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THE FIRST YEAR OF THE THATCHER GOVERNMENT IN BRITAIN

INTRODUCTION

It is now one year since Mrs. Margaret Hilda Thatcher entered the official London residence of Britain's Prime Minister, 10 Downing Street, as its new tenant. The success, or the failure, of her government will be a crucial lesson for Britain, but equally so, a crucial lesson for other countries, including the United States.

The leader of Britain's Trade Union Congress, Len Murray, criticized Mrs. Thatcher's administration a few weeks after it had taken office. With a stunned expression, he announced, "There has never been a more ideological government in this country...." Mr. Murray was right. Mrs. Thatcher was known as "the only man in Heath's Cabinet" during her spell as Education Minister, and she has lost none of her toughness. She has embraced a right-wing philosophy of personal initiative and enterprise, of incentives, of the loosening of Trade Union strangleholds, of strict monetary control, and a strong foreign policy and national defense. Other politicians have espoused the same principles, but there is popular feeling in Britain, from within her Party and from without, that she has the strength of character to guide these policies onto the statute books - even over the heads of her less dogmatic Cabinet colleagues.

So if Mrs. Thatcher's attempt to restore personal initiative and freedom in Britain fails, it is a dire warning to other countries. In pointing out the main blocks in her path, we should be able to anticipate the same difficulties in other countries; and in seeing how her government overcomes these problems, we can more accurately predict whether other countries will do the same. If Mrs. Thatcher's government fails, however, it will make us question whether any country so far down the road to socialism as Britain - where government spending is about 60

percent of the Gross National Product - can be taken onto the other path in a peaceful way.

THE STATE OF THE NATION

For several years, Britain had suffered from a government which was elected with a minority of seats in the House of Commons, and therefore relied upon the votes of third parties to force through its policies. The Liberal Party, fearing another general election which it could not afford, joined with the Labour Prime Minister James Callaghan into what became known as the "Lib-Lab Pact," an agreement that the Liberals would vote for the Labour government in any crucial vote, thereby keeping the socialists in power.

Mr. Callaghan's problems did not begin, however, when the "Pact" ran out in the summer of 1978 and was not renewed - by that time, the Liberals knew very clearly that the political wind was blowing cold on the left-wing, and their leader, David Steele, decided to distance himself as far as possible from Labour. Even before this, Mr. Callaghan, like his immediate predecessor from the same Party, Harold Wilson, had found his minority government meant that he had to submit to constant destabilizing pressures. The minor parties in Parliament won concessions - such as the Labour government's initial attempts to introduce limited self-government for Scotland and Wales - as a result of the pressure from the Nationalist MPs; and the Labour Party was having to give in to its own left wing and the Trade Union Movement of which it is the political tool. Although nominally independent of the Unions, the Labour Party embraces over 100 MPs who are sponsored by Unions, and who therefore have strong sympathy with them. By appeasing the Unions, Mr. Callaghan's government, like Harold Wilson's, thought that it could keep alive for longer, but in fact, this promoted public opposition and an increased greed from the Union leaders, making his position more difficult.

There had to be an election, under the British "Constitution" (not a written constitution like the American one), before June 1979. The Conservatives, sensing that public opinion was very much on their side, wanted it to be as soon as possible. The question was: when would it be? Between the actual date - May 3, 1979 - and the summer of 1978, there were a number of nails put into Labour's coffin:

(1) The Labour government had designated five percent as the top limit on wage settlements during the year. Ford workers went on strike to protest in September 1979. Car workers, normally the most militant Labour supporters, had turned against the government.

(2) The Labour Party conference at Blackpool voted against the government's incomes policy and against any pay restraint measures. Thus, the conference which represented the roots of

the party (and which was heavily dominated by Trade Unions) had opposed Mr. Callaghan's single most important policy, one with which he had sided personally, and perhaps the only strong plank of leadership which the Parliamentary Party could offer at a time of great weakness.

