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Thatcherism and its long-term consequences

(Thatcherismus a jeho dlouhodobé důsledky)

DIPLOMOVÁ PRÁCE

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Prohlašuji, že jsem diplomovou práci vypracoval samostatnì s použitím uvedené literatury.

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Abstract

Margaret Thatcher was Britain's longest-lasting prime minister in the 20th century, the wartime Churchill apart. At the same time she was adored by some people and hated by the others but all of them had to cope with the radical transformation of the British society, which she undertook. Even today the legacy of Thatcherism is alive.

Mrs Thatcher came to power when the UK was in a particularly unsatisfactory economic shape - high inflation was combined with stagnating economy, rising unemployment and social unrest. The British companies, many of them being state-owned, were known for poor productivity and lack of competitiveness. Thatcher's economic programme, ideologically resulting from monetarism, supply-side economics and traditional British conservative values, was based on tight monetary policy (designed to conquer inflation), privatisation, deregulation, trade union reform and tax reform.

Whereas the results of the anti-inflation policy are inconclusive, the other cornerstones of Thatcherism (intended to boost the supply-side) had far-reaching effects. M. Thatcher privatised not only the traditional industries, nationalised by the previous Labour governments, but also the utilities, long considered to be "natural monopolies". Privatisation was accompanied by deregulation, i.e. opening up most industries to competition and relaxing the restrictions on trade and investment. The taxes, notably the marginal rates that had reached unthinkable levels in the Labour era, were cut and the relative burden was shifted from direct to indirect taxes, especially the VAT.

M. Thatcher's reform of the trade unions, which had been exceptionally militant and radical in the UK, merits respect. In a series of labour laws she made the unions liable for the actions of their members and easier to sue for damages when strikes were called illegally. Secondary picketing and the closed shop were outlawed, the balance of power was shifted from union leaders to individual members.

The result of the Thatcherite policies was a fast productivity growth, thanks to which the relative economic decline of the UK was stopped. The companies were effectively forced to be more competitive or to close down. The businesses had to cope with competitive pressures, on the other hand, they could benefit from a deregulated labour market, lower taxes and a liberal financial and trading system. For the same reasons, Britain became a magnet for foreign direct investment. The privatised companies also experienced a rapid improvement in productivity and efficiency. By creating a proper incentive structure, M. Thatcher succeeded in reviving entrepreneurship in the British society.

An immediate effect of Thatcher-forced restructuring was high unemployment, for which M. Thatcher was often criticised. However, most jobs were lost in unproductive industries or, as productivity improved, fewer people could do the same amount of work. The trade union reform, combined with social security reform and liberalisation, created favourable conditions for creating vacancies elsewhere in the economy, chiefly in services. Despite the fact that M. Thatcher was often blamed for high unemployment, from today's point of view a contrary may be justified. The evidence is the unemployment rate at historically low levels, a striking fact in comparison with other European countries.

Further criticism of M. Thatcher was aimed at lack of state interest in improving education and training, insufficient promotion of R&D, failing to encourage longer-term management, selling out national property to foreigners, deindustrialisation of the UK and poor cooperation at the EC level. However, Thatcher's programme, defending a hands-off liberal approach was very coherent. The government did not adopt any specific schemes to promote R&D, to keep some "special" industries in British hands or to keep some manufacturing sectors in Britain. And that was the major strength of the programme, thanks to which Britain became so much different from the rest of Europe.

By facing competition, both domestic and foreign, the businesses in the UK have learned to be competitive. Quite logically, there is no other way to do so. The fact that in many industries the foreign companies predominate is not relevant. The benefit to the British society does not depend on the nationality of a business. In particular, the British services sector was a big beneficiary of the reforms

and now its competitive position is very strong, taking into account that this sector has long been thwarted by state involvement in many other countries.

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2. Introduction

Margaret Thatcher was elected Prime Minister of the UK in May 1979. After her election the British economic policy changed radically. During her premiership, which lasted for more than a decade, Margaret Thatcher, as a strong leader, undertook many reforms that significantly shaped the economic environment of Great Britain. The Conservative rule was not only a short-term swing from normal (at that time) governmental policies - it fundamentally changed the prevailing ideology and had a long-term impact on the economy, which is evidenced even now when Tony Blair's "New Labour" is in power.

The economic programme of M. Thatcher, sometimes referred to as the return to the *laissez-faire* policies, consisted mainly in deregulation, privatisation and increasing labour-market flexibility. An emphasis was also given to fighting inflation (instead of unemployment) and reducing the role of the state in the economy. All of these are the main factors determining the external environment of businesses. Consequently, the reforms did not bring only the macro-economic results but also, what is probably even more important, large positive micro-economic effects.

2.1 Background

In the 1970's the Western economies had to face situations that were unknown to and inexplicable for the prevailing economic theory. The main problems were stagflation (state of inflation without a corresponding increase of demand and employment) and foreign trade imbalance. Great Britain did not avoid these problems, on the contrary, they hit the UK more seriously than other countries because of the bad state of the British economy. Whereas before the World War II and shortly afterwards the UK belonged among world powers, the position of the UK deteriorated since the 1950's. The situation that was in the UK in the 1970's is sometimes called in the economic literature the "British disease".

A part of the problems can be blamed on the oil shock in 1973/74 but most of the reasons lay with the state of the British economy and governmental economic policies. In the 1970's the Keynesian therapies (very popular after the War) proved to be incapable to deal with rising inflation and economic stagnation. The economic policy concentrated on reaching full employment mainly by the means of fiscal policy aimed at aggregate demand. To be able to finance these policies the government had to impose high taxes, however, not high enough to avoid increasing budget deficit. State involvement in the economy was also high, above all there were many state companies that operated inefficiently and often received big state subsidies. Private sector was thwarted by high taxes and too vast public sector. Fiscal policy was short-term oriented, the government tried to balance every economic swing by the so called fine tuning but its undertakings rather tended to increase the disequilibria because of inaccuracy and time lags of the decisions.

In the micro-economic field the negative role of the government was caused by excessive regulation of the industry and by the wrong income policy that allowed too high wage increases not corresponding to the growth to labour productivity. A very important fact that was specific for the British situation was the power of trade unions. Trade unions were so powerful that they had direct negative influence in terms of the rising unemployment and low productivity of labour. Any possible reform was expected to be very difficult because the trade unions were closely linked to Labour party, they affected the Party's programme and significantly financed the Party.

2.2 Predecessors of Thatcherism

It would be unfair to claim that Margaret Thatcher was the first person to try to heal the British economy. She changed Great Britain significantly but her ideas were not brand new. She had at least two predecessors who realised the need for change and who tried to come up with some curative programmes but who, unfortunately for them, failed.

The 1970 general elections were won by the Conservative party that promised to reduce the role of the state in all spheres of life with the exception of public order, reduce public expenditure, revive competition, reduce growing power of trade unions and stop subsidising unhealthy industry. The Conservative pre-election campaign was clearly influenced by Thatcher's speech from annual conference in Blackpool in 1968. The Prime Minister Edward Heath tried to undertake reforms for two years but than he gave up. He did not succeed in breaking the power of trade unions, which was the most difficult but crucial element of the reform, and he also did not fulfil his promise not to support big companies in bad economic and financial shape. In 1972 E. Heath's government helped to save Upper Clyde Shipbuilders and Rolls-Royce and returned to the well-tried policy of consensus, i.e. agreeing on major social issues with the Labour party (and trade unions). The consequence of this reversal was the lost election in 1974 and a growing opposition inside the Conservative party, which, in the end, resulted in the victory of Margaret Thatcher's wing.

The other experiment was undertaken by the Labour government in the period 1975 - 1979. The Prime Minister James Callaghan had to deal with high inflation, weak public sector and falling pound. The traditional Keynesian therapy aimed at reaching full employment brought the danger of hyperinflation and collapse of the economy. That is why Callaghan decided in 1976 for radical cuts in public expenditure, tighter monetary policy and the exchange rate recommended by the IMF. The Labour government initiated the first steps of Thatcherism, which was a tragedy for some members of the Labour party and trade unions. The new economic policy resulted in rising unemployment and the government did not get inflation under the control. The winter of 1978/79, sometimes called the "winter of discontent" was a period of many strikes demanding especially wage increases in line with inflation (about 25%) and of overall social discontent. It did not contribute to Labour popularity before the elections and presented an advantage for M. Thatcher who basically agreed with Callaghan's reforms but was more consistent.

The 1979 elections were not won by Thatcherism, which was in the process of creation. Neither was the Conservative programme totally new - in fact it was quite similar to the programme that brought Edward Heath to Downing Street in 1970. The Conservatives emphasised these main points: control of inflation and of the power of trade unions, renewal of individual responsibility, support of parliament and order (a response to the social disorder of the winter 1978/79), support for ownership of houses, better education and health-care, and increasing the striking power of Great Britain.

2.3 Ideologic sources of Thatcherism

There are several sources that influenced Thatcher's reforms. Her economic theories were drawn mainly from monetarism and supply-side economics. Thatcher's emphasis on traditional values of the British society was derived from traditional conservatism. The main goal was the renewal of such values as family life or attitude towards work and entrepreneurship. M. Thatcher tried to change this attitude and find incentives to work more. She also wanted to reduce government power over such decisions.

2.3.1 Monetarism

Among economic theories that influenced M. Thatcher's reforms, monetarism was the most important. Monetarism partly represented a return to pre-Keynesian ideas: quantitative theory of money, i.e. belief that the rate at which the prices rise in the economy depends on the amount of money in circulation. These ideas were most often associated with Milton Friedman but there were also other famous economists (e.g. F.A. von Hayek) that influenced M. Thatcher and her government.

According to monetarism the economy can flourish only in the case of low inflation - that is the most important condition for the private sector to grow and develop. Keynesian aggregate demand stimulation will, according to monetarism, only crowd-out private investment and generate inflation. The inflation can be controlled only through the growth of money supply which should be related to the growth of real GDP. The governments should have low and balanced budgets that would ensure only the necessities that the state must provide. For other things, individuals and free markets can do better and more efficiently than the state bureaucracy. Individual responsibility for everyone's destiny should be encouraged and the government should not try to reach an artificial equality in the society. Under monetarist principles balance-of-payments problems do not exist because the exchange rate is floating freely.

3. Thatcher's economic programme

M. Thatcher's government identified the most serious problem and cause of bad economic performance of Great Britain as a lack of low international competitiveness. M. Thatcher saw the root problem in low productivity of the British industry, even though some lateral problems (strikes, price competitiveness or international recession) seemed to be equally serious. The excessive power of the unions and their restrictive policies led to hidden unemployment that thwarted further economic development. *(Thatcher, 1996, p. 70)* The previous Labour policies supporting the demand led only to higher inflation (not to more jobs) and protection of jobs in the declining industries led to the lack of efficiency. Altogether, Britain had to cope with low growth and productivity, little competitiveness and rising unemployment that was further aggravated by labour market rigidities and over-powerful trade unions.

The main points of the economic part of the 1979 manifesto that was supposed to be a solution to the problems mentioned above were:

The first and the most important goal was reducing the inflation rate. The main tool that was used was a restrictive monetary policy and keeping the budget deficit under the control and later reducing it. The anti-inflation policy was given a priority especially in the period till 1982 when it already brought some results.

Other reforms were a part of the supply-side programme. Their ideology was derived from economic liberalism and political conservatism. A general goal was strengthening the role of the market forces and reducing the role of the state while encouraging economic liberties of the people. One part of supply-side reforms was aimed at increasing incentives to work. The tool that was used was a shift in the tax burden from excessive direct taxes onto indirect taxes (especially VAT). The other part of supply-side reforms was aimed at increasing labour productivity and economic efficiency. The tools included reducing the power of trade unions and weakening the role of the state in the economy, especially by privatisation and reducing public expenditure. Deregulation in private sector was to increase economic efficiency. These reforms were carried out after 1979 (e.g. tax reform) but the main emphasis was given to them only when the inflation rate fell and M. Thatcher strengthened her political position, which was roughly after 1982.

3.1 Controlling the inflation and monetary policy

Reducing the inflation rate was a high priority for Thatcher's Cabinet. However, the approach that her government applied was not the same during the entire Thatcher period. In fact, economists distinguish three phases.

3.1.1 First phase - early monetarism

The first phase is called "early monetarism". In this period M. Thatcher and her ministers attempted to implement monetarist policies in their pure form. They believed that controlling the supply of money would eliminate inflation and the publicly announced goals of the monetary policy would positively influence the inflation expectations, especially the wage increases. The tool used to achieve these goals was the government control of the money aggregate M3. Sterling M3 consisted of notes and coins and all sterling sight and time deposits with the banks, plus sterling certificates of deposits. *(Smith, 1988, p. 10)* However, any money aggregate is hard to define with accuracy and thus hard to control.

The results of this first phase were inconclusive because of internal and external causes. The government expected considerable wage decreases as a response to the tight monetary policy but this did not happen. The wage negotiations led by the trade unions changed too slowly to reflect the change in monetary policy. Furthermore, monetary restriction brought about high interest rates which adversely affected mortgage payments leading to higher inflation. The overthrow of the Shah in Iran in 1979 led to the second oil shock, which also contributed to higher inflation and more aggressive wage demands.

