their own interest; and that all censorship should end.⁷⁹⁴ The Report also recommended indexation (to retail price inflation) of the BBC licence fee, direct subscription to the BBC to replace the main part of the fee and lastly to encourage a multiplicity of choice with pay-per-view and pay-per-channel.⁷⁹⁵ Home Secretary Douglas Hurd put a positive spin on the report, despite it rejecting abolishing the licence fee: ‘The report obviously does not conceal the view that the days of the BBC licence fee system are numbered.’⁷⁹⁶ Samuel Brittan believed the main reason the Prime Minister was irritated by the report was over censorship. Brittan said this ‘exposed many of the contradictions in the Thatcherite espousal of

⁷⁹¹ Interview with Sir Alan Peacock, 26 January 2010.

⁷⁹² Gerald Kaufman, *Parliamentary Debates* (Commons), 100, 3 July 1986, 1180-93.

⁷⁹³ Interview with Sir Alan Peacock, 26 January 2010.

⁷⁹⁴ Sir Samuel Brittan, ‘The Fight for Freedom in Broadcasting’. In: *The Peacock Committee and UK Broadcasting Policy*, T. O’Malley and J. Jones, eds., pp. (Basingstoke: Palgrave Macmillan, 2009, pp. 101-120), p. 107.

⁷⁹⁵ Brittan, ‘Fight’, p. 110.

⁷⁹⁶ Douglas Hurd, *Parliamentary Debates* (Commons), 100, 3 July 1986, 1180-93.

market forces. They espoused the market system but disliked the libertarian value judgements.⁷⁹⁷ Hurd said that censorship reflected the ‘peculiarly intrusive nature of broadcasting’ which ‘require special regulatory arrangements.’⁷⁹⁸ Here the small ‘c’ conservatism and more traditional Toryism were evident in Thatcherism, at least rhetorically.

The response of the BBC to the Peacock Committee was also crucial to its outcome. Proving it was indeed a potent vested interest the Corporation commissioned and supervised research that demonstrated in impeccably ‘dry’ economic terms the impracticality of funding by advertising.⁷⁹⁹ The BBC team considered each member of the committee’s background and the best way to approach them. They were also effective campaigners behind the scenes.⁸⁰⁰ The key to the BBC strategy was to make its income look as indivisible as that from advertising for the ITV. It also stated that there would not be enough advertising to fund both channels.⁸⁰¹ This was a shrewd plan to overcome the danger the committee posed and in fact turned the attention from the BBC to ITV. Margaret Thatcher was ‘greatly disappointed’ by the Peacock Report’s findings on the BBC, colleagues like Hurd thinking the Prime Minister was obsessed by the Corporation.⁸⁰² Nevertheless, the BBC had proved itself a vested interest of some weight by diverting Thatcher’s fire toward ITV.

⁷⁹⁷ Brittan, ‘Fight’, p. 102.

⁷⁹⁸ Douglas Hurd, *Parliamentary Debates* (Commons), 100, 3 July 1986, 1180-93.

⁷⁹⁹ Jean Seaton, Anthony McNicholas, ‘It was the BBC wot Won It. Winning the Peacock Report for the Corporation, or How the BBC Responded to the Peacock Committee’, In: *The Peacock Committee and UK Broadcasting Policy*, T. O’Malley and J. Jones, eds., (Basingstoke: Palgrave Macmillan, 2009, pp. 121-145), p. 142.

⁸⁰⁰ Seaton and McNicholas, ‘BBC’, pp. 142-143.

⁸⁰¹ Seaton and McNicholas, ‘BBC’, p. 133.

⁸⁰² Campbell, *Iron Lady*, pp. 404-406.

The Government was attracted by Peacock's proposals for ITV, notably the idea of auctioning its franchises and requiring Channel 4 to sell its own advertising. The Conservatives disliked ITV's monopoly on advertising and the channel also drew the Prime Minister's ire with its 1988 programme 'Death on the Rock', about the shooting of three IRA members by the SAS in Gibraltar.⁸⁰³ The 1990 Broadcasting Act was to exert pressure on ITV, as did the growth of satellite television. This was one outcome of the Peacock Report. Former BBC producer Janet Jones believed the report 'refashioned television firmly within the domain of the market' and made direct payment for television a reality.⁸⁰⁴ Peter Jay said that Alan Peacock's recommendations opened the door to an "'ideologically free" philosophy celebrating consumer sovereignty.⁸⁰⁵ The committee did force the BBC to change, if not as drastically as Thatcher had hoped. Janet Jones said that the report 'created a far humbler, more innovative and democratic BBC, one that knew it must find a new rationale to survive as a public institution into the next century.'⁸⁰⁶

The 1990 Broadcasting Act

BBC funding survived the Peacock Report. It may have been forced into some changes but still retained its privileged position in British society. The aftermath of the Peacock Report, however, caused a revolution in commercial television. The committee paved the way for the expansion of satellite television and also exposed ITV to more pressure. Douglas Hurd introduced the 1988 White Paper by saying the

⁸⁰³ Crisell, *Introductory*, p. 235.

⁸⁰⁴ Janet Jones, 'PSB 2.0 – UK Broadcasting Policy after Peacock'. In: *The Peacock Committee and UK Broadcasting Policy*, T. O'Malley and J. Jones, eds., (Basingstoke: Palgrave Macmillan, 2009, pp. 187-206), pp. 187, 191.

⁸⁰⁵ Jones, 'PSB', p. 191.

⁸⁰⁶ Jones, 'PSB', p. 205.

government had 'been influenced at many points by the Peacock Report'.⁸⁰⁷ The Prime Minister favoured an increased number of channels and competition for programmes, in part because she thought that it would weaken the BBC. The 1988 White Paper 'Broadcasting in the 90s: Competition, Choice and Quality' proposed that Channel 4 should be obliged to sell its own advertising and therefore provide rivalry with ITV.⁸⁰⁸ It also allowed the expansion of satellite and cable television providers. The White Paper eventually became the 1990 Broadcasting Act, which encapsulated several themes of liberalization: the free market, deregulation, withdrawal of the state and removing market entry barriers to producers.⁸⁰⁹ The Act looked at the theme of ownership. Douglas Hurd said in 1988, 'The ownership of commercial television and radio should be widely spread, not concentrated in the hands of a few groups or individuals and to prevent excessive media cross-ownership.'⁸¹⁰

Yet there were two criticisms of the Government's policy. Firstly that instead of widening ownership it would actually lead to monopoly. Secondly, that increased choice would mean decreased quality. One company in particular has been a recurring target for the left, that of Rupert Murdoch's News International group. Roy Hattersley said in 1988 of Hurd's White Paper: 'He asserts the need for ownership to be widespread. I make a prediction: they will not be regulations to which Mr. Rupert Murdoch takes exception.'⁸¹¹ Returning to the policy the following year the then Home Secretary David Waddington attempted to reassure the public that this would

⁸⁰⁷ Douglas Hurd, *Parliamentary Debates*, (Commons), 140, 7 November 1988, 29-46.

⁸⁰⁸ Crisell, *Introductory*, p. 236.

⁸⁰⁹ Jones, 'PSB', pp. 192, 204. Douglas Hurd also said in the House of Commons in 1988 that 'The Government are determined to keep the market open to newcomers.'

⁸¹⁰ Douglas Hurd, *Parliamentary Debates*, (Commons), 140, 7 November 1988, 29-46.

⁸¹¹ Roy Hattersley, *Parliamentary Debates*, (Commons), 140, 7 November 1988, 29-46.

not be the case. 'There must be ownership rules. There is no chance whatsoever of British broadcasting falling into the hands of a bunch of tycoons or a cluster of conglomerates.'⁸¹² Again Hattersley poured scorn upon this suggestion. 'Already the Government have allowed Mr. Murdoch to acquire two national newspapers without the scrutiny of a Monopolies and Mergers Commission inquiry. In part, the Bill might have been dictated during one of Mr. Murdoch's cosy lunches with the Prime Minister.'⁸¹³

The Government had a problem, however, in restricting the growth of satellite television without drowning it at birth. It did not want to deter investors because the initial start-up costs were large. Satellites and the rockets to launch them do not come cheap, nor initially did distributing dishes and decoders. In addition, the very nature of satellite television meant it was essentially a transnational business that was more difficult to control than terrestrial broadcasting.⁸¹⁴ Both British Satellite Broadcasting (BSB) and Murdoch's Sky launched packages in 1989. One difference between the two was that Sky used mainly American programmes (on the Sky One channel) and Hollywood films (on the Sky Movies channel). BSB collapsed in November and was swallowed up as BSkyB, launched in April 1991.⁸¹⁵ This outlined the difficulties with the Government's insistence that competition would be ensured. David Waddington bent the Government's own rules to allow the merger between BSB and Sky. Newspaper owners were only allowed to own 20% of television channels but by this point Murdoch controlled almost 50% of satellite broadcasting.⁸¹⁶ John Campbell even wrote that Margaret Thatcher did everything she could to help Murdoch

⁸¹² David Waddington, *Parliamentary Debates*, (Commons), 164, 18 December 1989, 40-122.

⁸¹³ Roy Hattersley, *Parliamentary Debates*, (Commons), 164, 18 December 1989, 40-122.

⁸¹⁴ Crisell, *Introductory*, p. 232.

⁸¹⁵ Crisell, *Introductory*, p. 231.

⁸¹⁶ Campbell, *Iron Lady*, p. 572.

dominate the new medium.⁸¹⁷ By proclaiming to want to prevent monopoly formation and promote competition in satellite broadcasting, but encouraging market forces, the Conservatives invoked ordoliberal principles in the late 1980s. Essentially though, satellite television policy was again closer to Friedmanite neo-liberalism. It utilized the state to liberalise or create a market, then retreated from it whilst tolerating monopoly. It implicitly took the position, as did the Chicagoans, that ‘giants’ in a market were acceptable as long as there was some liberalization.

Subscription-funded Sky mushroomed in popularity in the 1990s. The network attracted customers by buying the rights to repeats of old programmes (such as soaps like *Coronation Street*) and mainly by exclusively showing sporting events and films.⁸¹⁸ The advance of Sky has been matched by criticism of the quality of the material shown. David Waddington said in 1990 ‘I do not believe for a moment that anyone will be able to argue...that we are creating a *philistines’ charter* or *yob television*.’⁸¹⁹ Others, however, disagreed. Ian Gilmour, a regular critic of his own Party, said the Act was ‘sheer vandalism’ while John Campbell said the broadcasting policy of the Thatcher government accelerated the decline in moral values by a ‘mixture of crude free-market dogma spiked with political malice.’⁸²⁰ This line of criticism exposed the contradictions outlined by Brittan: liberal but unable to accept libertarian value judgments.

The nature of the satellite providers may have also led to homogenization. Murdoch’s was one of several big organisations operating partly as rivals and partly as a cartel

⁸¹⁷ Campbell, *Iron Lady*, p. 572.

⁸¹⁸ Crisell, *Introductory*, p. 258.

⁸¹⁹ David Waddington, *Parliamentary Debates* (Commons), 164, 18 December 1989, 40-122.

⁸²⁰ Campbell, *Iron Lady*, p. 573.

with shared strands of ownership. In the United States the media market came to be dominated by three American firms (Time-Warner, Disney and Viacom) and four foreign ones (Seagram of Canada, Bertelsmann of Germany, Sony of Japan and News International). Material originating from one part of Murdoch's empire (in practice the United States) could be transmitted to audiences in all other parts of it.⁸²¹ Hence the accusations of homogenisation, cartelisation and the problem countries had in restricting overseas programmes.⁸²² Others saw the trend as a brand of calculating geopolitics or cultural imperialism. Des Freedman wrote in 2008 that 'recent US and UK governments have embraced globalization as an opportunity to secure increased economic benefits and cultural influence through the activities of their media industries.'⁸²³ There is no evidence, however, to suggest the Thatcher government used media policy either as an extension of soft power in foreign affairs or to pursue a pro-market agenda. The broadcasting policy of the Thatcher government was designed for the domestic market but also a response to a rapidly changing world, much of which it could not control. It did try and tame the BBC but came up against a potent vested interest, again showing the limits of Thatcherism. By the twenty-first century the BBC was still an effective force – and not necessarily anti-Tory: Tony Blair's administration was described as 'at times, on a virtual war footing with the BBC.'⁸²⁴

The second phase of the Thatcher government's media strategy was to tackle commercial television. It was true that it managed to create a more competitive market in television and reduce the barriers to entry for producers. The growth of

⁸²¹ Crisell, *Introductory*, pp. 259-260.

⁸²² Crisell, *Introductory*, p. 260.

⁸²³ Des Freedman, *The Politics of Media Policy*, (Cambridge: Polity Press, 2008), p. 216.

⁸²⁴ Freedman, *Media*, p. 222.

satellite and cable broadcasting has meant greater consumer choice. As with other policies of the Conservatives in the 1980s the broad aims of the New Right were met. Other market principles were not however, due to lack of competition. Legislation could not prevent, and may have encouraged, a near monopoly by Sky in satellite television. The Thatcher government provided some reforms that pro-market thinkers approved of but could not reduce the power of one vested interest, the BBC, and managed to create another, Sky. Although at times the government's rhetoric had an ordoliberal approach to ownership, the reality was closer to Friedmanite neo-liberalism. In addition, the Austrian and Chicagoan analysis that monopolies are vested interests often created and maintained by government, may also have been true of broadcasting policy even during Thatcherism.

'Big Bang'

Financial deregulation during the 1980s was a seemingly clear application of liberal economic ideas. The liberalization of the City of London (otherwise known as 'Big Bang') on 27 October 1986, was one of a series of measures, such as the removal of exchange controls, that moved the British economy in a more pro-market direction.⁸²⁵

Big Bang itself was probably the furthest reaching liberalization measure of Thatcherism for its impact on the flow of international financial capital and globalization in general. Big Bang was one method to reduce the power of a vested interest: restrictive practices in the City of London. As with some of the other

⁸²⁵ Chairman of the London Stock Exchange Sir Nicholas Goodison later said that the 'real cause (of Big Bang) was the abolition of exchange controls.' From: M.D. Kandiah, 'Witness Seminar I 'Big Bang': The October 1986 stock market deregulation.' In: *Contemporary British History*, (13:1, London: Routledge, 1999, pp. 100-132), p. 106.

Thatcher reforms, however, one vested interest was emasculated only for another to take its place.

The City before Big Bang

For much of the twentieth century the City was inhabited by ‘gentlemanly capitalists’.⁸²⁶ The financial sector in London in the 1970s was considered a place of restrictive practices. As a former economic journalist Nigel Lawson talked of the ‘old, clubby, City’.⁸²⁷ It was one restrictive practice, the system of fixed minimum commissions (essentially limiting access to markets), that prompted the Office of Fair Trading (OFT) to launch an investigation into the London Stock Exchange in 1979. Another, the ‘single capacity’ rule regarding jobs (permitting one to either act as a stockbroker or a market maker) as well as effectively excluding all foreigners from London Stock Exchange (LSE) membership left the City, according to Lawson, undercapitalized and in danger of becoming a backwater.⁸²⁸ Some felt the City a ‘victim’ of government action.⁸²⁹ Peter Middleton, Permanent Secretary to the Treasury from 1983-1991, later noted the Bank of England too as a barrier to reform. He said ‘the Bank’s belief in orderly markets did get in the way of their belief in a liberal economic process.’⁸³⁰

⁸²⁶ E.H.H. Green, ‘The Conservatives and the City’, In: *The British Government and the City of London in the Twentieth Century*, R. Michie and P. Williamson, eds., (Cambridge: Cambridge University Press, 2011, pp. 153-173), p. 172.

⁸²⁷ Nigel Lawson, ‘Foreword’, In: *Big Bang 20 Years On. New challenges facing the financial services sector. Collected Essays*, (London: CPS, 2006, pp. i-v), p. ii.

⁸²⁸ Lawson, ‘Foreword’, pp. i-ii.

⁸²⁹ Philip Williamson, ‘The City of London and government in modern Britain: debates and politics’, In: *The British Government and the City of London in the Twentieth Century*, R. Michie and P. Williamson, eds., (Cambridge: Cambridge University Press, 2011, pp. 5-30), p. 10.

⁸³⁰ Sir Peter Middleton, cited in: M.D. Kandiah, ‘Witness Seminar I ‘Big Bang’: The October 1986 stock market deregulation’. In: *Contemporary British History*, (13:1, London: Routledge, 1999, pp. 100-132), p. 109

The Chairman of the LSE, Nicholas Goodison, asked the OFT to call off its investigation if it promised to reform.⁸³¹ It was then Cecil Parkinson in 1983, as Secretary of State at the DTI, who launched the initiative (in conjunction with Goodison) that led to liberalization of the City.⁸³² A decision had to be made about whether to implement gradual or sudden change. Goodison believed it had to be the latter as the only way in obtaining his members' agreement in full.⁸³³ Monetary economist Tim Congdon, however, believed Big Bang was part of a 'Bigger Bang', including an offshore revolution where companies and investors found that doing business in dollars in London increased returns. Congdon also saw financial deregulation as a natural step as levels of bank credit lent to the private sector grew in the early 1980s.⁸³⁴

27 October 1986

Restrictions on single capacity trading and fixed minimum commissions were lifted after Big Bang, and new hopefuls streamed into the City as trading in stocks and shares mushroomed. The Government saw its role as setting out a regulatory framework to oversee the new found financial freedom. The 1984 Gower Report set out the terms for investor protection but also stated that regulation could not 'seek to achieve the impossible task of protecting fools from their own folly.'⁸³⁵ The regulatory bodies were outlined in the 1986 Financial Services Act, which formed self-regulatory organizations (SROs, made up of 'providers and users of financial

⁸³¹ Lawson, 'Foreword', p. i, David Kynaston, *City of London, The History*, D. Miller, ed., (London: Chatto & Windus, 2011), p.555.

⁸³² Lawson, *View*, pp. 398-399, Kynaston, *City*, p. 556.

⁸³³ Lawson, *View*, p. 400.

⁸³⁴ Interview with Tim Congdon, 24 February 2012.

⁸³⁵ Lawson, *View*, p. 401.

services who will have the knowledge and expertise to ensure that investors' interests are being properly looked after') and a Securities and Investment Board (SIB).⁸³⁶ Nigel Lawson wrote in 2006 that this system was more bureaucratic than the government intended.⁸³⁷ The IEA went much further. Despite Big Bang being an act of deregulation the think-tank, in the wake of the 2008 financial crisis, believed the 1986 framework was overly complex and created perverse incentives.⁸³⁸ Neo-liberals saw Big Bang, as well as providing some financial liberalization, as simultaneously an act of regulation.

Neo-liberal rationale for Big Bang

Succeeding Cecil Parkinson at the DTI, Norman Tebbit argued for liberalization of financial services in 1984 in dry microeconomic terms: 'I see market forces as the most potent weapon available, and I propose to rely on them to the maximum extent feasible. There can be no effective play of market forces without good market information.'⁸³⁹ Financial deregulation appeared to be a pure application of liberal economic ideas. It put faith in wealth creation, increased individual liberty and efficiency and lowered barriers to market entry. Alongside the growing revolution in communications and information technology, liberalization allowed quicker and more effective signaling and flow of information. Another example of deregulation was the ending of exchange controls in 1979. It was thought that controls had produced 'sub-optimal outcomes' and the same principle can be applied to the City, in particular the

⁸³⁶ Lawson, *View*, p. 402, Leon Brittan, *Parliamentary Debates* (Commons), 89, 14 January 1986, 938-1024.

⁸³⁷ Lawson, 'Foreword', p. iv.

⁸³⁸ Booth, 'regulation', p. 169.

⁸³⁹ Lawson, 'Foreword', p. iv.

view that it was under-capitalized.⁸⁴⁰ Hong Kong was often cited as a liberal economic model, despite the lack of political freedom in the city-state. Milton Friedman, in his book *Free to Choose*, eulogised the Hong Kong system of low tax, minimal state and as a hub of global trade.⁸⁴¹ These measures of exchange control removal and Big Bang, as well as enterprise zones, all tie in with the neo-liberal model of Hong Kong. One aspect of this strategy was that it exposed British firms to international competition, challenging in part the assertion that Margaret Thatcher's government was primarily nationalistic. In fact some in the City saw Big Bang as an act of betrayal by Thatcher as it allowed British owned financial firms to be taken over by foreign banks.⁸⁴²

Impact of Big Bang

Big Bang had a number of consequences. One year after Big Bang trade with customers in UK shares had nearly doubled while share prices had risen 46% in the first seven months of 1987.⁸⁴³ It led to rapid wealth accumulation in the City and the South East of the country in general. The changes enhanced London's status as a global financial hub and also caused social change in Britain itself. People from a variety of backgrounds could come to work in the City, allowing many to enjoy previously unheard of affluence. Financial liberalization eroded some traditional class distinctions and had some impact in shaking up the old status quo. This was,

⁸⁴⁰ Ranald Michie, 'City and government: changing relationship', In: *The British Government and the City of London in the Twentieth Century*, R. Michie and P. Williamson, eds., (Cambridge: Cambridge University Press, 2011, pp. 31-56), p. 55.

