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BRITAIN AFTER THE ELECTIONS: THATCHER'S CONSERVATIVE GOVERNMENT

Just as the British Labour Party in 1945 was watched throughout the western world as the first full-blooded practitioner of democratic socialism, so Mrs. Thatcher is confidently expected by her supporters to become the first Tory prime minister to succeed in turning back that process begun in 1945....She has stepped forward to challenge the almost identical enemy - that of the modern corporatist state - which just five years ago so comprehensively overwhelmed her predecessor, Mr. Edward Heath.

The Economist (of London), 21 April 1979

A FUNDAMENTAL CHANGE IN DIRECTION AND STYLE

It is not surprising that the most newsworthy element in the recent Conservative election victory in Britain was the fact that a woman would now head a major western government; yet the political implications of the clear-cut win are far more significant. Since 1945, Britain has been drifting steadily down the road to corporate socialism: a growing proportion of industry has been nationalized, an enormous welfare state has been created, and the country's wealth-producers have been crushed with taxes to provide funds for ever-increasing public expenditure. Most disturbing of all, Britain's traditional virtues of fairness and respect for the law have proved ineffective against naked trade union power. It is this decline that Margaret Thatcher now has a chance to reverse.

Previous post-war Tory governments have experienced little success in meeting the challenge. The 1951-1964 administration merely slowed down the process. The 1970 victory of Edward Heath, on the other hand, did seem to present a real opportunity to change Britain's

direction. The Conservatives entered office with possibly the most exhaustively researched and planned program of any modern British government, yet within three years the whole plan was in ruins. The avowed opposition to wage and price controls had become a statutory prices and incomes policy; careful financial management had been replaced by a 30 percent annual expansion of the money supply; and the cornerstone of Conservative policy - a comprehensive industrial relations and trade union reform act - had become unworkable and was being totally ignored by the unions. Even the commitment to cut public expenditure was reversed: it was under Edward Heath that the state's share of GNP first exceeded 50 percent, and by 1974 it had reached 56.2 percent.

The total failure of the Heath government was due to many factors, but two were particularly important. In the first place the program was too rigid and incapable of necessary adjustment. It reflected the single-minded character of the prime minister and ignored the need to prepare the political ground before taking action. In addition, it was a government without a deep philosophical commitment to its own program - a cabinet of administrators.

Margaret Thatcher and her principal advisors are the product of the intellectual crisis in the Tory party which followed its 1974 defeat. They represent the feeling now among Conservatives that decisive action must be taken to restore capitalism and a free society in Britain, and to reverse the trend towards corporate socialism. Their determination has been strengthened by a genuine appreciation of the work of the classical liberal writers, such as Nobel laureates Friedrich Hayek and Milton Friedman. Yet they combine this intellectual foundation with a conservative disposition - a belief that a step-by-step approach will be most effective in bringing about radical change.

It is this blend of a deeply-held belief in free enterprise and a realistic style of politics which characterizes the Thatcher government. Those in the United States expecting spectacular changes in the short run are likely to be disappointed. The measures which will be introduced to deal with the basic economic and trade union problems will be designed to work gradually, and aimed at fundamental rather than immediate change.

THE ELECTION

The May election produced the first comfortable parliamentary majority for any party since Edward Heath's victory in 1970. In Britain's system of tight party voting in the House of Commons, the Conservative overall majority of 43 should be enough to ensure that the Thatcher government will have no serious problems in passing its entire program of legislation.

The election continued the post-war trend towards a geographic polarization in British politics, with the Conservative vote improving much more in the midlands and the south than in the north of Britain. The Conservatives won 50.1 percent of votes cast in the midlands and south of England, compared with a Labour Party share of 33.1 percent, yet in the north of England they trailed Labour by 40.8 percent to 44.8 percent, and in Scotland by 31.4 percent to 41.5 percent.

Despite this regional polarization, the Conservatives improved their support among both sexes and all economic classes. The party has always enjoyed strong support among managerial and office workers, but in this election it made substantial gains among skilled workers, reflecting the disillusionment felt by this relatively affluent section of blue collar workers with the Labour government's wage controls, high taxation and poor record on inflation. The Conservatives won 44 percent of the skilled worker vote (an improvement of 18 percent over the October 1974 election) - only 1 percent short of the Labour Party's 45 percent share. Among semi-skilled and unskilled workers, they obtained 31 percent of the vote (an improvement of 9 percent over 1974), and even among trade unionists, the Conservatives took 30 percent of the vote (8 percent up on 1974), compared with 51 percent for Labour.¹

The Conservative Party gained the largest share of votes from both men and women. The party edged Labour by 46 percent to 38 percent among male voters, and among women the margin was similar - 45 percent (6 percent up on 1974) to 38 percent. The Conservatives also gained the largest share of votes cast by all age groups.