Another cause of the relative failure of the monetarist policies in the first Thatcher years was the strong pound. Both high domestic interest rates and the discoveries of the North Sea oil led to appreciation of the pound. In the mid-1970's the exchange rate was 1.50$ but then in 1980-81 it jumped to 2.40 - 2.50$. The high wages and the strong currency weakened competitiveness of the British economy and led to the fall of GDP and rise in unemployment. Throughout 1981 the government stuck to its tight monetary and fiscal policies even during the recession. This created a large group of critics but there were supporters as well. When Professor Geoffrey Maynard discussed the first years of Thatcherism he said: "there are ...signs, particularly in the greatly improved productivity performance of British industry in recent years which suggest that a real and much needed transformation has taken place and can bode well for the future". *(Thomas, 1992, p. 94)* Other supporters also emphasise especially the fact that the government did not succumb and rising economic pressure forced fast transformation of the British industry despite the short-term losses.

3.1.2 Second phase - pragmatic monetarism

The second phase was called pragmatic monetarism. The government decided that it was not worth setting targets for M3 that are not achievable. In 1982 the Cabinet selected also other indicators to be watched: one narrower than M3 (M1 - consisting mainly of notes and coins and bank current accounts) and one broader (private sector liquidity, PSL - apart from M3 including some building society accounts). *(Smith, 1988, p. 12)* The government made the targets of the aggregates more realistic and the policy was to be more responsive to real economic circumstances. The main idea was to have more goals at the same time instead of having just one that is pursued at any cost. This policy change produced a wave of discontent among the strict monetarists. The interest rates were reduced and the overall monetary policy was eased. Thatcher's government also made some effort to depreciate the pound to help the British exporters. Although the economy was not doing very well in 1982 yet and M. Thatcher's poll rating was very low, the successful outcome of the Falklands War diverted the public attention from the economy and the Conservatives obtained a large majority in the 1983 elections. This strengthened the position of Margaret Thatcher. This was very important because the economy had still many problems at that time: GDP had fallen, unemployment had risen to over 3 million, effective taxation of the lower-income groups had risen and public expenditure had not been limited. "By 1983 Britain, for the first time since the Industrial revolution became a net importer of manufactured goods." *(Thomas, 1992, p. 97)* In brief, there were many things left to be solved.

3.1.3 Third phase - pragmatism

The third phase is called pragmatism or sometimes reverse monetarism. The economic climate had been relatively stable until 1984. In January 1985 the Cabinet had to face another sterling crisis - the exchange rate dropped to 1.12$ at that time. The government had to face a dilemma then: either to allow this rapid depreciation leading to a rising price of imports and consequently to higher inflation or to allow high interest rates that have negative influence on investment and growth. In October 1985 the target aggregate was abandoned, then it was shortly used in 1986 again but the next year it was abandoned forever. After 1988 the monetary authorities were more interested in M4 (M3 + all deposits in banks and building societies) and in the narrowest aggregate M0 (coins and notes, cash base). In other words the monetary policy returned to the old model known from the 1950's and 1960's - the interest rates, at least in part, depended on the exchange rate. In 1987 the Chancellor of the Exchequer Nigel Lawson advocated in his speech at the IMF managed floating of the main currencies. In fact this was an end of the process during which the monetary policy of the Thatcher government changed from setting firm monetary targets (monetary aggregates) to managing the exchange rate. The reason for this shift in policy "lay in an increasing concern that exchange rate volatility affected adversely the trade performance of UK industry, and an acceptance of the view that exchange rate depreciation was the main mechanism through which inflation was transmitted to the domestic economy". *(Curwen, 1990, p. 330)*

M. Thatcher and her Conservative party were always able to show themselves as the party of sound money, whereas the Labour party was shown as the inflation option. In fact, the Conservative government made lots of effort to fight inflation but, to remain objective, they were not always successful. When M. Thatcher was elected for the first time, in May 1979, the retail price index rose 10.3%, then it reached 21.9% in August 1980, from when it fell, reached single figures in April 1982 and the lowest point of 2.4% July 1986. After 1986 inflation was rising. The most important factor that was to blame was the boom of the economy shortly before and after the general elections in 1987 and loose monetary policy - the government was stimulating an already over-heated economy in 1988 by allowing rapid growth of the money supply and lowering taxes. The inflation rate at the end of 1988 was 6.5% and it reached double figures again in May 1990, which was much above major competitors. Another negative effect of this policy was a considerable balance-of-payments deficit. *(Thomas, 1992, p. 117)* The annual inflation rates during and after M. Thatcher are summarised in *Table 1*.

Table 1. Inflation rate 1980 - 1997

Year	Inflation rate (%)
1980	19.0
1981	11.0
1982	8.0
1983	5.0
1984	5.0
1985	6.0
1986	3.0
1987	4.0
1988	6.5
1989	7.5
1990	10.2
1991	4.2
1992	3.7
1993	1.6
1994	2.5
1995	3.4
1996	2.4
1997	2.9*

Source: Jewell (1993), p. 123
OECD Economic Outlook, June 1997, p. A19
* forecast

3.2 Tax reform

One of the biggest problems of the British economy before the year 1979 was the high rate of taxation (both marginal and average). The taxation rate reached an unbelievable 83% for employment revenues and 98% for non-employment revenues. The combination with high social benefits caused many people to lose economic incentives to work and they found themselves in the so called "poverty" or "unemployment trap".

As early as in May 1979 the government promised to cut the maximum tax rate from revenues from 83% to 60% and to cut the standard rate from 33% to 30%. As a compensation (both to finance these tax cuts and to prevent significant increases in the money supply) it was decided to raise the VAT from 8% and 12.5% to a single rate of 15%. VAT for food and other necessities remained zero. This reform was also meant to extend the choice: the people could now choose more freely whether to save or spend instead of allowing the government to do it for them.

The main reason leading to tax cuts was to find incentives for people to work more and escape from the "traps". Another reason was deduced from supply-side economics theories and the Laffer curve, which stated that tax cuts would consequently lead to higher tax revenues. In this case it seems that the assumptions were right. Comparison of proportional tax revenues from 1% and 5% of the richest Britons in the fiscal year 1978/79 and in the later years shows that later tax revenues were eventually higher despite significant tax cuts. For example, tax revenues from the 5% of the richest were 24% of the total in 1978/79 but 26.1% in 1984/85. However, there are some economists who claim that the positive incentive effect of tax cuts is cancelled out by the wealth effect, i.e. that high net incomes may lead to more leisure (or perhaps less tax avoidance). It seems that this was not the case in the UK where the rates of taxation before M. Thatcher were too high and that is why the positive incentive effect was dominant. The tax reforms led to higher income inequalities, which was in harmony with the goal of improving motivation. The benefit of higher income inequalities is obvious especially in the long-run.

Further tax cuts were adopted in the years 1986 to 1988. The base rate fell gradually from 29% to 27% and finally to 25%. The maximum tax rate fell in 1988 to 40%. The tax rate for corporations fell from 52% to 51% in 1983 and later it fell gradually until it reached 35%. An international comparison of corporate tax evolution between 1979 and 1990 is shown in *Table 2*, showing that the British tax cuts were really remarkable. No further tax cuts were carried out because the government feared overheating of the economy. Besides taxes it is social benefits that determine the supply of labour. Some of these benefits were reduced or cancelled to increase motivation to work but most of them remained. This led some critics "to note that the rich need more money to encourage them to work harder, while the poor need less!" *(Thomas, 1992, p. 121)*

Table 2. Corporate tax rates on profit (%)

Country	1979	1990
UK	52	35
France	50	42
Germany	56	56
Italy	36	47
Japan	55	56
USA	51	40

Source: Cook et al. (1995), p. 150

3.3 Reducing government expenditure

Reducing government expenditure, privatisation and trade union reform were a part of Thatcher's programme that came later. In the 1979 general elections the Conservatives argued that excessive government spending requiring excessive government borrowing and higher taxation increased inflation pressures, reduced incentives to work and crowded out private investment. All of this should have been avoided. However, in the field of public expenditure M. Thatcher had to face many opponents both in the Cabinet and the Conservative party, who believed more in the Keynesian stimulation of the aggregate demand. As Britain went through an economic crisis the opposition against M. Thatcher was stronger. This development led to two government reshuffles in 1981 and 1982, which helped M. Thatcher and her supporters to regain their positions.

After the elections in 1979 some expenditures were raised - especially on law and order and defence. Expenditure on welfare and health-care remained at the same level, as promised in the election campaign. The government planned significant rationalisation of industry subsidies and public sector borrowing. The Cabinet planned to lower the public expenditure to the level of the fiscal year 1977/78 in real terms. This goal was planned to be achieved in 1982/83.

As a matter of fact these goals were never accomplished. One of the reasons was the acts of the preceding government that the present government had to fulfil, the other reason was the economic crisis resulting from restructuring the British economy, which brought high unemployment and economic difficulties for many companies, some of which the British government, despite the pre-election rhetoric, bailed out. As an example one may look at the case of the car manufacturer British

Leyland employing about 150 000 people. The company was close to a bankruptcy but it was finally saved by the government by a subsidy of almost £ 1 billion, which raised the share of public expenditure on GDP by about 3%. In spite of this fact there were economists who, given the seriousness of the recession, appreciated the results the government had achieved. To cite one of them: "the Government did remarkably well ...to limit the overall level of growth and overall spending as much as it did in the first half of the 1980's". *(Riddell, 1989, p. 33)* Then there were many economists on both sides, one criticised Thatcher's government for not being able to limit spending, the other one emphasised an anti-social character of government's meanness.

As it was impossible to reach the goal of reducing the public expenditure in real terms the strategy was changed in 1982/83. The government set the goal of keeping the real public expenditure at a constant level. However, even this modification did not help and public expenditure grew by about 1.5% - 2% a year. Since the economy grew as a whole (GDP) the relative share of public expenditure to GDP diminished slightly. In November 1986 this favourable development was chosen as a government goal. During the economic recovery of the second half of the 1980's tax revenues increased, borrowing decreased and revenues from privatisation became significant. The government could afford to spend more in real absolute terms and still boast that the relative size of public expenditure was diminishing. The share of public expenditure in GDP fell from 46.8% in the fiscal year 1982/83 to 43.2% in 1986/87, and further to 39.5% in 1990.

3.4 Privatisation

Today, M. Thatcher considers privatisation, together with tax reforms, a cornerstone of her economic programme. To her, privatisation was a means to reverse harmful tendencies to socialism, it reduced the role of the state and strengthened the position of ordinary people. *(Thatcher, 1996, p. 463)* Even though privatisation was the main part of the programme of pushing back the frontiers of the state, there were other policies designed to help this development. It included opening up state monopolies to outside competition (deregulation), e.g. by relaxing licensing restrictions (e.g. in telecommunications) and contracting-out to the private sector services paid for out of public funds (e.g. refuse collection, street cleaning). *(Harvey, 1993, p. 228)*

3.4.1 Reasons for privatisation

One of the big problems of the British economy before 1979 was the low labour productivity. In particular the public companies had very often heavy losses and were strongly unionised. The privatisation programme was supposed to help increase the productivity and consequently contribute to a higher efficiency of the whole economy. Other reasons were more political: to raise large sums of money to finance the tax cuts and to spread share ownership. Thatcher's government tried to create a "share-holding democracy" or "peoples' capitalism" by enabling other parts of the population share-owning. This programme was also supported by the sale of council houses to tenants - "property-owning democracy". Among the tools were encouraging small shareholders or employee buy-outs in some privatisation schemes. The reasons behind this were economic, ideologic and political - the government hoped that this programme would bring them more popular support, especially among traditionally Labour voters. And truly, there was a considerable popular support for this aspect of Thatcherism. The economic reasons were: reducing the power of the unions by involving the workers in the ownership and raising incentives by giving them a part of the profit. In 1990 around a quarter of the adult population (i.e. around 9 million people) owned some shares *(Thomas, 1992, p. 130)*, which is really remarkable. An effort to curb the power of public sector trade unions should also be mentioned.

To sum up, the reasons for privatisation were: 1) Efficiency of the privatised companies improved through competition in the market. 2) The burden on public expenditure was reduced since the public companies were often heavy loss-makers. 3) The management of the privatised companies gained freedom from detailed political control. Public enterprises were often used as instruments of macroeconomic policy, e.g. investment decisions were made to preserve jobs, hold prices to avoid inflation etc. After privatisation, profit became the major investment criterion again. 4) Private companies are, by nature, more resistant to trade union power than the government that is more likely to concede to wage demands. Moreover, the public sector unions are especially militant. 5) Mass privatisation created a property-owning democracy, which helped the Thatcher government and, overall, improved stability of the economy. *(Harvey, 1993, p. 529-530)*

Even M. Thatcher acknowledged that privatisation alone does not solve all the problems. Monopolies or near-monopolies (especially the so called natural monopolies, which are chiefly public utilities) retain their monopolist positions. The solution is to promote competition, e.g. by licensing other firms to provide the same product - this was the case of Mercury and bus companies. If competition is difficult to devise or is insufficient because one firm is too dominant, the responsibility may rest with a regulatory body. However, this kind of regulation should be careful, transparent and specific. To protect fair competition, customers and to prevent abuse of monopoly position, new regulatory bodies were set up, e.g. OFTEL (Office for Telecommunications) of OFGAS (gas industry).

