John Harrison

Thatcherism: is it working?

The British labour movement seldom agrees about very much. This is neither surprising nor unhealthy. But it does render all the more strange the near unanimity that exists about Thatcherite economic policy, which is seen by almost everyone as mindless destruction — a kind of upper class Luddism. Trade union leader after trade union leader talks about 'mad monetarism' and the Government's 'insane' and 'vandalistic' economic policies. Joseph is dubbed the 'mad monk' or 'mad axeman'. Thatcher is depicted as the 'mad axewoman'; cartoons of her as Atilla the Hun abound. Healey contemptuously dismisses the policies as 'punk monetarism' (a gross slander on punk). Clearly the Thatcherites are all economic psychopaths.

The implication is that there is no need to ask even elementary factual questions about whe.ther the policies are working. Thus whilst commentators refer to economic indicators, such as unemployment and factory closures, they do so only to illustrate the devastating effects of the policies on workers (which are not in dispute). The effects on the conditions for accumulation — the extent to which Thatcherism is working from capital's perspective — are seldom discussed. The consensus seems to be that the exercise is pointless; it is obvious that the policies have no economic rationale and cannot possibly work.

Geoff Hodgson has provided an argument for this position:

> 'There is no *economic* rationale to monetarism . . . According to standard indices of economic performance, monetarism quite simply will not work. It will not rescue or revive the capitalist system. It cannot work because it assumes ... an economy consisting of small firms, competitive within national boundaries. This is quite clearly no longer the case. Competition is primarily international. The consequence of allowing competitive forces to have full sway *might* be higher *world* productivity, but it would also mean the end of Britain as an industrial nation."

So there is no need to monitor progress because we know in advance that Thatcherism does not stand a snowball's chance.

This is quite wrong. Monetarism could work. The 'Thatcher experiment' is precisely that — an experiment (or, if you prefer, a gamble). Its outcome cannot be predicted with certainty. To assess whether it is in fact succeeding at present — the purpose of this article — it is necessary to appreciate its rationale. Only then can we decide which developments and indices are crucial.

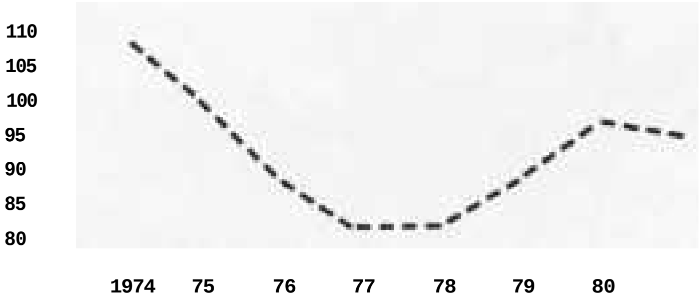
THATCHERISM'S ECONOMIC RATIONALE

A good way into the issue is an examination of the UK's economic difficulties. Britain's central problem is poor productivity performance. For the last century, labour productivity in the UK has grown only \—\ as fast as in its major rivals and the gap has widened in recent years. For much of the period the potentially disastrous effects of this disparity were mitigated by the higher absolute level of productivity initially enjoyed by Britain, by the empire, and by the long boom of the 50s and 60s. More recently the chickens have come home to roost. Since the mid-60s the disparity has increasingly given rise to declining profitability, loss of export markets, higher import penetration and a shrinking manufacturing sector. If things go on as they are, Britain will cease to be an industrial nation within a couple of decades.

Attempts to deal with the problem by direct state intervention have never really got off the ground. They have been blocked by both capital and labour. Capital has been relatively unconcerned about the home economy, because of its highly international orientation, and frightened that the strength and traditions of the labour movement would push any serious intervention over into socialism. Labour has rightly resented state attempts to interfere in such activities as collective bargaining unaccompanied by equivalent encroachments on capital. Governments have tried to stimulate the economy by expanding domestic spending, in the hope that a rapid growth of markets would prompt capital to invest and modernise. But these 'dashes for growth' have all failed. The most recent and ambitious, in 1972-73, took Britain to the edge of hyperinflation and bank failures without any significant effect on manufacturing profits, investment or productivity.

'Geoff Hodgson *Labour at the Crossroads* Martin Robertson 1981 pp 180-81.