(3) Many hospitals closed and patients turned away during a bitter dispute by hospital engineers and supervisors. The dispute lasted six weeks, and the public saw it as mark of the Unions' callousness, which the government could not prevent or restrain.

(4) In November 1979, lending rates were increased by 2½ percent to 12½ percent, an unexpectedly large increase.

(5) The Trades Union Congress was deadlocked over whether to accept a new "social compact" with the government, limiting the rate of pay demands.

(6) The Ford strike eventually ended with the workers accepting a company offer of 17 percent, far outside the 5 percent to which the government was still determined to stick. To the outrage of its own left wing, the government announced that it would end government contracts for Ford vehicles.

(7) The government was defeated in the House of Commons over its plan to impose sanctions for pay settlements in excess of its guidelines. Mr. Callaghan told the House that it would abandon its policy; a vote of Confidence in the government was carried by only 10 votes.

(8) Truck drivers embarked on a protracted strike which caused many shortages of imported goods, particularly food, gasoline and raw materials for industry. The strike was typified by wide "secondary" picketing, and the "blacking" of haulage companies who broke the strike.

(9) During January 1979 there were four one-day strikes on the railways, a one-day strike of public employees, including school caretakers, hospital porters, ambulance drivers and garbage collectors. Hospital support workers and ambulance drivers began another strike during the month. In February, British Leyland workers went on strike for a week in protest against company bonus schemes. Junior and middle grade civil servants held a 24-hour strike, leaving ports without any immigration or customs staff.

(10) In the same month of February, the government announced a limit of 8.8 percent on wage rises for employees in the public sector, and the National Coal Board granted a ten percent increase to its employees (in Britain, coal is exclusively within the public sector).

(11) Perhaps the issue which finally set the seal on the government's death warrant was the Scottish referendum. The

government decided to introduce a bill granting more self-government to Scotland (and another bill for Wales) if 40 percent of the Scottish electorate voted for it in Britain's second referendum (EEC membership being the only precedent). Only 32.85 percent of Scottish electors and 30.78 percent of the Welsh voted for larger self-government. To the outrage of the Nationalist Parties in Parliament, the bills were withdrawn.

(12) Mr. Callaghan attempted to keep the support of the Nationalists (whose votes were essential for the survival of the government). He suggested an all-party discussion on Scottish and Welsh government.

Mr. Callaghan could not convince the Scottish Nationalist and Welsh Nationalist MPs to stick with him. This was surprising, perhaps, for several reasons; Mr. Callaghan expected their support because:

- the polls showed that in an election at the time, the Nationalists would lose most of their 11 seats in Scotland and 3 in Wales (he was right: the Welsh Nationalists lost one seat, the Scottish, 9);
- after all-party discussion, the government might have been able to proceed with limited self-government for the regions;
- the polls also showed that the Conservatives had a leading edge, and that a right-wing government would dominate the new Parliament; the Nationalists broadly endorsed left-wing philosophies.

The prevailing opinion was that if the government could muster every vote they had, together with a few from other parties who were still opposed to the Conservatives, they would be able to survive a vote of No Confidence by only one vote. The Nationalists had turned against them; the Liberals announced that they were not going to vote; things looked desperate for the Labour Party.

Frantic negotiations went on while the Conservatives introduced their motion "This House Has No Confidence in Her Majesty's Government." A Labour MP, critically ill, could not make it to vote; but a tie would mean that the Speaker would vote for the government and keep it in power. It all hinged on a Northern Ireland MP, who had never even been to the House of Commons since he was elected. Labour officials went out to convince him of their case, and brought him back. But when the votes were counted, it turned out that this man had in fact come to Westminster "To abstain in person" as he put it, and he stayed resolutely behind the Speaker's chair, not going through the voting lobbies. Nobody was sure who had won; the Labour tellers looked happy; but the vote had been carried - the government had fallen by 311 votes to 310. This was on March 28, 1979. The election was announced for May 3; as is traditional, on a Thursday.