3.4.2 Process of privatisation

The government started to privatise immediately after 1979 but larger-scale privatisation schemes were adopted only when the economy came out of the recession, which was causing little credibility in the market and big losses in the nationalised industry. Even so, some companies were successfully privatised: e.g. British Aerospace, Cable and Wireless, Britoil etc. Privatisation became a central issue of the government after the 1983 election, when the government promised to privatise not only the industrial companies (e.g. British Steel, British Leyland) but also gas and electricity industries. Privatisation was one of the biggest successes of M. Thatcher and after 1983 it became a cornerstone of her political and economic agenda. As economic situation improved, privatisation programme became wider. The emphasis shifted from privatising manufacturing industry, which had been nationalised only because of socialist dogma, to privatising public utilities, where arguments were more difficult. *(Thatcher, 1996, p. 464)*

The former state companies were first restructured and then sold to private owners. That is why privatisation brought significant revenues to the budget. Between 1979 and 1988 the sale of public assets raised about £ 27 billion. *(Thomas, 1992, p. 100)* Moreover, it was highly probable that the privatised companies would bring later more revenues in the form of taxes because of their higher performance. The shares in the privatised companies were sold both to large investors and to the general public, which enabled M. Thatcher to gain a strong political support for her programme. Major British privatisations are summarised in *Table 3*.

Table 3. Major British privatisations

Organisation	Industry	Date	Method	Receipts (Łm)
Amersham International	Radio chemicals	1982	Shares	64
Associated British Ports	Port owner	1983	Shares	97
British Aerospace	Aircraft	1981	Shares	390
British Airports Authority	Airports	1987	Shares	1,223
British Airways	Airline	1987	Shares	854
British Gas	Gas supply	1986	Shares	7,000
British Petroleum	Oil company	1979	Shares	6,000
British Rail Hotels	Hotels	1983	Sold to trade	n.a.
British Shipbuilders	Shipyards	1985	Employee buy-out and trade sales	n.a.
British Steel	Steel production	1988	Shares	2,430
British Telecom	Telecommunications	1984	Shares	4,700
Britoil	North Sea oil	1982/85	Shares	1,053
Cable&Wireless	Telecommunications	1981-5	Shares	1,021
Electricity companies	Electricity supply	1990-1	Shares	n.a.
Jaguar	Car maker	1984	Shares	n.a.
National Freight Company	Road haulage	1982	Employee buy-out	354
Rolls-Royce	Aero engines	1987	Shares	1,032
Rover Group	Car maker	1988	Sold to BA	150
Royal Ordnance	Arms maker	1987	Sold to BA	186
Sealink	Ferries, harbours	1984	Sold to British Ferries	n.a.
Short Brothers	Aircraft	1989	Sold to Canadian company	30
Holdings of British Technology Group - ICL - Fairey - Ferranti - Inmos	 Computers Engineering Electronics Silicon chips	Various	Shares sold to institutions and firms	n.a.
Water companies	Water supply	1989	Shares	1,903

Source: Jewell (1993), p. 87

3.4.3 Consequences

The government privatised about fifty big companies, for example British Airways or British Telecom. That was over two-thirds of the industrial assets owned by the state in 1979. *(The Economist, Nov. 24 1990, "The Thatcher Record", p. 19)* In all cases efficiency and profitability of the privatised companies grew significantly. BT is a good example of that. After privatisation BT's investment doubled, the call prices in real terms were falling, the number of people waiting for a telephone dropped to a minimum and the quality of call-boxes also improved. *(Thatcher, 1996, p. 466)*

On top of that, the state companies felt threatened by possible privatisation and they had to behave more efficiently as well. Higher efficiency of the privatised companies was caused rather by government deregulation in the short-term. A competitive pressure was a matter of a longer term. The privatisation programme is probably the most famous reform that M. Thatcher had undertaken. The proportion of public and private sectors changed radically during her government. She privatised even those industries that had always been considered "natural monopolies", which were supposed to remain under public control. This concerns mainly the utilities, such as water and electricity. M. Thatcher changed the mood in the UK so much that even Labour party ceased demanding re-nationalisation of some privatised industries and supports their remaining in private hands. In M. Thatcher's own words, Britain was the first country to turn back on a path to socialism. After her reforms state involvement in the industry dropped by about 60%, a quarter of people own shares. Thatcher's privatisation programme became an inspiration for many countries, e.g. New Zealand or Czechoslovakia, and revived reputation of Britain as a nation of innovators and entrepreneurs. *(Thatcher, 1996, p. 470)*

The critics of the privatisation scheme emphasised mainly that the main motivation behind selling-off public assets was the need to find resources to finance the tax cuts. They give an example of British Telecom, British Airways or British Gas - in all cases the government only transformed a public monopoly into a private monopoly. However, supporters would respond that it was only the first necessary step before more liberal or totally free competition could be introduced in the market. The critics also questioned the argument that the change of ownership would necessarily improve performance. They said that public ownership was in fact similar to anonymous ownership by large institutional investors, such as pension funds or insurance companies. *(Thomas, 1992, p. 129)* However, the reality has shown that accountability of top management is much higher in private sector no matter who the owners are and the performance of the privatised companies has really improved.

Some critics were against privatisation in the industries that were important for defence or self-sufficiency (e.g. oil, nuclear and some parts of the defence industry). Especially strong resistance was to foreign ownership in these sectors. Today, with the globalisation of the world economy, these objections are less and less relevant. It is much more difficult to determine the nationality of a big multinational company and it is even more difficult to determine whose interests this company defends. Most often it is only the company's interests, not those of the nation (it is a question if it has ever been otherwise). The huge multinationals operate world-wide and look for the best comparative advantages of the nations. Any government's effort to limit their activities is rather harmful for the given country than the contrariwise.

3.5 Trade union reform

Reducing the almost unlimited power of the trade unions was a pillar in Thatcher's economic programme. Before 1979 the Conservative party was viewed as the party that could not manage good industrial relations. On the contrary, the Labour party was considered to be more able, thanks to its links with the trade unions, to create an atmosphere of consensus with minimal work-force resistance. However, the "winter of discontent" of 1978-79 accompanied by many strikes helped to change the public opinion in favour of the Conservative party. M. Thatcher wished to limit trade union power significantly, to tie the unions more to individual firms (as in the USA or Japan) and to break trade union involvement in politics (through Labour party). Trade union reform was done in several gradual steps.

3.5.1 The Employment Act 1980

The 1980 Employment Act did not brought any break-through yet but some useful steps were undertaken. The principle of the closed shop was limited. This principle meant that the employer had to recognise the trade union as the only representative of the employees. It also meant that in some cases an employee had to be in the trade union, otherwise he could be dismissed because the union effectively decided who could and who could not be employed. After the Act the employee had a right to compensation if he was fired because he did not join the trade union. A new closed shop agreement was legal only if it was supported by a significant majority of 80% of the workers concerned in a secret vote. In other cases secret ballots were encouraged and financially supported by the government. The government did not attempt to ban the closed shop entirely because it feared a strong protest could put the whole reform into jeopardy and it preferred a step-by-step approach even though it considered it as a denial of individual liberty and of the rights of management.

The Act also limited the right to secondary industrial action - this was the right to strike for other causes than disputes with the employer, for example striking for the support of workers in another industry. The most serious, dangerous and often used in the 1970's was the case of the so called secondary picketing allowing the use of the pressure of a strike to force the employer to break the contracts with his business partners. The Act strengthened the position of the employer. It was no longer legal to picket a firm in which he or she was not employed in order to spread a strike or put pressure on workers or employers not directly connected to the existing strike. The employers adversely affected could after then ask the court for an injunction.

The third problem solved by the Act was the question of voting in trade unions. Before the Act it was mainly public voting that gave the unions the power to force the workers to vote for their suggestions. The Act enabled secret voting (and in some cases it was compulsory). Although the government supported financially the secret voting the trade unions were strongly against it.

3.5.2 The Employment Act 1982

Another law that limited the power of trade unions more deeply was the 1982 Employment Act. The Act restricted the trade union immunities. A legal action could be launched not only against single unionists but also against the whole trade union. It was also possible for any person whose business was affected to claim damages in the case of a strike. This was a radical change in the trade union legislation. Compulsory secret voting had to confirm regularly the closed shop by an 80% majority. Industrial action could be launched only against own employer and only if there were disputes between the work-force and their employer over such issues as the pay, conditions etc. It limited the legal definition of lawful trade disputes to those between an employer and his own workers - political strikes, for example against privatisation, were made illegal. Because of the approaching elections the Act did not deal with the matter of financing the political parties (trade unions were the major contributor to the Labour Party), although this was envisaged.

The 1980 and 1982 Acts were designed to weaken the power of the unions, increase individual liberties of the workers and transfer more power from the trade unions to management. The following legislation was meant rather to change the internal organisation of the unions themselves, especially the balance between the union leaders and rank and file trade unionists. The Conservative government wanted to place greater emphasis on the rights of individual trade union members and limit the rights of the trade unions as corporate bodies, which was in accordance with the Thatcherite principle of individualism. *(Dorey, 1991, p.9)*

3.5.3 The Trade Union Act 1984

The 1984 Trade Union Act stated that the leadership of trade unions must be selected in secret and direct elections. This was to avoid mass meetings, often chaotic, where voting was done by hand and intimidation of some members was a frequent phenomenon. It confined the immunity of the trade unions only to the cases where the strike (or other industrial action) was supported by a majority of workers (i.e. union members) in a secret vote within the previous four weeks. If the union failed to organise this voting, anyone who was negatively affected by the industrial action could sue the trade union or its leaders for an injunction to stop the action and for damages. The Act also required that the support and financing of the political parties had to be decided regularly every ten years by a secret ballot of all members.

3.5.4 The Employment Act 1988

The 1988 Employment Act further restricted the principle of the closed shop and strengthened the rights of workers to resist a strike if it had not been agreed in a secret vote. Among other changes it enabled a worker to continue working even if a strike had been agreed on by a majority. An industrial action to establish or to maintain the closed shop was made illegal and no employee could be dismissed just because he had not been a member of the trade union. The Act also curbed the usage of trade union financial resources and set up an independent supervision over the secret election of the trade union representatives.

3.5.5 The Employment Act 1990

This Act aimed to tackle the remaining problems linked with trade union activities: the closed shop, secondary action and unofficial strikes. The closed shop was effectively outlawed since any employee could no longer be dismissed just for the reason he was or was not a member of the trade union. All immunities for the secondary action were removed. The government claimed that three-quarters of all industrial disputes could be classified as unofficial. The Act further extended existing legislation enabling employers and others to take a legal action against the union which called the industrial action without holding a proper secret ballot.

3.5.6 Summary of trade union reform

The impact of the new legislation on the economic activity was enormous. In the 1980's the labour productivity grew and the number of strikes and days lost because of the strikes dropped dramatically. The number of trade unions also fell. The membership in the trade unions fell from 13m in 1979 to 8m in 1995. The number of man-days lost due to strikes fell from 29.5m in 1979 to 415,000 in 1995. *(The Economist, Sept. 14 1996, p. 37)*

A new legal climate favouring the employers emerged. This new balance of power was probably even more important for economic efficiency and greater labour market flexibility than falling number of strikes. Unionised firms raised productivity by more than non-unionised ones in the 1980's, as union power declined. Firms that derecognised unions enjoyed the biggest gains. Managers found it easier, as union power eroded, to restructure working practises and to hire and fire. *(The Economist, Sept. 14 1996, p. 37)* The ability of unions to stop change had been especially harmful in the UK before M. Thatcher. The legal changes were accompanied and strengthened by the industry development (see *Table 4*). The industries where the trade unions were traditionally strong were in a period of recession, whereas the industries with low trade unionism experienced rapid growth. This development included the growth of employment in small and medium enterprises, growth of part-time work and female employment, growth of service sector, transfer of economic activities from the North to the South of Britain etc.