Table 1 The effective sterling exchange rate
(7975 "100)



A 20th century approach

Thatcher's approach is a radical alternative — and about the only serious option left to the bourgeoisie. It is also extremely simple: it amounts to crashing the economy. By deflating sharply, and thereby contracting sales opportunities, the Government puts firms into difficulties. It becomes hard for them to cover costs with revenues and many begin to go under. Bankruptcies proliferate and unemployment soars. This works to raise productivity and competitiveness. The weakest, lowest productivity firms tend to go bust first. Their demise raises average productivity, just as shooting the wounded raises the average health of an army. Savage deflation also pressures management to force through major changes in working practices; to reduce operating levels, impose speed-up and so on. The mechanism is fear: managers rightly believe that the firm's survival is at stake. Most importantly, deflation reduces workers' resistance to such changes. Again, fear is the key: workers rightly believe that opposition may lead to redundancies or closure, and that it may be impossible to get another job. Contrary to much opinion, this is a 20th century approach to a 20th century problem: the use of demand management tools to engineer a slump in an economy beset by difficulties resulting from an imperialist heritage and powerful labour movement.

That is the core of the approach. Other policies are back up. Insistence that ailing firms will not be bailed out reinforces the climate of fear. Privatisation extends it to previously protected sectors. Cutbacks in welfare provision are deflationary and make life on the dole more intolerable. Anti-trade union legislation weakens workers' ability to resist. And so on.

> Milton Friedman for beginners and Saatchi & Saatchi can be a winning combination when the alternative is Jim Callaghan.

The main deflationary device is high interest rates. The emphasis on monetary policy (making credit expensive), rather than fiscal policy (reducing spending by raising taxes or cutting government expenditure), is of secondary economic importance (though it makes it harder for firms to ride out difficulties by borrowing more and intensifies the exchange rate effect discussed below). But it is crucial to how the policy is presented. A major difficulty for the approach is how to persuade the electorate to vote for a programme of crashing the economy. This is where the academic doctrine of monetarism conies in. By claiming that all governments can control is money and that all money affects is prices, this doctrine furnishes a good sales pitch. Milton Friedman for Beginners and Saatchi and Saatchi can be a winning combination when the alternative is Jim Callaghan.

This verbal emphasis on fighting inflation, together with demagogic appeals to such middle class prejudices as hostility towards organised labour and the state and love of small firms, largely account for the economic opaqueness of Thatcherism. It is hardly surprising that many people are confused about what the Tories are up to when the policies are presented in such a deliberately misleading way.

Commentators who see through the obfuscation have coined a number of phrases to encapsulate the basic thrust of the strategy in a catchy way. Thatcherism has been described as 'Keynesianism in reverse', the use of demand management to create mass unemployment. Mimicking a phrase from Labour's 1974 manifesto, it has been called an attempt to achieve a 'fundamental and irreversible shift in the balnce of power and wealth in favour of capital and its hangers-on'. Finally, it has been described as 'right wing Marxism', indicating that, in contrast to supporters of mainstream economics and the 'Keynes/Beveridge consensus', Thatcher sides with Marx in recognising the positive role which crises play under capitalism, and has set about creating one.

For Thatcherism to succeed two conditions must be met: a crash must be engineered successfully, and it must have the desired effects. Let us examine each aspect in turn.

Engineering the crash

Thatcher crashed the economy largely by raising interest rates through the roof. This hit sales opportunities, and hence production and employment, in various ways. The high cost of borrowing discouraged investment, which fell by the equivalent of 1£% of total UK output between the second quarters of 1979 and 1981. The strain imposed on companies' cash position by high interest rates led to a massive rundown of stocks, which fell by the equivalent of 3£% of output over the same period. High interest rates, combined with confidence in sterling engendered by its new status as a petro-currency; sharply reversed the decline in the value of the pound which had occurred under Labour (table 1). The higher exchange rate made exports more expensive and hence harder to sell. They fell by the equivalent of 2% of output over the two years. Similarly imports became cheaper and displaced domestic production, rising by some 2£% of output. These developments reinforced each other, 'and their combined dynamic was the motor force of the crash.

The effects were dramatic. Output fell by more than in any other downturn for over half a century, including the crash of 1929-32. Official unemployment doubled, reaching almost 3 million or 12% of the labour force (the real figure almost certainly exceeds 4 million). The industrial sector was hit hardest. Manufacturing output fell by a colossal 15% in the 12 months from December 1979. This compares with a maximum fall in any single year of the 1930s of only 5.5%. As many manufacturing jobs were lost as in the entire previous decline from the 1966 peak.