THE CONSERVATIVE MANIFESTO

The government had lost a vote of No Confidence - the first one this century - and so the election was not at the time and on the issues of its own choosing. (Usually, the decision to hold an election is the Prime Minister's.) Consequently, there was never much doubt that the Conservatives would win, although the size of their following was uncertain. The first surprise was the strength of determination which was shown in the Party's election manifesto. Broadly speaking, the manifesto embraced the following proposals:

Economic Policy

There would be substantial cuts in all areas of government expenditure, with the two exceptions of defense and the National Health Service, although it was hoped that reorganization might make this more efficient. There would be trimming of waste in all government departments. "Direct Labour" building departments (workmen hired by local authorities for building contracts and repairs) would be reduced, and private contractors given more importance in government building work. The appropriations for the National Enterprise Board (Labour's nationalization weapon, which could own stock in large companies) would be lowered.

Industry

Nationalized industries like British Aerospace and the National Oil Corporation would be sold off. So would shipbuilding, then entirely a government project and a major loss-maker; the National Freight Corporation, the state hauler, would be sold off.

Pay and prices would not be fixed by government. There would be free collective bargaining in the private sector, and cash limits imposed in the public sector.

The top rate of taxation would be reduced to 60 percent, and other tax rates would be reduced. There would be a movement from taxation on income to taxation of goods and services to encourage wider choice in consumers. The present system of taxing capital would also be changed.

Trade Unions

The manifesto said that the Conservative government would take several steps on trade union reform. Existing legislation had made the closed shop and secondary boycotts legal. This would be changed in subtle ways: (a) postal ballots on strikes would be financed by public money; (b) social security would not be paid at the full rate for strikers' families; (c) future closed shop agreements could not be made unless there was an overwhelming majority in support of it on the shop floor; (d) there would be compensation for non-union workers who lost their

positions as a result of a closed shop agreement being introduced; (e) there would be a right to appeal against exclusion from a union, which might make a worker ineligible for employment where closed shop rules applied; (f) picketing would be limited to the union actually in the dispute, and at the place of work only. There would be no secondary or "common situs" picketing. The government was also considering a limit on the number of people who could legitimately stand in a picket line.

Domestic Policy

The Conservatives vowed to reintroduce really effective and tough sentences for hardened criminals of a violent nature, and would give young criminals a short, but sharp, shock treatment. There would be a free vote in Parliament on the issue of capital punishment (at present there is no effective capital punishment in Britain, and Parliament is heavily stacked against it). Immigration would be restricted.

Other Issues

Defense spending would be increased; family life would be strengthened as the basis of society; incentives would be restored.

Perhaps the single thing which distinguishes Mrs. Thatcher's government more than most is how precisely she has stuck to these manifesto promises, and the diligence with which she has attempted to carry them out. There have been many objections to the introduction of many of the reforms, and others have been possible only at a much slower pace than the Prime Minister would have wished. But it is the systematic precision in which the proposals have been drafted into bills and introduced in the House of Commons which has earned Mrs. Thatcher the disapprobation of Union leader Len Murray as "ideological." But before we consider the depth each of the manifesto promises and what progress has been made on them, let us look at the team which Mrs. Thatcher selected to push through her Party's policies, and the results of the election which allowed her to install them in office.

THE ELECTION RESULTS

When the counting had finished on May 4, 1979, the Conservatives had won a majority over all other parties in Parliament of 43 seats. This is reckoned to be a very good working majority; it allows the occasional defection among one's supporters, but it still is small enough to make sure that the majority of MPs in the successful party must stay in line. In Britain, Party loyalty is an essential part of Parliamentary politics, particularly among the Conservatives, and it is comparatively rare for MPs to vote with their political opponents on any issues, particularly key issues. To disobey a three-line whip (a formal notice of an important vote) would probably mean expulsion from the Party, and private conscience is rarely a good excuse.