⁸⁴¹ Milton and Rose Friedman, *Free to Choose*, (London: Pan Books, 1990, originally published in 1980), p. 34.

⁸⁴² Michie, 'City', p. 51, **Kynaston, *City*, p. 575.**

⁸⁴³ Virginia Preston, 'Big Bang': Chronology of events. In: *Contemporary British History*, (13:1, London: Routledge, 1999, pp. 95-99), p. 99.

perversely, at odds with the values of some Tories but precisely one of the goals of economic liberals.⁸⁴⁴

Into the latter part of the 1980s and then 1990s financial liberalization and deregulation, which Big Bang encapsulated, accelerated globalization. The rapid movement of finance capital across borders as well as an acceleration of global trade has been the major economic trend of the last twenty-five years. At the same time it gave the City power. Andrew Gamble has written that the influence of the City has been exaggerated, that it is ‘not large enough, coherent enough, or politically organised enough, to determine government policy.’⁸⁴⁵ Lord Burns, however, said in 2011 that the Prime Minister was hostile to vested interests and organized entities. He believed that Margaret Thatcher generally managed to reduce the power of vested interests, with the exception of Big Bang, which created one: the financial services sector.⁸⁴⁶ One example of this was the attitude of New Labour towards the City. Gordon Brown courted the financial sector in the knowledge that, without tax increases, receipts from the City were one of the only ways he could fund his domestic spending agenda. By the turn of the century the financial sector provided 25% of the UK’s corporate tax receipts.⁸⁴⁷ Critics of financial deregulation believed the attitude and policies of Western governments from the 1980s, including ending the separation of investment and commercial banks, essentially allowed some to become ‘too big to fail’.⁸⁴⁸ The economic liberal viewpoint, however, was that the

⁸⁴⁴ Green, ‘Conservatives’, p. 173, Barry, *Liberalism*, p. 70.

⁸⁴⁵ Andrew Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism*, (Basingstoke: Palgrave Macmillan, 1994), p. 130.

⁸⁴⁶ Interview with Lord Burns, 12 May 2011.

⁸⁴⁷ Alistair Darling, *Back From the Brink. 1,000 Days At Number 11*, (London: Atlantic Books, 2012), p. 100.

⁸⁴⁸ Joseph Stiglitz, *Freefall. Free markets and the sinking of the global economy*, (London: Penguin, 2010), pp. 82-83.

regulatory framework itself sowed the seeds for this and that policies were not sufficiently pro-market.⁸⁴⁹ Hayekian thinking again viewed neo-liberal deregulation as overbearing state involvement that distorted markets. With respect to Big Bang in 1986 the Thatcher government managed to end the restrictive practices of the old City system, only to replace it with a more powerful vested interest.

Vested Interests and the Thatcher government: Conclusion

As with all the areas in this study, how far the Thatcher government reduced the influence of vested interests can be gauged in gradations, and according to which strain of liberalism one is discussing. For economic liberals vested interests distort market forces and reduce their efficiency. Thatcherism may have been expected to have reduced the power of these groups as far as possible. The most effective example of how this pro-market aim was achieved was trade union reform. This vested interest had wielded particular influence over both the British economy and policy makers over the previous twenty years. Although for the most part improvised, the ‘step-by-step’ and ‘divide and rule’ (separating union leaders from the rank and file) approach greatly reduced this influence and created a more flexible labour market. Trade union reform was both economic and political in its aim. The demoralisation of the trade unions had a severe impact on certain areas of the country and was one of the key reasons many in Britain took a visceral dislike to both the Prime Minister and her administration. For pro-market thinkers, however, trade union policy forced much-needed liberalization and structural reform on the British economy.

⁸⁴⁹ Eamonn Butler, ‘The financial crisis: blame Governments, not Banks’, In: *Verdict on the Crash. Causes and Policy Implications*. P. Booth, ed., (London: IEA, 2009), pp. 52-56.

Privatization also achieved some of the broad aims of the New Right. Several strands of liberal economic thinking made the case for the policy: Public Choice theory, government failure, monopoly theory, and the 'ratchet effect' of the state. Privatization shifted ownership of utilities and state owned industry into the private sector, creating millions of new shareholders with their own vested interest in its success. Efficiency was generally raised and in some cases prices went down, benefiting the consumer. The main liberal difficulty with privatization, however, was the lack of competition, effectively converting public monopolies into private ones. In privatizing the electricity industry, the new privately owned companies in some cases became regional monopolies. There was also the issue that regulators could be 'captured' by the privately run companies. The problem of creating competition in power stemmed from the fact that only supply, not generation, was effectively vying for consumers. To sum up, privatization satisfied some New Right thinking and did allow markets to function more efficiently. It would have been preferable to economic liberals if more competition had been introduced. Ordoliberal principles would have been invoked by implementing a regulatory or law based framework that enforced competition and set out to impede monopoly formation. This appeared to be the direction Cecil Parkinson and Nigel Lawson were heading with electricity privatization. The end result, however, fell short of many liberals' stated aim of a competitive industry and looked to be somewhere between the Austrians and ordoliberals, a potentially 'captured' regulator and a market that was not fully liberalised. A vested interest was reduced, that of state owned monopolies, but reappeared to a lesser degree in the private sector. This is indicative of all the areas examined here. The IEA's Colin Robinson has suggested that liberalization is only temporary before vested interests emerge once more, and by implication is a process

rather than a series of one-off acts.⁸⁵⁰ This fits the pattern for much of these ‘liberalising’ policies of Thatcherism, which appeared to reduce the impact of special interest groups.

The policies towards broadcasting and the financial services tell a similar story. They both attempted to reduce the power of a vested interest (the BBC and restrictive practices in the City), only to create others (BSkyB and a reconstructed global financial hub). The BBC showed its potency as a power broker by effectively defeating the Government’s plans to force advertising or abolition of the licence fee. It turned the Prime Minister’s fire towards ITV and subsequent reforms allowed the growth of satellite television. BSkyB operated a near monopoly in this new medium and with a combined newspaper and broadcasting empire exerting influence over both the British consumer and consecutive governments.

The 1986 Big Bang liberalised financial services in the City of London, sweeping away the old boys network of restrictive practices and bringing increased wealth to the South East of the country. Yet ‘light-touch’ regulation allowed huge financial institutions to form and created a new vested interest. The nature of the regulatory framework was one of the reasons this was allowed to happen. Nevertheless government policy destroyed one vested interest and allowed another one to take its place.

⁸⁵⁰ Robinson, *From*, p. 11.

Chapter Five: Neo-liberalism and the Foreign Policy of the Thatcher Government

This chapter will look at how Thatcherism was applied in foreign policy, specifically in the field of overseas development and aid. Why examine ideology in foreign policy? National governments generally pursue ‘realist’ strategies towards foreign affairs that owe much to self-interest, and little to economic theories. Thatcherism, however, has been closely linked with economic liberalism so it is pertinent to ask how far this extended to foreign policy. Moreover, framing Thatcherism internationally has often been very broadly linked with prevailing trends such as neo-liberalism, globalization and the Washington Consensus. Some believe Thatcherism, in policies such as privatization and enterprise zones, was ‘exported’.⁸⁵¹ How much of this was by design? Can we see any trends or patterns in the foreign policy of the Thatcher government and its apparent commitment to liberal economics? Finally, overseas development in particular is examined for two reasons. Firstly, it is one foreign policy area that has attracted less interest than say, the Falklands conflict or the Cold War. Secondly because aid and development policy appear to encapsulate a shift from the old redistributive capital transfer model to market and trade-led strategies. From the structural adjustment policies in Africa and Latin America in the 1980s through to the austerity-tied bail-outs in the Eurozone after 2010: aid has been increasingly given in return for liberalization measures. This potentially follows a similar pattern as, and may have been influenced by the reforms of, Thatcherism.

⁸⁵¹ Geoffrey Howe, (1988) *Enterprise Zones and the Enterprise Culture*. (London: Bow Group), p.22, Interview with Lord Burns, 12 May 2011.

The policies of the Thatcher government towards aid paint a complicated picture. The themes and principles espoused by Margaret Thatcher and her government, with a consistent antipathy towards subsidies, do not sit comfortably with aid. The Thatcher government may have been expected to provide aid on sufferance and even then to have tied it with economic liberalization measures. It could have been used to promote reform and increase the power of the individual at the expense of the state. This was not the case with bilateral aid. Selective subsidies and strategies that distorted prices and market forces were pursued, and were anathema to many neo-liberals. The majority of bilateral aid given by the UK governments in the 1980s did not seriously pursue market-orientated strategies. The other side of aid policy, to multilateral organizations, was a different story. The percentage of UK aid donated multilaterally increased under the Thatcher government, with the majority going to the World Bank and International Monetary Fund (IMF), who did attempt to enforce market reforms on recipient countries. In other examples of British foreign policy the Prime Minister continually resisted sanctions towards apartheid, often citing the benefits of the market to produce change as a reason they should be avoided. Lastly, the Know How Fund to Eastern Europe at the end of the 1980s offered countries making the transition from communism technical expertise in how to introduce a market economy. How far did liberal economic ideas influence the foreign policy of the Thatcher government? Considering the government as nationalist first, economically liberal second, may best summarise the conflicting features of UK foreign policy. As Cold War considerations ebbed, these principles began to align more comfortably.

Neo-liberalism and foreign policy

As we have seen, neo-liberal policies were generally implemented in a domestic context and in response to certain circumstances. Turner identified the rise of neo-liberalism as Britain's answer to trade union power in the 1970s, in the United States as a reaction to 1960s 'Great Society' programmes and the ordoliberals attempting to prevent a recurrence of the problems of interwar Germany.⁸⁵² It appears problematic to tie in neo-liberal thinkers with particular foreign policy initiatives. Milton Friedman may have met with General Pinochet in 1975 and Margaret Thatcher may have wielded Hayek's *The Road to Serfdom* at a similar time, but a 'neo-liberal' – as opposed to a nationalist – international strategy, is difficult to discern. In addition, many of the Thatcher government's foreign policy issues - such as the Falklands, Rhodesia, Hong Kong and South Africa - were questions of Britain's imperial past. Nevertheless, a closer look does reveal that neo-liberal thinkers did exert some influence on international affairs during the 1970s and 1980s.

Firstly, Stedman-Jones has written that from the 1950s Chicagoans such as Milton Friedman saw themselves as 'foot-soldiers in the fight against communism'.⁸⁵³ This meant aligning free market economics with political liberty, often making the former a prerequisite for the latter, and juxtaposing this with command economies and authoritarianism.⁸⁵⁴ Friedman's thinking on this issue can be seen most clearly in his

⁸⁵² Rachel S. Turner, *Neo-Liberal Ideology. History, Concepts and Policies*, (Edinburgh: Edinburgh University Press, 2008), p. 219.

⁸⁵³ Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press, 2012), p.120.

⁸⁵⁴ Daniel Stedman-Jones, 'The Influence of Transatlantic Neoliberal Politics', seminar at Queen Mary University London, 22 October 2013. Milton Friedman, 'Commanding Heights' interview on PBS, 20 January 2000, http://www.pbs.org/wgbh/commandingheights/shared/minitext/int_miltonfriedman.html#10], accessed 24 April 2012.

visits to Pinochet's Chile. The role Friedman had in advising a number of Republican Presidents, including Ronald Reagan, also demonstrates his influence. Secondly, the work done by Friedman regarding 'shock therapy' had an international dimension, and this was clearly set out in the Chicago thinker's speeches.⁸⁵⁵ Numerous liberalization programmes during the following decades, often overseen by the World Bank and IMF, bore some semblance to Friedman's work on shock therapy.

Thirdly, all the strains of neo-liberalism examined in this thesis desired a liberalised trading system. Ordoliberal Wilhelm Röpke, for example, favoured unilateral trade liberalization.⁸⁵⁶ Hayek too wrote at length of the benefits of freer trade and the negative impact on attempts to restrict the movement of goods, labour and capital.⁸⁵⁷ Much has been written about the acceleration of globalization and international trade since the 1970s and this is due to events such as the end of the Bretton Woods system in 1971 and subsequently the winding down of the Cold War. A more general climate of pro-market sentiment, as well as multilateral trade agreements such as the Uruguay GATT round of the late 1980s, were also important. Finally, and more difficult to measure, is the belief by some writers that ordoliberal principles are embedded in some of the laws of the European project. Although ordoliberals accepted that their ideas had lost influence by the mid-1960s, some also thought that *ordoliberalism* saw a resurgence in the 1980s and still casts its 'long-shadow' over German-speaking countries.⁸⁵⁸ Others believe that ordoliberal principles of competition enforcement

⁸⁵⁵ Milton Friedman, 'The Road to Economic Freedom: The Steps from Here to There', *From Galbraith to Economic Freedom*, (London: IEA, 1977), pp. 43-62.

⁸⁵⁶ Razeen Sally, *Classical Liberalism and International Economic Order. Studies in theory and intellectual history*, (London: Routledge, 1998), p. 146.

⁸⁵⁷ F.A. Hayek, *The Road to Serfdom*, (London: Routledge, 2007, originally published 1944), p. 127.

⁸⁵⁸ S. Dullien, U. Guérot, 'The Long Shadow of Ordoliberalism', In: *IP Journal*, 17 July 2012. [<https://ip-journal.dgap.org/en/ip-journal/topics/long-shadow-ordoliberalism>], accessed on 20 January

have been established in the post-war European Community treaties, while ordoliberals also urged Britain to adopt an independent central bank as well as legal enforcement of monetary targets in the 1980s.⁸⁵⁹ Therefore ordoliberal thinking exerted an indirect effect on British politics due to its influence on the European Community and some of its member states. It is also worth pointing out that Röpke disliked European integration ‘from above’. To summarise then, neo-liberal thought had some influence on policy towards the Cold War, trade liberalization and to a lesser extent, the European Community. The main focus of much of this chapter, however, is how neo-liberalism altered attitudes and strategies towards the development of poorer countries.

Development aid pre-1970

The aid orthodoxy inherited by the Thatcher government in 1979 had a protracted history of different philosophical and economic ideas. Some of these would be challenged and altered. British governments realised in the 1920s, at the height of their imperial power, that using financial aid to encourage overseas development could be a better tool than overt domination to further national interests abroad. This was to increase as formal empire went into decline. Delivery of aid and the transition to a Commonwealth of independent states allowed the UK to maintain influence in its former colonies. There was no collectively coherent policy by the West towards

2013, Sally, *Classical Liberalism*, pp. 106, 123.

⁸⁵⁹ Wernhard Möschel, ‘The Proper Scope of Government Viewed from an Ordoliberal Perspective: The Example of Competition Policy’, In: *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift für die gesamte Staatswissenschaft*, (157:1, 2001, pp. 3-13), pp. 3-4, Otmar Issing, ‘Vom Primat der Währungspolitik’, (The Primacy of Monetary Policy), In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, (‘The Ordo Yearbook of Economic and Social Order’, Stuttgart: Gustav Fischer Verlag, Band 40, 1989, pp. 351-361), p. 361.

development of poorer countries until after the Second World War.⁸⁶⁰ The advent of superpower status of the United States, which was rhetorically anti-colonialist, and the decline of the European empires hastened the independence movements of countries that came to be known as the 'third world'. The West gave developmental aid to the new nations of Africa and Asia as well as Latin America. The justification and motives for this are explored later. A consensus existed amongst most donor countries on why and how aid should be provided until the 1970s when several strands of criticism emerged.

The success that was often cited as the rationale for aid was the post-war Marshall Plan. The Truman administration in the United States was concerned about the state of Western Europe in the late 1940s. It believed a further descent into chaos and poverty in the region would provide fertile ground for communist parties as well as declining markets for American goods. Geopolitics and the prosperity of American business and therefore its people were the motives for providing large sums in aid on favourable terms to Western Europe. In return for political allegiance countries like France, West Germany, Italy and Great Britain began to recover from the decimation of the war and became or maintained stable social democracies. The model for aid had been established: capital transfer would increase investment and growth. This stimulus would allow a country to escape or avoid poverty then grow more or less independently.⁸⁶¹ Although this method worked well in post-war Europe, it was to prove much less successful in the developing world over the following years. Despite the War, in much of Europe, the basic infrastructure was in place to allow money to be used in a way that could promote development in the region, often not the case in

⁸⁶⁰ A.P. Thirlwall, *Growth and Development. With Special Reference to Developing Economies*, (Basingstoke: Palgrave Macmillan, 2003), p. 3.

⁸⁶¹ Thirlwall, *Growth*, p. 136.

the rest of the world. Aid ‘successes’ included South Korea, Botswana and Honduras but the number of failures was marked.⁸⁶² Nevertheless the post-war orthodoxy that richer countries gave aid to poorer countries was another that had taken root by 1979.

Justification for aid

There were a number of reasons the West provided cash transfers to the developing world. In his 1987 book, *Foreign Aid Reconsidered*, Roger Riddell identified three broad moral cases for giving development aid: the prevailing Christian faith in the West, utilitarianism and colonial guilt.⁸⁶³ Riddell said that Christian values in Europe and the United States meant that there was an acceptance to give to those in need while the notion that richer Europeans exploited poorer regions during colonialism justified ‘reparations’. The principle of utilitarianism argued money transferred from a rich country to a poor one would add more utility than it detracted.⁸⁶⁴ It was justified as morally ‘right’ if it produced a greater amount of happiness than any alternative.⁸⁶⁵

Permanent Secretary to the ODA between 1989 and 1994 Tim Lankester believed the intellectual climate coalesced around aid in the 1960s, with acceptance of ideas such as ‘take-off’.⁸⁶⁶ This was introduced by Walt Rostow in the previous decade, one of the first influential advocates of development aid in the form of government-to-government grants. Rostow was a ‘liberal missionary’ and a fervent anti-communist who categorized development in five stages: traditional society, preconditions for

⁸⁶² David Sogge, *Give and Take. What’s the Matter with Foreign Aid?*, (London: Zed Books, 2002), p. 8.

⁸⁶³ Roger Riddell, *Foreign Aid Reconsidered*, (London: James Carrey, 1987), pp. 17-42

⁸⁶⁴ Riddell, *Foreign*, pp. 20-21.

⁸⁶⁵ Riddell, *Foreign*, p. 21.

⁸⁶⁶ Tim Lankester, *The Politics and Economics of Britain’s Foreign Aid. The Pergau Dam Affair*, (London: Routledge, 2013), pp. 8-9.

take-off, take-off, drive to self sustained growth and finally the stage of mass consumption.⁸⁶⁷ He believed that most of the countries in Asia, Latin America and Africa were in the second phase and were potentially on the brink of ‘take-off.’ What they needed, according to Rostow, was modernization, to promote the use of science and technology and a sharp increase in savings and investment. Rostow, who based his analysis on the industrial revolution, thought that if a country did not reach take-off it would be susceptible to communism, contrary to the interests of the United States. Therefore Rostow’s evaluation was closely linked with Cold War imperatives. In *A Proposal*, Rostow (and Max Millikan) admitted the price of the economic aid required for take-off would be large but the cost of salvaging areas that were allowed to fall to communism, such as Indo-China, would be far greater.⁸⁶⁸ They went on to identify the aims of aid programmes as the development of local leadership, a constructive outlet for nationalism (which often meant the military), to provide a social solvent and increase confidence in democratic and international solidarity.⁸⁶⁹ Austrian School thinker Murray Rothbard poured scorn upon Rostow’s ideas, describing them as a ‘futile search for non-existent “laws of history.”’⁸⁷⁰ Nevertheless, it was thinking that came to dominate Western countries’ aid policies: cash transfers in return for political orientation away from the Soviet bloc.

Rostow was a thinker on development also unique for his involvement in high-level policy making, as part of the Kennedy and Johnson administrations. He thought the drive for development would be more committed by nationalists, which partially

⁸⁶⁷ Ulrich Menzel, ‘Walt Whitman Rostow’, In: *Fifty Key Thinkers on Development*, D. Simon, ed. (Abingdon: Routledge, 2006), pp. 211-216.

⁸⁶⁸ Walt Rostow and Max Millikan, *A Proposal. Key to an Effective Foreign Policy*, (New York: Harper and Brothers, 1957), p. 2.

⁸⁶⁹ Rostow and Millikan, *Proposal*, pp. 34-38.

⁸⁷⁰ Alexander Shand, *Free Market Morality. The political economy of the Austrian school*, (London: Routledge, 1990), p. 188.

justified American support for numerous autocrats and military dictators during the Cold War.⁸⁷¹ Rostow's test case was Vietnam and his critics blamed him for the escalation of that war and other idealistic policies that backfired in their attempts to prevent the communist dominos falling. Rostow's influence, however, can be seen in organizations such as USAID, Alliance For Progress and Peace Corps while his ideas of capital transfer in development as well as aid as a political tool were also important and widely practiced.⁸⁷² Rostow's thesis that aid could be used as a tool in the Cold War was to retain some influence on the Thatcher government in the 1980s.