So output fell far and fast, without spiralling out of control. (The crash bottomed out in the spring of 1981; there has been no significant recovery to date.) Unemployment skyrocketed (and continues to rise, though more slowly). The crash was heavily concentrated in industry, and especially manufacturing. This concentration is integral to the strategy because these are the sectors in which UK productivity is weakest and which are most subject to international competition. So they must experience the pressures most strongly, and respond to them most positively, if any serious improvement is to occur. All in all, the first stage of the strategy went well for the Tories.

This is a significant achievement. It is notoriously difficult to control spending by manipulating interest rates. Exchange rate movements are also difficult to predict or control. Of course, the Tories were not trying to Tine tune' the economy. They probably

had no precise targets in mind for output, employment and so on (and consistently missed the largely irrelevant ones announced for the money supply). Nevertheless, they achieved a short sharp shock, probably of roughly the desired magnitude, without kicking off an incontrollable downward spiral. This warrants a place in the record books: no other government has crashed a developed economy on this scale in recent times.

But the real achievement is political rather than economic. It lies in the ease with which Thatcher got away with it. No postwar government has attacked the British working class so viciously with such little opposition. The last Tory administration, under Heath, began by implementing a mild version of Thatcherism. It encountered immediate opposition from the unions. Industrial militancy grew as unemployment rose and explicitly political strikes mushroomed. Within two years the policies were abandoned in favour of expansion. Yet opposition mounted. Heath was brought down by the 1974 miners' strike and replaced by a Labour government formally committed to a radical programme. Nothing remotely comparable has happened under Thatcher. Trade union resistance has been muted, to put it mildly. Thatcher has if anything strengthened her position in the Tory Party, which remains as popular as Labour in the opinion polls.

The situation is, of course, complicated by the rise of the SDP. It may be argued that the radicalisation of the Tories was essential to this rise, and that if the Alliance can maintain momentum and win proportional representation then the Tories may never govern alone again. If so, this will be a setback for the labour movement, rather than a hostage to fortune. It will make the election of a left Labour government far less likely and open up the prospect of union-bashing SDP/Tory coalitions in times of working-class weakness interspersed with SDP/right Labour coalitions conniving with the trade union bureaucracy to contain periods of militancy.

So the first stage has gone fairly smoothly. But is the crash having the desired effects? Is the power of organised labour being smashed? Is capital on the road to high productivity growth and international competitiveness?

Is trade union strength broken?

Industrial militancy has fallen off sharply. Striker-days fell from almost 29^ million in 1979 and 12 million in 1980 to just over 4 million in 1981. This was not because workers were winning concessions without industrial action. Real take-home pay began falling sharply in the second half of 1980 and continued to drop throughout 1981. The level of settlements fell throughout the year. In the 12 months from November 1980 wages rose by 4.3% points less than the tax price index, and the gap is widening. Hundreds of thousands of workers have been put on short time or sent down the road. Anecdotal evidence of a worsening of job conditions abounds. Again this contrasts sharply with the Heath period, when militancy paid off on the industrial as well as the political front. Wave after wave of workers smashed through pay norms and real take-home pay rose by 3.5% a year, four times the rate achieved under the 1964-70 Labour government. The contrast can be epitomised by comparing the 1972 and 1974 miners' strikes with the 1982 miners' ballot.

But it is important to view these developments in perspective. First, there has been no rout. In BL, the Cowley vote for strike action over pay, the Longbridge 'tea break' dispute and the strike against redundancies in the truck division constituted the first major resistance to the Edwardes onslaught for some time. In Ford, the Halewood plant has consistently resisted speed-up and the 1982 pay vote was close. The recent ASLEF dispute is a clear example of determined resistance. The 1981 NUM strike against closures, which brought an immediate about-turn by the government, was a major victory.

Second, the Heath experience of accelerating unemployment and militancy is unique in the postwar period. Apart from 1970-1972, there have been five other significant surges in unemployment (in 1956,62-63,66,75-76 and 80-81). In all cases strikes fell. The fall off was sharpest in 80-81, but so was the rise in jobless totals. This pattern is hardly surprising. Workers seldom fight for fun, and prospects are generally poor when unemployment is rising fast.

Third, it would be premature to conclude that the higher absolute level of unemployment will prevent a resurgence of militancy. The pattern for the postwar period has been one of an upturn in strikes once unemployment decelerates; that is before it begins to fall. There has been no clear relationship between the absolute level of unemployment and strikes.