The state of the Parties after the election, compared with their positions in the old Parliament, was as follows:

	Before Election	After Election
Conservative	282	339
Labour	306	268
Liberal	14	11
Scottish Nationalists	11	2
Plaid Cymru	3	2
Others	14	12
The Speaker	1	1
Vacant Seats	4	--

The representation of the Parties in Parliament is roughly equivalent to the number of votes cast in their favor nationally, except for the Liberals and smaller parties. The Liberals, who polled a third as many votes as the Conservatives, have only 11 seats in the new Parliament, compared with the government's 339. The Liberals have long campaigned for proportional representation, but even with the hung Parliament of the Wilson-Callaghan years, this never came about, and it is unlikely that it will.

Votes Cast in British Elections,
with percentages

	October, 1974		May, 1979	
Conservative	10,429,094	35.7	13,697,753	43.9
Labour	11,406,768	39.1	11,509,524	36.9
Liberal	5,346,704	18.3	4,313,931	13.8
Scottish Nationalists	839,617	2.9	504,259	1.6
Plaid Cymru	166,321	0.6	132,544	0.4
National Front	114,415	0.4	191,267	0.6
Others	887,558	3.0	871,912	2.8
Total poll	29,190,477	72.8	31,221,190	76.0

On the other hand, the British electoral system has a built-in bias to Labour of about 20 seats at the moment. The Parliamentary Boundaries Commission reports with recommendations for changes in constituency boundaries at intervals of not less than 10 years and not more than 15, and is about to report again. It recommends changes in the boundaries to make up for demographic changes in the population, and to make sure that roughly the same number of votes are needed to elect a Conservative as to elect a Labour representative.

At the moment, the average size of a constituency is about 65,000 electors, but there are some of more than 100,000, and others of less than 30,000. In particular, people have been

moving out of central city areas, which are traditionally Labour strongholds, so that many safe Labour seats in inner cities are now very small. Tom McMillan, MP for Glasgow Central, represents only 19,826 electors, and is a member of the Labour Party. On the opposite extreme, Hal Miller, a Conservative, represents 104,375 electors. The four smallest seats in England are all Labour; of the five largest, four are Conservative. The effect of this is that it takes fewer votes to elect a Labour MP than to elect a Conservative. The effects of the boundary changes will remove the 20-seat advantage currently enjoyed by Labour. Since Mrs. Thatcher could now be unseated only by a larger than average swing against her, when this redistribution is effected (as it will be before 1984), her government will be very difficult to remove. Provided that she is not forced into an early election before the changes go through, it is very likely that she will enjoy a second term of office. This, of course, makes it much easier for a sustained program of monetary control and economic measures to reduce public expenditure to be effected by the Conservatives.

The characteristics of voting in the May 1979 election can be broadly summarized as follows:

(1) As usual, the Conservative support tended to come from more rural areas, while the Labour Party polled highest in the cities and the industrial areas of Northern England and Scotland. A map of Britain, colored in the colors of the party represented in each area, is overwhelmingly blue, with pockets of (Labour) red in the cities. Seats won were as follows:

	Conservatives	Labour	Other
Large cities	32	101	1
Other areas	<u>307</u>	<u>168</u>	<u>14</u>
	339	269	15

(2) The average swing to Conservative of 6.5 percent was not national. Highest pro-Tory swings were in London and rural Wales, with the traditionally Conservative South of England and the Midlands recording average swings to Conservative. The industrialized North and Scotland, both Labour strongholds, recorded swings to Conservative of less than average.

(3) The Scottish Nationalists collapsed, allowing Conservatives to pick up some seats in Scotland, although Labour also won many.

(4) Seats with high numbers of immigrants tended to swing to Labour, totally against the national trend, because of the Conservatives' firm policies on the immigration issue.

MRS. THATCHER'S CABINET

Perhaps the first key to a successful administration is the team which is chosen to steer through its manifesto promises. In Britain, the Cabinet is drawn from Parliament, usually from the House of Commons, although Members of the House of Lords can also be chosen (in which case a Commons spokesman for the Department concerned must be nominated). Mrs. Thatcher's Cabinet contained few surprises. It comprised largely MPs who were in accordance with her own right-wing viewpoints, with moderates in less important positions such as Agriculture (which in Britain is far less important than in the United States).