Walt Rostow briefly worked as a deputy at the UN Economic Commission to Europe to Gunnar Myrdal, another key thinker on aid policy in the 1950s and 1960s. Myrdal favoured rapid industrialization and capital accumulation in assisting development and redistribution.⁸⁷³ Myrdal also believed that imperialism meant institutions left behind in the developing world would continue to benefit the colonial power.⁸⁷⁴ This point was later a criticism of countries like Britain in their approach to the post-colonial world. Nevertheless, both Rostow and Myrdal advocated capital transfer in development and were two of the most famous proponents of aid.

Aid policy as well as its delivery began to be challenged in the 1960s and particularly the 1970s. Broadly speaking, this could be divided into those who believed more aid was required and those who thought it counterproductive and that other strategies should be pursued. The work of John Rawls gave philosophical weight to the former. His 1971 book *A Theory of Justice* was particularly influential and much debated in

⁸⁷¹ Menzel, 'Walt', p. 215.

⁸⁷² Menzel, 'Walt', pp. 211-216.

⁸⁷³ Sarah Radcliffe, 'Gunnar Myrdal', In: *Fifty Key Thinkers on Development*, D. Simon, ed. (Abingdon: Routledge, 2006), pp. 181-182.

⁸⁷⁴ Radcliffe, 'Gunnar', p. 184.

the Western world. Rawls' ideas of an 'original position' and a 'veil of ignorance' asserted individuals should be considered without knowledge of their status in society and without preconceptions. Rawls said that in these objective conditions, human beings would choose to assist those who were less advantaged than themselves.⁸⁷⁵ This reasoning appears to have prevailed in the official international reports into development. The 1969 Pearson Report (commissioned by the World Bank) and the independently funded Brandt Commission in the early 1980s both cited enlightened self-interest as the motivation for continuing aid to the developing world.⁸⁷⁶ The latter's reports, *North-South: A Programme for Survival* and *Common Crisis: North-South Co-operation for World Recovery* were described by Tony Thirlwall as promoting 'Global Keynesianism'.⁸⁷⁷

Inevitably though, giving aid to the developing world went beyond ethical reasons. Former colonial powers like France and Britain gave disproportionately to their recent dependents. This was due both to a 'special kind of community' but also to retain privileged access to markets and resources.⁸⁷⁸ Aid in return for political allegiance (like the Marshall Plan) was commonplace during the Cold War and scarcely any part of the developing world was immune to the competing influence of the United States and the Soviet Union. Tim Lankester has written that there was a general acceptance that aid could be used for certain objectives – such as trade and promoting political relations – but that development should be the main concern.⁸⁷⁹

⁸⁷⁵ John Rawls, *A Theory of Justice*, (Oxford: Oxford University Press, 1971), p. 98.

⁸⁷⁶ John Degenbol-Martinussen, Poul Engberg-Pedersen, *Aid. Understanding International Development Co-operation*, (London: Zed Books, 2003), p. 10.

⁸⁷⁷ Thirlwall, *Growth*, p. 16.

⁸⁷⁸ Degenbol-Martinussen, Engberg-Pedersen, *Aid*, p. 13.

⁸⁷⁹ Lankester, *Pergau*, p. 2.

Apart from the moral case for aid, the established consensus in the West post-1945 was that the 'third world' lacked the necessary resources for development. Capital donations, in the same way as the Marshall Plan, were intended to stimulate fledgling states and their economies. Several models for development have been in fashion since then and approximately mirror the Western trend from redistributive social democracy towards those that favour wealth creation through capitalism. Margaret Thatcher argued that advocates of aid wanted to see the 'redistribution of world resources' when trade and 'the creation of wealth was the way to tackle poverty and hunger.'⁸⁸⁰

The Harrod-Domar Growth Model, sometimes associated with Keynesianism, was initially the key influence on British aid policy. It justified the need for capital transfer in fragile economies to stimulate savings and investment and therefore growth.⁸⁸¹ The Thatcher government's well-known antagonism to Keynesianism could well have led it to oppose capital transfers for development and favour wealth creation. The growing evidence that aid was not working in the late 1960s and 1970s weakened the consensus and caused a reaction. The thinking that aid in the form of capital transfer led to economic growth began to falter, while the focus of development turned to poverty reduction.⁸⁸²

Criticism of Aid

As we have seen, one reason that justified developmental aid was Western 'guilt' over colonialism. Aid, though, has in turn been criticised for being neo-colonialist. Official

⁸⁸⁰ Margaret Thatcher, *The Downing Street Years*, (London: HarperCollins, 1993), p. 169.

⁸⁸¹ Thirlwall, *Growth*, p. 136.

⁸⁸² Degnbol-Martinussen, Engberg-Pedersen, *Aid*, p. 18.

empire might have ended but influence, resources and markets were retained. The development aspect of aid took a back seat to the political and economic interests of the donor. Aid has been blamed for causing psychological and economic dependence, preventing real development and autonomy.⁸⁸³ Michael Maren described the extreme case of this in Somalia, a pawn in the Cold War, in his book *The Road to Hell*. Aid is said to have funded corruption, induced dependency while international agencies unwittingly led the country towards anarchy.⁸⁸⁴ An oft-repeated criticism of international aid was that it favoured richer countries in the developing world and as a result did not reach the poorest people.⁸⁸⁵ Another is that donors did not understand the diversity and differences of individual countries and as a result aid was not appropriately targeted.⁸⁸⁶ This has meant, subsequently, more emphasis has been put on NGOs. Contradictions within the development 'industry' have been identified as one reason that goals were not met while a general theme emerged that the problems of the developing world were too complex for aid to make much impact. These points were among those used by neo-liberal writers to propose a number of market-based reforms to aid policy and that of development in poorer countries.

Neo-liberalism and aid policy

The development consensus after the Second World War was broadly redistributive, an idea anathema to supporters of trade and wealth creation as means of relieving poverty. The most famous critic of aid on the New Right was Peter Bauer. He

⁸⁸³ Thomas Dichter, *Despite Good Intentions. Why Development Assistance to the Third World has Failed*, (Boston: University of Massachusetts Press, 2003), p. 288.

⁸⁸⁴ Michael Maren, *The Road to Hell. The Ravaging Effects of Foreign Aid and International Charity*, (New York: The Free Press, 1997), pp. 24, 115, 171-172.

⁸⁸⁵ Oliver Morrissey, Brian Smith and Edward Horesh, *British Aid and International Trade. Aid Policy Making 1979-89*, (Buckingham: Open University Press, 1992), pp. 26-44.

⁸⁸⁶ Degenbol-Martinussen, Engberg-Pedersen, *Aid*, p. 5.

continued in the intellectual heritage of Friedrich Hayek but specifically applied it to the field of development. Hayek, not a prolific writer on aid, looked at the broader areas of social justice and distribution. He said there was no justification for either and to attempt to impose these principles on a society would require coercion on a huge scale.⁸⁸⁷ Equality too, according to Hayek, was not something a society could or should strive for. The themes of encroaching state power and suppression of individual rights, however benevolent the initial motives are, permeated most of Hayek's work.

In a 1981 article in *The Times*, Hayek pointed to the development models of the Asian tiger economies as well as 'most recently and impressively, Chile.'⁸⁸⁸ In the same article Hayek recalled his thoughts of '27 years earlier' that the best intervention in development would be that of the US Government to assume 'for a limited period of transition, the role of guarantor against political risks, of private loans to private foreign borrowers, and especially against the risk of the nontransferability of the proceeds of such investments.'⁸⁸⁹ In this respect Hayek echoes the leadership role of the United States cited by Walt Rostow, while making a case for development through trade and private enterprise.

Robert Nozick's *Anarchy, State, and Utopia* (1974) was a libertarian response to Rawls' *A Theory of Justice*. Nozick believed individual rights and property were

⁸⁸⁷ F.A. Hayek, *The Constitution of Liberty*, (Abingdon: Routledge, 2006, first published 1960), pp. 77-87.

⁸⁸⁸ F.A. Hayek, 'The flaws in the Brandt report', *The Times*, 9 January 1981, Margaret Thatcher Foundation, (hereafter MTF), 117168, [www.margaretthatcher.org/document/117168], accessed 12 September 2012.

⁸⁸⁹ *Ibid.*

sacrosanct and that the state should be ‘ultramiminal’.⁸⁹⁰ He believed equality, social justice and redistribution were never justified as they infringed upon individual rights.⁸⁹¹ Nozick questioned Rawls’ ideas of ‘original position’ and ‘veil of ignorance’, that they cannot achieve justice or fairness. Transferring his opinions to foreign aid, Nozick - whose thinking was close to the Austrian position on the issue - found no moral basis for donor governments to give aid and to redistribute wealth in this way encroached on the property rights of taxpayers in the developed world.⁸⁹² Milton Friedman did not write about the subject to a great extent but he did say that aid retarded development.⁸⁹³ More notably, he consistently cited Hong Kong and Singapore as development models due to their pro-trade and low tax systems. The principle that trade was the fastest route to development became accepted by many, included the ODA in Britain, in the 1980s.⁸⁹⁴

Bauer, however, was the most potent neo-liberal voice that questioned the case for and delivery of developmental aid.⁸⁹⁵ He criticised aid when it was unfashionable to do so – from the late 1950s - and years before the World Bank and IMF introduced elements of his recommendations. Firstly, the reasons that rich countries gave money to the developing world were reappraised. There was a moral obligation to redistribute wealth, according to Bauer, only if it was acquired unfairly.⁸⁹⁶ Bauer believed this was not the case and colonial guilt and historical unfairness were redundant emotions. He said that economic differences were deserved and that former

⁸⁹⁰ Robert Nozick, *Anarchy, State, and Utopia*, (Oxford: Blackwell, 1974).

⁸⁹¹ Riddell, *Foreign*, p. 30.

⁸⁹² Riddell, *Foreign*, p. 30, Alexander H. Shand, *The Capitalist Alternative: An Introduction to Neo-Austrian Economics*, (Frome: Wheatsheaf, 1984), pp. 215.

⁸⁹³ Riddell, *Foreign*, p. 159.

⁸⁹⁴ Tim Lankester, ‘*Twenty-Five Years of Development: The ODA’s Perspective*’, (Norwich: University of East Anglia, Discussion Papers – University of East Anglia School of Development Studies, 1992), p. 13.

⁸⁹⁵ Lankester, *Pergau*, pp. 8-9.

⁸⁹⁶ Degnbol-Martinussen, Engberg-Pedersen, *Aid*, p. 11.

colonies benefited greatly from the contact and trade with Western powers.⁸⁹⁷ He went on to say that countries that were not colonised, such as Ethiopia and Afghanistan, were poorer than those that were and therefore the West cannot be blamed for underdevelopment.⁸⁹⁸ The colonial guilt validation for aid, according to Bauer, was cultivated by the Soviet Union and its clients during the Cold War in an attempt to divide and undermine the capitalist world.⁸⁹⁹ Bauer claimed that the concept of a third world was a construct of the West after the War, that it was maintained by international aid and was a political, not an economic idea.⁹⁰⁰ He was one of the first critics to identify how aid was poorly delivered. Corrupt governments, unsuitable development models and the difficulty of allocating money to those most in need all recur in Bauer's work. Governments in the developing world were said to favour Soviet planning methods while equating capitalism with colonialism.⁹⁰¹ Many of Bauer's ideas became more widely accepted during the 1980s and were reflected in some of the World Bank's policies. Bauer called for soft loans to replace grants, aid to only go to administrations delivering good governance and that humanitarian work should be channeled through voluntary agencies.⁹⁰² Bauer was to have some influence on the thinking of Margaret Thatcher.

⁸⁹⁷ Peter Bauer, *Reality and Rhetoric. Studies in the Economics of Development*, (London: Weidenfeld and Nicolson, 1985), pp. 57-59.

⁸⁹⁸ Peter Bauer, *Equality, the Third World and Economic Delusion*, (London: Butler and Tanner, 1981), p. 67.

⁸⁹⁹ Bauer, *Equality*, p. 70.

⁹⁰⁰ Bauer, *Reality*, pp. 38-40.

⁹⁰¹ Lankester, *Twenty-Five*, p. 3.

⁹⁰² Bauer, *Reality*, pp. 61-62.

UK Aid Policy in the 1970s

The aid policies inherited by the Thatcher government were delivered by the ODM (Overseas Development Ministry), which was an independent department in 1979. The Callaghan government had been under great domestic and international pressures and it introduced the (subsequently) controversial Aid and Trade Provision (ATP) to help gain contracts for British companies abroad. ATP was set up in 1977 by Judith Hart as the Minister at the ODM. It was a means of providing subsidies to help British companies exploit opportunities in developing countries. ATP satisfied two strands of Labour ideology: industry by means of a subsidy and middle class concern over poverty in the post-colonial world.⁹⁰³

The Labour government produced a 1975 White Paper, 'The Changing Emphasis in Britain's Aid Policies – More Help for the Poorest' and reviewed its progress in 'The Government Record – Ministry of Overseas Development' in 1979. The latter document refuted the idea of 'trickle down' prosperity to the poorest, stating that bilateral aid was mostly 'directed to the poorest countries of the Commonwealth' and that since 1975, 'all aid to the poorest countries has taken the form of grants, rather than loans'.⁹⁰⁴ These ideas would have been in confrontation with Bauer's neo-liberal critique of aid at this time. Judith Hart said in a speech in 1976 that 'Chicago School economics are not for any of us'.⁹⁰⁵ To illustrate the different priorities between the outgoing Labour government and the incoming Conservative one, the document goes

⁹⁰³ John Toye, 'The Aid and Trade Provision of the British overseas programme', In: *Britain's overseas aid since 1979. Between idealism and self interest*, A. Bose and P. Burnell, eds. (Manchester: Manchester University Press, 1991), pp. 97-98.

⁹⁰⁴ Ministry of Overseas Development, *The Government Record*, (1979). In: Judith Hart's papers, Labour History Archive and Study Centre, (People's History Museum, Manchester).

⁹⁰⁵ Judith Hart, *Swingler Memorial Lecture*, Hampsted, March 1976. In: Judith Hart's papers, Labour History Archive and Study Centre, (People's History Museum, Manchester).

on to say that foreign aid was intended to be the fastest growing public expenditure programme between 1977 and 1982. Therefore the potential differences in the aid strategy of the Callaghan government and a more market-orientated administration were marked. In addition, compared to the rhetoric of Labour that linked aid with human rights in the 1970s, Margaret Thatcher herself was subsequently dismissive of the very concept of the latter.⁹⁰⁶

There were other difficulties in the developing world in the 1970s for which Britain took unique responsibility. The UK was being urged to intervene and bring majority rule to Rhodesia, while its policy towards South Africa was beginning to come under fire. These issues, however, must be put into a Cold War context. *Détente* was falling out of favour in the West (particularly in the United States) as the Soviet Union began a period of adventurism in Africa. The USA was worried that communist influence on the continent was proliferating from the mid-1970s and military and economic assistance was supplied as tensions increased between the superpowers. There was little doubt that conflicts that arose in the developing world during the Cold War retarded development. To generalise, a narrative began to form that a number of corrupt regimes squandered their nation's resources, while allying themselves with respective superpowers, and prevented aid reaching its intended recipients, namely the poor. Two notable examples were Mobuto Sese Seko in Zaire and Mengistu Haile Mariam in Ethiopia. Military clashes further devastated regions, their economies, institutions and their infrastructure. Angola, Mozambique, Ethiopia and Somalia were all cases in point.⁹⁰⁷ This was the backdrop of Margaret Thatcher's ascent to power in 1979 and she was to prove more belligerent and confrontational than her predecessors

⁹⁰⁶ Margaret Thatcher, *Statecraft*, (London: HarperCollins, 2002), pp. 248-249.

⁹⁰⁷ Richard Dowden, *Africa. Altered States, Ordinary Miracles*, (London: Portobello Books, 2009)

towards the communist bloc. Bulwarks against communism in Southern Africa were politically difficult to criticise or change. Cold War considerations were often paramount for Thatcher. Aid policy must be seen as a tool in this conflict and although relatively generous under Labour, was less important for the new government.

Overseas Development Administration

The Thatcher government's first act in aid policy was to merge the ODM with the Foreign Office, creating a new Overseas Development Administration (ODA). This was a trend that had been consistent with changes in government in the 1960s and 1970s. Aid policy was delivered by an autonomous ministry under Labour governments, reverting to control from the Foreign and Commonwealth Office (FCO) under the Conservative Party. The first Thatcher government was desperate to reduce inflation and cut public spending. Incorporating the ODA into the FCO again made it ideally positioned for cuts. ODA staff numbers were reduced by 30% over the course of the Government.⁹⁰⁸ Given the Prime Minister's well-known antipathy to bureaucracy and the civil service this move was unsurprising and was another example of the potential influence of Public Choice theory, or at least Hayekian principles. The terms of aid allocation and delivery were also changed. The Minister of State at the ODA, Neil Marten, set out the new government's position in 1980:

We have had to make many painful decisions in our domestic programmes and overseas aid has to take its share. Our task now is to make the best use of the

⁹⁰⁸ Morrissey et al., *British Aid*, p. 71.

funds available. The announced reductions are serious. They will be rightly seen as a firm indication of the determination of the present Government to continue to place overriding emphasis on the improvement of the British economy.⁹⁰⁹

Despite broad public support for international aid (if at a low level of interest) and making up less than 0.5% of overall government spending, a change in policy was to lead to criticism.⁹¹⁰ *The Times* stated that ‘since (last May) it (the ODA) has resembled nothing so much as a pre-operative patient being pored over by successive teams of surgeons.’⁹¹¹ The Thatcher government was to gain a reputation for being miserly on overseas aid and for repeatedly cutting its value. By 1985 *The Economist* remarked ‘between the charity of the British public (eg Oxfam) and Live Aid, they have raised more than the overseas aid budget.’⁹¹² The Government also felt the British taxpayer should have a tangible return for the money they were spending on overseas aid. This justified the Department of Trade and Industry (DTI) and the business lobby bringing pressure to bear on the ODA when allocating aid. The Government believed the money should benefit British firms, help them win contracts and guarantee market share in the recipient country. This strategy owed little to the thinking of Rawls, Nozick or Bauer but was primarily nationalistic. The ODA was to repeatedly complain about the interference in its development agenda by the DTI and a small number of influential companies.⁹¹³

⁹⁰⁹ Neil Marten, *Painful Decision on Overseas Aid*, (ODA, 26 March 1980) In: Judith Hart’s papers, Labour History Archive and Study Centre, (People’s History Museum, Manchester).

⁹¹⁰ Morrissey et al., *British Aid*, p. 2.

⁹¹¹ R. Berthoud, *The Times*, 21 February 1980. In: Judith Hart’s papers, Labour History Archive and Study Centre, (People’s History Museum, Manchester).

⁹¹² *The Economist*, 27 July 1985, p. 27.

⁹¹³ Lankester, *Pergau*, pp. 16-18.

An indication of how the Thatcher government viewed aid can be found in the Overseas Development (OD) report sent to the Prime Minister in December 1979. It stated that ‘Western aid programmes...have an important part to play in reducing communist penetration. (This) has not generally taken place in countries where the previous metropolitan power, together with other Western donors, has maintained a sizeable aid programme over a number of years.’⁹¹⁴ It also used a historical example from the 1950s to back this up: ‘Dulles’ refusal to finance the Aswan Dam led to many years’ domination of Egypt by the USSR.’⁹¹⁵ This document revealed several aspects of government thinking in 1979. Firstly, it seemed to accept Rostow’s idea that aid could provide a deterrent to communism in the developing world. Secondly, the motivation for aid was primarily political, not developmental. Thirdly, the aid programme was to be aimed mainly at former colonies so that as the ‘previous metropolitan power’, Britain could maintain links and influence. In the 1980s, the real value of aid fell while the majority of aid continued to go to Commonwealth countries.⁹¹⁶

The 1981 Cancun Conference in Mexico, concerned with the issues of a ‘Global North-South’ divide, was the notable visible moment in the aid policy of the early Thatcher years. World leaders were advocating an increased volume of aid and the ongoing Brandt Commission had been urging ‘global Keynesianism’ to promote third world development. *The Times* criticized the government. ‘Despite the Brandt Commission’s call for a big transfer of funds to the third world as part of a

⁹¹⁴ Records of the Prime Ministers Office: Correspondence and Papers, 1979-1997, (hereafter PREM19), 19/319. Report on aid, 20 December 1979, Annex A, pp. 27-29.

⁹¹⁵ Ibid.