One of the reasons determining the success of M. Thatcher's trade union reforms was relatively (this word is important in this case) lower union militancy. There are several explanations. M. Thatcher's legislation was adopted gradually in smaller steps with a flexible approach. If she had come with a radical reform at one time by one massive bill the resistance would have been much stronger, as Mr. Heath experienced during his government. Breaches of trade union legislation became a matter of the civil law rather than the criminal law and thus the courts could use such civil penalties as injunctions, compensation and sequestration, which became fatal for some unions during strikes. Mass unemployment undermined power of the unions and caused the workers to feel that too high wage demands could lead to the loss of their jobs. M. Thatcher was often speaking about workers "pricing themselves out of a job" and they really started to believe in it. In contrast to the pre-1979 years there was no official incomes policy and settling disputes was left over to employers and unions. This way the government could not get into conflict with the unions over pay negotiations. Only in the public sector the government determined wage increases and sometimes used it as an indicator for the private sector. *(Thomas, 1992, p. 252-254)*

Table 4. Percentage shares of GDP at factor cost*

Sector	1964	1969	1973	1979	1986	1988	1990	1991
PRIMARY	**5.8**	**4.3**	**4.2**	**6.7**	**5.3**	**3.8**	**3.3**	**3.7**
Agriculture, forestry and fishing	1.9	1.8	2.9	2.2	1.7	1.3	1.4	1.7
Coal and coke	3.9	2.5	1.1	1.3	1.0	0.7	0.5	0.6
Extraction of mineral oil and natural gas	-	-	-	3.2	2.6	1.8	1.4	1.4
SECONDARY	**40.8**	**42.0**	**40.9**	**36.7**	**32.2**	**31.3**	**31.3**	**29.8**
Mineral oil processing	0.5	0.5	0.4	0.6	0.7	0.3	0.4	0.4
Manufacturing	29.5	30.7	30.0	27.3	23.0	22.4	21.2	19.9
Construction	8.4	8.4	7.3	6.2	5.8	6.2	7.2	6.4
Other energy and water supply	2.4	2.4	2.8	2.6	2.7	2.4	2.5	3.1
TERTIARY	**53.8**	**53.0**	**54.9**	**56.5**	**62.3**	**64.8**	**65.4**	**66.4**
Distribution, hotels, catering, repairs	14.0	13.3	13.1	12.7	13.3	13.2	13.9	13.9
Transport	4.4	4.4	4.7	4.8	4.3}			
Communication	1.6	1.9	2.3	2.5	2.6}	6.9	6.7	6.6
Banking, finance, insurance, business services and leasing	8.3	8.6	10.7	11.0	15.0	18.4	17.3	16.8
Ownership of dwellings	5.4	5.5	5.1	5.8	5.5	5.1	6.1	6.6
Public administration, national defence and compulsory social security	7.6	7.0	6.1	6.1	6.9	6.5	6.3	6.6
Education and health services	6.9	7.1	7.7	8.1	8.6	8.5	9.0	9.5
Other services	5.6	5.2	5.1	5.7	6.1	6.2	6.1	6.4

Source: Cook et al. (1995), p. 24

* totals may not sum to 100 due to rounding

In the public sector M. Thatcher was a very successful negotiator and she won most of the battles. The defeat of the one-year mineworkers' strike (March 1984 - March 1985) led by NUM (National Union of Mineworkers) leader Arthur Scargill should especially be mentioned. Her major failures in this field were when she had to fulfil Professor Hugh Clegg's findings - these recommended large pay rises in parts of the public sector and were "ordered" by the Labour party during the "winter of discontent" and promised to be implemented by the Conservatives during the election campaign. The second and last major concession was made in 1981 to NUM - M. Thatcher agreed with a pay rise because she feared economic and political consequences of a possible strike during the second oil shock caused by the revolution in Iran. *(Thomas, 1992, p. 254-255)*

3.6 Deregulation

Apart from the trade union reform, many other sectors were deregulated. Government regulation of goods and financial markets is usually justified as a means of protecting consumers or workers in the case of health and safety legislation. Regulation is normally aimed at firms that tend to exploit their monopoly power or power resulting from their superior access to information. However, in reality there are many regulations that, instead of protecting consumers and workers, are designed to limit competition and serve in the interest of the regulated companies. *(Cook et al., 1995, p. 128)* As Mrs Thatcher put it, more regulation means higher costs, less competitiveness, less employment and less wealth to build on real values in the long run. *(Thatcher, 1996, p. 461)*

M. Thatcher wanted to eliminate mainly these competition-restricting regulations that do little to enhance the well-being of consumers. In 1979 the government eliminated all price, private sector pay and dividend controls. The Conservative government always proclaimed that they were against any kind of income policies that do distort markets and create inefficiencies. In her programme, M. Thatcher wanted to address especially the low productivity in the British industry and its causes and she, in contrast to previous governments, did not want to deal with the issues of income policy even though she acknowledged that the wages rose more than the productivity. *(Thatcher, 1996, p. 71)* She wanted to reach the right objectives by other, more liberal and pro-market means.

Her government also abolished most restrictions in foreign trade and foreign exchange. It widened opportunities for lending and allowed companies and pension and insurance funds to invest abroad at will and to borrow freely in foreign currency. *(Johnson, 1991, p. 197)* The critics said that the abolition of the foreign exchange controls was harmful to the British economy because it enabled the British investors to create overseas portfolios instead of investing in the domestic industry. However, this argument is rather doubtful. In the financial sector the government deregulated the banks and building societies, which increased competition in this industry. The distinction between banks and building societies has blurred as a result of deregulation and market forces.

Competition and liberalisation of the industries was highly promoted by Thatcher's government. For example, in the telecommunication sector the government licensed Mercury, creating thus competition for British Telecom. BT was forced to allow Mercury to use its lines in order to compete for business.

Another example could be from the transport industry. For example, buses were liberalised by the 1980 Transport Act. This led to expansion of services and fare cutting. A similar approach was adopted for domestic air routes, private housing rentals, London buses, radio frequencies and personal pension plans. *(Johnson, 1991, p. 196)* Today's results are apparent. Deregulation normally leads to cost reduction and stimulates the provision of new services for which there is a demand.

Further liberalisation of the employment conditions (e.g. conditions for dismissal) should also be mentioned because it was, besides the trade union reform, an important factor that increased labour force flexibility and its competitiveness, especially in comparison with other European countries.

3.6.1 Financial services deregulation

Liberalisation of the Stock Exchange, which took place mainly in the second half of the 1980's, is very important and must also be mentioned - as a result, the City of London has emerged as probably the world's leading trading centre for the mass of financial securities. *(Matthews et al., 1988 , p. 68)* The "Big Bang" of 1986 brought globalisation and liberalisation of financial markets. The roles of brokers and jobbers merged into market-makers and fixed commissions were abolished, which meant that more attractive terms could be offered to large investors. Before the "Big Bang", the abolition of fixed commissions in New York in 1979 made dealing costs for British institutions lower there than in London, while the ending of exchange controls in the same year meant that British investors were unhampered in investing in foreign securities. *(Harvey, 1993, p. 302)*

Introduction of electronic information and communication systems implied that changes in security prices in one dealing centre could be immediately transmitted to another centre. The three major dealing centres, Tokyo, London, New York thus actually became one market, open, due to time differences, almost 24 hour a day. *(Harvey, 1993, p. 303)* A wide range of new financial services became available (e.g. swaps, options, convertibles etc.) It also meant expansion of new markets, for example LIFFE (London International Financial Futures Exchange). From the company's point of view, it is important to note that these new instruments together with easier access to developing Eurobond markets and commercial paper markets significantly widened the opportunities of raising finance and the companies (especially the big ones) no longer depended on the banks they were used to cooperate with. *(Prevezer, 1994, p. 200)*

As large companies looked directly to the markets to satisfy their financial needs, the banks were forced to shift the composition of their lending, they increased the proportion of lending to the personal sector and decreased the share of lending to business. This created a greater competitive pressure in the banking industry. As a consequence, both margins (interest income as a proportion of interest-earning assets) and spreads (the difference between the rate paid on interest-bearing assets and on deposits) declined on domestic lending. The shift of emphasis on the personal sector also meant that the costs could not be reduced because the banks had to maintain labour-intensive retail branch networks. A new opportunity for the banks came with a growing number of small and medium-sized companies. On the other hand, small businesses are associated with a higher risk and need more servicing, which means that neither this was a possibility for cost reduction. *(Prevezer, 1994, p. 201)*

The 1986 Financial Services Act established a new regulatory body, the Securities and Investments Board that was supposed to supervise a new group of the so called self-regulatory organisations, including the Stock Exchange itself. Further amendments were brought by the 1986 Building Societies Act and 1987 Banking Act. Deregulation resulted in rapid growth of economic activity, employment and profits in the financial and business services industry. However, it is important to note that the new, though deregulated, structure required a new form of regulation, mostly through new independent regulatory bodies or through self-regulatory organisations. The purpose was to discipline privatised monopolies and to supervise the enormous expansion of both old and new financial products. *(Johnson, 1991, p. 196-197)* The investors, especially the small ones, had to be protected from fraudulent practises, which could jeopardise the credibility of the whole financial market.

4. Mrs Thatcher and the EC

M. Thatcher was known for her "colder" attitude towards the EC. She was known more as a supporter of closer ties with the USA - she promoted "Europe on both sides of the Atlantic" *(Thatcher, 1996, p. 509)*. She was against the world composed from three large protectionist trading blocks - Europe, North America and Japan (or South-East Asia). For Europe, she basically advocated the idea of a free-trade area and refused any proposals that could lead to the loss of sovereignty. She criticised European bureaucracy, over-regulation of business and wanted to reach a "fair budgetary deal" for Britain rather than to promote the interests of the Community as a whole. Nevertheless, she did not question the membership of the UK. "Her toughness, irritating though it has often been to other European leaders and to the Foreign Office, ensured that the question of whether or not Britain should be a member of the community disappeared from the domestic political agenda after the 1983 general election." *(Riddell, 1989, p. 192)*

At the beginning of the Thatcher period the relations with the EC were influenced especially by the disputes over Britain's contributions to the EC budget and over how much of this budget should be spent on agriculture through CAP (at one time this figure reached as much as three quarters of the total EC budget). Later the position became more positive and in December 1985 the Thatcher government even agreed with The Single European Act, which was a big step forward. To remain objective, however, Mrs Thatcher never supported any kind of a federal Europe where national governments would play only subordinate roles - this was close to the ideas of Jacques Delors, the French President of the Commission at that time, with whom M. Thatcher had many disputes.

M. Thatcher correctly claimed that the agriculture sector in the UK was relatively smaller and there were not so many small farms (the greatest recipients of the CAP funds) as in other EC countries. That is why she was so firmly opposed to CAP and advocated a decrease in the British contribution to the budget. According to her, Britain could only gain in an open trading system. She felt that free trade was advocated by every one in principle but then, in reality, it was hardly politically feasible. *(Thatcher, 1996, p. 505)*

4.1 Against the Social Charter

In particular, Labour critics claimed that the main reason behind Mrs Thatcher's negative attitudes towards Europe was not the fear of overwhelming bureaucracy and loss of national sovereignty but the refusal of the social legislation of the EC, the so called Social Charter. The Social Charter clearly conflicted with M. Thatcher's vision and was bitterly opposed by her government, which isolated the Conservative party from Christian democratic parties on the Continent. M. Thatcher "claimed that her government had not 'destroyed socialism' in Britain only to have it reimposed through the back door from Brussels". *(Thomas, 1992, p. 183)*

She considered the Social Charter as a "Socialist Charter" - prepared by the socialists in the Commission and advocated especially by the countries with socialist governments. She saw the social dimension of the single market in better employment and standard of living resulting from freer trade. Once she called the Social Charter a form of German protectionism. As an example, she put Portugal that would become less competitive if they adopted the social legislation leading to higher labour costs. She said that if the EC adopted German standards as its own norm, especially the less developed EC members would become less competitive. *(Thatcher, 1996, p. 513 - 514)* The Labour Party ceased this opportunity and, apart from a few on the far left, started to be more pro-European because they hoped that the EC would help them to reach their objectives in Britain. They no longer saw in the EC a threat to "socialism" and even abandoned the closed shop concept to be able to support the Social Charter. The Labour party and other critics of M. Thatcher wanted the EC to have not only economic but also social goals.

4.2 Monetary aspects

However, there were many Conservative politicians (including senior figures like Howe, Lawson, Heseltine or Hurd) who supported closer links with Europe. In the economic field the major disputes were over the currency. M. Thatcher advocated freely floating exchange rates and strong political and economic transatlantic relations and refused any links of the pound to the German mark. *(Thatcher, 1996, p. 507)* She wanted to focus monetary policy on controlling the money supply and not on keeping the exchange rate at a pre-set level - which was necessary under the ERM. She wanted to keep a free exchange rate to have wider opportunities for monetary policy. *(Thatcher, 1996, p. 472)* Even though she was later persuaded by her colleagues from the Cabinet to join the ERM she always emphasised that she would never defend the parity of sterling at any cost because "there is no way to cheat the markets". *(Thatcher, 1996, p. 496)* The costly withdrawal of the pound from the ERM partly justified her words. It is useless to remind that the idea of EMU was out of question for Mrs Thatcher. According to her, EMU would mean an end of economic independence and shift of power from democratically elected government to anonymous European institutions.

Her opponents claimed that pegging the pound or even entry to the ERM would help the British economy because the more stable exchange rate would be an advantage for business operations and membership in the ERM would exert pressure on the government to fight against inflation which should be reduced to the level of Germany - the anchor of the whole system. It was hoped that more stable pound would attract more foreign investment without having too high interest rates. Mrs. Thatcher's successor John Major also believed that the entry to the ERM would unite the Conservative party because it would eliminate "eurofils'" fears that Britain would remain isolated. *(Thatcher, 1996, p. 491)* The critics emphasised mainly the fact that Britain would no longer be able to use devaluation to regain competitiveness. Some criticism also aimed at the fact that the ERM could stabilise the exchange rates under certain conditions but did not fix them. That is why if turbulence in foreign exchange markets was too high, realignments were done in big steps that tend to be more costly and destabilising than gradual adjustment. Britain joined the ERM on 5 October 1990 under the Chancellor John Major. At that time it was clear that M. Thatcher's authority was waning.

5. Assessment of Mrs Thatcher's reforms

Professor Patrick Minford, a noted monetarist, spoke about M. Thatcher's vision of the world "in which small businesses could compete freely for the favours of the individual family consumer; in this world the state keeps law and order, including the elements of a moral order to protect family decency, and provides succour to the genuinely unfortunate who cannot help themselves". *(Minford, 1988, p. 94)* Most supporters of Thatcherism appreciate that under M. Thatcher the state stopped its involvement in the activities that should not be its business, such as short-term demand management, interference with private sector pay and prices, involvement in the structure and the location of economic production and the direct production of goods and services. A reduction in the attempt to affect the distribution of income and wealth was also esteemed. *(Thomas, 1992, p. 113)* They also claim that under Mrs Thatcher the government started pursuing long- or at least longer-term objectives instead of the short-term ones. They reject the criticism of the high unemployment during the Thatcher years and say that it was a necessary price to pay if the productivity and efficiency was to be raised in the future. The austerity measures in that period brought about changes that would improve British competitiveness in the future.