The Members of the Cabinet chosen by Mrs. Thatcher were, and still are, as follows:

PRIME MINISTER: Rt. Hon. Mrs. Margaret Thatcher, MP. She is known for her tough stand on domestic issues, for her belief that government spending must be cut and monetary control exercised.

SECRETARY OF STATE FOR THE HOME OFFICE: Rt. Hon. William Whitelaw, CH, MC, MP, age 61. He is Mrs. Thatcher's deputy leader. He is not expert on the economy or foreign policy issues, but embodies the traditional Conservative views of increased spending on law enforcement, and curbs on the flow of immigrants into Britain.

LORD CHANCELLOR: Rt. Hon. Lord Hailsham, CH. At the age of 72, Lord Hailsham, a former contender for the Conservative leadership, is very much an elder statesman of the Party. His duties as Lord Chancellor will be to head up the judiciary, a post which he has previously executed with much diligence.

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS: Rt. Hon. Lord Carrington, KCMG, MC, age 60. This is the first minister so far whose commitment to the Thatcherite philosophy is not 100 percent strong. Although certainly more right-wing than Mr. Edward Heath, Lord Carrington has the reputation for pragmatism rather than ideology. This is certainly true of his deputy in the Commons, Ian Gilmour, who is very lukewarm to the right-wing ideas of Mrs. Thatcher.

CHANCELLOR OF THE EXCHEQUER: Rt. Hon. Sir Geoffrey Howe, QC, MP, age 53. One arm of government which Mrs. Thatcher has made watertight is the Treasury. Geoffrey Howe is very much steeped in Thatcherite views, although in his previous Cabinet appointments he has often lacked the courage to carry them through. He seems to have not lack of this, however, not that he is ensconced in the Chancellor's residence, next to Mrs. Thatcher's in Downing Street. His assistants include John Biffen (known as "John the Baptist" because of his prophesy of the free market views of Enoch Powell before these became popular); Mr. Nigel Lawson, whom the Economist newspaper described as an "articulate, well versed monetarist"; and tax experts Lord Cockfield and Peter Rees. The Chancellor himself is a quiet and modest man, but he has staked

his reputation on changing the tax structure to allow for more incentives, and in restoring monetary control to Britain.

SECRETARY OF STATE FOR INDUSTRY: Rt. Hon. Sir Keith Joseph, Bt., MP, age 62. Formerly a representative of moderate conservative views (the "wets" as they are known in Britain), he made a conversion to free market philosophies after the disastrous government of Edward Heath, which was noted for its ideological "U-turns" and eventual failure in the quagmires of inflation and industrial unrest. Because of his new commitment to the market philosophy, he has become the most hated and feared figure in the views of the Labour benches. A many of heavy conscience, he has embraced Thatcherite doctrine because he feels that in the long run they will do more for the working man than would Heath-type concessions to Trade Union demands.

SECRETARY OF STATE FOR DEFENSE: Rt. Hon. Francis Pym, MC, MP, age 58. He is committed to building up the armed forces, which are seriously undermanned, and to build up a credible opposition to the newly-modernized Warsaw Pact forces in Europe. He is a supporter of increased expenditure on defense, and to an immediate build-up of theater nuclear forces in Europe as a whole. His assistant is engagingly nicknamed "Pym's number one."

LORD PRESIDENT OF THE COUNCIL: Rt. Hon. Lord Soames GCMG, GCVO, CBE, age 59. He is leader of the House of Lords, and has served as the last Governor of Rhodesia.

SECRETARY OF STATE FOR EMPLOYMENT: Rt. Hon. James Prior, MP, age 52. Definitely a man in the Heath mold, Mr. Prior is unpopular with Mrs. Thatcher's backbench MPs because of his "softly softly" approach to Union reform. It is likely that Mrs. Thatcher decided to stick with him as Employment Secretary, rather than appoint someone tougher such as Keith Joseph, because he spent many years building up personal contacts with Trade Union leaders. The government's policies are being brought to the Unions, as it were, through this intermediary figure, for whom they have some respect and sympathy, and it is by this measure that Mrs. Thatcher hopes to avoid the total hostility to Union reform which greeted the Heath government in 1971-1974. But prevailing Conservative views are much to the right of Mr. Prior, and he is being dragged ever rightward. His opponents still regard him and his policies as the weakest member of the Thatcher Cabinet.