⁹¹⁶ Morrissey et al., *British Aid*, pp. 15, 72.

programme for survival, Britain's aid contribution faces further cuts.'⁹¹⁷ In responding to criticism regarding the Brandt commission, Neil Marten wrote in November 1980, 'the Government accepts the main message of the Brandt Report – that our own economic future is clearly linked with the future of the developing world. But in responding we must make sure that our energy is well directed.'⁹¹⁸ In the House of Commons Marten used a recurring Conservative argument against criticism of reductions in the aid budget. 'The cuts are due to the appalling economic state which the Government inherited,' and when challenged that aid was a moral duty Marten responded, 'that is absolute nonsense.'⁹¹⁹ In 1981 Friedrich Hayek criticised the 'notorious North-South report' and urged those that were 'moved by the specious plausibility of the Brandt Report' to study the work of Peter Bauer to show how wealth transfers 'produce effects opposite to those desired.'⁹²⁰

Margaret Thatcher found herself in a minority at Cancun. She later wrote that 'what the developing countries needed more than aid was trade' and that 'North-South dialogue also appealed to those socialists who wanted to play down the fundamental contrast between the free capitalist West and the unfree communist East.'⁹²¹ At Cancun the British Prime Minister identified the key components of UK aid policy: trade, encouraging private enterprise and the broader fight against communism. Thatcher's sentiments were less fashionable in 1981 but her opponents at Cancun were swimming against the historical tide. What was already under way in 1981 continued throughout the decade. The World Bank and the IMF attempted to bypass

⁹¹⁷ Berthoud, *The Times*, 21 February 1980.

⁹¹⁸ Neil Marten, *Britain's Overseas Aid Policy*, (ODA, November 1980), In: Judith Hart's papers, Labour History Archive and Study Centre, (People's History Museum, Manchester).

⁹¹⁹ Neil Marten, *Parliamentary Debates*, (Commons), 984, 12 May 1980, 831-2.

⁹²⁰ Hayek, *The Times* (1981).

⁹²¹ Thatcher, *Downing Street*, p. 169.

the bureaucracies of poorer state's governments, foster capitalism while the volume of aid decreased. Redistribution was still talked about but the international consensus changed in the 1980s in favour of market-orientated policies. Tim Lankester said this reflected a 'return to neoclassical tradition in developed countries.'⁹²² The Conservative government's 1980 Overseas Development Act, however, gave more consideration to business and commercial interests. In 1982 Neil Marten identified the 'background of political and commercial relations between the [recipient] country and the United Kingdom' as a factor when allocating aid.⁹²³

In the 1983 General Election Manifesto, the Government clearly thought tied aid was potentially popular with the British taxpayer. 'Our generous but carefully controlled aid programme is both an investment in the freedom and prosperity of the poorer countries and in a stable and expanding world economy. That programme helps us as well as those who receive it, since most of it is spent on British goods and services.'⁹²⁴ Permanent Secretary to the ODA between 1984 and 1987, Sir Crispin Tickell, made a more concise judgment on the Government's attitude to aid: 'They (Conservative leaders) accepted there was a moral obligation for aid but that was about as far as it went.'⁹²⁵

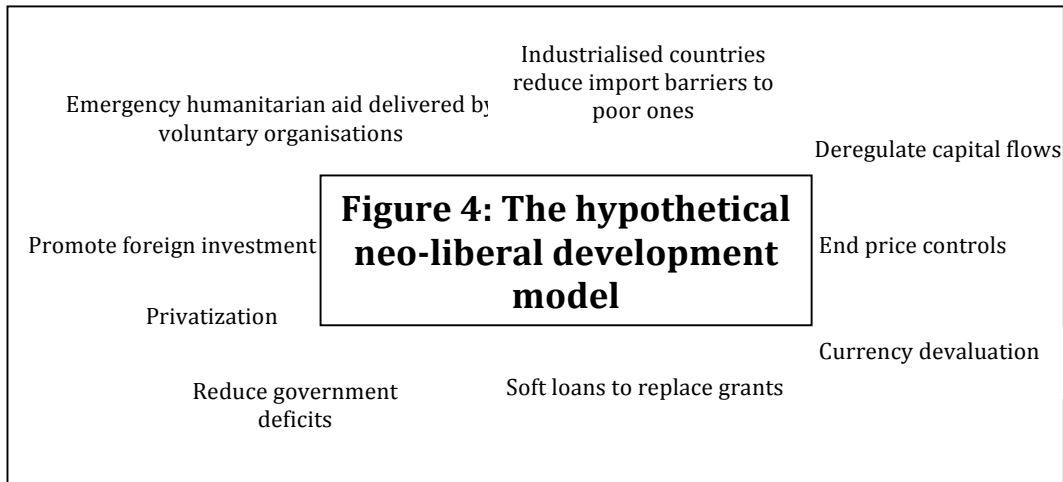
⁹²² Lankester, *Twenty-Five*, p. 6.

⁹²³ Neil Marten, *Parliamentary Debates* (Commons), 27, 8 July 1982, 175w.

⁹²⁴ Conservative Party, *1983 General Election Manifesto* (www.conservative.party.net/manifestos)

⁹²⁵ Interview with Sir Crispin Tickell, 15 February 2011.

A neo-liberal model for aid in the 1980s



The recommendations that came from the New Right regarding aid policy, summarised in figure 4, made up much of the orthodoxy embraced by the World Bank and the IMF in the 1980s. Structural adjustment lending to the developing world (aid on condition of economic liberalization measures) grew during this period and later became much criticised. The principles advocated by writers and thinkers on the pro-market right contained the same themes as towards domestic problems in the West itself. Private enterprise, free markets and competition should be encouraged while the size of the state reduced.⁹²⁶ Policy recommendations could be implemented with little opposition because thirty years of other strategies had not achieved significant development, few of the recipient states were democratic and the governments themselves were desperate for the money. The neo-liberal model for aid attempted, wherever possible, to bypass recipient governments and to minimise their autonomy to spend donor's money. The argument that governments in less developed countries (LDCs) were manifestly corrupt and actually prevented the development of their people was a generalisation that became accepted by many writers and politicians,

⁹²⁶ Riddell, *Foreign*, p. 158.

and has remained prominent. The basis of the model was not the quantity of aid but the delivery, while the policies of recipient government needed reforming.⁹²⁷

Peter Bauer advocated replacing grants with soft loans and for emergency humanitarian aid to be carried out by voluntary organizations.⁹²⁸ Abolishing price controls, reducing public spending, reducing government deficits and selling public assets were all meant to liberate private enterprise and were urged by the New Right.⁹²⁹ Deregulation of capital flows and currency devaluation were intended to introduce competition, encourage exports and promote foreign investment. Lastly, the removal of import barriers to poor countries was seen as a way to help countries develop through trade.⁹³⁰ Protectionist measures, locally and also internationally such as the Common Agriculture Policy in the European Community excluded LDC producers. Neo-liberal thinkers believed development would occur through trade, not aid, which only served to crowd out employment in the developing world. Hayek and Friedman's support for liberalization measures in poorer countries has already been mentioned. Ordoliberals too supported the principle of structural adjustment during this period. One article from the *ORDO Journal* set out how aid should be tied to market orientated policies.⁹³¹ The World Bank embraced much of this in the 1980s.

⁹²⁷ Degnbol-Martinussen, Engberg-Pedersen, *Aid*, p. 19.

⁹²⁸ Riddell, *Foreign*, p. 160.

⁹²⁹ Sogge, *Give*, pp. 2-5.

⁹³⁰ Riddell, *Foreign*, p. 160.

⁹³¹ Egon Görgens, 'Entwicklungshilfe als Wachstumsmotor? Zu den Erfolgsaussichten neuerer Vorschläge zur Entwicklungshilfe im Lichte empirischer Erfahrungen' (Development aid as an engine of growth? Recent propositions to increase development aid, and empirical findings for the past), In: *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, ('The Ordo Yearbook of Economic and Social Order', Stuttgart: Gustav Fischer Verlag, Band 36, 1985, pp. 131-152), p. 152.

The World Bank and IMF in the 1980s

The World Bank, set up along with the IMF in the wake of the 1944 Bretton Woods Conference, was responsible for providing loans to stimulate development in poorer countries. The Bank concentrated on funds as capital transfers to LDC governments (along the lines of the Harrod-Domar model) to encourage growth and latterly (after the 1974 UN Conference) to specifically alleviate poverty. This changed, however, when A.W. Clausen became World Bank President in 1981. The crises in the West during the 1970s such as stagflation and oil price hikes as well as the growing debt problems of the global 'south' provided a opportunity to change approach. The intellectual environment had shifted. Neo-liberal thinkers had gained some credence in their recommendations to solve the problems in the West and similar ideas were to become in vogue in the developing world. Clausen was a firm believer in the power of the market and private enterprise to improve efficiency and productivity. He believed the path to development lay in market forces and not government bureaucracies.⁹³² Tim Lankester identified the World Bank and IMF's priorities in development as structural adjustment, provided by the former, and macroeconomic stabilisation, provided by the latter.⁹³³

The Chicago School became the most prominent strain of neo-liberalism associated with structural adjustment because of Milton Friedman's links with the Pinochet regime in Chile as well as his thinking on economic 'shock therapy'. The strategy adopted in Chile after the Pinochet coup was subsequently praised by neo-liberals,

⁹³² The World Bank, <http://web.worldbank.org>

⁹³³ Lankester, *Twenty-Five*, p. 6.

despite the backlash against the regime.⁹³⁴ The prevailing feeling was that aid had often failed because recipient governments needed reform.⁹³⁵ This gave rise to the conditioning of loans from the World Bank and effectively forced administrations in the developing world to adhere to a set of rules, known as structural adjustment lending. Aid which had previously been given as government-to-government grants was now often channeled through multilateral agencies like the World Bank and IMF and as a result, funded these structural adjustment policies.⁹³⁶ The UK fraction of aid allocated to multilateral agencies increased during the 1980s, most of which went to the World Bank and IMF.⁹³⁷ Western countries, particularly the USA and West Germany, were pushing for more aid to be provided to the private sector in the developing world and this pressure was borne out in the World Bank's measures.⁹³⁸

Both the World Bank and the IMF provided structural adjustment loans, the former usually linked to development projects such as infrastructure while the latter was usually for shorter-term macroeconomic assistance. Former Undersecretary at the ODA, Tony Faint, wrote in 2012 that 'the UK generally supported the World Bank and the "Washington Consensus" during this period, though generally arguing for a more nuanced approach, recognizing human dimensions of development and calling for a more effective partnership with ldc (least developed countries) governments, as opposed to crude conditionality.'⁹³⁹ Tim Lankester said that structural adjustment was

⁹³⁴ Tim Congdon, 'What Happened to the Chilean Economic Miracle?', In: *Economic Affairs*, (4:2, January 1984), pp. 29-31.

⁹³⁵ Degnbol-Martinussen, Engberg-Pedersen, *Aid*, p. 19.

⁹³⁶ John Madeley et al., *When Aid is No Help. How projects fail, and how they could succeed*, (London: Intermediate Technology Publications, 1991), p. 8.

⁹³⁷ Paul Mosley, 'Britain, the World Bank and structural adjustment'. In: *Britain's overseas aid since 1979. Between idealism and self interest*, A. Bose and P. Burnell, eds, (Manchester: Manchester University Press, 1991), p. 74.

⁹³⁸ Robert Cassen and Associates, *Does Aid Work?* (Oxford: Oxford Clarendon Press, 1994), p. 199.

⁹³⁹ Tony Faint, personal communication with the author, 25 February 2012.

‘both necessary and inevitable as a cornerstone of development strategy.’⁹⁴⁰ Tim Raison, Minister of State at the ODA endorsed structural adjustment, saying in Parliament in 1985 that currencies in African countries were characteristically overvalued and that ‘African Socialism, whatever the ideals associated with it may have been, has proved to be as bad a way of producing food as Socialism in the east of Europe.’⁹⁴¹

Comparing the structural adjustment policies of the World Bank with the hypothetical neo-liberal model for aid set out in figure 4, there are a number of similarities. In many cases public welfare spending was slashed, currencies devalued, price controls ended, capital flows deregulated while NGOs proliferated, providing emergency humanitarian assistance. An important measure that was more difficult to enforce was the lifting of tariff barriers in the West to goods from the developing world. Politics and sensitivity to domestic concerns made this hard to justify to Western leaders with national issues at the top of their agenda. Several rounds of talks had gradually reduced trade restrictions after World War Two but in the early 1980s a new series was at an impasse. It was not until the ‘Uruguay Round’ was launched at Punta Del Este in 1986 that progress began to be made.⁹⁴² Government deficits were also difficult to reduce without this trade, as the hoped for activity of the private sector and increase in foreign investment did not materialise. One key issue here was the recurring instability in many developing countries during this period. Without confidence in the protection of the law and lacking the necessary infrastructure, private companies did not invest and take risks.

⁹⁴⁰ Lankester, *Twenty-Five*, p. 7.

⁹⁴¹ Tim Raison, *Parliamentary Debates* (Commons), 86, 8 November 1985, 220-86.

⁹⁴² World Trade Organisation, ‘The Uruguay Round’, [http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm], accessed 18 December 2013.

In much of the literature on developmental aid, structural adjustment lending is vilified. An exchange between ODA Minister Tim Raison and Labour MP Stuart Holland in 1986 demonstrated the resentment that was to occur around the policies of the World Bank and the IMF:

The Minister will be aware that, in practice, the IMF's structural adjustment terms have proved a formula for deflation, devaluation and the denial of the public sector and social spending. Is he not worried that countries such as Tanzania have very little prospect of development if those IMF conditions are applied? Has the ODA simply become an agent of IMF policy?⁹⁴³

We are absolutely right to support those countries which are prepared to take the steps of policy reform, which are widely accepted as desirable. If we do not have policy reform there will not be any progress but a continuation of the rather depressing record of aid going in without commensurate results coming out.⁹⁴⁴

The economic rationale of structural adjustment was criticised. In an exhaustive study in the 1990s, Cassen et al. wrote that there was an exaggerated faith in the immediate potential of the private sector and that aid had the ability to provide conditions for private enterprise to flourish if invested in infrastructure. Cassen went on to conclude that the key purpose of aid should be to provide things that the private sector cannot, essentially where the market fails or was missing.⁹⁴⁵ The World Bank's strategy also disappointed because of the absence or weakness of legal, financial and information

⁹⁴³ Stuart Holland, *Parliamentary Debates* (Commons), 96, 21 April 1986, 17-8.

⁹⁴⁴ Tim Raison, *Parliamentary Debates* (Commons), 96, 21 April 1986, 17-8.

⁹⁴⁵ Cassen, *Does Aid Work?*, pp. 192-200.

services, as well as political infrastructure, which made the risk of investment high.⁹⁴⁶ Lastly, some believed structural adjustment was based too much in economic theory and not in empirical evidence.⁹⁴⁷ If the historical model was post-war Europe and the Marshall Plan then the contemporary one was South East Asia and the ‘Tiger’ economies of Taiwan, South Korea, Hong Kong and Singapore. They developed rapidly largely without aid but by liberalization and the embrace of capitalism. Neil Marten alluded to these countries as a model for development in 1980. ‘Newly industrialized countries – like Hong Kong, South Korea, Brazil, Singapore and Mexico – have thrived largely because they encourage private investment and so develop their own industries.’⁹⁴⁸ Margaret Thatcher said in Parliament the following year that Hong Kong had received ‘practically not a penny piece of subsidy from Britain and yet everyone there has jobs.’⁹⁴⁹ Yet a closer look at these cases revealed a less straightforward story. At various points in their progress the Tiger economies would have broken the rules of structural adjustment. Methods such as an active state, strategic protectionism and policies of promoting human resources allowed rapid development to take place and to a comparatively high level of social equality.⁹⁵⁰

⁹⁴⁶ Cassen, *Does Aid Work?*, p. 202.

⁹⁴⁷ Michael Edwards, *Future Positive. International Co-operation in the 21st Century*, (London: Earthscan, 2004), p. 117.

⁹⁴⁸ Neil Marten, *Britain’s Overseas Aid Policy*.

⁹⁴⁹ MTF 104724, Margaret Thatcher, Cancun Press Conference, Mexico, 24 October 1981.

⁹⁵⁰ J.A. Alonso, ‘Globalisation, civil society, and the multilateral system’, In: *Debating Development*, D. Eade and E. Ligteringen, eds. (Eynsham: Information Press, 2001, pp. 86-103), p. 91.

NGO's in the 1980s

A reform to aid policy in the 1980s, advocated by neo-liberals like Peter Bauer and widely seen in practice was the increased use of NGOs to administer emergency humanitarian relief. The Conservatives had identified a greater emphasis on NGOs and voluntary agencies delivering aid even in 1979.⁹⁵¹ Tim Raison claimed in 1983 that there had been an 81% increase in provision to the voluntary sector in the period after 1978-79.⁹⁵² The case for greater NGO involvement was due to several reasons. NGOs were thought to have more awareness of the diversity of different regions than larger national and supranational bodies.⁹⁵³ A common criticism of aid was a one-size fits all model was applied indiscriminately to countries of huge diversity. NGOs nominally had humanitarian motives and should be less affected by the politics that effect government decisions regarding aid.⁹⁵⁴ The trend away from government to government grants and towards NGOs was an example of the shift towards neo-liberal policies and the type of conditions applied to loans by the World Bank. NGOs were considered more flexible, open to innovation and quicker to respond to local needs. They could also bypass the large bureaucracies so distrusted by economic liberals. It has even been suggested that NGO proliferation was a method of privatization of developmental aid.⁹⁵⁵ As well as providing humanitarian relief NGOs have been described as helping to liberate market forces in local communities.⁹⁵⁶

⁹⁵¹ Conservative Research Department, *Campaign Guide for Europe*, (London: Conservative Central Office, 1979), p. 101.

⁹⁵² Tim Raison, *Parliamentary Debates* (Commons), 41, 25 April 1983, 597-8.

⁹⁵³ Degnbol-Martinussen, Engberg-Pedersen, *Aid*, p 5.

⁹⁵⁴ Erica Bornstein, *The Spirit of Development. Protestant NGOs, Morality and Economics in Zimbabwe*, (Stanford: Stanford University Press, 2005), p 1.

⁹⁵⁵ Karin Aggestam, 'Conflict Prevention: Old Wine in New Bottles?' In: *Mitigating Conflict. The Role of NGOs*, H.F. Carey and O.P. Richmond, eds. (London: Frank Cass, 2003) p 17.

⁹⁵⁶ Bornstein, *Spirit*, p. 108.

Interviewed in 2011, Sir Crispin Tickell said of his time as Permanent Secretary to the ODA that he ‘brought in NGOs a lot more. I had regular meetings with the main NGOs.’⁹⁵⁷ *The Economist*, in an article from 1989 praising Chris Patten’s work as Minister of State for Overseas Development, wrote: ‘Mr Patten has transformed the ODA’s relations with non-governmental organizations. He always consults them, and has greatly extended the joint financing of projects, matching their cash with aid money.’⁹⁵⁸ In October of that year, Patten’s successor Lynda Chalker gave a speech advocating an extension of the role of NGOs.⁹⁵⁹

As with every other aspect of aid policy, however, one strategy has led to further problems and unforeseen criticism. NGOs differ in where they receive funding. Some are private organisations while others are partly or fully funded by governments. NGOs have been criticised for attempting to impose cultural hegemony on poorer countries while government-funded ones have been accused of being at the bidding of national interests.⁹⁶⁰ Faith-based NGOs have played an important role in the developing world in relieving poverty but have been likened to colonial missions.⁹⁶¹ Erica Bornstein, in *The Spirit of Development*, wrote about the similarities in modern Zimbabwe and colonial Rhodesia. NGOs can be the human face to what is essentially a new variety of Western intervention. NGOs have become part of an aid ‘industry’ that is by definition interested in its own expansion. Governments such as the UK have encouraged this because it has decoupled aid from its sphere of responsibility and essentially outsourced development. The proliferation of voluntary organizations

⁹⁵⁷ Interview with Sir Crispin Tickell, 15 February 2012.

⁹⁵⁸ *The Economist*, 8 July 1989, p. 24.

⁹⁵⁹ Lynda Chalker, ‘The Role of NGOs in Today’s World’, The Cecil Jackson Cole Memorial Lecture at the Commonwealth Institute, London, 26 October 1989.

⁹⁶⁰ Oliver P. Richmond, ‘NGOs, Peace and Human Security’, In: *Mitigating Conflict. The Role of NGOs*, H.F. Carey and O.P. Richmond, eds., (London: Frank Cass, 2003), p. 3.

⁹⁶¹ Bornstein, *Spirit*, p. 106.

interested in their own expansion follows a similar pattern to the Hayekian critique of the state, going beyond Bauer's vision of short-term relief. Despite these methods neo-liberals have continued to put the emphasis in development on trade.

UK Aid and Nationalism

Former Chancellor of the Exchequer Nigel Lawson described liberalism in conjunction with nationalism as a force for good.⁹⁶² In development, however, they can prove contradictory. Aid had always had an element of self-interest associated in its donation. Sir Crispin Tickell said in 2011, 'there is something to be said for tied aid. Aid policy was not an entirely charitable exercise. By being in the Foreign and Commonwealth Office you were promoting British interests overseas.'⁹⁶³ The end of empire had seen Britain give the majority of its aid to Commonwealth countries in an attempt to retain influence while, as we have seen, Rostow had pioneered the policy of using aid to repel communism. It has been alleged that the end of colonialism did not diminish the number of Europeans 'assisting' former colonies.⁹⁶⁴

When Margaret Thatcher took office in 1979 Britain's political influence was seen by many as in decline.⁹⁶⁵ A late entry into the European Community, decolonisation and a humiliating IMF loan in 1976 reduced the UK's international clout. Although Thatcher hoped to reassert British authority abroad, her priorities were domestic

⁹⁶² Lord Lawson of Blaby, 'Changing the Consensus', In: *The Chancellors' Tales. Managing the British Economy*, H. Davies, ed., (Cambridge: Polity, 2006), p. 130.

