

Economic policies of thatcher



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Introduction

Thatcher, with her Thatcherism, had changed the mind-set of Britain and the course of British history (Evans, 2004, 1). The series of reforms implemented by Thatcher government made remarkable achievements, while it also produced many irregularities. Laying concentration on Thatcher's economic policies, this essay sets out to identify the side effects of these economic policies.

The Welfare Economics, the Keynesianism and data obtained from the biography about Thatcher provided a sound conceptual perspective. The paper in its first part described the economic issues facing Thatcher government and their measures for those problems; then grounded in the point of view of humanities, it will indicate some disadvantages of Thatcher's economic policies; finally some reflections derived from the discussion will be made.

The Economic Problems Facing Thatcher Government

During the mid-1960s, Britain's economic growth seemed to slow down; so did its industries, both of which made the nation's competition ability significantly slip. Secondly, Britain was importing far more goods than it was exporting and it had to repeatedly borrow money from other countries. To make the situation worse, workers staged hundreds of strikes. Unfortunately, the Labour Party with Callaghan as Prime Minister still could not save this situation. Although having promised not to interfere with the unions, they still failed to raise the wages for workers in nationalized enterprises. What is worse, commodity price began to soar, followed by the inflation, both of

which soon rushed out of control. So the government had to raise taxes on income and on consumer goods. When the Labour Party tried to repress further growth of wages, another round of strikes took place. Faced with the serious inflation, the slow-growing productivity, the strained labor relations and the rising unemployment rate, Thatcher government must take efforts to revive the economy.

The Economic Policies of Thatcherism

The foundation of Thatcher's economic policy is the Monetarism (Ironsides and Seifere, 2000, 89), which is a rejection of many ways of Keynesianism and involved strictly controlling currency supply to lower inflation, cutting down tax rate and reducing the government control to encourage investments (Walsh et al, 2000, 88). During her terms of office, Mrs Thatcher devoted to promote individualism through a further dismantlement of state controls on British economy. Government interests for many businesses are sold to the private citizens or enterprises. Before 1987, several key industries and public utilities had been transferred to private ownership, including the electricity, the gas and the air. Her reform that turned public opinion against her and ultimately resulted in her downfall was the introduction of the poll tax, which was leveled on every full of 18-year-old adult at a flat-rate in a particular district (Williams, 1998, 205), although rebate was available for the poor.

Apart from this, the reform of social welfare programme is also an important part of Thatcher's plan. In Thatcher's third term, the focus of her privatization policy turned to the social welfare. The privatization, whose range was very wide, was mainly related to three aspects---housing, <https://assignbuster.com/economic-policies-of-thatcher/>

education and social security system. In the housing issue, the government sold thousands of public-owned houses to their tenants. Similar market provisions were also introduced into state education. Schools were given the power to free themselves from local authority control and to make budgetary decisions; and universities were encouraged to seek private finance. The key objective of Thatcher's social security reform is to change its original principle of universality to cut costs, which consist of decreasing expenditure in the existing welfare system and carrying out the privatization of some social security etc.

About the Welfare State

Britain is known as a welfare state with a " from-cradle-to-grave" social welfare system(Bain and Woolven, 1985, 665; Dearlove and Saunders, 2000, 803; Sinorama Magazine, 1988, 51....). " Welfare state" principle enabled Britain to become a developed country that has basically eradicated poverty and achieved a high level of social equality.

It is the British economist Keynes who influences the " Welfare State" to a great extend. What should be noted here is another basic theory that help to comprehend the concept of " Welfare State"---the Welfare Economics initiated by Pigou(1952). Pigou believed that welfare dividend into social welfare and economic one, only the component that can be measured directly or indirectly in money is referred to as the economic welfare, which was elastic for people. In his view, economic welfare depends on both the amount of national income and its distribution among the social members; and to raise the economic welfare, the total national income need to be enlarged; or the distribution of that must be equalized.

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As for the Keynesianism, it emphasized the necessity of state intervention in the economy. Keynes(1936) thought to achieve full employment, it needs necessary state intervention in the economy rather than relying on the market alone. Because under the economy absent of state intervention, society is always in a status of aggregate demand deficiency and can not achieve full employment. Yet it is a realization to comply full employment and thereby eliminating the poverty through the government's macro-control. Moreover, Keynes pointed out inequitable social wealth or income distribution also contributed to non-full employment. He advocates to strengthen the imposition of direct taxes on the rich to fulfill the redistribution of social wealth. The Keynesian was a theoretical basis for Britain drawing up its social security system.

In 1948, Attlee government established an ambitious social welfare programmes, whose meaning was quite far-reaching. The programmes provided national wide social security services for the sick, retired, disabled, elderly, needy, unemployed and dead. Just because of this programme, Britain became the first welfare state in the world. In the welfare policy, the Conservative Party returning to power in 1951 preliminarily reached a consensus with the Labour Party to left the major sections of the welfare state unchanged. It was not until 1979, when Thatcher came to power, the Conservative Party started to re-assess gains and losses of each welfare.