Finally, and most importantly, the movement remains organisationally intact. Great play has been made of the 5 million or so fall in the TUG membership in 1981. But again this must be placed in perspective. Trade union membership fell by more than that in a number of years in the interwar period, with cumulative declines reaching several millions, and that from a very much smaller initial total. The TUG has not been split. The Government has not engaged in and won a major confrontation with the powerful industrial unions. Indeed, it backed off from one with the miners.

Setback not defeat

There is therefore no evidence that the Tories have yet succeeded in inflicting a major historical defeat on the unions. This leaves them in a potentially vulnerable position. How can they prevent the unions winning back lost ground as unemployment tails off? Their main hope is Tebbit's Bill. This is another area in which Thatcher has learnt lessons from Heath's debacle. He introduced the Industrial Relations Bill with a fanfare of publicity soon after gaining office. During its 20 months parliamentary passage, the Bill provided a focus for militant opposition to the Government. Attempts to apply the Act then proved humiliating for Heath and it was rapidly put on ice. The Tories downplayed anti-trade union legislation immediately after the election and Prior's Employment Act was relatively mild. Thatcher waited for unemployment to mount and militancy to subside before wheeling out Tebbit. The legislation is also more subtle than Heath's. It lacks an obvious, central focus for opposition, provided in 1972 by the National Industrial Relations Court. Finally, it is worth remembering that, whilst militancy alone was enough to prevent *use* of the IRA towards the end of the Heath government, *repeal* was achieved only by the election of Labour. The rise of the SDP makes repeal more problematic this time around.

The response to Tebbit's legislation will therefore be crucial. If the new rules become accepted then Thatcher will have achieved an important shift in the balance offerees on the industrial front. The TUC is talking tough and making great play of its £1 million fighting fund. But the General Council is at pains to keep things under its control. The 5 April strategy conference had no choice but to endorse the Council's position because no amendments or resolutions were allowed.

Thatcher waited for unemployment to mount and militancy to subside before wheeling out Tebbit.

The General Council reserves the right to decide which cases to fight (in contrast to the struggle against the Industrial Relations Act, which was spearheaded by individual unions). Past experience suggests that only massive rank and file pressure will make the TUC align its money with its mouth. In any event, the response to Tebbit's Bill will be a key test of how far Thatcher has rolled back organised labour.

Another will be the response to youth unemployment. Today's mass unemployment has hit youth harder than older workers, and to a much greater extent than in the 30s. (The basic reason is trade union strength, which leads employers to prefer 'natural wastage' to redundancy). This adds a generational twist to the issue of relations between employed and unemployed. The riots showed how socially destabilising this twist could be. It presents important opportunities for the Tories, but also carries big risks. The prizes are electoral support for a law and order ticket and the use of low paid, semi-forced labour to undermine pay, conditions and shopfloor strength. The risks can be glimpsed in any footage from Belfast. The challenge for the labour movement is to direct the anger and street

militancy of youth into politically effective channels without clogging them up with bureaucratic crap.

To summarize, there has been a marked downturn in industrial militancy. This is in line with past experience and to be expected. But unions have yet to suffer a decisive historical defeat. Nothing remotely equivalent to 1926, or even the years leading up to it, has taken place. Two key tests of the movement's ability to resist further attacks will be its response to the Tebbit Bill and to youth unemployment and 'training' programmes.

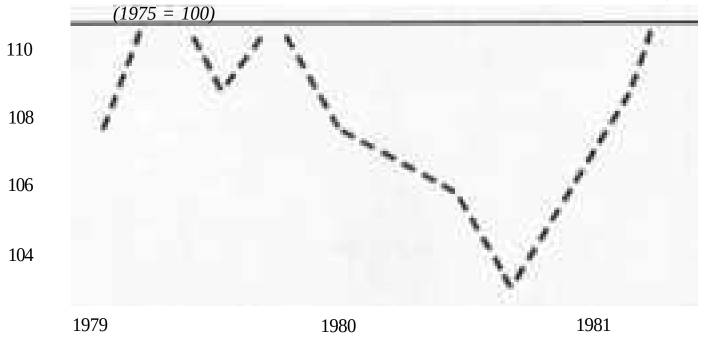
Is capital on the road to recovery?

The effects of the policies on labour are only part of the picture. Weakening the unions is less an end in itself for Thatcherism than a means of improving capital's performance. Has the crash had the desired effects on this score? Is capital scooting down the road to recovery?