⁹⁶³ Interview with Sir Crispin Tickell, 15 February 2012.

⁹⁶⁴ Emma Crewe and Elizabeth Harrison, *Whose Development? An Ethnography of Aid*, (London: Zed Books, 1998) p. 87.

⁹⁶⁵ Michael J. Turner, *Britain's International Role, 1970-1991*, (Basingstoke: Palgrave Macmillan, 2010), pp. 1-6, Robin Harris, *Not For Turning. The Life of Margaret Thatcher*, (London: Bantam Press, 2013), p. 440.

economic problems. Unemployment, inflation and the poor performance of British industries were issues that the government wanted to reverse. The 1980 Overseas Development Act put the emphasis on promoting British business and trade abroad and this can be seen as the main concern for the government's development strategy. Aid could be used as a means of creating British jobs and securing companies contracts overseas. Tied aid and ATP encapsulated this shift. Neil Marten said that ATP was 'to help British firms match subsidized credit terms offered by their competitors. We must have a means of matching this competition, and we have, therefore, increased the size of this provision.'⁹⁶⁶

If the Conservative government had market economics at the forefront of their aid policy then ATP would have been dropped. The subsidy distorted prices and was instigated at the behest of the business lobby in the UK.⁹⁶⁷ In development terms it removed influence from the ODA, was unlikely to consider local needs and meant Britain helped 'richer' poor countries, inhibiting the primary aim of aid as poverty alleviation. ATP helped only a small number of British firms and was criticised for lowering the quality of UK aid.⁹⁶⁸

Aid as a continuous subsidy was anathema to the New Right. The World Bank's structural adjustment showed some convergence with neo-liberal policy suggestions and the UK did support these. It has been suggested, however, that the World Bank pressurised the FCO to come into line with structural adjustment and that the flow of ideas was firmly from the World Bank to the ODA.⁹⁶⁹ Multilateral organisations like

⁹⁶⁶ Neil Marten, *Parliamentary Debates* (Commons), 17, 11 February 1982, 1128-203.

⁹⁶⁷ Lankester, *Pergau*, pp. 16-18.

⁹⁶⁸ Toye, 'Aid and Trade', pp. 111-123.

⁹⁶⁹ P. Mosley, 'Britain', p. 83.

the World Bank provided some political cover if the Thatcher government was trying to promote neo-liberalism internationally but the suggestion casts doubt on whether Britain really was exporting pro-market policies in development. The Thatcher government did not pioneer liberal economics in aid because it was not in its narrower national interests. It continued to favour aid to Commonwealth countries. Figure 5 shows how in 1989 the five leading recipients of British aid were in the Commonwealth. Crispin Tickell believed this was at odds with the realities of development, saying in 2011, ‘I thought more aid should go to Africa and less should go to India. I always thought that if they could make their own nuclear weapon they could look after their own.’⁹⁷⁰ Nevertheless, figures at the end of the decade show that former Commonwealth countries took the biggest slice of the UK aid budget.

1	India
2	Kenya
3	Bangladesh
4	Ghana
5	Tanzania

Figure 5: Helping the poorest or retaining influence in former colonies? The top 5 recipients of British aid 1988/89. (source: Sogge, *Give and Take*, p. 214)

As Prime Minister, Margaret Thatcher extolled the values of liberty and the market. These principles featured heavily in speeches made during trips to Eastern Europe and also as justification to oppose sanctions against South Africa. The potential of trade, rather than aid, was at the forefront of the rhetoric of Thatcher’s development strategy. The 1987 Conservative Party Election Manifesto stated ‘there is little point

⁹⁷⁰ Interview with Sir Crispin Tickell, 15 February 2011.

in demanding more aid for these countries and then refusing them the opportunity to trade.⁹⁷¹ Indeed, lowering tariffs and trade barriers in the Uruguay GATT round would have been expected to have been paramount in the Government's thinking regarding overseas development. Minister at the ODA between 1989 and 1997, Lynda Chalker, strongly supported the GATT talks.⁹⁷² An ongoing concern, trade restrictions were lowered after the Uruguay round was concluded. In her memoirs Thatcher made the case for trade in developing countries as a means 'not only for poorer countries to earn foreign currency and increase their peoples' standards of living. It was also a force for peace, freedom and political decentralization.'⁹⁷³ Characteristically Thatcher blamed the European Community for hampering Britain's trade policy in its lack of progress in reducing barriers. 'Britain's own trade policy was now in the hands of the Community, which contained a majority of countries with a tradition of cartels and corporatism and a politically influential agricultural sector.'⁹⁷⁴ It was true that Thatcher was ideologically disposed to free trade and that some of her Government's domestic reforms (privatization, monetary control, reduced public spending) were adopted in structural adjustment. For the most part British overseas development policy was conducted on a case-by-case basis, however, with liberal economics used as a justification or eschewed when necessary to suit national priorities. Market principles were used as a tool in foreign policy, ignored or embraced, to further British interests. The most notorious incidence of this was the Pergau Dam project in Malaysia.

⁹⁷¹ Conservative Party, *1987 General Election Manifesto*, (www.conservative.party.net/manifestos), accessed 18 December 2013.

⁹⁷² Lynda Chalker, *Parliamentary Debates* (Commons), 156, 14 July 1989, 1239-308.

⁹⁷³ Thatcher, *Downing Street*, p. 739.

⁹⁷⁴ Thatcher, *Downing Street*, p. 739.

Pergau Dam

An example of the problematic nature of ATP was the controversy that arose over the Pergau Dam project in Malaysia. A 1994 Select Committee Inquiry revealed there had been a misuse of aid in order to win the contract for a British firm, starting a project that was not necessarily needed locally and revealed collusion between the British and Malaysian governments. The fact that an arms deal was involved only made the affair more opaque. ATP was responsible for a relatively small amount of UK aid yet the Pergau Dam scandal damaged the reputation of the Thatcher government's foreign policy, brought about accusations of corporatism and questioned the primacy of the market in its programme.

The subsequent inquiry uncovered a train of events that owed little to either poverty alleviation or liberal economics. The Malaysian government had identified Pergau Dam as a possible site for a hydro-electric dam in the 1960s. In the early 1980s Malaysia adopted a 'Buy British Last' policy in protest at increased student fees and the FCO and DTI were eager to build better relations with the South East Asian country. George Younger, then Secretary of State for Defence, visited Malaysia in March 1988 and signed a protocol that included a £1 billion arms package.⁹⁷⁵ The protocol appeared to accept a conditional link of 'aid for arms', which according to Tim Lankester 'horrified' the ODA.⁹⁷⁶ The British later tried to back track on this but the then Foreign Secretary Geoffrey Howe admitted it implied a 'moral obligation'.⁹⁷⁷ Younger himself said in 1994 that 'each side had its own perception of whether there

⁹⁷⁵ Lankester, *Pergau*, p. 58.

⁹⁷⁶ Lankester, *Pergau*, p. 58.

⁹⁷⁷ Foreign Affairs Committee. (hereafter FAC) Third Report. *Public Expenditure: The Pergau Hydro-electric Project, Malaysia, The Aid and Trade Provision and Related Matters*. (House of Commons, 1994), pp. 5-18.

was linkage, and each was happy to keep its own perception.⁹⁷⁸ Meanwhile, a consortium of British companies led by Balfour Beatty and Cementation International submitted an application for ATP support to build the Pergau Dam in November 1988. When Margaret Thatcher met with the Malaysian Prime Minister in March 1989 she made a verbal offer of ATP to build the dam, based on a value of over £200 million. It subsequently emerged that Charles Powell, the Prime Minister's foreign policy advisor, had pressurised the ODA into an answer regarding the feasibility of building the dam prior to the visit.⁹⁷⁹

The ODA, in 1990, concluded that ATP should not be used to support the project. It was deemed uneconomic and believed would result in Malaysian consumers paying an estimated £100 million extra for electricity over its 35-year life compared with if the money was invested in an alternative source, gas-fired turbines.⁹⁸⁰ Yet a government supposedly committed to liberal economics overruled this recommendation and approved the project (by this time John Major and Douglas Hurd were Prime Minister and Foreign Secretary respectively) in February 1991.⁹⁸¹ Tim Lankester said during the Parliamentary inquiry in 1994 that Pergau was 'an abuse of aid programme' and that 'it was not...a sound development project.'⁹⁸² If the project was uneconomic and failed to meet the whole purpose of donating aid why was it approved? Charles Powell, who stayed on briefly to advise Major, said 'the Government could not back out now. The Prime Minister (Major) felt that we must honour Mrs Thatcher's word'.⁹⁸³ Douglas Hurd, Foreign Secretary between 1989 and

⁹⁷⁸ *The Economist*, 15 January 1994, p. 30.

⁹⁷⁹ FAC, p. 29.

⁹⁸⁰ Lankester, *Pergau*, p. 143.

⁹⁸¹ FAC, pp. 20-21.

⁹⁸² FAC, p. 23.

⁹⁸³ FAC, p. 23.

1995, explained his reasoning. ‘The shock would have been felt in every office and shop floor of British companies trying to do business in Malaysia.’⁹⁸⁴

Hurd later wrote:

I was defending a wasteful project on grounds of good faith and friendship. Lynda Chalker, though loyal throughout, was deeply unhappy, not least because of her own high reputation in that office was also at stake. Looking back, I can see that it was a mistake to act so quickly in 1991. If I had called an office meeting and summoned papers, no doubt the temporary link with arms sales in 1988 would have been revealed.⁹⁸⁵

It is hard not to conclude that the British government used its influence to negotiate a sizeable arms deal with Malaysia, securing a large amount of business for the UK, in return for supplying aid for a prestigious project that worked against the principles of the ODA, and could hardly be labeled ethically liberal. There was also evidence of ‘aid for arms’ from the UK to ‘relatively rich third world countries’ Jordan, Oman, Indonesia and Thailand.⁹⁸⁶ In 2013, Lankester published a book on the affair. He reappraised the project, writing that the economic case against Pergau Dam became less clear-cut with the hindsight of fuel prices.⁹⁸⁷ Nevertheless, Lankester paints a picture of the ODA as coming under commercial pressures that paid scant attention to development concerns. Despite the cuts in aid volume, Lankester thought Britain had a good reputation on aid delivery under the Thatcher government.⁹⁸⁸ This was undermined by the Pergau Dam project. The Foreign Affairs Committee also found

⁹⁸⁴ FAC, p. 23.

⁹⁸⁵ Douglas Hurd, *Memoirs*, (London: Little Brown, 2003), p. 495.

⁹⁸⁶ FAC, p. 10, *The Economist*, 5 March 1994, p. 30.

⁹⁸⁷ Lankester, *Pergau*, p. 143.

⁹⁸⁸ Lankester, *Pergau*, p. 139.

that the existence of ATP discouraged UK companies in this export field from becoming more price competitive or from diversifying into markets where they might sell British exports without government assistance.⁹⁸⁹ This appeared distinctly un-Thatcherite or pro-market and showed how liberal economic ideas were usurped by political and nationalist imperatives.

1980s South Africa and sanctions

An area where pro-market ideas were invoked to justify another controversial policy was the UK's posture towards apartheid South Africa. Increasing Soviet influence in the developing world in the mid-1970s, after the relative calm of *détente*, alarmed Western leaders. The demise of the Portuguese junta led to independence for Angola and Mozambique, civil war, and the installation of regimes sympathetic to Moscow. The end of white minority rule in Rhodesia allowed a nominal Marxist, Robert Mugabe, to become the first President of Zimbabwe. Lastly, South Africa occupied Namibia, where the leftist SWAPO were recognized (from 1972 by the United Nations General Assembly) as the 'sole legitimate representative' of the Namibian population. In summary, South Africa in the early 1980s was surrounded on all sides by left leaning governments, trying to prevent one taking control of Namibia and attempting to put down an insurgency led by the 'communist' ANC at home. The P.W. Botha government had launched 'Total Strategy' in 1977. Reforms domestically were intended to consolidate power there while raids into bordering countries (the 'Frontline States') were designed to destabilise socialist regimes and disrupt ANC bases. As the Cold War entered a tense phase during the first Thatcher government,

⁹⁸⁹ FAC, p. 47.

allies in this area of the world were deemed important. Britain's historical role as regional hegemon was to bring the matter of apartheid to a controversial head only a few years later. In the early 1980s though, the Cold War power struggle outweighed more 'ethical' foreign policy considerations. It was also difficult to see any link with Friedman's ideas of market economies leading to political liberty in apartheid South Africa. Despite this, however, the Thatcher government partly justified their tacit support of apartheid South Africa with the rhetoric of economic liberalism.

A state of emergency was declared in the country in 1985. Margaret Thatcher then came under pressure for her intransigence over the issue of economic coercion. Her political opponents vilified her for an unwillingness to impose sanctions on the apartheid regime, which they hoped would bring an end to the institutionalised racism in the country. The archives released by the post-apartheid government in South Africa, however, do reveal how Margaret Thatcher attempted to use her influence over Botha to accelerate reform. In a series of letters in the mid-1980s Thatcher tried several times to persuade the South African leader, writing that 'the issue of sanctions will not go away', that 'many countries remain deeply sceptical that fundamental change in South Africa is truly under way,' and more critically that Botha's behavior left her 'very disappointed, indeed dismayed.'⁹⁹⁰ Most surprisingly, and at odds with her public rhetoric, Thatcher urged Botha to release Nelson Mandela, writing that it 'would have more impact than almost any single action you could undertake.'⁹⁹¹ Nevertheless, to the outside world Thatcher appeared a friend of the apartheid regime.

⁹⁹⁰MTF 111647, 'Letter from Margaret Thatcher to P.W.Botha', 4 October 1985, accessed on 13 September 2012, MTF 111650, 'Letter from Margaret Thatcher to P.W.Botha', 31 October 1985, accessed on 13 September 2012, MTF 111653, 'Letter from Margaret Thatcher to P.W.Botha', 17 November 1985.

⁹⁹¹ MTF 111650.

The leaders of Western countries, in particular fervent Cold Warriors like Ronald Reagan and Margaret Thatcher, were left in a difficult situation. They were anxious to stand up to the USSR, curb its influence and aggressively win a battle of hearts and minds as well as military might. Yet the rhetoric of 'freedom' from the West was hypocritical and compromised by its support for South Africa, which crudely suppressed the majority of its people. Yet the role played in reaching a settlement in Rhodesia in 1980 showed Britain had the potential influence to force change in the region. The British stance towards South Africa, however, was contradictory. A significant strand of both public opinion and the Conservative Party was sympathetic to the white settler colonies and apparently did not object to apartheid.⁹⁹² Margaret Thatcher repeatedly said that thousands of British jobs depended on business with South Africa and this proved a potent argument in a period of high domestic unemployment. A repository of raw materials in short supply elsewhere, such as platinum, gold, chrome, aluminium and diamonds, also made South Africa an important trading partner for the UK.⁹⁹³

There was nevertheless significant protest against apartheid in Britain, which increased during the 1980s. This was often combined with a more general anti-Thatcherism and was embraced by the opposition parties, trade unions and church groups.⁹⁹⁴ The Labour Research Department published a booklet in 1986 explaining why it thought sanctions would work. South Africa needed trade with the UK more than vice versa, according to the study.⁹⁹⁵ The SDP, meanwhile, published two

⁹⁹² SDP. *The Abyss of Apartheid*, White Paper no 19, (London: SDP Enterprises, 1987), p. 2.

⁹⁹³ Martin Roberts, *South Africa 1948-1994. The Rise and Fall of Apartheid*, (Harlow: Longman, 2001), p. 61.

⁹⁹⁴ Scott Thomas, *The Diplomacy of Liberation: The Foreign Relations of the ANC Since 1960*, (London: Tauris, 1996), p. 33.

⁹⁹⁵ Labour Research Department, *Profiting From Apartheid. Britain's links with South Africa*, (London:

pamphlets abhorring the ‘abyss of apartheid’ and the Thatcher government’s response to the crisis in South Africa. It said that Britain had a historic responsibility to the region (SDP leader David Owen, as Foreign Secretary 1977-79 had paved the way for the Rhodesia settlement) and that South Africa should be branded a terrorist state, similarly to Libya and North Korea at that time.⁹⁹⁶ The SDP also recommended aid to the frontline states to repair the damage caused by South African sabotage raids.⁹⁹⁷ Indeed, Chris Patten (ODA Minister between 1986 and 1989) believed aid to the countries bordering South Africa was important. ‘Our aim is to strengthen the economies of the countries in the region so as to reduce their dependence on South Africa. That is why we have invested so much in transport and infrastructure projects.’⁹⁹⁸ Justifying aid to nominally leftist regimes in the region, alluding to structural adjustment and to counter the hypocrisy of previously criticising Labour for the same policy, Patten said to the House of Commons in 1987: ‘We have committed nearly £14 million in emergency aid for Mozambique so far this year. The economic policies now being pursued by Mozambique, after its agreement with the IMF and the World Bank, certainly do not seem terribly Marxist to much of the outside world.’⁹⁹⁹

The United Nations declared 1985 as the year that punitive measures should be enforced against the Botha regime. Margaret Thatcher (and Ronald Reagan to a lesser extent) stood out in their resistance to sanctions. Britain’s policy was fiercely criticised by some leaders and many protestors as, by implication, condoning apartheid. Thatcher’s argument against sanctions, at least rhetorically, could be attributed to her belief in economic liberalism. It was not dissimilar to Friedman’s

LRD Publications, July 1986), p. 7.

⁹⁹⁶ SDP, *Abyss*, pp. 35-36.

⁹⁹⁷ SDP, *Abyss*, p. 3.

⁹⁹⁸ Chris Patten, *Parliamentary Debates*, (Commons), 109, 2 February 1987, 686-87.

⁹⁹⁹ Chris Patten, *Parliamentary Debates*, (Commons), 118, 29 June 1987, 249-50.

support of Pinochet. Thatcher reasoned, time and again, that sanctions would impoverish South Africa, that the only way to emancipate the black majority was by trade and to allow the 'trickle down' effects of capitalism to allow development, a middle class and eventually democracy. Sanctions, according to Thatcher, would have the opposite effect and in the process damage Britain's economy:

What I wanted to achieve was step-by-step reform – with more democracy, secure human rights, and a flourishing free enterprise economy able to generate the wealth to improve black living standards. It was also true that Britain had important trading interests in the continent.¹⁰⁰⁰

Lord Owen indeed argued 'her basic position of not trying to harm the South African economy was perfectly rational.'¹⁰⁰¹ He believed, however that the Prime Minister tended to 'polarise the argument' and became 'cut off from reality' on the issue.¹⁰⁰² Many were suspicious though that Thatcher's real motivation was the preservation of British business links and jobs with the pariah state. Sanctions against South Africa were an example of the conflict between Margaret Thatcher's ideological belief in the market and her inherent nationalism. There were clearly divisions within the cabinet on the subject of apartheid. Geoffrey Howe outlined what he saw as the contradictions in Thatcher's policy, describing 'the suspicion that she was making much of black economic hardship only as a means of safeguarding our own British interests.'¹⁰⁰³

¹⁰⁰⁰ Margaret Thatcher, *The Downing Street Years*, p 513.

¹⁰⁰¹ Interview with Lord Owen, 17 January 2010.

¹⁰⁰² Interview with Lord Owen, 17 January 2010.

¹⁰⁰³ Geoffrey Howe, *Conflict of Loyalty*, (Basingstoke: Macmillan, 1994), p. 482.

There are several lines of reasoning on why apartheid collapsed in South Africa and if sanctions accelerated its demise. The black majority tried to make apartheid ungovernable in the 1980s and the ensuing disorder had a part to play in the eventual repealing of discriminatory laws.¹⁰⁰⁴ Trade, and not sanctions, was fomented by Botha's regime in an attempt to retain power.¹⁰⁰⁵ According to SDP research there was no evidence of the 'trickle down' effect emancipating black South Africans. Their figures showed the South African economy grew on average by 6% in the 1960s and 3-4% in the 1970s with no increase in political power for non-whites.¹⁰⁰⁶ The situation in South Africa showed the difficulty in bringing about internal regime change, although there was evidence to suggest sanctions worked. A turning point occurred in August 1985 when P.W. Botha rejected any notion of majority rule. This led to foreign banks calling in loans, causing the value of the rand to plummet.¹⁰⁰⁷ The US Congress passed an act the following year (against President Reagan's veto) that discouraged investment in South Africa and caused several American companies to then leave the country.¹⁰⁰⁸ David Owen, who visited the region on several occasions, wrote that 'the harshest economic sanction was in 1985 when foreign bank loans dried up following the refusal of the Chase Manhattan Bank to roll over short term loans' and that a myth was propagated by Margaret Thatcher that sanctions never had any effect on the changes that came in 1990 with Botha's successor, President F.W. de Klerk. 'That was never the view of the South African business community.'¹⁰⁰⁹ Sanctions impacted on the South African economy and forced businesses operating in

¹⁰⁰⁴ Nancy L. Clark and William H. Worger, *South Africa. The Rise and Fall of Apartheid*, (London: Pearson Longman, 2004), p. 110.