M. Thatcher herself was convinced that "good housekeeping" was the basis of sound and prosperous economy and was best guaranteed by free clash of commercial self-interests. She expected that the private companies should flourish where the state could not do well and success should be won in free markets. The state should help only those who helped themselves, not those who failed or did not try. Her vision of the economy can be best described by her own words in the following citations. "My policies are based on some economic theory, but on things I and millions like me were brought up with: an honest day's pay; live within your means; put by a nest-egg for a rainy day; pay your bills on time; support the police." (1981) "I came to office with one deliberate intent: to change Britain from a dependant to a self-reliant society - from a give-it-to-me to a do-it-yourself nation; to a get-up-and-go, instead of a sit-back-and-wait-for-it Britain. (1984) *(both: The Economist, Nov. 24 1990, p. 26)*

5.1 Productivity growth

According to professor Geoffrey Maynard the rise in labour productivity after the recession of 1979-80 exceeded that of the previous twenty years and the British economy radically changed in terms of improved management, e.g. better working practises, better directed investment and greater readiness to innovate. *(Thomas, 1992, p. 114)* Before M. Thatcher " high taxes and over-regulation by the state had discouraged effort, and, together with the growth of trade union power, had circumscribed and demoralised management". *(Riddell, 1989, p. 71)* The key success factor was reducing the trade union power, especially with respect to their opposition to new technologies and new working practises. Government willingness to accept high unemployment also undermined trade union power.

Maynard appreciated "the legislative attack on trade union power and privileges ...and the willingness to stand up against crucial strikes ...or to provide explicit or implicit support for others who have done so." *(Maynard, 1988, p. 156)* He rejected the opinion that Britain should have followed an export-led strategy based mainly on under-valued currency because he believed that the key factor to the success in the world markets was higher productivity. The companies facing the strong currency of the early 1980's had to improve productivity and cut costs in order to remain in business. In this period "the essential basis for sustained long run improvement in economic performance was laid down". *(Ibid., p. 159)* High unemployment and loss of national output were considered irrelevant in the long term. Some economists who are not so fond of Mrs Thatcher acknowledge that the economic situation in the UK improved during the 1980's but they stress that the social costs imposed especially on those less well-off were too high. However, the issue is more complex and today it seems that the austerity was necessary to force the companies to stop over-manning and increase efficiency and the scope to reduce the social burden by the government was quite limited.

Overall, it can be said that M. Thatcher's supply-side programme was successful. The microeconomic changes made the economy work more efficiently, the productivity raised. Privatisation, deregulation, trade union reform and reducing taxation were the key success factors of her programme. In international comparisons, Britain during the Thatcher years made a big step forward as far as the productivity is concerned. *Table 5* shows productivity growth in manufacturing in selected countries and demonstrates the British success. M. Thatcher's macroeconomic policies are more doubtful. The government always claimed that beating the inflation was the top priority. As a result of lack of credibility of monetary policies, difficulties connected to measuring and controlling the money supply and some other factors Britain's record on inflation during and after the Thatcher years is relatively worse than for the other industrial countries. However, steady growth, low unemployment and low inflation have to be judged together and in that case Britain's position is very favourable today.

Table 5. Manufacturing productivity growth*

Country	1975-1980	1980-1985	1985-1990
United Kingdom	0.9	5.4	4.0
Japan	7.3	6.0	3.9
United States	1.7	4.4	3.6
Italy	5.7	1.8	3.3
France	4.0	2.1	3.2
Germany	3.6	2.6	2.0
Average	3.8	3.8	3.3

Source: Cook et al. (1995), p. 6

* annual per cent change in real value added per person employed

5.2 Unemployment

Of course, Mrs Thatcher had and still has many critics. Even some of her supporters claimed that she found the answers to the problems of the 1980's in Britain but she no longer understood the problems of the 1990's. *(Rovná, 1991, p. 176-177).* The issue of unemployment is the reproach most often made of Mrs Thatcher by her critics. It is true that her reforms brought about significant unemployment which rose in the first half of the 1980's. In May 1979 1.09 million people were out of job and in July 1986 the figure reached its peak of 3.13 million. However since then the figure has fallen, surprising many people, and at the beginning of 1989 the number was below 2 million. *(Thomas, 1992, p. 118)* In September 1997, at the time when most Western European countries are suffering from high unemployment, the figure in the UK has dropped to 1.47 million, which is the lowest level since July 1980. *(Lidové noviny, 16.10.1997)* The development of the unemployment rate from 1979 to present is shown in *Table 6.*

Table 6. Unemployment rate 1979 - 1997

Year	Unemployment rate (%)
1979	6.0
1980	7.7
1981	11.0
1982	12.8
1983	13.0
1984	13.4
1985	13.2
1986	11.4
1987	9.4
1988	7.6
1989	5.9
1990	6.5
1991	9.1
1992	10.2
1993	10.3
1994	9.3
1995	8.2
1996	7.5
1997	5.3*

Source: Jewell (1993), p. 107
OECD: Main Economic Indicators, Nov. 1997, p. 212
* latest

M. Thatcher advocated her policies by claiming that high unemployment was temporarily necessary as the British industry was getting "leaner and fitter" but then new employment opportunities were created in the restructured, more productive, economy. She said that the unions and socialists could not accept the fact that, to raise productivity, at the beginning it was necessary to lay off workers before new capital was accumulated to create new vacancies. *(Thatcher, 1996, p. 70)* The latest development in the UK supports her views. There is little doubt that the 1980's Thatcher revolution accompanied by labour market reforms substantially reduced the level of unemployment consistent with low inflation (the so called natural rate of unemployment). Moreover, the labour market reforms were accompanied by successful social-security reforms. Today's unemployment is tending down around 30,000 a month and is forecast to reach only 4% by the end of 1998. *(Bloom, 1997, p. 66)* Some economists fear that such a large fall is getting the labour market too tight and that it could initiate inflation in the end.

The opponents criticise mainly the statistics that are used by the government. During the Thatcher years the government made it more difficult for people to claim unemployment benefits and so be officially registered as the unemployed. Some aspects of the American-style system, under which the unemployed are pressured to take any work, were adopted. The unemployed claiming the benefit must be actively seeking work and their "availability for work" is tested. For example, the 1989 Social Security Act required claimants to prove that they had been actively seeking work each week. This discouraged many people from claiming the benefits and registering as unemployed without actually being employed or self-employed.

Despite this, Britain remained a welfare state. No benefits for the jobless, unless they take the training, or do the work, that the state offers, are still Thatcherite dreams. In real terms, education, the national health service (NHS) and social security spending are higher than in 1979. The government explained this fact by claiming that for the same money the quality of the service provided was higher. The government pressured for higher efficiency in the public sector by the means of value-for-money and efficiency audits, introducing competition and so on. *(The Economist, Nov. 24 1990, p. 24)* The state also encouraged the people to opt out of the welfare state. For example, it was the above-mentioned unemployment benefit system, encouraging council tenants to buy their homes (the law of 1980 transformed millions of families from welfare clients into mortgage payers), or sharing costs for NHS medicines, spectacles etc. by some people. These reforms aimed mainly at targeting the social expenditure to those who really need it.

6. British difference from the rest of Europe

6.1 Britain is different

Even though the Single European Market has been in operation for a few years there are differences between the EU members. The economic theories tell us that these differences should diminish over time. However, in the case of Europe, due to many institutional barriers some big differences persist and there is little hope that they will be eliminated in the near future. The reforms that Mrs Thatcher undertook considerably differentiated the British economy from the rest of the EU. It is true that today there are some pressures to remove these differences. But their effects will not become relevant immediately. It is both the EU legislation that goes often in the direction of free markets (e.g. deregulation of air services, financial and telecommunication sectors etc.) and the present Labour government willing to be more pro-European - they are going to adopt the Social Charter and they are not so firmly opposed to EMU. Great Britain remains (together with the USA) an example of a liberal system with deregulated financial, product and labour markets, whereas the Continental Europe, despite the differences between the countries, represents the other kind of system with a greater role for the government. They are sometimes called corporatist or coordinated economies.

The different aspects of the economies include financial institutions, education and training, work organisation, career patterns of managers, employment security, work-force participation, the role of business associations and employer organisations, unions, export marketing, relations between companies etc. *(Soskice, 1991, p. 47)* All of them have some influence on competitiveness. The corporatist economies are characterised by strong business and employee associations. Industrial companies have often close links with the banks, from which they get most of their long-term finance. Consensus between employer and employee associations is also very frequent. The deregulated economies are highly individualist and the links between different economic units are not so strong.

In the UK the companies behave in much more a flexible manner. This is mostly an advantage but can be a disadvantage too. The main drawback is a shorter-term orientation. The British companies are not prepared to take short-term losses even if they could expect more profits in the future. The reason lies mainly in the financial system - large share prices falls may lead to hostile take-overs and there are no long-term relationships with the banks as in Germany. Also the cost of pulling out of a market is less for the British companies - they have usually shorter-term relations with their customers and it is much easier for them to lay off work-force. The UK companies have strong incentives, if losses in their export markets occur, to pull out of the market, create redundancies and/or enforce wage reductions. On the other hand, they benefit from greater pressure on their efficiency and they are usually better equipped to exploit new opportunities more quickly. It may also happen that the losses that were supposed to be short-term are actually long-term - in that case the British companies are already one step ahead.

In Germany (and soon probably in other Continental European countries) the decisions of the management must be agreed also by the elected representatives of the employees (that must be present in the boards of trustees). Moreover, these companies must face collective bargaining, which means that wages are often determined at industry level in deals made by trade unions and employer organisations.

This, of course, limits the ability of a company to make flexible decisions. None of these is present in the UK, giving the British companies a competitive edge.

6.2 Education and training

The most often mentioned disadvantage of the British deregulated system is that of company training. Training is mostly seen as something very positive - it reduces unemployment, improves overall productivity and living standards and motivates especially the young. Moreover, it is assumed that if training is left over to the private sector it is inadequate and that is why the state should be involved. And it is the lack of state involvement in training that is often reproached to M. Thatcher. The British companies do not have strong incentives to train their employees (if so it is mostly only the company specific skills) because they rely on hiring from outside. The tool that is used for this purpose is paying higher wage than the competitor.

The German system favours both retraining of the existing work-force and initial training (apprenticeships), both of which give the workers more general marketable skills. This is also supported by the fact that the school system in Germany (and some other countries) has better results than the British system. The consequence is that the British workers are, in general, less educated and less skilful than their European counterparts. It is also evidenced that those companies that take training seriously and integrate it into human resource management tend to outperform the others. *(Sharp et al., 1994, p. 423)* The new government in Britain has realised this fact and improving education is one of the most important goals of Mr. Blair. It is important to improve radically the mass education (not the top schools) and motivate the 16 year olds to stay on at school or undertake systematic training. There are today signs that the situation in this field is improving.

6.2.1 Causes of a poorer performance of the British education

Mr. Soskice *(Soskice, 1991, p. 58-60)* believes that the poor efficiency of the British education system, apart from traditional backwardness in education and skill training in Britain, is caused by the fact that the employers are not interested in academic work. In the UK the children who leave school at 16 enter directly an anonymous labour market, whereas in Germany these children see a relationship between school, apprenticeship and employment. If they work better in school they will get better apprenticeship and hence a better job. In Britain the companies are not very much interested in academic results of their new workers - if they prove to be less good they can be easily dismissed. The Thatcher government was a bit obsessed with financing education and achieving value for money, which disabled a long-term perspective. *(Sharp et al., 1994, p. 421)*

The British education system is inefficient, partly due to the lack of interest and finance in the Thatcher era. Growth of the British economy is undermined by the shortage of skills (especially technical) resulting from an education system that cares only for an elite. Traditionally, one out of three British pupils stayed on at school until the age of 18, compared with four out of five in Germany or nine out of ten in Japan. *(The Economist, Oct. 24 1992, Survey: Britain, p. 14)* The results of the British pupils are also worse than in other comparable countries. The core of the problem lies in elementary and secondary education that is designed to get the best students to top universities, which are still among the best in the world. However, the system is not motivating enough for the average ones. The lack of skilful technicians and craftsmen is the reason for the still lower productivity (measured in absolute terms) in the UK. Insufficient company training is a similar problem.