The results show that the Conservative victory was not based on narrow class-based support, but on an improved showing among all major socio-economic groups. This is of particular interest since many moderate Conservatives feared that Mrs. Thatcher's brand of outspoken right-wing politics would alienate blue-collar workers. Yet it was among just this section of voters that the move to the Conservatives was most noticeable, and most damaging for the Labour Party.

THE CONSERVATIVE GOVERNMENT - THE KEY PERSONNEL

THE TREASURY TEAM

Chancellor of the Exchequer - Sir Geoffrey Howe

A lawyer by profession, Howe was Solicitor-General, and later Secretary for Trade and Consumer Affairs, in the Heath government.

¹ The Economist, 12 May 1979.

He was chief architect of the ill-fated Industrial Relations Act.

Sir Geoffrey is generally considered to be to the right of the center of the Conservative Party. He is firmly committed to cutting taxes and public expenditure, but can be expected to do so steadily, not dramatically. He is also known as a politician who is open to innovative ideas and approaches - he was, for example, the first major politician in Britain to give serious consideration to the notion of Enterprise Zones.²

Chief Secretary to the Treasury - John Biffen

Considered by many MPs to be one of the most intelligent men in the House of Commons, Biffen was a strong supporter of Enoch Powell's radical free enterprise position before Powell left the Conservatives. He has been strongly influenced by the work of Friedman and Hayek, and can be expected to press very hard for decisive cuts in public expenditure. He is not likely to be overwhelmed by Treasury professionals.

Financial Secretary - Nigel Lawson

Lawson is a former journalist and a fellow of Nuffield College, Oxford. Like Biffen, he is a devout monetarist and will play a key role in Conservative anti-inflation policy.

Trade Secretary - John Nott

John Nott is a lawyer and merchant banker and was a minister at the Treasury between 1972 and 1974. Although his philosophical position is not entirely clear, his assignment is to scale down government activity in the private sector. His undersecretaries have strong free-enterprise credentials. Cecil Parkinson, responsible for overseas trade, is a noted free-trader, and Norman Tebbit (aviation and shipping) is a strong right-winger and one of Mrs. Thatcher's staunchest supporters.

Industry - Sir Keith Joseph

Sir Keith Joseph has often been called the intellectual guru of the Conservative Party. Some of his supporters also call him a "born-again Conservative" in view of his public confessions of former

2. "Enterprise Zone: A Solution to the Urban Crisis?" Heritage Foundation International Briefing #3.

political "error" and his now passionate support of the free society and monetarist economics. He has had a powerful influence on Margaret Thatcher and is responsible for much of the new Tory program.

Home Secretary - William Whitelaw (Deputy Leader)

William Whitelaw has held a number of important posts in Conservative governments, and although he is no intellectual he commands great respect as a moderate and sensible politician. He favors a tough line on law and order and on immigration control, however, and these will be his main areas of concern at the Home Office. Although he was a close ally of former prime minister Edward Heath, he has always been intensely loyal to the leader of the party and is not expected to pose any threat to Mrs. Thatcher.

Lord Chancellor - Lord Hailsham

Although the head of the Judiciary is a political appointment in Britain, and changes with the government, only distinguished jurists are named for the position. Lord Hailsham is a former Lord Chancellor and a respected elder statesman of the Conservative Party. He is likely to give backing to the present trend for judges to take a firm stand on behalf of the rights of the individual against government and trade union encroachment. He has also argued that a new Bill of Rights should be passed to protect the citizen.

Foreign Secretary - Lord Carrington

Lord Carrington has held several cabinet positions in Conservative administrations, including defense. He is likely to take a firm but diplomatic line on the sensitive issue of Rhodesia, and will ensure that Britain plays a more positive role in the development of the EEC.

Carrington's spokesman in the House of Commons is Ian Gilmour (as a peer, Carrington is precluded from sitting in the Commons). Gilmour is the party's chief academic exponent of the moderate Conservatism, and his deputy with responsibility for defense and the Middle East, Douglas Hurd, is also a moderate. The undersecretary with responsibility for America, Nicholas Ridley, on the other hand, is well to the right of the party.