¹⁰⁰⁵ SDP, *Abyss*, p. 8.

¹⁰⁰⁶ SDP, *Abyss*, p. 4.

¹⁰⁰⁷ Nigel Worden, *The Making of Modern South Africa*, (Oxford: Blackwell Publishers Ltd, 2000), p. 152.

¹⁰⁰⁸ Clark and Worger, *South Africa*, pp. 5, 96.

¹⁰⁰⁹ David Owen, *Time to Declare*, (London: Penguin, 1992), p. 297.

the state to seek dialogue with the ANC.¹⁰¹⁰ David Owen thought that sanctions did make an impact. 'It is very difficult to calculate whether the ban on new investment hurt the South African economy but a reasonable assessment is that it depressed attainable GDP growth by 1-1.5% per annum by 1988-89.'¹⁰¹¹

The release of Nelson Mandela in 1990 and the end of apartheid was a combination of political pressure, economics and also personality. F.W. de Klerk, who became President in 1989, had no reforming pedigree but introduced far-reaching changes within the space of months. De Klerk, succeeding the intransigent Botha, was forced into concessions because he may have expected the ANC to weaken in the aftermath of the fall of the Berlin Wall (or his country to lose Western support with the Cold War ending), because the economic situation was deteriorating and the country was becoming ungovernable. De Klerk was described as essentially a 'practical and religious' man.¹⁰¹² The argument against sanctions was difficult to separate from the apartheid regime's desire to hang on to power and Thatcher's wish to retain British jobs and trade with the country. The Thatcher government invoked liberal economics as a justification against sanctions. It appeared, however, that this was a rhetorical device that masked more rudimentary self-interest.

The Know How Fund to Eastern Europe

Towards the end of Margaret Thatcher's tenure as Prime Minister sweeping changes took place in Eastern Europe as the Soviet Union withdrew its influence from the region and communist rule crumbled in one country after another. This presented the

¹⁰¹⁰ Worden, *Making*, p. 152.

¹⁰¹¹ Owen, *Time*, p. 298.

¹⁰¹² Roberts, *South Africa*, pp. 113-114.

British government with an opportunity to assist and consolidate a peaceful transition to democracy whilst encouraging pro-market reforms. The fall of the Berlin Wall at the end of 1989 was the focal point of the collapse of communism in East Europe and anticipated the 1991 demise of state socialism in its figurehead, the Soviet Union. Ronald Reagan and Margaret Thatcher were both popular in Eastern Europe. Kenneth Baker, a regular member of the Thatcher cabinet, later said of the Prime Minister that the Poles ‘almost worshipped the ground she walked upon’.¹⁰¹³ Reagan and Thatcher, similarly to Milton Friedman, used the language of freedom and liberty and aligned this with the principle of the market, ownership and private property.

If the Cold War was ultimately a victory for hard power there were still some that thought the soft power of capitalism and Western prosperity may have played some part in hastening the end of the conflict. The work of neo-liberals saw a broad shift in Western opinion towards the market and this started to be extended abroad. The stifled peoples of the communist bloc and their deteriorating economic situation saw the liberty of the West attractive. This was manifest in the show of people power in Eastern Europe at the end of the decade, seemingly the ‘end of history’ and the moment when capitalism and democracy triumphed as the dominant ideas of the age. The changes that occurred across Eastern Europe in the late 1980s, however, left a power vacuum. As socialist autocracies were toppled new leaders emerged from previously underground dissident groups, such as Lech Walesa in Poland and Vaclav Havel in Czechoslovakia. Years of stagnation and command economies meant that the transition to capitalism would not be straightforward. After the fatal delay in responding to the communist takeover of Eastern Europe in the 1940s the Foreign

¹⁰¹³ Kenneth Baker, *The Turbulent Years. My Life in Politics*, (London, Faber and Faber, 1993), p. 356.

Office sought to respond rapidly to realign the region towards the West.¹⁰¹⁴ Part of its strategy was the Know How Fund to Eastern Europe (KHF), set up in 1989.

While visiting Poland in November 1988 Margaret Thatcher declared that if the Poles provided the commitment and resolve, practical guidance (and some funding) would be offered in transforming the country.¹⁰¹⁵ This was attractive to the Polish government for the simple reason its economy was in the doldrums. The pace of change over the following months, however, surprised the British. The trade union movement *Solidarity* was legalised and elections were held, going against the ruling communists. Britain wanted to be seen as promoting reform and rewarding the Poles for the changes they were introducing and as a result encourage the rest of the region.

Instead of traditional financial aid, the UK went about providing technical assistance. This did represent a cash injection but in a more pragmatic way to much developmental aid. It was hoped that the KHF would help set up a legal and institutional framework in which capitalism could operate and soon expanded from Poland to Hungary and then the rest of Eastern Europe.¹⁰¹⁶ The key areas for assistance included banking, finance, accountancy, privatization, retraining the jobless, stimulating small businesses and ‘political’ projects such as journalist training.¹⁰¹⁷ This programme was specific in its promotion of the market and was presided over by both the FCO diplomatic and ODA departments. Conservative Central Office also received requests for assistance from new political parties in Poland, Hungary and Czechoslovakia. Some Conservatives attempted to build links

¹⁰¹⁴ Keith Hamilton, ‘The Know How Fund. The Early Years’, (London: FCO, 1997), p. 1.

¹⁰¹⁵ Hamilton, ‘Know How’, p. 3.

¹⁰¹⁶ Hamilton, ‘Know How’, p. 6.

¹⁰¹⁷ Hamilton, ‘Know How’, p. 11.

with centre-right parties and leaders, such as Vachlav Klaus in Czechoslovakia, and the Party also sent some ‘training teams’ to provide advice on campaigning and other democratic processes.¹⁰¹⁸

The KHF concentrated on flagship projects though, that reflected some of the domestic reforms of Thatcherism, such as the Katowice Banking School, Budapest Stock Exchange and Czechoslovak privatization scheme.¹⁰¹⁹ Other examples included a conference on privatization in Prague and co-operation between the Open University and the Hungarian Open Business School in 1990.¹⁰²⁰ Unlike much structural adjustment lending, where markets were either failing or missing and infrastructure to support them did not exist, the Know How Fund was more effective. Although the economies of Eastern and Central Europe were moribund and stagnant by the late 1980s, the industrial building blocks that could act as the foundation for capitalism nevertheless still existed. Undersecretary at the ODA and in charge of supervising the Fund, Tony Faint, wrote that the ‘KHF (Know How Fund) was always envisaged to deliver advisory support, not for resource transfer (which might well have led them to postpone reform).’¹⁰²¹ This is both an insight into the Know How strategy and an appropriately free market sceptical take on the ability of capital transfers to stimulate development.

The Fund was not without its critics. *The Economist* wrote in 1990 that despite Thatcherites liking the KHF because ‘it didn’t involve dishing out huge sums of aid to

¹⁰¹⁸ Baker, *Turbulent*, p. 355.

¹⁰¹⁹ Hamilton, ‘Know How’, p. 15.

¹⁰²⁰ Lynda Chalker, *Parliamentary Debates*, (Commons), 175, 2 July 1990, 417-8W.

¹⁰²¹ Tony Faint, personal communication with the author, 25 February 2012.

crumbling governments’ that ‘critics complain the fund is miserly.’¹⁰²² Others regretted the lack of political institution building to complement economic reforms.¹⁰²³ Clare Short, Secretary of State at the ODA’s successor DfID between 1997-2003, regarded the Fund as an example of ‘extreme “marketolatry”’.¹⁰²⁴ The KHF was criticised for being underfinanced, understaffed and focused on short-term issues.¹⁰²⁵ In the same period the KHF spent £10 million in the Soviet Union, Germany donated \$12 billion, although this represented the unique challenges of unification. The project, however, was about making a small amount of money go a long way.¹⁰²⁶ The KHF was also an attempt to stabilise the region and reduce the potential for political unrest. A national government must be expected to act in a degree of self-interest and in this instance it was to encourage evolutionary as opposed to revolutionary change in Eastern Europe. The interests of the UK were best served by a transition to market economies and political pluralism in the region. The FCO account of the KHF states, ‘the Know How Fund has been about supporting reform whilst attempting to attenuate the potentially destabilising effects of radical change.’¹⁰²⁷ Tony Faint wrote that although other countries were providing assistance to Eastern Europe there was a ‘need for [a] specifically British facility.’¹⁰²⁸ The Know How Fund was different from other British aid programmes in that it gave the countries of Eastern Europe only the capacity to implement market reforms. In some ways this was more sophisticated than structural adjustment and certainly more rooted in liberal economics than ATP, bilateral aid or the policy towards South Africa.

¹⁰²² *The Economist*, 2 June 1990, p. 29.

¹⁰²³ *The Economist*, 2 June 1990, p. 29, Sarah E. Mendelson, ‘The Power and Limits of Transnational Democracy Networks in Postcommunist Societies’. In: *The Power and Limits of NGOs*, S.E. Mendelson and J.K. Glenn, eds., (New York: Columbia University Press, 2002), p. 238.

¹⁰²⁴ Tony Faint, personal communication with the author, 25 February 2012.

¹⁰²⁵ Hamilton, ‘Know How’, p. 22.

¹⁰²⁶ Hamilton, ‘Know How’, p. 23.

¹⁰²⁷ Hamilton, ‘Know How’, p. 23.

¹⁰²⁸ Tony Faint, personal communication with the author, 25 February 2012.

Whereas structural adjustment enforced liberalization on developing countries in return for aid, the Know How Fund offered help, not direct grants, to set up the institutions to allow a market economy to function. Lynda Chalker told Parliament in 1990 that the ‘know how strategy has been to make sure that the fund provides British advice, skills and training. We concentrate on the sectors in which we have particular expertise and take account of the specific Governments’ expressed priorities. The know how fund has some priorities – the banking and financial services; advice on setting up small businesses and entrepreneurial activity.’¹⁰²⁹

The Balcerowicz Plan

The Know How Fund predominantly helped facilitate supply-side reforms. The Fund was initially designed for Poland and economist Jeffrey Sachs has said that British influence in the country was most significantly found in areas like privatization.¹⁰³⁰ Sachs helped formulate the most far-reaching element in the country’s shift towards a market based economy - the ‘Balcerowicz Plan’ of macro-economic ‘shock therapy’ - at the end of 1989. Nigel Lawson captured the pro-market feeling of the period in the Commons that October. ‘I find it very striking...country after country was determined to turn its economy from a Socialist economy to a market economy...no one put this more clearly than the new Polish finance Minister Mr. Balcerowicz’.¹⁰³¹ It was not long before Balcerowicz launched an anti-inflationary package that led to a fall in real incomes by as much as a third.¹⁰³² Margaret Thatcher strongly approved of the 1989

¹⁰²⁹ Lynda Chalker, *Parliamentary Debates*, (Commons), 177, 26 July 1990, 711-8.

¹⁰³⁰ David Lipton and Jeffrey Sachs, ‘Creating A Market Economy in Eastern Europe: The Case of Poland’, *Brookings Papers on Economic Activity*, (2, 1990), p. 129. Jeffrey Sachs, *Poland’s Jump to the Market Economy*, (MIT: MIT Press, 1994), p. 84.

¹⁰³¹ Nigel Lawson, *Parliamentary Debates*, (Commons), 158, 19 October 1989, 254-6.

¹⁰³² Timothy Garton Ash, *The Polish Revolution: Solidarity*, (London, Penguin, 1991), p. 365.

plan: ‘Balcerowicz, deliberately chose a radical course – the simultaneous introduction of measures to eliminate price controls, tighten monetary policy, cut the budget deficit and remove almost all restrictions on international trade.’¹⁰³³ She also countered its critics: ‘the alleged drop in living standards was a statistical fiction, since previously Poles had faced crippling shortages.’¹⁰³⁴ One IMF report subsequently noted that Poland ‘implemented market liberalization at a more rapid pace than most of the other transition economies’ but that from the early 1990s ‘of the transition countries, Poland has achieved the highest rate of GDP growth along with the smallest increase in inequality.’¹⁰³⁵

The Balcerowicz Plan could have been lifted from a number of Milton Friedman speeches or letters from the 1970s. The Chicago economist was well-known for his links to the Pinochet regime in Chile and wrote to the dictator in 1975 arguing for economic ‘shock treatment’ by reducing government spending by 25% within six months and for ‘the removal of as many obstacles as possible that now hinder the private market’.¹⁰³⁶ In a speech from 1977 Friedman, using both Chile and post-war West Germany as examples, argued that high inflation should be tackled by the shock treatment of radically reducing government spending, tax rates (and eliminating tax loop-holes), ‘denationalization’ of public assets and incentivising residual government functions such as through vouchers.¹⁰³⁷ These principles, and sometimes their direct implementation, were present in both the IMF’s structural adjustment lending and the

¹⁰³³ Thatcher, *Path*, 591.

¹⁰³⁴ Thatcher, *Path*, 591.

¹⁰³⁵ Michael P. Keane, Eswar S. Prasad, ‘Poland: Inequality, Transfers, and Growth in Transition’, *Finance and Development*, 38:1, March 2001, (IMF), [<http://www.imf.org/external/pubs/ft/fandd/2001/03/keane.htm>], accessed 25 October 2013.

¹⁰³⁶ Letter to General Pinochet from Milton Friedman, 21 April 1975, In: Milton Friedman and Rose Friedman, *Two Lucky People. Memoirs*, (Chicago: University of Chicago Press, 1998), pp. 591-594.

¹⁰³⁷ Friedman, ‘The Road to Economic Freedom’, pp. 43-62.

Balcerowicz Plan. The merits of this kind of strategy have been vigorously debated since the end of the Cold War and have met with resistance from the anti-globalization movement and a variety of other groups. What is apparent from the Polish example, however, was that there was a shift over the 1980s that encouraged market-orientated policies internationally and that in this the Thatcher government played a part. Polish Foreign Minister from 2007, Radosław Sikorski later wrote, ‘if you look at the shock therapy prescribed by our first finance minister, Leszek Balcerowicz, it is clear that it was inspired by Mrs Thatcher’s radicalism’.¹⁰³⁸

The progress of the former communist bloc has been criticised. Corruption, oligarchy and organised crime proliferated in the region in the 1990s. The West has been blamed for rushing through elections and market reforms without putting enough emphasis on building political institutions that could have reduced corruption.¹⁰³⁹ State monopolies became private ones, inequality amplified with wealth concentrated in the hands of the few, seemingly in league with corrupt governments. Tony Faint said that the KHF was ‘noticeably more successful in CEE (Central and Eastern Europe) than in the FSU (Former Soviet Union), where the communist system was far more entrenched. Reformers like (Russian) Yegor Gaidar tried to push a reform agenda against great resistance.’¹⁰⁴⁰

In relative terms, comparing the area’s response to liberalization measures with that of other regions (Africa in particular but also Latin America) the Know How Fund can be deemed to have been successful in its aims. In the years since 1989 most of Eastern

¹⁰³⁸ Radek Sikorski, ‘Margaret Thatcher: A Cold War angel and a democratic miracle’, *The Telegraph*, 9 April 2013. <http://www.telegraph.co.uk/news/politics/margaret-thatcher/9982098/Margaret-Thatcher-A-Cold-War-angel-and-a-democratic-miracle.html> , accessed 28 October 2013.

¹⁰³⁹ Mendelson, ‘Power’, p. 238.

¹⁰⁴⁰ Tony Faint, personal communication with the author, 25 February 2012.

Europe has been admitted into the European Union, has remained peaceful and retained liberal democracies. The short-term assistance offered by the British government appears to have been one of the most successful aid strategies of the Thatcher period, and the one most effective in promoting and consolidating market principles. *The Economist* wrote in 1990, ‘why not extend a good idea, several have asked, and apply the same conditions to debt-ridden and *dirigiste* countries in the third world?’¹⁰⁴¹

The Know How Fund assisted radical reform in Central and Eastern Europe. In his recent account of the Fund however, Keith Hamilton said that to view Margaret Thatcher as wanting to translate free market economics into foreign policy would be too ‘facile’ an interpretation. This was due to the complex network of agencies providing assistance to the region after 1989 and because the Foreign Office was one of the least ‘Thatcherite’ departments in Whitehall.¹⁰⁴² Nevertheless, the Fund does represent an underlying trend. By the late 1980s Tony Faint deemed pro-market policies uncontroversial and that ‘state control of the economy’ had been ‘discredited as an economic model’.¹⁰⁴³ This could scarcely have been said ten years previously and alludes to another shift: that the climate of ideas had moved towards economic liberalism. This fits with the prevailing or ‘supporting’ wind idea mentioned elsewhere in this thesis. In UK domestic politics this had occurred earlier due to the rigorous ideological debate of the 1970s, the substantial work done by neo-liberal writers and the apparently discredited policies of the post-war period. By 1979 there was enough space for a pro-market strategy in Britain. Internationally this occurred

¹⁰⁴¹ *The Economist*, 2 June 1990, p. 29.

¹⁰⁴² Keith Hamilton, *Transformational Diplomacy after the Cold War. Britain's Know How Fund in Post-Communist Europe, 1989-2003*, (London: Routledge, 2013), p. 159.

¹⁰⁴³ Tony Faint, personal communication with the author, 25 February 2012.

ten years later, with the clear and growing economic gap between the West and communist world. As the strictures of the Cold War began to ease, neo-liberal policies gained more prominence. Some of these, such as privatization, had been at the vanguard of domestic reforms of Thatcherism. For aspects of the foreign policy of the Thatcher Government, even relatively minor ones like the Know How Fund, the promotion of liberal economics fitted more easily with more traditional self-interest. The Know How Fund, then, was a policy that combined free market economics with national interest and consolidated the Prime Minister's rhetoric of freedom that had been previously given throughout the region. Faint summarised the approach: 'The KHF was a very effective facility for reformers to use, and most effective where national objectives meshed well with its strategic outlook.'¹⁰⁴⁴

Liberal Economics and the Thatcher Government's Aid Policy

There have been a number of criticisms of the overseas development strategy of the Thatcher government by neo-liberals. The Centre for Policy Studies (CPS), the think-tank originally set up by Margaret Thatcher and Keith Joseph in 1974, published a paper in 1988 looking at UK aid policy. It took a similar tone to other New Right critiques of the decade. It called for an increased role for voluntary organisations, trade rather than aid and to counter the bias in favour of the public sector in developing countries.¹⁰⁴⁵ The paper advocated market solutions to debt, encouragement of Foreign Direct Investment (FDI) and equity finance.¹⁰⁴⁶ This may indicate that structural adjustment had not begun to bite or that aid policy was so

¹⁰⁴⁴ Tony Faint, personal correspondence with the author, 25 February 2012.

¹⁰⁴⁵ Frank Vibert, *Home truths for foreign aid. How to encourage enterprise abroad*, (CPS Policy Study No. 99, 1988), p. 6.

¹⁰⁴⁶ Vibert, *Home truths*, p. 6.

varied and confused that neo-liberal writers stuck to the same mantras. Where the 1988 CPS paper did differ from previous economic liberal analysis of development was its emphasis on reducing international trade restrictions, particularly on agricultural products. This represented the length of time the Uruguay GATT round lasted, although this was relatively short compared to the subsequent Doha round. The West was urged to give fullest possible access to the exports of the developing world.¹⁰⁴⁷ Some neo-liberals, similarly to Röpke years earlier, encouraged unilateral free trade, as opposed to the reciprocal variety.¹⁰⁴⁸ A market fundamentalist of the Hayekian line of thinking could argue, as some at the IEA have done, that if Britain was truly committed to trade rather than aid it could have abolished the ODA entirely (and its budget) and declared unilateral free trade with developing countries.

Subsequently neo-liberals have looked at why liberalization in the 1980s did not lead to more development. Similarly to East Europe, but to a far greater extent, governance has been identified as a problem. Economic liberalization without credible and stable institutions has led to corruption and retarded development. A focus on rules-bound institutions preventing concentration of power is an ordoliberal principle. The emphasis on tying aid to good governance was to be an issue pursued by the Major administration, in the aftermath of the Cold War. Chris Patten talked about the difference between Asia and Africa when he said the most important issue in development was good governance.¹⁰⁴⁹ The last Foreign Secretary in the Thatcher government, Douglas Hurd, also echoed this. 'It had been thought impracticable or in bad taste to say too much about the governance of the countries which received our aid. In 1990 we introduced a concept of good governance and respect for freedom as a

¹⁰⁴⁷ Vibert, *Home truths*, p. 22.

¹⁰⁴⁸ Deepak Lal, 'In Defence of Empires'. In: *Economic Affairs*, (23:4, December 2003), pp. 15-17.