A Discussion on the Side Effect of Thatcher's Economic Policies

The economic policies stated above are the core of Thatcherism, which have apparent important historical significance. However, there were still some

drawbacks. Put in another way, there are some humanities missing in her reform. They are as follows:

The gap between poor and rich was widen

Thatcher's tax reform did not reduce the tax burden of British citizens. What government adopted is to reduce direct taxes and increase indirect ones, which obviously benefited the rich but increase the burden of the general public and the lower classes. During the years of 1979-1987, the tax rate committed to people whose income only reached half of the national average income grew from 13.9% to 16.1%; while rate those whose income were five times than the national average paid descend from 51.5% to 43.1%(Economist, 1987). From 1979-1990, half of the whole British income tax fall into the 1,400,000 pockets of those whose income was more than 30,000 pounds; while the 24,300,000 people whose income was less than 30,000 pounds only get another 50%(Johnson, 1993, 130). Thatcher did so largely out of political consideration---to strengthen the ruling of the Conservative Party, but ignored the most basic living needs of the middle and the lower class. Besides, the poll tax, whose essence is regressive taxation---the higher the income is, the lower the tax is, is just a kind of re-taxing on the poor. Therefore, many people criticized that " the poll tax would rob from the poor to give to the rich"(Ironsides and Seifere, 2000, 253).

The jobless rate has always been rising and stayed in a very high level

When running for election, Thatcher had promised to handle the unemployment problem for 1.3 million people; yet she insisted that only by reducing taxes and restricting trade union efforts, it would bring economic

growth. At the beginning of her ruling, the unemployed number broke 2 million, setting a new record since 1935, which made the economy almost collapsed; then the number peaked up to 3. 2891 million in 1986 with the jobless rate was 11. 8%(Economist, 1996, 142). In addition, in the two consecutive years of 1980 and 1981, the confusion triggered by steel workers and coal miners from more than 200 cities almost threw the country into disorder. Undoubtedly, such high jobless rate was closely linked to the monetarism and privatization policy that promoted by Thatcher government. Once privatized, for the sake of decreasing operating costs, the businesses would by all means dismiss their employees in a large-scale. McInners(1987) felt that Mrs Thatcher intended to indulge the unemployed amount fiercely jumped with the purpose to debilitate trade unions.

The achievement of economic policies in social welfare was just so-so

Mrs Thatcher, who firmly trusted in the New Right, was essentially hostile to " Welfare State". Perhaps considering the principle that if those who are in need were always encouraged to ask the state for help, they will lose their self-help capabilities, Thatcher government performance in social welfare had always been mediocre, so critics accused that the government was indifferent to the poor(The Spectator, 1980, 4). In 1981, there burned out a lot of violence in Brixton and many other regions that suffered economic downturn, but what Thatcher government responded to is just to call more police to suppress those conflicts instead of resolving the causes. In the report about the British welfare programs that Thatcher submitted to the Cabinet in 1984, there are some fairly radical view such as stopping funding to all colleges and setting up fewer scholarships to compress the education

funding; cutting down the welfare spending and eliminating all the subsidies because of inflation; and individuals paying all medical fees etc.. The reform plan this report proposed affected the vital interests of 20 million people, which can not be accepted by the public(Yu Weipei, 1986, 22).

Some Thinking Drawn from Thatcherism

Thatcher's series of economic reforms, many of which neglected human values and human dignity, in particular the value and dignity of the poor, may bring a certain degree of inequality. The lack of humanistic care in her reform is an indisputable fact. Humanities concern for people in society always show care for the individual's " private questions" such as living condition and is a integration and embodiment of action and sincerity.

Clearly, Thatcher's reform had expanded the inequality, which damaged the interests of vulnerable groups, and greatly reduce or even ignore the humanistic care for the poor. For example, in the housing privatization, the most profitable is the residents whose income was high and lived in public house; but the lower part still could not afford to buy one; which lead to the upward trend in homelessness. Although the government has applied various remedies, they are invariably superficial and did not fundamentally solve the problem. In addition, for those who rely on social welfare to maintain a basic living, it was difficult for them to keep basic living if declining welfare spending, not to mention self-help or self-improvement, which must continue to widen the gap between rich and poor. Someone said having departed from the precious policy to help the poor, current reform were just for the rich. The lack of fairness in the reform damage the interests of vulnerable

groups, so that they are bound to resist further reform, leading to social disintegration, increasing conflicts and making the reform more difficult.

Conclusion

Thatcher's economic policies had tremendously changed the British overall economic and social outlook, which is undoubtedly a very meaningful self-regulation or self-improvement. At the same time, there were many side effects---the gap between poor and rich was widen, the jobless rate has always been rising and the achievement in social welfare was just so-so. As Thatcher ignored the importance of equality and humanistic care for the poor in the reform, which the essay concern most.

In short, Thatcher's economic policy is basically an positive response and adaption to economic and social developing trends. The experiences and lessons all have a profound reference significance to all the countries.

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