LORD PRIVY SEAL: Rt. Hon. Sir Ian Gilmour, Bt., MP, age 53. Lord Carrington's defense spokesman in the Commons, and a leading Heathite with pretensions to intellectual stature. Another weak plank in the Cabinet.

MINISTER OF AGRICULTURE: Rt. Hon. Peter Walker, MBE, MP. Age 47 and another of Heath's strongest supporters, Mr. Walker's appointment is an attempt to keep moderates and left-wingers of her Party in unison with Mrs. Thatcher, while keeping the most important posts firmly under her control. As Agriculture Minister,

Peter Walker finds himself spending so much time arguing with Common Market bureaucrats that his influence in British politics has perhaps been limited.

SECRETARY OF STATE FOR THE ENVIRONMENT: Rt. Hon. Michael Heseltine, MP, age 47. He has been one of the surprises in the Cabinet. It was thought that he was principally an opportunist, and he espoused some rather moderate opinions during the Heath years. But now he has turned out to be one of the firmest and most effective enforcers of Mrs. Thatcher's principles.

SECRETARY OF STATE FOR SCOTLAND: Rt. Hon. George Younger, MP. Mrs. Thatcher would have preferred the much more right-wing Edward Taylor, but he was unfortunately beaten in his Parliamentary election.

SECRETARY OF STATE FOR WALES: Rt. Hon. Nicholas Edwards, MP, age 46. With few Tory MPs in Wales, Mrs. Thatcher hardly had much choice.

SECRETARY OF STATE FOR NORTHERN IRELAND: Rt. Hon. Humphrey Atkins, MP, age 57. Mrs. Thatcher's close friend and colleague, Airey Neave, was to have had this job; but Atkins is another close associate, and so it is likely that firm policies could be advanced by this man.

SECRETARY OF STATE FOR SOCIAL SERVICES: Rt. Hon. Patrick Jenkin, MP, age 53. Mr. Jenkin is not noted for his political prominence, and was little known in the country before his appointment. He is a moderate right winger, but a man of considerable competence who has made some major changes in his department.

CHANCELLOR OF THE DUCHY OF LANCASTER: Rt. Hon. St. John Stevas, MP, age 50. He is responsible to Mrs. Thatcher as a "traffic cop" in the Commons, to make sure that important legislation is introduced and successfully steered through. He also has responsibility for the arts, one of his pet subjects. Representative of the left wing of the Conservative Party, and many were surprised that he was given a job at all.

SECRETARY OF STATE FOR TRADE: Rt. Hon. John Nott, MP, age 48. Nott is little known to the public, but is tough and much liked by Mrs. Thatcher. A former merchant banker, he is committed to the free economy, and has already made major innovations in policy which are designed to make trade more free.

SECRETARY OF STATE FOR ENERGY: Rt. Hon. David Howell, MP. Age 44, he is one of the most promising young Conservative MPs.

SECRETARY OF STATE FOR EDUCATION: Rt. Hon. Mark Carlisle, QC, MP, age 50. He has been outshined in the public imagination by Dr. Rhodes Boyson, his junior minister with responsibility for Higher Education. His priorities are to protect fee-paying private schools and to keep selection, although there have been few moves

to ditch the system of Comprehensive (non-selective) schooling introduced by Labour governments in the past.

CHIEF SECRETARY OF THE TREASURY: Rt. Hon. John Biffen, MP, age 49. A former academic and noted right-winger, his appointment helped secure the Treasury in the hands of Mrs. Thatcher's ideological supporters.