The Thatcherites seem so certain the answer is yes that they have recently changed the way they defend their economic strategy. Where they previously simply insisted that 'there is no alternative' and that the approach must eventually pay off, they now claim that it is already doing so in dramatic fashion. The main evidence cited is recent developments in productivity. This productivity euphoria was kicked off by some summary presentations of data put out by the Treasury in its propaganda sheet *Economic Progress Report* (January 1982). Some of the statements depend on massaged data.[2] But unmassaged figures show a rise in manufacturing output per person of some 10% in nine months from the trough reached in the final quarter of 1980 (table 2). This rise is concentrated in the third quarter of 1981 and it should be borne in mind that quarterly data is often subject to considerable revision. Nevertheless something

[2] See an unpublicised paper on this issue by Doug Jones, School of Social Sciences, Thames Polytechnic.

Table 2 Output per person employed in manufacturing
(1975 = 100)



pretty dramatic does seem to have happened. Since productivity is at the heart of the UK's problems, it warrants serious analysis.

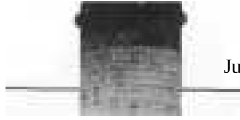
Assessing the significance of the rise for capital involves trying to answer a number of interrelated questions. What processes have produced this statistical result? What is the likelihood of those processes continuing? How far is the competitiveness gap between the UK and other powers reduced by this rise? How long would developments have to continue at this pace to restore competitiveness?

At one extreme, a rise in productivity could be achieved entirely by the destruction of low productivity firms. In this case the productivity of the average member of the workforce (including the unemployed, who must be supported out of total production) would have fallen: those still in work would be producing the same per hour as before; those thrown on the dole, nothing. The process would be entirely dependent on rising unemployment and falling output. It could continue only so long as further economic contraction could be sustained. And, as the industrial base shrank daily, productivity in the UK's most advanced firms would be marking time, whilst that in its international competitors continued to rise. The chances of British industry surviving, let alone ever getting back on its feet, would be zero in these circumstances. In fact we know that the destruction of low productivity firms was not the only factor behind the recent gains: some new machinery was installed and the big increases coincided in most sectors with an expansion of output, not a contraction. But it was certainly part of the process. Unfortunately, it is impossible to quantify its contribution.

Intensification of labour

At the other extreme, a productivity rise could result entirely from some combination of two highly dynamic processes. One is an acceleration in the installation of new machinery. The other is an acceleration in the rate of technical progress. (The first involves a jump in the quantity of new machinery, the second a jump in its quality.) Neither development need necessarily involve rising unemployment and either would leave British firms equipped on average with machinery more capable of matching the performance of their international rivals. If these processes were solely responsible for the recent gains, and the momentum could be maintained, then British industry would indeed by belting down the road to recovery. In fact we know that the first of these processes did not occur at all. Quite the contrary. By the autumn of 1981 manufacturing investment was some 30% lower than in 1979. There is no direct evidence on the second factor. But it is utterly implausible to suggest that some quantum leap in technology has suddenly occurred in the depths of recession. My guess would be that at most it has played an absolutely minimal role.

Two other factors have certainly been at work. One is the elimi-



nation of weak plants within companies. This is more positive for capital than the destruction of weak companies because it raises the average productivity of those that survive. But of itself it does not improve productivity in surviving plants. It generates a positive dynamic only if the overall improvement in company position feeds through into higher investment in potentially competitive areas. Again, the contribution of this factor cannot be quantified. But the fact that investment remains low suggests that any feedback effect has so far been small.

The other factor is labour intensification — the extraction of more output per worker on existing equipment via reductions in operating levels, speed-up, reneging on movement of labour and other agreements, and so on. The low level of investment, the fact that the big productivity gains coincided in most sectors with an increase in output but not employment, and a wealth of anecdotal evidence all strongly suggest that labour intensification has been the predominant process at work. Gains deriving from this source are more positive for capital than those resulting from closures because they raise productivity directly within surviving plants. But they have two main limitations.

First, they are inherently once-off. They raise the absolute level of productivity but do not directly affect its underlying rate of growth. Taken far enough, they could in principle restore competitiveness at a point in time. But that competitiveness could be maintained over time only if capital then began to accumulate as fast and effectively as its foreign rivals. Britain is so far behind in the international competitiveness stakes that labour intensification would have to continue at a horrendous pace for some years before industry came abreast of its major rivals. Despite the recent gains, British unit labour costs (the conventional measure of competitiveness) are still some 35-40% higher than in 1979, and the UK was hardly a world-beater then. The second limitation is that labour intensification is vulnerable to reversal. Once unemployment tails off and workers regain bargaining strength, the tougher work practices meet with shopfloor resistance. This takes us back to the question of union strength. All in all trying to catch up by labour intensification alone is a pretty hopeless task.