6.2.2 The issue is not simple

On the other hand, the issue of training and education should not be exaggerated. There is enough evidence that the mass government-sponsored training schemes do not always bring the required results, especially lower unemployment. The efficiency is lower because the state programmes often help those who would find a job anyway or just substitute one worker by another. The German "dual-education system" is quite successful but is not a government training scheme in the ordinary sense and is hardly transferable to other countries. In Germany the cost is borne not only by the state but also by the apprentices themselves (they work for lower wages) and especially by the businesses. The companies benefit from qualified labour and they can, through apprenticeships, influence the skills of their future employees. Moreover, there is a closer link to basic education, which makes the whole system more efficient. However, "dual-education system" is not a solution to unemployment, which is evidenced by German statistics. The system produces too many qualified (and expensive) workers (that made the German industry great) but fewer lesser-skilled flexible workers and even fewer low-skilled (and cheap) workers that the industry still needs. *(The Economist, April 6 1996, p. 23-25)*

At first it would seem that the German-style system must be more efficient and internationally more competitive. However, the advantage that the UK-style system has in its high flexibility can compensate the previously mentioned disadvantage. The proofs are productivity growth, FDI and unemployment rate, which are discussed in another section. To sum up, it seems that the best solution is to concentrate the government programmes on job counselling and providing basic skills (mostly at schools). Today there is ample evidence that the companies will train workers provided that they will meet a part of the cost through lower wages and/or part of their acquired skills will be company-specific. Anti-unemployment policy will be most effective if it lowers the cost of employment until it is shifted to the level that the market would bear. *(The Economist, April 6 1996, p. 25)* And in this field the positive legacy of Thatcherism is apparent.

6.3 Short-termism in the UK

The situation of managers is also different in the two systems. In German-style system managers usually build up their careers in a single company. As a result and since they often have good technical background they possess more valuable company-specific skills than their British colleagues. German managers are usually recruited from inside the company. In the UK the managers must face outside competition for promotion - this is a strong incentive for them to acquire rather marketable than company-specific skills. German managers have more space to assume longer-term perspective in running their business. Whereas in the UK the most often used solutions for a company having difficulties include take-overs and cost-cutting, in German-style economies the managers try to pursue more long-term objectives and the solutions include product-development and retraining. *(Soskice, 1991, p. 62)*

To conclude, the critics of the British deregulated system emphasise two main problems. Firstly, it is short-termism, which is caused by looking for bigger profits for the shareholders. The underlying difference from other countries (except the USA) is that companies finance their investment through capital markets and not through, for example, Keiretsu as in Japan or Hausbank as in Germany. The share prices and paying dividends are important for the companies and sometimes keeping these in mind conflict with long-term investment potential. Secondly, it is the fact that the British workers and management are relatively unskilled and inadequately trained, which has negative consequence on the performance of companies. The issue if these adverse trends were supported by M. Thatcher's reforms or not is a question of debate. However, her liberal deregulation programme, having mostly positive consequences on performance of the industry, could have some negative effects as well. And the previously mentioned two problems are the most serious ones.

7. Competitive position of nowadays' Britain

7.1 What is competitiveness?

There are economists who believe that measuring competitiveness for countries does not make sense because the countries do no compete in the same way as firms. Whereas one company's gain is the other's loss, the international trade is a positive-sum game where every one can win. Despite that, competitiveness of a country can be defined as the ability of a country to achieve sustained high rates of growth in GDP per capita. A country's future prosperity depends on its growth of productivity, which can be influenced by government policies - and these are obviously different in different countries. To measure competitiveness of a nation, a wide range of indicators is usually used, both hard statistics and subjective data based on surveys of businessmen. The most important indicators include: the openness of an economy to trade and investment, the role of government (e.g. public spending, tax rates etc.), the efficiency of the financial sector, flexibility of the labour market, levels of education and skills, quality of management, infrastructure and technology and effectiveness of legal and political institutions. *(The Economist, June 1 1996, p. 84)* The EU countries generally lag behind the USA and Japan thanks to their high taxes and inflexible labour markets. The post-Thatcher UK is an exception to the rule, scoring well in these two indicators.

Wages form the most relevant part of the total costs since in today's world there is a high capital mobility and the differences between the cost of capital in various countries are not so great. This is not to say that high labour costs automatically mean low competitiveness. The decisive factor is the relation between wage level and labour productivity. The productivity is determined by the skills and education but also by the efficiency of using capital, infrastructure etc. Some economists warn that the UK may be becoming, because of lower skill levels, lower relative investment and lower R&D, a lower-quality producer of manufactured goods. In other words it means that the UK would become more a low-wage, low-productivity economy, competing directly more with the so called Newly Industrialised Countries (NIC's) than with its European neighbours. *(Cook et al., 1995, p. 72-75)* Hourly wage costs in selected countries are shown in *Table 7*. The evidence tells us that the wages in the UK are among the lowest in the industrialised countries.

Table 7. Hourly wage costs ($, 1993)

Country	Costs
Germany	23.8
Switzerland	22.5
Belgium	22.0
France	18.2
Japan	16.5
USA	15.5
UK	12.0
Hong Kong	5.6
China	0.6

Source: Cook et al. (1995), p. 74

7.2 Structural change

On the other hand, there are views that the UK is in a process of change - whilst its manufacturing sector is declining, its service sector (including financial, computer, leisure, health and other services) is growing. The supporters of this opinion claim that the comparative advantage of the UK in this sector is growing. They also say that the tertiary sector (services) is where the biggest profits will be reaped in the future. It is because today, largely thanks to cheap but high quality transport and communication, manufacturing can take place anywhere in the world and it will be most often in the countries with the lowest labour costs provided that the productivity and infrastructure are sufficient. This development would be similar to structural changes that took place during the Industrial revolution when England was the first to switch the emphasis from natural resource extraction (mining and agriculture) to manufacturing. At that time England was the first industrial nation. Today it could become (together with the USA) the first post-industrial nation. The relative size of structural change, compared to other nations, is demonstrated in *Table 8*, evidencing that, in many aspects, the UK is closer to the US than to the rest of Europe. This idea is well described in Robert Reich's *Work of Nations.* The supporters of this theory usually appreciate Mrs Thatcher because she helped this development by creating pressure on inefficient businesses to close down and by deregulation of many industries thus giving big business a freer role in the economy. A recent survey disclosed that Britain had 16 of the 25 most profitable companies in Europe. *(Britain 1997 - An Official Handbook, p. 155)*

Table 8. Deployment of the labour force (%)

		France	Germany	Japan	UK	USA
1950						
	Agriculture	27.4	23.2	41.0	4.9	11.9
	Industry	37.0	44.4	24.2	49.4	35.9
	Services	35.6	32.4	34.8	45.7	52.2
1970						
	Agriculture	13.9	8.6	17.4	3.2	4.5
	Industry	39.7	48.5	35.7	44.8	34.4
	Services	46.4	42.9	46.9	52.0	61.1
1990						
	Agriculture	6.1	3.4	7.2	2.1	2.8
	Industry	30.0	39.7	34.1	28.8	26.2
	Services	63.9	56.9	58.7	69.1	70.9

Source: Cook et al. (1995), p. 26

Such a structural change is very long-term and there are many developments that can push it back or forward. With the creation of the Single European Market, many non-European multinational companies used the UK as a base for entering the European market. This had several reasons: The UK is one of the most liberal countries in the EU with open trading system and enterprise culture, it has a well-developed market for corporate control, it is close to other European markets, the wages are relatively low and labour relations are stable, personal and corporate taxation is also comparatively low, the infrastructure is adequate, all people speak English etc. The inflow of these companies may change the shape of the British economy. For example, today Nissan is an important exporter of "British" cars or the UK is today a net exporter of TV sets even though there is no British producer of them. *(Cook et al., 1995, p. 71)*

Until about the end of the 19th century Britain was the industrial leader of the world. Since then its position deteriorated. The British Empire collapsed and the relative economic strength of the UK declined. In the post-war era, the 1960's and the 1980's are the periods when the governments tried to halt this decline. However, the approaches that were taken are totally different. In the 1960's it was believed (both by the Conservative and Labour governments) that the market economy had deficiencies that had to be corrected by the state. The state got involved in industrial management and tried to reduce inequities of income and opportunity. *(Sharp et al., 1994, p. 397)* On the other hand, in the 1980's, during "Thatcherism", the view that the state should not be involved in the economy was widely held. It was believed that liberal market economy would always bring better results than the economies where the state was involved with all its imperfections. In contrast to the 1960's the government was "technology neutral" - it means that it did not indicate preferences or backed them with funds.

The 1980's were characterised by the change in relative shares of manufacturing and services, notably banking, finance, insurance, distribution, retailing and hotels. This shift occurred in all industrial countries but it was particularly significant in Britain. The employment in manufacturing fell from well over one-quarter of total employment in 1979 to one-fifth in the early 1990's. The overall share of industrial production (agriculture, energy, manufacturing and construction) did not fall so much because of the effects of the North Sea oil and gas. *(Sharp et al., 1994, p. 407)* The labour productivity in manufacturing increased considerably during Thatcher years. The reasons behind it included mainly reducing labour-force, closing inefficient plants and improving working practises. The contribution of improvement of plants and machinery (i.e. technological change) was relatively irrelevant.

7.3 Inward and outward investment

An evidence of the relative decline of the British manufacturing industry is the growth of manufactured imports, which grew from 14% of GDP in 1979 to 17% in 1990. Accordingly to this theory, manufactured exports fell in the same period from 16% to 15% or GDP. *(Sharp et al., 1994, p. 407)* It is also true that in the 1980's British manufacturing industry was increasingly coming under the control of foreign multinational companies. In recent years Britain has received the greatest share of inward investment into the EU, especially some 40% of Japanese and US investment. It is second only to the US as a destination for international direct investment. *(Britain 1997 - An Official Handbook, p. 155-6)* In some sectors of the economy the multinationals now predominate. For example it is Ford, GM, Peugeot, Nissan, Toyota and BMW in automobiles, IBM, DEC and Fujitsu in computers, Matsushita, Sony and Hitachi in consumer electronics or Intel, Texas Instruments and NEC in semiconductors. *(Sharp et al., 1994, p. 408)*

Whereas the inward investment was mostly in manufacturing (see *Table 9*), the British outward investment was oriented towards the service industries (hotels, retail, air transport, insurance, publishing etc.) The favourite location of the British overseas investment was the US, not Europe. This indicates that the British position in the EU is really different from the rest. A huge part of the British portfolio investment went also outward, meaning that a significant part of British savings went abroad. This is a further evidence of the openness of the UK economic system that was shaped by M. Thatcher.

Table 9. FDI in the UK in 1993 (sectoral breakdown)

Sector	**Ł billion**
Agricultural, forestry and fishing	0.1
Energy	30.7
Manufacturing	40.3
Construction	0.4
Distribution, hotels, catering	8.9
Transport and communication	1.2
Financial services	23.2
Others	15.1
Total	**119.9**

Source: OECD Economic Surveys, United Kingdom, 1996, p. 48

Although there are still many critics of selling out national assets to foreigners, in today's globalised business environment this view is less and less justifiable and is based more on sentiments than arguments. As R. Reich points out in his *Work of Nations*, it is more and more difficult to distinguish the nationalities of the big international companies. In fact, they are today called multinationals and they operate world-wide. They allocate their activities to places where they see some competitive advantages. R. Reich also emphasises that a nation benefits from a company's presence no matter which "nationality" it is. However, the nation, and particularly its government, can influence how much of that benefit will go to that country. The more value is added by a multinational in a particular country, the more benefit will go to the people of that country. Thus it is not relevant if, for example, the British automobile industry, is in "foreign" hands but it is important to create such conditions that the multinational companies do maximum of their activities in the UK, especially those having the biggest value-added. The British ownership of a business does not guarantee that the enterprise will be operating in Britain. In reality, there are many cases when British companies transfer their activities abroad, mostly to exploit lower labour costs.

7.4 Research and development

7.4.1 Argument: Thatcher did not promote enough R&D

Mrs Thatcher is often criticised that she did not create such conditions that would motivate the companies to spend more on R&D. The critics claim that the government should provide tax incentives to encourage private firms to spend more on R&D because by boosting productivity and so raising living standards, R&D brings benefits to society as a whole. If there is no such government aid, private companies perform less R&D than is optimal for the society as a whole. In the 1980's Britain experienced one of the fastest growth rates in profits and simultaneously one of the lowest (right behind the US) increase in manufacturing investment. An average British company invests in R&D 1.55% of sales revenue and 19.7% of profits, these shares for the 200 world's largest companies are 4.59% and 94.3%. *(Sharp et al., 1994, p. 410)* The British companies spend a big part of profits on paying dividends, which, in turn, helps to push up the share prices.

Tight monetary policy of most of the Thatcher years resulted in high interest rates, which, together with the effect of the strong pound, pushed the companies to search high short-term profits. The traditional dependence of the British companies on stock-market finance and frequent take-overs further encouraged the companies to maintain high share prices. As a result, investment and R&D was often viewed more as consumption than wealth-creating activity. "One paradoxical ...feature of the contrast between stock market and bank finance economies is that the former have lower levels of overall capital investment, generate less external finance and exhibit lower growth rates, but also declare company profits which are significantly higher than those in the latter." *(Ingham, 1984, p. 72)* Financial approaches that dominated the management of both public and private companies during the 1980's encouraged withdrawal from, rather than a deeper engagement in, high-technology manufacturing. The companies often found it easier to resort to cost-cutting and low-price, low-productivity competitiveness even though it is evidenced that a high-productivity approach (meaning high R&D spending) brings better results in the long-run.