Secretary of Defense - Francis Pym

As a former Secretary of State for Northern Ireland, Francis Pym acquired a reputation for great political skill, and was considered a possible moderate replacement for Mrs. Thatcher if she had failed

to win the May election. His abilities in the field of defense are largely unknown, but he can be expected to implement the Conservative pledge to improve the morale and equipment of the armed forces, and to strengthen Britain's commitment to NATO.

Employment Secretary - James Prior

At first glance, James Prior may seem a strange choice as the minister who will have to deal directly with the unions. As a member of the opposition he argued for a conciliatory approach to organized labor - contrary to the views of many of Mrs. Thatcher's supporters. Yet he reflects the cautious approach of the new cabinet to this difficult problem. Furthermore, he has gone on public record as supporting the Conservative policy of bringing the unions firmly under the rule of law, legislating to restrict picketing, and reducing the power of the militant unionists.

Environment Secretary - Michael Heseltine

As head of this very large department (regional aid policy, local government, housing etc.), Heseltine will oversee the program to reduce the enormous stock of government-owned housing in Britain (over 40 percent) by encouraging sales to sitting tenants. Michael Heseltine was Minister for Aerospace and Shipping during the Heath government. He is popular and flamboyant, but he is a non-ideological politician.

Education Secretary - Mark Carlisle

Mark Carlisle is a lawyer, and most of his political experience has been with the Home Office. He was a surprising choice for education secretary in view of his rather lackluster performance as opposition spokesman. His principal task as secretary will be to reassert traditional standards in the state schools, and to reverse the Labour government's policy of reducing the already small private sector in education. Carlisle's deputies include Dr. Rhodes Boyson, a fiery ex-headmaster. Boyson is a fervent supporter of education vouchers and the re-establishment of basic standards in schools: he can be expected to become a powerful force in policy-making.

Agriculture - Peter Walker

Peter Walker returns to the center of politics after a period in the wilderness following Edward Heath's defeat as party leader by Margaret Thatcher. Walker is a very ambitious and effective politician from the liberal wing of the party. He is well respected, has wide experience of government, and will be an influential member

of the cabinet.

Although agriculture is not considered a key department, and represents a demotion for Walker, it is currently very important as it involves delicate negotiations with the EEC over the Common Agriculture Policy. Walker can be expected to bring enthusiasm and professionalism to this thorny issue.

THE COMPLEXION OF THE GOVERNMENT

Margaret Thatcher's choice of ministers has gained broad support within the party, and political observers see it as a shrewd compromise. Significantly, the key economic posts - which Mrs. Thatcher sees as central to the policy of stimulating economic revival - are firmly in the hands of right-wingers favoring monetarist policies, substantial reductions in public expenditure, and the encouragement of full-blooded free enterprise. The more liberal politicians have generally been chosen for non-economic positions. The only major exception to this is James Prior at Employment: but here the need to pursue a gradual approach towards union reform - avoiding the confrontation reminiscent of 1970-1974 - precluded the appointment of a right-winger. The new cabinet therefore seems well constructed for the purpose of dealing with Britain's central problems.

PROBABLE POLICY DIRECTIONS UNDER THE CONSERVATIVES

Economic Policy

Cutting taxation and dealing with the present inflation (10 percent and rising) is a basic part of Conservative policy for economic revival. At the top end of the scale cutting taxes will not pose budgetary problems, despite the high rates (up to 83 percent on regular income, with a surcharge of 15 percent on income from investment - bringing the maximum rate to 98 percent), since the money collected from these rates is small, and cuts would be offset by an increase in declared income and by an increased willingness to earn money. Tax cuts at the lower end would be more costly to the Treasury and would tend to increase the budget deficit - counter to monetarist principles. Thus a reduction in the top rate of income tax to about 60 percent or 70 percent is likely, with some reduction in the other rates offset by an increase in indirect taxes: but substantial changes in tax rates are unlikely until major cuts can be made in public expenditure.

The government will dismantle the last remaining element of prices and incomes policy, the Price Commission, and rely on two weapons to deal with inflation - firm monetary control and a strengthening of competition by more active use of the Monopolies Commission. The government will avoid becoming involved in wage negotiations in the

private sector: in state-owned industries company executives will have to bargain within a fixed cash limit for the total wage bill.