PAYMASTER GENERAL: Rt. Hon. Angus Maude, MP, age 67. Another elder statesman of the Party and supporter of Mrs. Thatcher, as well as being a trusted adviser to her.

Mrs. Thatcher came under some criticism from her own right wing that of the 22 cabinet appointments, some 18 of them were ministers under Edward Heath. However, it must be remembered that Mrs. Thatcher was herself the Secretary of State for Education during that period; and it must be remembered that her personal influence has given the rightward movement of Conservative politicians a further boost. The Cabinet contains many right-wingers, those in tune with the Thatcherite ideology: Biffen, Maude, Joseph, Howe, for example. Of the moderates, Walker, Prior and Jenkin have remained the most resolute in their views, while Heseltine, Carlisle and Whitelaw have been espousing some unexpectedly right-of-center remarks, and have been backing them up with similar actions. Britain has begun to realize what a difference a strong leader can make to the color of the Cabinet.

Having looked at the men Mrs. Thatcher chose to help her effect her policies, let us now consider the successes and failures of those policies over her first year in office.

THE POWERS OF THE TRADE UNIONS

If asked to give a one-sentence judgement of the government's success or failure in the field of industrial relations, one would have to report that it is "too early to tell." The moderate policies of James Prior have ruled the development of employment policy; but there is no doubt in anyone's mind that if they do not work, the government is quite prepared to try sterner methods.

Although it was not given star billing in the Conservative manifesto, the problem of the Trade Unions, and the belief that the Labour government was quite impotent in dealing with them, was probably the most important factor in the Party's victory at the polls on May 3. The Unions had, over the period of the Wilson government of 1964-70, and the Wilson and Callaghan administration of 1974-1979, been given powers and legal immunities of the widest kind. Let us sketch some of the powers which the Trade Unions in fact enjoyed:

(a) The Closed Shop was legal at any time and place.

(b) Under the 1975 Employment Protection Act, employees have a legal obligation to disclose company reports and accounts

to unions where these are "required" for collective bargaining. There is no corresponding duty on the Unions.

(c) Employees may not be dismissed because they join a Union (although in closed shops, workers may lose their jobs if they do not).

(d) Employers are required to give time off work, with pay, for workers' attendance at Union meetings.

(e) If an employer intends to make any Union member redundant, he is required to consult with representatives of the Union in advance. Consultations must start at least 60 days previously if 10 or more employees are involved, and 90 days in advance if the number is more than 100.

(f) The government's Advisory, Conciliation and Arbitration Service can impose Union recognition on an employer.

(g) Tribunals, whose members are all nominated by the Trade Union Congress, would decide on any cases of complaints by people who were expelled from a union. In other words, the unions are judge and jury in their own case.

Given this state of affairs, in which the Unions had wrought many concessions from Parliament through its own nominated MPs, and through the weakness of the Parliamentary Labour Party in resisting its demands, the Conservatives decided that there were two possible options. One was an all-out confrontation with the Unions on a pay dispute. This was the policy which had unseated the Heath government in its dispute with the miners in 1974. The alternative was to weaken the power of the Unions with legislation aimed to "democratize" Union structure; as Mrs. Thatcher herself said, there were in Britain some 13 million union members, not all of whom by any means were militants. Postal ballots for elections and strike calls would, it was thought, make the Unions a much easier target. Eventually, this course of action was decided upon.

Another feature of the government's thinking was that it would not get involved in industrial disputes as all its predecessors had done. Most of the essential industries in Britain are nationalized, and were nationalized to ensure continuity of supply in those industries. But this has simply meant that industry-wide unions are able to threaten the most vital industries in the nation. The miners' strike which brought down Heath threatened other key industries as well, and produced power shortages and a virtual paralysis of the docks.