7.4.2 Argument: Thatcher's approach was consistent with her programme

A very persuasive contra-argument is that research, by itself, may not be sufficient to ensure economic growth. Similarly, measures such as R&D spending as a percentage of GDP (see *Table 10* for this measure for selected countries) do not measure exactly a country's technological sophistication. Rather than inventing new technology it is important to use it effectively. Many companies pursue technological development by purchasing R&D intensive capital equipment, rather than by supporting research laboratories. This is particularly true in services, many of which (banking, telecommunications, air transport, health care etc.) invest heavily in buying sophisticated computer systems. This boosts their productivity. The impact on productivity of such "acquired technology" is at least as big as that of direct R&D spending. The increase of Japan's technological sophistication over the past couple of decades has been due mainly to industries' greater use of high-tech equipment, not to heavier spending on R&D. *(The Economist, May 24 1997, p. 84)*

Table 10. R&D expenditure (% of GDP)

Country	1970	1979	1989
UK	2.2	2.2	2.2
France	1.9	1.8	2.3
Germany	2.1	2.4	2.9
Italy	0.9	0.9	1.3
Japan	1.9	2.2	3.0
USA	2.7	2.4	2.8

Source: Cook et al. (1995), p. 138

Since purchasing R&D is often more productive than domestically acquired technology, efforts to dominate a particular field of R&D may be counterproductive. Consequently, the governments should shift the emphasis on education (so that people are able to use the sophisticated technology), opening the markets (so that the inflow of new technologies is easier) and fostering competition (so that the whole society benefits from lower prices). And that is exactly what the Thatcher government did (perhaps except education). Moreover, government support of R&D intensive industries is not always productive and it often serves as a means of protectionism.

Britain is often criticised that in most fields of civilian technology it is the follower, not the leader in Europe. The critics say it is due partly to *laissez-faire* policies (which the others did not pursue) and partly to traditional British mistrust of joint European projects. Despite this critique, many British firms co-operate with other European companies on high technology projects, e.g. Airbus. Moreover, there are two major exceptions. First, it is the chemical and pharmaceutical industry. Here investment in new technology (research is crucial in this industry) was high. The British companies Glaxo, Smith Kline Beecham, ICI (now Zeneca) and Wellcome are among the top twenty firms in the industry. *(Sharp et al., 1994, p. 414)* The other exception is the defence industry where the expenditure on R&D was very high during the 1980's (an interesting similarity between the friends M. Thatcher and R. Reagan) In defence engineering Britain has probably the greatest competitive advantage and the spill-over effect on civilian aerospace industry is incontestable (e.g. Rolls-Royce aero-engines).

Speaking about innovativeness of a sector, it is necessary to mention the British service sector (including financial services, retailing, property, hotels and other areas) that was and still is among the leaders in the world. There is no doubt that M. Thatcher's policies helped the rapid growth of this sector. Japanese and US companies operating in the UK should also be mentioned because of their higher propensity to invest. To conclude, it is hard to say if Thatcher government had some significant influence on R&D investment. Clearly, the business environment was formed by her government but the aggregate effect is not obvious. The government did not create any special incentive structure for the companies and some of its policies encouraged short-termism, on the other hand, liberalising and opening the economy was an important stimulus itself and attracted multinational companies.

7.5 Industrial policy of Mrs Thatcher

The government under M. Thatcher changed radically the economic policy that had been practised in the UK until then. M. Thatcher often used three terms to describe her attitude towards the economy: free market, enterprise and value for money. Free market was seen as a natural and the most efficient means of managing the economy. Government intervention in the market brings only doubtful results because private companies are, by their nature, better managers, have superior knowledge and are financially motivated. The state intervention disturbs market mechanisms and diminishes perceptions of risk by providing a safety net for erring companies - the government proclaimed that it would no longer support "lame ducks", how these loss-making companies were called (see *Table 11* for an illustration of how the UK cut the subsidies under M. Thatcher, international comparison is especially interesting). Private individualistic enterprise was highly encouraged. The concept of value for money concerned the public sector that could not be privatised. It was aimed to improve public sector efficiency and reduce public expenditure. Public sector was viewed as naturally wasteful of resources. Wherever possible the government tried to subcontract the public services to private companies so that decisions were made at that level. The concept of value for money was often criticised because, for example in the area of basic research, it was regarded as unsuitable because in research, by its nature, the pay-off is very long-term, uncertain and non-quantifiable. Hence demanding fast results can be inefficient in the long-term.

Table 11. Average state subsidies to industry (% of GDP)

Country	1973-9	1985-9
UK	2.7	1.7
France	2.5	3.0
Germany	2.1	2.2
Italy	3.2	3.3
USA	0.4	0.7

Source: Cook et al. (1995), p. 148

Although the government assumed a hands-off approach towards the industry, it continued to support small and medium-sized businesses (SME's) because they were regarded as the most dynamic sector of the economy, as an "engine" that could get other things to move. The tools used to encourage SME's included special grants, loans and consultancy schemes, tax concessions etc. The proportion of those employed in plants employing less than 100 people increased form 17-18% in the 1970's to 25% in 1989. *(Sharp et al., 1994, p. 418)* "Individuals, small firms and competition rather than corporatism and cooperation, provided the ingredients of the ideal capitalist world conjured up in the Thatcher government's statements on economic development." *(Sharp et al., 1994, p. 423)* A study of several thousand innovations in the UK between 1945 and 1983 showed that smaller firms play a leading role in innovation, which is consistently underestimated as they lack the R&D projects and departments of the bigger firms. *(Temple, 1994, p. 368)*

The opponents of M. Thatcher criticise her approach to industrial policy. They refuse the supply-side measures and recommend a more active policy encouraging export-led growth. This policy should be supported by industrial strategy targeted at investment and innovation, which are, according to them, the basis for international competitiveness. They say that market failures are a frequent reality and the state should intervene because there are effects of public goods and externalities (R&D, training, education, infrastructure etc.). The contra-argument would be that market failures are still better than government failures. The government has, quite logically, imperfect information, it is usually operated in an inefficient bureaucratic way and is influenced by political cycle and various interest groups. Big projects backed by the government often bring results that may be technologically interesting but economically hardly workable. The project of the supersonic plane Concorde is a classical example.

8. Services vs. manufacturing

8.1 The services sector

It used to be assumed that the service industry was hardly or not at all tradable. The reasons for this argument were that most services depended on the close proximity to customer (e.g. haircut or cinema) and they often depended on specific national circumstances (e.g. tax consultancy). However, today's view is much different and more and more economists believe that the services can be traded through moving the customer to the supplier (e.g. tourism, education), moving the supplier to the customer (e.g. engineering consultancy) or relocating the services by foreign direct investment. Due to rapid improvements in information technology and opening up the markets, which is today a trend (EU, WTO etc.), the trade in services is expected to grow.

The share of total employment in services grows hand in hand with the economic development of a country. Since 1979 the growth of services was higher in the UK than in the other industrial countries. A typical feature of the British structural change is the shift towards marketable services, especially banking, insurance and other business service (e.g. management consultancy, employment agencies), computer service, hotels and catering etc. The transport industry employment declined mainly because of new trends and because of increasing efficiency in railways and shipping, although the air transport went up. Growth in non-market services (health, education, public administration) was restricted because the Thatcher government wanted less public expenditure and favoured the private businesses that were not usually present in this sector. *(Temple, 1994, p. 355)* The service jobs are often regarded as inferior and unskilled. The present situation indicates that, on the contrary, they are increasingly likely to be in highly skilled areas such as teaching, financial services, information technology etc. *(The Economist, April 26 1997, p. 88)*

The shift to services can be explained by several reasons. The consumer boom in the second half of the 1980's was important especially for the hotel and leisure industry. Financial deregulation sparked the expansion of banking. Encouraging home ownership was important for the building societies. Privatisation and introducing competition in other sectors meant not only expansion of services but also quality improvements. British Airways are today one of the best managed airlines in the world, similarly the competitive position of British Telecom is very strong. It is hardly possible that these two companies would have such results if they remained state monopolies and did not face any competition. The service sectors are among the last that will be liberalised on the EU level. Thanks to their start, the British service companies (banks, insurance companies, airlines, telecoms etc.) have a big opportunity to exploit in front of them.

The 1980's and notably the second half were a period of rapid growth of FDI. Globalisation of the world economy meant that the big firms, to be competitive, had to operate world-wide to exploit all sorts of advantages. To exploit them better and/or to overcome barriers to trade they often resorted to FDI. The total flow of FDI generated by the OECD grew at a rate of 31% per annum between 1983 and 1989. It is estimated that the share of services in the total flows reached 55-60% by the end of the 1980's. *(Temple, 1994, p. 360)* The UK was an important actor in this development, both in inward and in outward investment.

8.2 Deindustrialisation

The problem of deindustrialisation was among the issues cited most often by M. Thatcher's critics. It is true that the British manufacturing sector have been in decline despite "enterprise culture" of the Thatcher era. Manufacturing accounted for 27% of Britain's GDP in 1979, but only 22% in 1989 and about 20% in mid-1993. The trend of a declining share of manufacturing in selected countries is shown in *Table 12*. Consequently, the trade balance in manufactured goods got into deficit. *(The Economist, Oct. 24 1992, Survey: Britain, p. 8)* However, manufacturing still earned over 60% of Britain's export earnings in 1992 and that is why it was important.

Table 12. Share of manufacturing in GDP

Country	1960	1970	1975	1980	1986	1991
USA	28.6	25.7	23.4	22.5	19.9	19.6
Japan	33.9	35.9	29.9	30.4	29.3	29.7
France	29.1	28.7	27.4	26.3	22.2	21.3
Germany	40.3	38.4	34.5	33.0	33.1	31.9
Italy	28.5	28.9	29.7	30.5	23.4	22.4
UK	32.1	28.1	26.3	23.1	21.8	20.9

Source: Cook et al. (1995), p. 46

The positive element was a rapid productivity growth in manufacturing, which was the second highest (after Japan) in leading industrial countries. This productivity miracle resulted from privatisation, deregulation, trade union reform, lower taxes and state involvement but mainly from significant labour shedding. British manufacturers have never been leaner, meaner and "readier to go". In 1992 there were 171,000 manufacturing firms in contrast to 144,000 in 1980 but they employed 4.5 million people, compared to 6.8 million in 1980. *(Ibid., p.11)* The flexibility improved both on workers' and managers' side. Some economists also point to the fact that faster productivity growth in the UK was caused by a catch-up effect - Britain that was lagging behind started to catch up with its major competitors.

In restructuring the UK economy the easier part was done - reducing jobs and closing plants. Now the companies should invest so that they match their competitors' investment rates. Since 1975 the British companies have retained on average only 45% of profits for reinvestment, while French and American firms have retained 54%, Japanese firms 63% and German firms 67%. The increased profits from the North Sea oil in the 1980's were, by a large part, invested abroad to bring better returns, which had negative effects on the British industry. *(Ibid., p. 6)* The recessions of 1979-81 and of the early 1990's pressed the British companies to squeeze more productivity out of their resources, raise the quality of the products and improve stock turnovers rather than invest in new facilities. However, there are today some positive signs that the investment gap is closing.

8.2.1 Decentralisation

The loss of male full-time jobs in manufacturing during the Thatcher years was more than compensated by the growth of female employment and part-time jobs, most of them also being for women. This development, very important for nowadays' and future economic development of the UK, led to higher labour market flexibility, consequently to lower unemployment but also to greater differences between the rich and poor. It also created regional differences in the UK. The economy of the northern regions where the traditional industry was prevailing declined, while the south-east and especially the London area experienced a rapid growth. Nevertheless, there are today signs that these differences tend to diminish. For example, Scotland, traditionally a poorer area of the UK, attracts a significant part of foreign direct investment, benefiting from skilled labour and lower wages.

Decentralisation of the UK was thus another big positive legacy of Thatcherism. Today's Labour government takes further measures to delegate the power from the centre to the regions but the 1980's were the first important step. By cutting the funds for the regions, M. Thatcher effectively forced them to look more to their own resources. The regions and cities also gained greater independence to do their own business. This development was welcome by the companies and they started actively seeking better comparative advantages of the various parts of the country. In the 1960's Scottish exports were no bigger than its sales to the rest of Britain, thanks to electronics and oil Scotland exported 2.5 times more than it sold in England and Wales in 1992. *(The Economist, Oct. 24 1992, Survey: Britain, p. 18)*

8.2.2 Deindustrialisation is not a tragedy

Although the "British" manufacturing sector declined, the foreign companies that came into the UK considerably changed the structure of the economy. These foreign companies operate mostly in manufacturing. After the USA, Britain is the most favourite destination for foreign direct investment. Foreign firms now control a fifth of Britain's manufacturing and almost a third of Scotland's. *(The Economist, Oct. 24 1992, Survey: Britain, p. 17)* The major benefits of FDI are not only more jobs but also development of new skills and markets. For example, in 1992 Scotland supplies 40% of the desktop computers sold in Europe and the electronics industry was the fastest-growing manufacturing industry and the biggest export earner (twice as much as Scotch whisky) of Scotland. *(Ibid., p. 17)* The reasons for the big inflow of FDI have already been mentioned, the three main ones are easy access to the EU, good local services (mainly infrastructure) and the possibility of setting up new plants easily and quickly. Because of the upward pressure on wages, the low wage factor is less and less important for FDI decisions. Especially the Japanese companies in Britain significantly outperform their competitors in the British hands in productivity, plant-equipment, training etc. The competitive pressure on domestic producers is also positive.