Industry

Conservative industrial policy consists essentially of winding down the multitude of subsidies, special grants, state investment programs, etc., which now exist, and creating in their place the right atmosphere for industrial growth and risk-taking. That means lowering taxes and government spending, reducing the power of the unions, curbing government intervention and then waiting for a race of Freddie Lakers to blossom in the new climate of free enterprise.

Direct state involvement in viable private companies will be decreased by cutting the investment budget of the state National Enterprise Board, and by forcing it to sell off its holdings in a number of companies. The Conservatives also intend to denationalize aerospace and shipbuilding, end the Post Office monopoly on telecommunications, and convert British Airways into a semi-private company. There are problems involved in denationalization, however. It may be difficult to attract private capital into loss-making industries, and many potential investors may hesitate for fear of renationalization under a future Labour government.

It is unlikely, therefore, that there will be a very major decline in public ownership of industry within the next one or two years. Industrial policy in the early period of the administration will instead involve the nurturing of the private sector, the removal of state subsidies and investment powers, and the ending of some state monopolies.

Trade Unions

The Conservatives seek a long-term solution to the union problem, and will avoid legislation which could lose them the passive support of the public and many trade unionists. Changes in the law will be made to end particularly unpopular privileges enjoyed by the unions: some aspects of picketing (particularly secondary picketing) are likely to be made illegal and workers will be entitled to compensation if they are victims of a closed shop - but there are no plans yet to outlaw the closed shop.

The principal aim of Conservative policy, however, will be to make strikes more costly to unions and to encourage the emergence of more moderate unionism. Trade unions will be required to contribute towards the support of strikers and their families, and it is possible (though perhaps not this year) that social security payments will no longer be available to the families of workers on unofficial strike. By eliminating wage controls and state involvement in wage bargaining,

the Conservatives hope to reduce the power of union extremists by denying them a target. They also plan to assist moderate union members to win office by making available public money to finance postal ballots for union elections -- most ultra-left officials are elected at small branch meetings by a show of hands. The Thatcher policy is thus not to attempt to smash the unions in a head-on clash (which would only unite the union rank and file against the government), but instead to convert unions gradually from an extremist political purpose to one which is moderate and purely industrial.

Foreign Policy

Europe and the Rhodesian situation will tend to dominate British foreign policy in the near future. The Conservatives will seek to recognize the Internal Settlement at the earliest opportunity, but will attempt to obtain international acceptance before doing so. A positive approach will be now taken towards the EEC and NATO.

Relations with the United States are not likely to alter to any great degree, although the Rhodesian problem will probably lead to some chilling in the usually warm ties between the White House and Downing Street. Irish-American politicians who insist on giving advice on Northern Ireland policy will receive an even frostier response from Mrs. Thatcher than they did from Mr. Callaghan.

Housing

The Conservatives will make a concerted attempt to reverse the "two nations" situation in housing -- approximately half the population living in highly subsidized housing at the expense of the other half. This has led not only to shortages and poor housing, but also to the creation of a powerful self-interest voting block for the Labour Party.³ The government hopes to lure many tenants in state-owned housing (about 40 percent of all housing) into the private sector by giving them the right to buy their homes at large discounts -- up to 50 percent off the market price. If this policy is very successful it could lead to a highly significant change in British voting patterns, and the erosion of an important block of socialist support.

In addition, the Conservatives wish to revive the private rental market, which has been practically destroyed by controls, by allowing landlords to give shorter leases and by making eviction easier. The impact of this might be reduced, however, if the Labour Party threatens to reverse the policy in the future.

3. See "Government Intervention in the Housing Market in Britain," Heritage Foundation International Briefing #1.

Home Affairs

The Conservatives have promised to introduce tough sentences for violent crimes, and to allow a free (i.e., without party whips) vote in Parliament on the question of introducing capital punishment: it is unlikely to pass. Immigration laws will be made even tighter in an attempt to ease the racial tension which has appeared in recent years.

The Welfare State

The Conservatives do not plan to dismantle the welfare state. They do intend to amend the tax structure to make social security (welfare payments) less attractive for able-bodied people, however. The government is pledged to keep up spending on the National Health Service, which is in a state of near collapse, but it will make it easier for people to opt for private medicine by the introduction of some form of tax deduction for medical expenses.

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