In sum, then, Thatcherite euphoria over recent productivity developments is at best utterly premature. Gains would have to continue at this pace for some years to substantially close the gap between the UK and major rivals, and evidence suggests that the processes at work have severe limitations and lack a powerful dynamic.

NO CAUSE FOR COMPLACENCY

The main conclusion of this piece is that Thatcherism has not succeeded in reversing the decline of UK industry. This may be seen by many as a confirmation of the obvious, as an argument for alternative policies and hence as something of a cause for celebration. Proof positive that socialists were right all along.

Such a response would be grotesquely complacent. For one thing, the fact that Thatcherism has not yet succeeded is no guarantee that it will never do so. For another, failure neither takes us back to square one nor necessarily increases the chances of a socialist alternative. Recent policies may not have regenerated industry but they have had enormous effects, many of which create severe difficulties for the implementation of socialist policies. The rise of the SDP and possible implications for the election of majority Left governments have already been mentioned. But that is not all. Tory policies have also created difficulties for the implementation of an alternative economic strategy by a Left government even with a thumping majority. I will end with one example concerning job creation.

As unemployment has risen, so has the number of machines withdrawn from operation. If these remain physically in place (or have been transferred intact elsewhere in the UK) then there should be no great physical problems associated with job creation — the difficulties will be economic and political. But if too many machines have been broken up or sold abroad then there will be a physical limit to the number of people who can be equipped with existing means of production, and hence on the speed with which industrial output can expand. Unfortunately, there is no reliable data on the existence of idle machinery. But the severity of the squeeze makes it likely that a larger proportion of machinery has been physically scrapped than is normal in a downturn. There is also abundant anecdotal evidence of massive purchases of secondhand equipment by foreign buyers (because of knock-down UK prices). Since the experience is likely to be uneven across sectors, it seems probable that bottlenecks will arise early on in any expansion. In these circumstances, the belief, still held by much of the labour movement, that reflation plus import controls would be sufficient to restore full employment rapidly is a prime example of naive complacency. D

Thatcherism is a branch of Conservative ideology that originated from the ideals and teachings of Margaret Thatcher, the Prime Minister from 1979 until 1990. Essentially, Thatcher believed in the primacy of competition and a free market, and possessed a fundamental distrust of the power of government. She also believed in the right of individuals to have the freedom to determine their own lives, as long as they remained within certain boundaries. For this reason, Thatcherism has also been called â€œneo-liberalâ€. Thatcher had a passionate dislike of any forces outside Parliament interfering with Part of the politics series on. Thatcherism. Capitalism portal. Conservatism portal. Libertarianism portal. Politics portal. United Kingdom portal. v. t. e. Thatcherism is a form of British conservative ideology named after Conservative Party leader Margaret Thatcher. The term has been used to describe the principles of the British government under Thatcher from the 1979 general election to her resignation in 1990, and continuing into the Conservative governments under John Major and David Cameron At its most crude, Thatcherism represents a belief in free markets and a small state. Rather than planning and regulating business and people's lives, government's job is to get out of the way. It should be restricted to the bare essentials: defence of the realm and the currency. Everything else should be left to individuals, to exercise their own choices and take responsibility for their own lives.Â She also made much of her personal story. "It was a fundamental part of her image - emphasising the value of hard work, her background as a grocer's daughter," says Prof Toye. She contrasted that with the union leaders who she believed were trying to block economic progress. She believed that Victorian family values were the way to improve society, through people bettering themselves. It is therefore appropriate to study the relationship between Thatcherism and Cameronism. The article revisits theories of Thatcherism and understands it as a unity of ideology and policies that is organised along three dimensions: the economy, politics, and culture.Â It is a time of potential conjunctures, such as the EU Referendum and the tension between social democracy in Scotland under the Scottish National Party (SNP) and neoliberalism in England under Cameron. Cameronâ€™s rule will probably overall last 10 years and be a significant period in British political history just like the Thatcher period from 1979 until 1990.Â Members of social group DE (semi-skilled and unskilled working class, casual workers, pensioners, unemployed) voted predominantly for Labour (42%).