Deindustrialisation is often perceived as evidence of economic decline but, on the contrary, it should be viewed as a natural consequence of economic progress. Many politician tend to blame the newly industrialised countries for migration of manufacturing jobs from rich countries to poorer ones. However, the root is elsewhere. According to the IMF, in 1960-94 the output of manufacturing and services sectors grew at roughly the same pace in rich countries. On the other hand, productivity in manufacturing rose more than twice as fast as in services. Consequently, employment has shifted from more productive manufacturing to less productive services. *(The Economist, April 26 1997, p. 88)* Instead of subsidies and protectionism, the governments should facilitate absorption of workers released by manufacturing in the labour market. The rich economies will more and more depend on services and the governments should help this development and not to prevent it by regulation and subsidies. From this point of view, Mrs Thatcher did exactly the right policies to promote services and not to subsidise the declining industries and it seems that the UK is now better prepared for the future than its European counterparts.

9. British business in the 1990's

The impact of the Tory 18-year rule of Britain was tremendous. Britain's economy has changed irreversibly. Not only has the economy changed but also people have changed. The revival of entrepreneurship is evident. The Labour party no longer deplores curbing of trade union power, privatisation, the rise of part-time work, reducing top rates of income tax, the "neglect" of manufacturing industry etc. In contrast, the new Prime Minister celebrates all these changes and speaks about modernisation of the economy. The main goal of his government is to improve education so that the British people can cope better with the changes in today's global environment which demands high flexibility. Tony Blair was once called "the greatest Tory since Margaret Thatcher". *(Giddens, 1997, p. 37)* Even such jokes tell us how big the legacy of Mrs Thatcher is.

Mrs Thatcher's labour market reforms were, quite rightly, mentioned a few times. Businesses in Britain can benefit from a deregulated labour market. But deregulation in terms of reducing the role of the trade unions and collective bargaining and improving wage flexibility is not enough. It is a necessary but not sufficient condition. Flexible labour market must be accompanied by other policies, notably education and training and welfare reform. *(The Economist, August 17 1996, p. 68)* Even in this field, Britain is doing well. The social system is not so burdensome as in other EU countries. For every £ 100 spent on wages, the social charges (non-wage costs) are £ 18 in Britain, £ 44 in France, £ 34 in Spain and £ 32 in Germany. *(Tieman, 1996, p. 100)* The difference in relative composition of various taxes in Britain and other European countries is indicated in *Table 13*. At the end of the day, businesses are not the only beneficiaries but the British workers can benefit from a much lower unemployment, which is a logical result of the previously mentioned reforms.

Table 13. Taxes as a percentage of GDP (1991)

Country	Indirect Tax	Income Tax	Social Security	Other	Total Tax
UK	11	10	6	9	36
France	12	6	19	7	44
Germany	11	11	13	2	37
Italy	11	9	13	7	40

Source: Cook et al. (1995), p. 130

Much has been said about the fast productivity growth in British manufacturing, which was in the 1980's highest in the G7 countries. This is where M. Thatcher has done a lot. Her policies helped to stop and reverse the economic decline of the UK. In absolute terms, Britain still lags about 40% behind the USA, 25% behind Japan and Germany, and 20% behind France but the gap is narrowing. *(The Economist, May 28 1994, p. 74)* The trend is well illustrated in *Table 14.* The lower productivity probably stems mainly from lower investment in the British companies. Cumulative investment per worker is 25% lower than in Japan and 50% lower than in the USA and Germany. The capital-labour ratio in manufacturing has risen about 60% since 1982 so there are positive signs as well. In services, productivity growth has been only a third of that in manufacturing but, thanks to deregulation and new information technology, it should rise. In absolute terms, Britain's productivity in services is higher than Germany's or Japan's, although it still lags behind the USA.

Table 14. Labour productivity in manufacturing*

Country	1960	1985	1995
USA	100	100	100
Japan	19	69	73
W Germany	56	86	81
France	46	86	85
UK	45	60	70
Canada	69	84	70
Australia	51	57	52
Netherlands	51	107	97
Sweden	50	87	90

Source: The Economist, Feb. 22 1997, p. 99

* value added per hour, USA = 100

Today Britain's economic shape is very favourable. Unemployment is at historically low levels and is still falling, the growth is satisfactory and inflation is low. At the micro-level, the prospects are even better. The companies were "hardened" by the recession at the beginning of the 1980's, then by Thatcherite policies and lately by the last recession of the 1990's.*(The Economist, May 28 1994, p. 72)* As a consequence, they appear in a particularly good condition. The British business sector can boast high profitability, strong productivity growth and stable industrial relations.

9.1 Successful examples

The companies such as Unilever, Cadbury, Schweppes, Grand Metropolitan or Allied Lyons are all leaders in their market segments. Moreover, the UK companies are leaders in many modern creative and service industries, such as retailing, finance, advertising, television, popular music etc. The British retailers Marks and Spencer, J. Sainsbury or The Body Shop are known in many parts of the world. Eight of the ten most profitable European retailers are British. *(The Economist, May 28, 1994, p. 74)* British Airways, a sleepy company before its privatisation in 1987, was the most profitable airline of the world in 1996. *(The Economist, Nov. 23 1996, Survey: Business in Europe, p. 6)* At the same time many other European airlines were waiting for government subsidies. British Telecom is also so successful that the German government has taken it as a model for privatisation of Deutsche Telekom. Since privatisation, BT's overall charges have fallen by around 40% in real terms and the service quality has also remarkably improved. The results are especially striking if they are viewed in relation to charges in countries with non-competitive telecommunication markets. *(OECD, 1996, p. 63)* Privatisation programme has not been successful only in service industries but also in manufacturing, in some cases even in the old industries. British Steel, one of the most cost-efficient steel makers in the world, is a good example. The shares of the British firms in global markets (see *Table 15*) demonstrate that Britain has retained its position among the leading industrial countries.

Table 15. Big British firms' share of selected global industries

Industry	Sales (% of total)	Net profit (% of total)
Aerospace	16.8	-6.7
Electrical and electronics	4.0	8.8
Beverages and tobacco	7.7	13.2
Food and household products	16.8	16.9
Health and personal care	12.3	17.5
Broadcasting and publishing	9.2	15.5
Business services	6.8	19.9
Retailing	8.7	24.2
Telecommunications	11.6	21.1
Shipping	28.1	57.8
Banking	n.a.	16.1
Insurance	13.2	19.5
Conglomerates	25.0	42.5

Source: The Economist, May 28 1994, p. 76

Apart from restructuring the domestic industry, opening up the economy and deregulation caused that the UK is now, after the US, the most favourite place for FDI. In 1990 25% of the British industry was controlled by the foreigners. *(The Economist, May 28 1994, p. 74)* One in three of Britain's 100 biggest manufacturers is foreign-owned. *(Tieman, 1996, p. 100)* See also *Table 9* for the composition of FDI into the UK. Not only has foreign companies brought in more jobs. They helped to renovate the weak British industry, increased the overall productivity and competitive pressure. They represent good business for numerous British suppliers to their plants. The exports from the inward investors improve Britain's trade balance. Despite frequent criticism, many formerly British companies are better in foreign hands than with a domestic owner. For example, in 1995 the only big profitable computer company was Britain's ICL, 80% owned by Japanese Fujitsu. Another example could be the car industry. Since 1984 the output has doubled and is still rising even though there is no major British car producer.

9.2 Internationalisation

Another aspect of the modernisation of the British companies is their international focus. They are much less dependent on the UK market than their European rivals. For example, in the chemical industry Japanese companies depend on their home market for 85% of their sales, for the German firms it is 40% but for ICI, Britain's chemical giant it is only 20%. *(The Economist, May 28 1994, p. 74)*

The British companies benefit from the existence of European single market. Before its creation, European companies were denied the economies of scale that their American and Japanese had thanks to their bigger internal markets. Unable to expand in single product areas, they diversified. Now the situation has changed and management often stress focus and globalisation. *(Tieman, 1996, p. 100)* The emphasis on core activities is evident not only in British companies. There is no doubt that British companies have advantages in this development thanks to the reforms of M. Thatcher. They were already forced to be more competitive by her policies and they were also more used to open liberalised markets. Many British companies that will look for cooperation with other companies will thus act from a position of strength.

9.3 Improvements are still possible

Despite a surge in the rate of start-ups of small businesses in the 1980's and large efficiency gains in big companies, Britain does not have enough strong middle-sized companies (100-499 employees), on which most Continental European countries depend. The critics say that the British small businesses are not expansionist enough and that is why they rarely become exceptional in their markets. Even though Britain has some top engineers, few of them succeed in business the way American entrepreneurs did in Microsoft, Compaq, Dell, Sun Microsystem etc. However, this can be hardly blamed on Thatcherite policies. It is more in people's nature. American entrepreneurs have been more willing to cede majority control to outside venture capitalists who back them. In contrast, a typical British entrepreneur hung on to control, to become under-capitalised, in continuous fight with bankers, and probably forced to sell his business to a big company in the end. This may be the reason of the polarisation of British industry -

many huge companies, even more little ones but few middle-sized. *(The Economist, May 28 1994, p. 76)*

10. Conclusion

10.1 Record of M. Thatcher's policies

Seven years after the resignation of Margaret Thatcher, the consequences of her policies must be assessed positively. When she first became the Prime Minister, the major goal of her government was pushing down inflation. In this aspect, even though her monetarist policies meant a break from the previous practice, her achievements are not remarkable. High inflation (much of which was caused by oil crisis) was brought down but then it surged up again during the "Lawson pre-election boom" at the end of the 1980's. John Major forced the inflation rate back down again, being helped by the recession of the early 1990's, but Britain still has an inflation rate above that of its major competitors Germany, France, the USA and Japan. Similarly, the goal of reducing the government expenditure in absolute terms was not achieved even though a decline relative to GDP has occurred. Overall, it can be said that macroeconomic impact of Mrs Thatcher was not as impressive.

Where her achievements are impressive, however, is the microeconomic sphere. Here, her legacy can be viewed from several angles. Mrs Thatcher undertook reforms that changed economic and business environment in the UK so radically as no one before her. She tamed the trade unions that were particularly radical and violent in Britain, given its early industrial development. Her approach to discipline the unions in gradual steps instead of by one massive bill proved to be successful. She privatised not only the companies that had been nationalised by previous Labour governments but she returned to the private sector even those industries, such as telecommunications, that had been in state hands for decades. Privatisation programme was accompanied by thorough deregulation, which brought competition to industries that had been long considered natural monopolies. Her deregulation policies also created a much more liberal and open trading and investment system. Marginal tax rates were radically cut as well.

10.2 Positive consequences

What were the consequences? Speaking at general level, the Thatcher government stopped the economic decline of the UK relative to other countries, which Britain experienced after the World War II. The reforms have raised the average rate at which GDP can grow over the long-run without pushing up inflation. *(The Economist, June 8 1996, p. 41)* This was achieved thanks to fast productivity growth in privatised, deregulated and/or de-unionised industries. Introducing Adam Smith's invisible hand of free markets in most sectors of the economy increased efficiency, flexibility and thus competitiveness of those sectors. Despite the mentioned criticism, such as short-term orientation of businesses, low R&D or inadequate education and training, the British business now seems to be in a very healthy, strong and competitive shape. The reforms hurt but worked.

M. Thatcher was often criticised that her reforms favoured big business but not ordinary people - high unemployment rate was most often given as an example. Today it seems that this view is wrong. As unemployment rate is a "lagging indicator" (changes in growth are reflected in employment later), high unemployment during the Thatcher years did not prove a failure of her reforms. Curbing trade union power and collective bargaining, accompanied by a social security reform, increased labour market flexibility and produced favourable conditions, in which jobs can be created quickly. Today's unemployment rate in the UK is one of the lowest in Europe, certainly the lowest of all the big countries. The latest international comparisons for unemployment, as well as GDP growth and inflation can be found in *Table 16*.

Table 16. The latest economic indicators

Country	GDP growth*	Unemployment rate	Inflation*
UK	3.8	5.2	3.7
France	2.4	12.5	1.0
Germany	2.9	11.8	1.8
Italy	1.9	12.8	1.6
USA	3.9	4.7	2.1
Japan	-0.3	3.4	2.4

Source: The Economist, Nov. 29 1997, p. 120

* annual rates

The Thatcherite reforms had other positive effects on "ordinary" people. The privatisation schemes enabled a lot of people to buy shares, thus participating in the economy in a much different way than just employees. The state's officially proclaimed philosophy was that everybody should take care of himself and the state was willing to help only those who helped, or at least tried to help, themselves.

The long years of the Thatcher (and then Major) government meant that the British mostly accepted this philosophy (they did not have another option) and, as a result, fewer people rely on welfare, the number of self-employed surged and, apart from boosting productivity and efficiency in business sector, the entrepreneurship among all people have been encouraged.

Mrs Thatcher's policies were not only examples for the leaders in many other countries that also tried to reform their economies with excessive state involvement. Much of today's EU legislation also goes in the direction of free markets, deregulation and liberalisation. Even though few would admit it, at least some inspiration by Lady Thatcher is hardly deniable. Despite that, the EU remains far away from a liberal economic area that M. Thatcher dreamt about, not speaking about the steps towards EMU. Nevertheless, the most significant legacy of Mrs Thatcher can still be found in the UK. The changes in business culture and people's attitude towards entrepreneurship have already been mentioned. What is more striking is the impact on today's Labour government. Not only does Tony Blair reject to reverse the Conservative reforms but he is willing, in some aspects, to continue them. That is the best guarantee that, what Thatcherism has brought positive, will not be destroyed.

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