¹⁰⁴⁹ Chris Patten, *Not Quite The Diplomat*, (London: Penguin, 2006), pp. 247-249.

condition for future aid.’¹⁰⁵⁰ Lynda Chalker rebuffed the criticism of structural adjustment programmes in 1990 but added that ‘we must send a clear message of support to those committed to better government.’¹⁰⁵¹

B.J. Ndulu, writing in *Economic Affairs* more recently, said that failure in Africa has been due to endemic rent-seeking, over regulation of markets, an unstable investment climate, weak infrastructure, unprotected property rights, a low rate of capital accumulation and low productivity.¹⁰⁵² This picked up on two important points when considering development in LDCs: political instability and property rights. Liberalization in the 1980s was intended to stimulate private enterprise and lead to growth. Yet the private sector will not invest (nor individuals save) if the conditions in an area are unstable. Political violence and turmoil was widespread across Africa and Latin America during this period. Secondly, if property rights cannot be secured, investment and therefore business are risky propositions. Misunyi Kimenyi, also writing in *Economic Affairs* considered better governance as just as effective as capital transfer in encouraging development.¹⁰⁵³ Kimenyi went on to say political instability, corruption and poor democratisation has affected the chances of development in LDCs.¹⁰⁵⁴ The principles of a stable investment climate, secure property rights as well as good governance were not made priorities in the 1980s by the Thatcher government. Yet this later neo-liberal analysis did expand upon some of the trends set during Thatcherism: reduced amounts of cash transfers and tying aid

¹⁰⁵⁰ Hurd, *Memoirs*, p. 495.

¹⁰⁵¹ Lynda Chalker, *Parliamentary Debates*, (Commons), 182, 14 December 1990, 1233-97.

¹⁰⁵² Benno J. Ndulu, ‘Ramping up African Growth: lessons from five decades of growth experience’. In: *Economic Affairs*, (26:4, December 2006), p. 5.

¹⁰⁵³ Mwangi S. Kimenyi, ‘Markets, institutions and Millenium Development Goals’. In: *Economic Affairs*, (27:2, June 2007), p. 18.

¹⁰⁵⁴ Kimenyi, ‘Markets’, p. 17.

and technical assistance with internal reform. The general theme in development, however, has shifted as Thatcher urged, from aid to trade.

Conclusion

Unsurprisingly the Thatcher government was primarily realist or nationalist in its foreign policy. For most of the Thatcher years the main focus of this was the Cold War, particularly during the escalation of the early 1980s. As tensions thawed during Gorbachev's leadership of the Soviet Union liberal ideas began to take more precedence in some UK foreign policy. This coincided with a broader global shift away from state-led command economies towards more market-based liberalization. A pertinent example of how self-interest sat more comfortably with economic liberalism was the Know How Fund to Eastern Europe after 1989.

To generalise, although it purported to have developmental aims, overseas aid under the Thatcher government was used as a tool of foreign policy. The ODA was incorporated into the Foreign Office in 1980 and bilateral aid was allocated to further Cold War imperatives and national interests. Development aid had always been used in this way by British governments but the goal had previously been *enlightened* self interest. It was more difficult to see this feature in much of the Thatcher (bilateral) aid strategy. ATP was used as a subsidy to gain contracts for British companies which disrupted prices and was even shown to have questionable utility for the UK. ATP became associated with corruption in the Pergau Dam fiasco, which appeared to show aid given to the Malaysian government in return for a lucrative weapons deal and a hydroelectric dam that would provide questionable benefits. The Thatcher

government had a reputation as ideologically dogmatic and at the vanguard of the global shift to market orientated policies in the 1980s. The bilateral aid programme of the UK over this time brings that perspective into doubt.

Multilateral aid, however, was a different story. Despite the work done by the Brandt Commission in urging an increase in the volume of aid and the general consensus at the 1981 Cancun Conference, the international strategy towards development changed during the Thatcher years. The neo-liberal critique of aid percolated into the IMF and World Bank's structural adjustment lending which tied aid to economic liberalization measures, which were intended to stimulate private enterprise and trade-led growth. Margaret Thatcher was vocal in her opposition to redistribution at Cancun and consistently argued the case for the market: *trade not aid*. Yet she was not a leader on the aid issue. Her emphasis in foreign policy was the Cold War and British interests while her zealousness for market reforms was mainly concentrated in the domestic sphere.

Liberal economic thought was expendable as a tool of foreign policy. In relation to ATP and bilateral aid it was disposable - towards South Africa it was a justification. The apartheid regime was reviled around the world but Margaret Thatcher invoked trade as a means of development and resisted intense international pressure to apply sanctions. They were, however, subsequently one factor (along with political unrest, the fall of the Berlin Wall and a change in leadership) that forced South Africa to reform. The Prime Minister's reasons for supporting aid as a subsidy for British firms while resisting sanctions against South Africa were the same: UK jobs and national interest. The Thatcher government's foreign policy was shown to use liberal

economics as a rhetorical device. In aspects of overseas development it was discarded due to self-interest and over South Africa it was invoked for the same purpose.

The Know How Fund to Eastern Europe showed a more sophisticated application of liberal ideas in aid policy. It pursued national interest in promoting peaceful pro-Western change in the former communist bloc and by encouraging the transition to market-based liberal democracies. A combination of the FCO and the ODA provided technical assistance to the fledgling administrations of Eastern Europe and helped them develop the capacity for a market economy. It was not the blunt instrument imposed by structural adjustment, which yielded some disappointing results in the developing world and, although flawed in certain areas, was ultimately more successful as a result. The Thatcher government was more compromised in foreign and aid policy towards liberal economics than was the case domestically. Nevertheless and despite the overarching realism, foreign policy initiatives like the Know How Fund and support for the World Bank and IMF represent a wider trend. It was indicative of the international shift toward globalised trade and market orientated economics. Although the Thatcher government only did a limited amount to actively pursue this, the example set by its domestic agenda as well as elements of its foreign policy allowed it to hasten its momentum and direction.

Conclusion

This thesis has examined the extent of influence of liberal economic thought on the Thatcher government in a number of ways. Firstly, by utilizing the growing literature on the subject, it has charted the rise of neo-liberalism over the twentieth century. The main positions of the most significant neo-liberal strands - the Freiburg, Austrian and Chicago Schools - have been differentiated. Secondly, the influence of neo-liberalism on a cross section of the policies of Thatcherism has been framed. Thirdly, the opinion of neo-liberals toward the Thatcher government regarding these case studies has been outlined. Lastly, the extent to which some of these policies were neo-liberal, and which strain of neo-liberalism they best or least represented, has also been examined.

This study has not questioned whether or not Thatcherism was influenced by liberal economics but how and how far. There are a number of generalisations found in the literature during and since the Thatcher era. These include that Conservative governments revived *laissez-faire* capitalism, returned to 'Victorian values' and dogmatically applied the theories of in particular, Friedrich Hayek and Milton Friedman.¹⁰⁵⁵ The left has lambasted the Thatcher government as destroying both the working class and the post-war settlement. It has closely attached the forces of neo-liberalism, globalization and market fundamentalism (often interchangeably) with these administrations, frequently in a conspiratorial tone.¹⁰⁵⁶ The left has also

¹⁰⁵⁵ Joseph Stiglitz, *Freefall. Free markets and the sinking of the global economy*, (London: Penguin, 2010), pp. 17-18, Taylor Boas and Jordan Gans-Morse, 'Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan', In: *Studies in Comparative International Development* (44:2, June 2009), p. 138, Nigel Lawson, 'Mrs Thatcher's Lasting Legacy', In: *Standpoint*, (May 2009) <http://standpointmag.co.uk/node/1484/full>, accessed 10 May 2012.

¹⁰⁵⁶ Boas and Gans-Morse, 'Neoliberalism', pp. 137-138.

criticised New Labour as being neo-liberal, and a luke-warm version of Thatcherism.¹⁰⁵⁷ The pro-market right, however, has often stated that the Thatcher government was too timid in its application of liberal economic ideas. One overriding factor in the work done on this topic is the polarising effect of both Margaret Thatcher and her government. With over thirty years now elapsed since the Conservatives came to power in 1979, and in particular since the 2007-08 financial crisis (and its implied link to the reforms of the 1980s) there is now sufficient space to reappraise the relationship between ideology and the policies of Thatcherism.

General Themes

There are several key points this study has tried to make.

- The majority of the policies of the Thatcher government probably satisfied the ideas of neo-liberalism, broadly conceived; examples would include ownership, monetary control, some faith in market forces, less intrusive state bureaucracy and the importance of private property rights.
- Many of the reforms associated with Thatcherism did not, however, satisfy the more demanding principles of Austrian microeconomics and allow markets to function at their most efficient. This was because Thatcherism was as much a political project tied to Tory ‘statecraft’ as an ideological crusade. Subsidies, misplaced regulation, tolerance of monopoly and neglect of competition created price and market distortions. These failed to meet the social aims of ordoliberalism and were insufficiently liberalising for Hayekians.
- Individual liberal economic policy recommendations, such as enterprise zones,

¹⁰⁵⁷ Ray Kiely, *The Clash of Globalisations. Neo-Liberalism, the Third Way and Anti-Globalisation*, (Leiden: Brill, 2005), p. 125.

were in some cases implemented in a reasonably similar fashion to their original design. Monetary control followed some of the theoretical recommendations of Friedmanite neo-liberalism and its offshoots such as the London Business School.

- The Thatcher government made a general, if ill-defined, attempt to reduce the power of vested interests. Its most notable success here was the taming of trade union influence through a combination of ‘step-by-step’ legislation, political guile and a raft of other measures and trends, such as declining union membership and ending price and incomes policies. However, in other cases, such as privatization, financial deregulation and broadcasting policy, it reduced the influence of one set of interests but allowed another to emerge. The IEA has suggested this may be an integral feature of liberalization in democracies.
- The foreign policy of the Thatcher government privileged national interests over liberal economic ideas. In some areas, such as the Know How Fund to Eastern Europe and multilateral aid particularly as the Cold War thawed, national interest and economic liberalism converged. For the most part, though, the rhetoric of the market and liberty in foreign policy was not matched empirically.
- Many of the reforms of the Thatcher government constitute a new orthodoxy. A number of economic liberals, however, believe several Thatcherite policies did not go far enough (for instance in education and health) and have shifted the debate in terms of misdirected state regulation. Their critique still invokes ‘government failure’, utilizing Hayekian and Public Choice tradition. This exposes the contradictions of neo-liberalism – requiring the state to move

towards its objectives without ever being able to reach them fully.

Limits of this study

Although the Thatcher government came to power over thirty years ago, the proximity of the period has posed some challenges with respect to sources for this study. The thirty-year rule regarding disclosure of government documents has meant the emphasis on primary archive material is skewed towards the first Thatcher government. For instance, the papers concerning exchange control removal and early economic policy offer an intriguing insight into how close both individual economic liberals and New Right ideas penetrated the formulation of policy. The later case studies that look at, for instance, the ‘internal market’ reforms or Big Bang suffer as a result. On the other hand, the relatively short space of time since the Thatcher government was in power has meant several relevant politicians, civil servants and commentators have been interviewed. The wealth of material on these topics from economic liberals during this period has meant the study very much looks through this lens. The New Right was not shy about releasing material; policy makers obviously were.

The Rise of Neo-liberalism

The Fabian Society and its influence acted as the model for the New Right. Its long-term impact on policy makers was the inspiration for a number of groups. It was one of the reasons that Friedrich Hayek established the Mont Pelerin Society in 1947 and it encouraged the formation of British think-tanks like the Institute of Economic

Affairs (IEA) and Bow Group.¹⁰⁵⁸ Hayek recognised that change and influence occurred over the long-term and away from the political arena. This meant writers and think-tanks operated, by and large, outside the mainstream during the 1950s and 1960s. The opportunity for their opinions to be taken more seriously arose during the crises of the 1970s. Hayek was of the Austrian School of economics that formed in the late nineteenth century in Vienna. Along with his mentor Ludwig von Mises, Hayek has come to embody a market fundamentalist strain of neo-liberalism. Although true that Hayek, and in particular Mises, articulated a minimal state liberal ‘utopia’ (to use Milton Friedman’s description), this ignores the historical development of neo-liberalism.¹⁰⁵⁹ Writers such as Daniel Stedman-Jones, Ben Jackson, Werner Bonefeld, Rachel Turner, Taylor Boas and Jordan Gans-Morse as well as the collection by Philip Mirowski and Dieter Plehwe have shed light on the forgotten first incarnation of neo-liberalism in 1930s Germany. This group, the ordoliberals, reinforced the liberal faith in market forces and the importance of price while accepting some role for the state in maintaining competition and attenuating what they thought were the deleterious social effects of *laissez-faire*. With the contextual backdrop of authoritarianism and growing collectivism of the period, both Stedman-Jones and Jackson have identified the convergence of neo-liberals in the 1930s and 1940s, including the ordoliberals, the ‘first’ Chicago School and to a lesser extent, Hayek. Andrew Gamble also made a link between Thatcherism and the ordoliberals during the 1970s by invoking the latter’s idea, the ‘free economy – strong state.’¹⁰⁶⁰

¹⁰⁵⁸ Eamonn Butler, *Hayek*, (New York: Universe, 1985), p. 1.

¹⁰⁵⁹ Milton Friedman, ‘Say “No” to Intolerance’, In: *Liberty*, (4:6, July 1991, pp. 17-20), [http://mises.org/journals/liberty/Liberty_Magazine_July_1991.pdf], accessed on 28 November 2013, p. 20.

¹⁰⁶⁰ Werner Bonefeld, ‘Adam Smith and ordoliberalism: on the political form of market liberty’, *Review of International Studies*, 39:2, 233-250. (July 2012), p. 235, Andrew Gamble, *The Free*

Hayek formed the Mont Pelerin Society in 1947 and embarked upon forming a wave of liberal opinion that would turn back the fashion for central planning. He later admitted that by wanting to keep his group united he resisted criticising other Mont Pelerin members, in particular Milton Friedman, as well as the ‘constraining liberalism’ of the Freiburg School.¹⁰⁶¹ Although clearly agreeing on a great deal, this strategy may have helped disguise important distinctions and given rise to the grouping together of the various schools of thought as a homogeneous collective. 1930s and 1940s neo-liberalism exerted some influence on the post-war West German state, which the ordoliberals either worked close to or even with in government. This strain became forgotten in the English-speaking world, however, as Friedman’s ‘second’ Chicago School became the most famous proponents of economic liberalism in the 1950s. Stedman-Jones has suggested that the Chicagoans represented a more radical turn for neo-liberalism.¹⁰⁶² Its economic if not philosophical positions, however, sat somewhere between the Austrians and ordoliberals. Hayek and Mises, and later Murray Rothbard, were anti-state ‘libertarians’ whose focus on microeconomics and price was closest to classical liberalism. Ordoliberals saw the primacy of markets but wanted to use them for social outcomes and to prevent ‘proletarianization’ politicising the working class.¹⁰⁶³ Ordoliberals were comfortable with a legally-based state that would constrain monopoly and make ‘market compatible’ interventions in the economy.¹⁰⁶⁴ Although uneasy about government

Economy and the Strong State. The Politics of Thatcherism. (Basingstoke, Palgrave Macmillan, 1994), pp. 38-45.

¹⁰⁶¹ Margaret Thatcher Foundation, (hereafter MTF), 117203, Letter from Friedrich Hayek to Arthur Seldon, 13 May 1985, [www.margarethatcher.org/document/117203], accessed on 13 September 2012, Manfred E. Streit and Michael Wohlgemuth ‘The Market Economy and the State. Hayekian and Ordoliberal Conceptions’, In: *The Theory of Capitalism in the German Economic Tradition*. P. Koslowski, ed., (London: Springer, 2000, pp. 224-260), p. 229.

¹⁰⁶² Daniel Stedman-Jones, *Masters of the Universe. Hayek, Friedman, and the Birth of Neoliberal Politics*, (Oxford: Princeton University Press), p. 91.

¹⁰⁶³ Bonefeld, ‘Adam Smith’, p. 238.

¹⁰⁶⁴ Christian Watrin, ‘Alfred Muller-Armack – Economic Policy Maker and Sociologist of Religion’,

activism the Chicago School under Milton Friedman and George Stigler nevertheless were willing to utilize it to further their goals. Ideas such as monetary control and education vouchers attempted to promote conditions suitable for more efficient markets or to create a market if it did not exist. This principle has been identified by writers such as Jamie Peck - that of 'retasking' the state in favour of business or pro-market interests - and has some resonance with the policies of Thatcherism.¹⁰⁶⁵ The change in role of the state has been identified by Peter A. Hall as representing a link between ideas, power politics and a shift in institutional 'policy paradigms'.¹⁰⁶⁶ The distinctions between the strains of neo-liberalism, as well as their historical development, have not been sufficiently well documented in much of the work on Thatcherism, hence this study.

Monetary control was the first major New Right policy to gain a level of acceptance with politicians, and some of the public, in Britain. This was due to the work of Milton Friedman (and Anna Schwartz) from the 1960s identifying inflation as a monetary phenomenon. The message was also conveyed by politicians like Keith Joseph and journalists such as Peter Jay and Samuel Brittan, in newspapers like *The Times*, *The Daily Telegraph*, *The Economist* and *The Financial Times*.¹⁰⁶⁷ The fault line for the establishment in this debate was 1976, when Britain had to accept an IMF loan. James Callaghan's famous Labour Party Conference speech (written by Peter Jay) created some space for the Thatcher government to subsequently pursue the

In: *The Theory of Capitalism in the German Economic Tradition*, P. Koslowski, ed, pp. 192-220, (London: Springer, 2000), p. 209. Samuel Gregg, *Wilhelm Ropke's Political Economy*. (Cheltenham: Edward Elgar, 2010), p. 89.

¹⁰⁶⁵ Jamie Peck, *Constructions of Neoliberal Reason*, (Oxford, 2010), pp. 4, 17.

¹⁰⁶⁶ Peter A. Hall, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', In: *Comparative Politics*, (25:3, April 1993, pp. 275-296), pp. 279, 290.

¹⁰⁶⁷ Richard Cockett, *Thinking the Unthinkable. Think-tanks and the Economic Counter Revolution 1931-1983*, (London: Harper Collins, 1995), p. 183.

policy more dogmatically between 1979 and 1983.¹⁰⁶⁸ The other area that the New Right had some impact on in the 1970s was trade union reform. The Winter of Discontent, in particular, created an opportunity in which politicians and the public questioned the role of the unions in British society.

Monetary control and industrial relations were direct responses to the public's concerns of the times. Wider acceptance of a pro-market programme, supply-side or micro-economic reforms made less of an impact. The work in the 1960s and 1970s of Public Choice theorists may have also had a small, if limited, effect. Rooted in the thesis of Hayek's *The Road to Serfdom*, writers like James Buchanan and Gordon Tullock launched a critique of the state. Government and its bureaucracy, according to Public Choice, was wasteful, inefficient, prone to 'rent-seeking behaviour' and inclined to inexorably expand. Politicians, accordingly, should aim to reduce the size, power and scope on the state while applying increased discipline to what remained. Public Choice theorists invoked the idea of 'government failure'. These principles may have influenced Keith Joseph (who spoke of the 'ratchet effect' of socialism and the state) and Margaret Thatcher, who recommended her civil servants read Virginia School literature.¹⁰⁶⁹ Public Choice ideas appeared to infuse several Thatcherite policies, from privatization (the state should not run industry) to financial deregulation, to the internal market reforms in public services (market disciplines can constrain unproductive public sector workers and bureaucrats). Nevertheless this also

¹⁰⁶⁸ Ben Jackson and Robert Saunders, 'Introduction: Varieties of Thatcherism', In: *Making Thatcher's Britain*, B. Jackson and R. Saunders, eds., (Cambridge: Cambridge University Press, 2012, pp. 1-21), p. 19.

¹⁰⁶⁹ Donald J. Savoie, *Thatcher Reagan Mulroney. In Search of a New Bureaucracy*, (London: University of Pittsburgh Press, 1994), pp. 27, 106.

aligned with longer term Conservative thinking on bringing a more managerial or business approach to bureaucracy.¹⁰⁷⁰

In rhetorical and presentation terms, Keith Joseph was the British politician who most publicly challenged the post-war settlement with the ideas of the New Right. His lecture tours, the work done by his think-tank the Centre for Policy Studies (CPS) and his input into other research groups (such as the *Right Approach* and Stepping Stones), were important in questioning long-held principles.¹⁰⁷¹ He was also the only Conservative to flirt with *ordoliberalism*, initially naming the CPS the ‘Erhard Foundation’ before its launch and showing interest in the work of Wilhelm Röpke.¹⁰⁷² In practical terms, however, Geoffrey Howe had been committed to free market ideas since the 1950s (Joseph had alternated with the orthodoxy of the times up until 1974) and applied these principles with determination once in office. His commitment to policies like exchange control removal, enterprise zones and monetary control came under fire. Establishment critics, civil servants and other members of the Government challenged his course, while Margaret Thatcher was often unsure. Documents from the period show Howe’s policies were rooted in liberal economics and were pursued consistently despite his mild mannered public persona. At the same time, Joseph prevaricated over a bail-out for British Leyland while Secretary of State for Trade and Industry and whether to implement a voucher scheme while at the Department of Education and Science.

¹⁰⁷⁰ Tim Bale, *The Conservatives Since 1945*, (Oxford: Oxford University Press, 2012), pp. 130-135, 138.

¹⁰⁷¹ Interview with Lord Ryder, 23 February 2011.

¹⁰⁷² MTF114757, ‘Ralph Harris record of conversation (visit from Keith Joseph)’, 14 March 1974, MTF114760, ‘Sir Keith Joseph note ("The Erhard Foundation")’, 21 March 1974.

Finally, New Right ideas can be seen to have been transmitted via a cascade. The most profound work was done by thinkers like Hayek and Friedman. Think-tanks like the IEA then condensed them and gave them contemporary context. Journalists like Samuel Brittan and Peter Jay helped influence popular opinion while ‘conduits’ like Gordon Pepper most directly influenced policy makers. Even in office these conduits can be seen to have retained some contact with key politicians. Two examples include the meetings between Pepper and the Prime Minister, as well as the latter consistently seeking the advice of Alan Walters.

Economic Policy

This thesis has attempted to show that a spectrum of liberal influence existed in the domestic policies of the Thatcher government. The monetarist phase of economic policy during the first term was one of the clearest examples of ideology in practice. Deviating from the previous orthodoxy of counter-cyclical Keynesian demand management, the Government targeted the control of inflation as its primary concern. Several writers, such as Stedman-Jones and those on the left such as Andre Gunner Frank, have identified this as building on the monetary restraint of the Callaghan government, which came under pressure from the International Monetary Fund (IMF).¹⁰⁷³ The Thatcher government, however, appeared to be more committed to this approach and several Conservative politicians were aware of, if not advocates of, Milton Friedman’s monetarism, often through conduits such as Alan Walters, Gordon Pepper and Peter Jay. The policy had two distinct phases. From 1979 until the 1981 Budget the emphasis was control of inflation by restricting monetary aggregates.

¹⁰⁷³ Stedman-Jones, *Masters*, pp. 5, 257, Andre Gunner Frank, ‘No End to History! History to No End?’, In: *Social Justice*. (17:4 (42) Winter 1990), p. 17.

After this deficit reduction, under the influence of ‘rational expectations’ thinking of the kind proposed by the LBS, took a more central role. Although criticised for the severity of the recession it caused, inflation had been cut back at the end of the first term before Nigel Lawson embarked upon different monetary techniques as Chancellor. Even with economic policy, apparently rooted in theory, the Thatcher government used the defeat of inflation politically. As Bulpitt pointed out, one of monetarism’s key aims was to ‘disentangle’ the central state from ‘interests’.¹⁰⁷⁴ It was this dogmatic approach to reducing inflation, at the cost of soaring unemployment, that most wedded Thatcherism to an austere ideology.

The removal of exchange controls was a measure that promoted trade and therefore satisfied neo-liberals of all persuasions. Milton Friedman believed this was the key initial act of Thatcherism.¹⁰⁷⁵ Both exchange control abolition and the enterprise zone policy acted as important signals for the Thatcher government. The policies represented an early faith in market forces (although documents reveal Thatcher came close to re-imposing inflow controls), particularly by Geoffrey Howe and the Prime Minister. They were stepping stones toward the set piece deregulatory reforms of privatization and Big Bang in the second term. Geoffrey Howe, Nigel Lawson and Margaret Thatcher met opposition to their economic policy from within both the Conservative Party and the establishment. The influence of the New Right here is particularly relevant because documents appear to show liberal economic outsiders exerted more influence on policy makers than those within the Government machine. A closer appraisal of enterprise zones, however, illustrates the wider programme of

¹⁰⁷⁴ Jim Tomlinson, ‘Thatcher, monetarism and the politics of inflation’, In: *Making Thatcher’s Britain*, B. Jackson, R. Saunders, eds., (Cambridge: Cambridge University Press, 2012, pp. 62-77), p. 77.

¹⁰⁷⁵ Milton Friedman, *Margaret Thatcher’s Revolution. How it happened and what it meant*. S.Roy, J. Clarke, eds, (London: Continuum, 2005), p. 66.

Thatcherism and neo-liberalism. At face value, particularly with the growth of Canary Wharf, enterprise zones were a pro-market measure of deregulation and liberalization. Although this was true the use of the state in clearing land and providing infrastructure was also important in the London Docklands.¹⁰⁷⁶ Enterprise zones were another example of how the state was ‘retasked’ under Thatcherism. In addition, outside the Docklands neo-liberals were less supportive of the policy.¹⁰⁷⁷

If economic policy saw a more faithful application of liberalism, social policy was more compromised. One popular success was council house sales. Although the policy had long-standing roots in the Conservative Party, and had started several years before 1979, it aligned neatly with the liberal principles of ownership and individualism. Right to Buy, however, was a partial success for neo-liberals. It shifted the terms of ownership but the manner of implementation (subsidies, large discounts and other housing subsidies like MIRAS) caused market distortions. Housing policy was another that altered the groups that received favours from government. Whereas the post-war settlement privileged groups like trade unions, the policies of Thatcherism accelerated the trend that made homeowners ‘our people’. Successive Chancellors battled with the Prime Minister to lower the ceiling on mortgage interest relief as well as over interest rate rises. This encouraged price increases and what has been described as the British ‘fetish’ for home ownership.¹⁰⁷⁸ In neo-liberal terms these interventions distorted the market and prices, the main focus of Austrian thinking.

¹⁰⁷⁶ Jack Brown, 'The London Docklands Development Corporation: 1979-1981', (London: QMUL, unpublished MA thesis, 2012), p. 54.

¹⁰⁷⁷ Peter Stoney, ‘Enterprise Zone: Incentive or Intervention?’, In: *Economic Affairs*, (8:1, October/November 1987), p 30.

¹⁰⁷⁸ *The Economist*, ‘Gaponomics’, 12 March 2011, p.15.

Lastly, two favourite New Right subjects, education vouchers and private provision of healthcare of the NHS failed due to the opposition of both public opinion and vested interests. The adapted New Right models did find some influence in the internal market reforms of the third Thatcher government. The 1988 education legislation included some element of choice for parents and retained the voucher-based principle of per capita funding. The National Curriculum, however, centralised control in education. Local education authorities were a political target for the Conservatives but this approach clearly did not chime with the kind of dispersion of power favoured by neo-liberals such as Milton Friedman, who once said ‘If government is to exercise power, better in the county than in the state.’¹⁰⁷⁹ Nevertheless subsequent governments have pursued the quasi-market reforms of Thatcherism as a means to improve choice and therefore standards. Reform of the NHS met significant resistance and saw the absolute limit of neo-liberal ideas in Thatcherism. Increased private provision may have been favoured by those on the New Right but the eventual internal market reforms instilled some financial discipline on the health service without altering its basic structure.

Vested Interests

Economic liberals believe that vested interests have a detrimental effect on a market economy. Although not a pre-conceived strategy, due to the influence of both long-term Conservative thinking as well as neo-liberalism, we may have expected the Thatcher government to attempt to curtail the power of special interest groups. Several of the vested interests studied here (trade unions, the ‘old’ City, state

¹⁰⁷⁹ Milton Friedman, *Capitalism and Freedom*, (London: University of Chicago Press, 2002, first published 1962), p. 3.

controlled industries) did see their influence reduced by the Thatcher government. Trade union reform was the most successful part of this strategy. Tackling industrial relations was both political and economic. After bringing down the Heath government, trade union power loomed large in the Party's memory. Economically reducing its clout did create a more flexible labour market. To achieve trade union reform the Conservatives used a 'divide and rule' approach and when in government, an improvised 'step-by-step' approach. The slow attrition of the union movement, as well as the set piece confrontations with the NUM and printing unions, effectively reduced its influence as a vested interest and moved it to the fringes of the political process.

Financial deregulation, however was a different story. The old clubby network of a hermetically sealed City was prised open by exchange control removal in 1979 and Big Bang in 1986. The resulting wealth accumulated in the new City as well as soaring trade secured London's position as an international financial hub, and gave the financial service sector growing power. This allowed the City to develop into a more potent vested interest than it had been previously. For those at the Hayekian IEA, this was due to flawed or misdirected regulation.¹⁰⁸⁰ The importance of the financial sector meant the British government either part-nationalised or bailed out collapsing banks during the 2007-08 financial crisis. 'Too-big to fail' financial institutions inevitably prevented new entry to the market and reduced competition. One account of the interplay between government, the Financial Services Authority

¹⁰⁸⁰ Philip Booth, 'More regulation, less regulation or better regulation?', In: *Verdict on the Crash. Causes and Policy Implications*, P. Booth, ed., (London: IEA, 2009, pp. 157-170), p. 169.

and representatives of the major British banks was set out in Alistair Darling's *Back From the Brink*.¹⁰⁸¹

The Thatcher government attempted to curb the influence of the BBC by setting up the 1985-86 Peacock Committee. Despite the presence of several economic liberals on the committee it did not recommend an end to funding by licence fee. The Corporation had to change, adapting to both the commission and its aftermath. In short though, the power of the BBC was not reduced to a great extent. The 1990 Broadcasting Act attempted to bring more commercial pressures to bear on television but managed to create another vested interest, that of BSkyB and the Murdoch empire. The latter has managed to exert influence over policy-makers and this was in part because the Thatcher government ignored rules on monopoly and ownership in 1981 and 1990. Again this was political as Murdoch's newspapers and channels were generally more supportive of the Conservatives than the BBC. Although it is worth noting the large start-up costs of satellite broadcasting the results of the Thatcher government's policies has been limited competition.¹⁰⁸²

Privatization satisfied broad New Right themes - withdrawal of the state, private ownership, reversal of the 'ratchet effect' - and did have benefits for the consumer. On the other hand, the years after each large privatization years saw continued monopoly (in the private sector) and regulation or legislation struggling to facilitate competition. Electricity privatization managed to remove a vested interest but the creation of giant monopolies in the private sector risked a new group exerting

¹⁰⁸¹ Alistair Darling, *Back From the Brink. 1,000 Days at Number 11*, (London: Atlantic Books, 2012), pp. 61-63, 156-162.

¹⁰⁸² Andrew Crisell, *An Introductory History of British Broadcasting*, (London: Routledge, 2002), p. 232.

influence on markets. During the electricity privatization process Cecil Parkinson and Nigel Lawson appeared to be moving to ordoliberal ideas of enforcing competition and preventing monopoly, as a result of the criticism of earlier gas and telecoms sales.¹⁰⁸³ The eventual legislation however, hastened by the electoral cycle, saw less competition than many neo-liberals would have desired. Hayekians saw a ‘captured’ regulator, ordoliberals presumably a weak framework.¹⁰⁸⁴ The result chimed with Harvey’s view that a neo-liberal state attempts to create markets and then retreats from them.¹⁰⁸⁵

Foreign Policy

A government committed to liberal economics generally behaved in a traditionally self-interested way in foreign policy. A hierarchy of beliefs appeared to exist; of nationalism first, anti-communism second and market economics third. In several of the case studies examined here, such as bilateral aid, the Aid and Trade Provision (ATP) and the Pergau Dam project; national interest was the overriding consideration and not ideology. In others, such as the resistance to sanctions against apartheid South Africa, liberal economics were used as rhetorical device to mask (British) nationalism and anti-communism.¹⁰⁸⁶ Lastly, the increase in multilateral aid (mainly to the World Bank and IMF, often for structural adjustment lending), support for NGOs and the Know How Fund to Eastern Europe all represented a convergence of liberal economics and national interests. The latter was also one of the most effective aid

¹⁰⁸³ Cecil Parkinson, *Right at the Centre*, (London: Weidenfeld and Nicolson, 1992), pp. 260, 265, 277.

¹⁰⁸⁴ Colin Robinson, *Competition in Electricity? The Government’s Proposals for Privatizing Electricity Supply*, (London: IEA, 1988), pp. 7, 18.

¹⁰⁸⁵ David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005), p. 2.

¹⁰⁸⁶ Paul Sharp, *Thatcher’s Diplomacy. The Revival of British Foreign Policy*, (London: MacMillan, 1997), p. 230.

policies of the Thatcher government. Therefore, as with domestic policy, there was a spectrum of influence from the New Right although ideas were generally less important in foreign policy.

The decline in the value of aid over the 1980s would have satisfied New Right writers (and may have gained some inspiration from them) on the subject such as Peter Bauer and Robert Nozick. Other liberal economic ideas that the Thatcher government broadly supported regarding aid were lower tariff barriers to trade (after the Uruguay GATT Round in 1989), a rise in support for NGOs for humanitarian assistance as well the market disciplines (with varying degrees of success) exerted by structural adjustment policies.

Thatcherism, Neo-liberalism and Market Fundamentalism

Why is it important to further examine the links between Thatcherism and neo-liberalism? Look at any number of texts concerning globalization and the modern world and the term neo-liberalism often looms large. The use is overwhelmingly negative and has to come to signify some malign force, either backed by sinister Western business interests or right-wing politicians, or even more worryingly as a power in its own right.¹⁰⁸⁷ The implications of this have been shown in this thesis to be at odds with the original architects of neo-liberalism. Stedman-Jones has identified the historical development of neo-liberalism from 1930s Germany to 1980s Britain and America. Peck has also described the development of neo-liberalism, viewing the phenomenon as one that requires redefining, particularly in terms of how the state has

¹⁰⁸⁷ Boas and Gans-Morse, 'Neoliberalism', pp. 137-138.

to ‘fix’ markets, in order to survive and maintain influence among ruling elites.¹⁰⁸⁸ Ben Jackson has singled out the similarities between early neo-liberals thinking in comparison with its more radical 1970s version.¹⁰⁸⁹ Rachel Turner sees the movement towards neo-liberalism as rooted in the context of each specific country – in the US as a reaction to the Great Society of the 1960s, in Britain against union power in the 1970s and West Germany in the 1940s against the Nazis.¹⁰⁹⁰ While accepting these trends this thesis has attempted to set out the separate strains of thinking and core positions taken by neo-liberals from its inception, through Thatcherism and beyond. These differences have been made more opaque by the contemporary trend to read neo-liberalism as market fundamentalism with a twist of Western imperialism. The ‘Washington Consensus’ and globalization are also terms closely associated with Thatcherism and neo-liberalism. This has been documented by Boas and Gans-Morse. What we can say from all these interpretations of economic liberalism in the twentieth century is that they are more complex than many have assumed.

Although not in wide circulation, the term neo-liberalism had broadly positive connotations in the 1960s, linked with ordoliberal intellectuals like Röpke.¹⁰⁹¹ This changed in the 1970s when Augusto Pinochet’s coup in Chile and its resulting economic policies were dubbed neo-liberal. From this point the term took on a more sinister tone, aligned with Pinochet’s authoritarian regime. Milton Friedman’s support for it suggested that many neo-liberals believed markets create civil society and not

¹⁰⁸⁸ Peck, *Constructions*, p. xiii, 4.

¹⁰⁸⁹ Ben Jackson, ‘At the Origins of Neo-liberalism: The Free Economy and the Strong State’, 1930–1947’, In: *The Historical Journal*, (53:1, March 2010, pp. 129-151), p. 132-140.

¹⁰⁹⁰ Rachel S. Turner, *Neo-Liberal Ideology. History, Concepts and Policies*, (Edinburgh: Edinburgh University Press, 2008), p. 219.

¹⁰⁹¹ A review of Röpke’s book *A Humane Economy* in *The Economist* on 8 October 1960 spoke of neo-liberalism in positive terms, as did an article in 1964. By 1969 *The Economist* was mentioning the term in relation to Latin American countries.

vice versa. One of the reasons it is still relevant to identify the different potential policies embedded within neo-liberalism is how far the modern reading has deviated from *ordoliberalism*. Several historians appear to show sympathy toward this moderate version of neo-liberalism, and dismay at the way it drifted in Britain and the US towards the Chicago School's ideas.¹⁰⁹² This is fundamentally because ordoliberals believed the market system was the most propitious way to organise an economy, but that it could be manipulated for social ends. The Austrian and Chicagoan interpretations see markets as able to deliver order and benefits with little or limited outside intervention. They also have an ill-defined 'freedom', sometimes articulated as 'negative liberty', as an objective.¹⁰⁹³ It is in this respect that we see the Thatcher government more closely aligned with Friedmanite neo-liberalism – to enact broadly market friendly and often political measures – and then to step away from action that might mitigate their social implications or even that could allow the market to operate more efficiently. One example was monetary control during the first Thatcher government. For an Austrian this was too much government while for ordoliberals monetarism was too focused on economic and not social outcomes.

In contemporary British politics these differences still matter. When the coalition government went about reducing the budget deficit through cuts in 2010 they invoked the policies of the Thatcher government between 1981 and 1983. When leaders suggest they can prevent energy price rises through government fiat they are inadvertently trying to amend the perceived flaws of the privatization policies of Thatcherism, albeit the symptoms rather than the root causes.¹⁰⁹⁴ Closer examination

¹⁰⁹² Stedman-Jones, *Masters*, p. 335, Peck, *Constructions*, p. 17, Patrick M. Boorman, 'Apostle of a Humane Economy: Remembering Wilhelm Ropke', In: *Society*, (37:6, 2000, pp. 57-65)

¹⁰⁹³ Stedman-Jones, *Masters*, p. 71.

¹⁰⁹⁴ Colin Robinson, *From Nationalisation to State Control. The Return of Centralised Energy*

of the basic positions implicit in these policies could improve social outcomes if governments wish to remain working within a neo-liberal paradigm.

Summary

This study has attempted to describe the relationship between liberal economic ideas and the policies of the Thatcher government. It has studied neo-liberal literature, set out hypothetical policy models and explored where and why politicians may have implemented or deviated from these. It has examined what the New Right thought of Thatcherism and the ideological and political legacy of the period. The actual policies implemented by the Thatcher government have had far reaching effects. Taken as a whole they have helped create a new orthodoxy, both in Britain and internationally, in macro and microeconomics. This has taken selective ideas from the New Right, compromised by political reality. There are several ways in which this project has tried to add to the existing literature on Thatcherism and neo-liberalism.

- Firstly, it adds to the growing work done on the development of neo-liberalism, particularly by putting more emphasis on the work and lineage of the Freiburg School.
- Secondly, it sets out neo-liberal positions and looks at how close the Thatcher government was to these. Although invoking the philosophy of Hayek at times and having some very loose association with ordoliberal ideas, Thatcherism

Planning, IEA Discussion Paper No. 49., (London: IEA, 2013),
[http://www.iea.org.uk/sites/default/files/publications/files/From%20Nationalisation%20to%20State%20Control_web.pdf], accessed 26 December 2013, pp. 6-7, 11-14, 'Labour: Miliband pledges to freeze energy prices', In: *The Daily Telegraph*, 24 September 2013,
[<http://www.telegraph.co.uk/news/politics/labour/10331012/Labour-Miliband-pledges-to-freeze-energy-prices.html>], accessed 27 December 2013.

was most closely linked with the Chicago School of Milton Friedman.

- Thirdly, it reinforces the impression that while few members of the Thatcher government were ideologues (indeed, the most fervent neo-liberal influence was exerted by advisors, or ‘conduits’ such as Alfred Sherman, Alan Walters, Gordon Pepper and journalists like Samuel Brittan), it did, however, align more closely to neo-liberalism due to the prevailing or ‘supporting’ wind of the period.
- Fourthly, it shows that some in government, such as Terry Burns, helped move the Government’s economic policy in a more theoretically neo-liberal direction. By implication, the state action this entailed took on a broadly Friedmanite or Chicagoan hue. Burns, as well as others such as Walters, have acknowledged the direct influence Friedman exerted on them.
- Fifthly, it shows that the Thatcher government, although nominally liberal, behaved in a similar way to Hayek’s reading of government, in so far it was beholden to certain interests. During Thatcherism these included homeowners, privatized monopolies, as well as more traditional Conservative supporters in big business.
- Finally, this thesis emphasises that the Thatcher government, although curbing its growth, ‘retasked’ the state as opposed to reducing its size.

The contradictions neo-liberalism contains can be seen in these conclusions. Ordoliberals had clear objectives and rule-based mechanisms to reach them whilst utilizing the benefits markets can provide. Austrians tended to outline a utopia based on principle and deduction. The latter was too much even for a Prime Minister whose government has been described by many as radical. Margaret Thatcher once said,

‘Utopia never comes, because we know we should not like it if it did.’¹⁰⁹⁵ This is why Thatcherism, with its broad alignment to neo-liberal principles, was closer to Chicagoan thinking. Friedmanites believed they could move closer to a more liberal society by state-guided stepping stones. As Peck and Stedman-Jones have identified, this has meant neo-liberalism has needed to consistently redefine what government can actually do. Thatcherism implemented several reforms that satisfied some liberal ideals but contradicted others.

¹⁰⁹⁵ MTF 107332, Margaret Thatcher Speech to the College of Europe, (‘The Bruges Speech’), 20 September 1988.

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