The important nationalized industries are: coal mining; power generation; some docks; rail transportation; some road transportation; oil and gas; steel; some major car plants; the Post Office; the health service. If industry-wide unions can close down any of these industries, and make the dispute spread

to others, Britain could be in a very poor shape. The government's immediate solution was not to get involved in any disputes if it could avoid doing so. The traditional means of "solving" disputes used by the Callaghan government was "beer and sandwiches" at 10 Downing Street, where the Trade Union, the Board of the Nationalized Industry, and the heads of the government would sit down and hope to arrive at a successful conclusion. This made the government look as if it was a partner in the bargaining - and a partner with unlimited purse strings. The Thatcher alternative was for the government to set a cash limit for each industry, and then let the Unions and the industry Boards fight over it.

The Steel Strike

The first major test of this policy came in the steel strike, which lasted for 13 weeks during the first quarter of this year. The pay level of steelworkers averaged £110 per week - high for Britain - but they demanded more, eventually demanding a 20 percent increase. This was in spite of government announcements that several major steel plants would be closed. The steel industry was one of the government's biggest loss-makers, with each steel worker being subsidized to the tune of £1800 per annum by the taxpayers. The steel Unions thought they were onto a winner; their estimates showed that industry would exhaust its stock of steel within two weeks, and they believed that the government would have to settle on the Unions' terms.

The Unions were as startled as anyone when the invitation to "beer and sandwiches" never came from No. 10. Mrs. Thatcher and her Industry Secretary Sir Keith Joseph resolutely announced that the cash limit had been set for the industry, and that there would be no further injection of funds. If the strike was to be settled, it would be settled between the Board of the Steel Corporation and the Unions. Since the Corporation had only a fixed amount of cash to dispense, any further increase in wages would come out of future investment and the laying off of the workforce.

For the first two weeks of the strike, both sides remained resolute. The Unions demanded pay increases not backed by increases in productivity. The Steel Corporation argued that it could not accept this, and that it did not have the flexibility in its cash limits to increase the offer. The government stayed out of the proceedings. On visiting some of the areas in the North of England most affected by the strikes, Sir Keith Joseph was asked whether the government would step in with more cash. "But it isn't the government's money," he replied. "It's not our money, it's the taxpayers' money. We are simply trustees. We hold government money in trust for the taxpayers...." He made it plain that he thought the taxpayers would not be prepared to subsidize the steelworkers any further.

If the government had chosen steel for its battleground on purpose, it could hardly have been more fortunate. In steel

there is a thriving private sector, and the "two or three weeks" which steel supplies were expected to last slipped unnoticed as private steel firms stepped up their production, and as steel was imported - often through free ports and at hours inconvenient for pickets - from abroad. While Britain cannot do without coal in the winter, or water in the summer - and Thatcher's government quickly came to settlements with these industries without any prolonged action - the steel Unions found that it could do without steel. British Leyland, the car manufacturers, were suffering a sales slump anyway, and their demand for steel dropped. If people could not buy steel articles in Britain, they went abroad. If manufacturers abroad could not buy British steel for their processes, they went to other countries. Three weeks slipped into four, then five, then six, without industry seeming to suffer very much.

At this point, even the government's supporters began to get worried. There were calls from Tory politicians that the government must step in to ease the crisis. Large numbers of pickets were being dispatched to private steelworkers - the thousands of scuffling pickets outside the private firm of Hadfield's was reminiscent of the riots over the photo processing laboratory, Grunwick, some years earlier, in which police were faced with 15,000 pickets. Eventually a meeting was held at No. 10; but to the delight of the right-wing and the dismay of Mr. Prior and the moderates, it became clear that this short meeting was simply to explain that the government would not be getting involved any further. And so it went on. The Unions had been prepared for a confrontation with the government, and found they were denied one.

From the right-wing of the Conservative Party, there were calls for the industrial legislation which was planned to be rushed through Parliament, so that the steel situation could be squashed. Prior urged caution, and convinced to some extent the Prime Minister and the Cabinet. When reminded of the confrontation which unseated the Heath government in 1974, the Thatcher government opted for the "softly softly" approach. The summer - when strikes in Britain tend to have much less bite - would be soon enough for legislation.

And so the policy continued, with the government not getting involved in the dispute nor making statements upon it, until the steel unions realized, after thirteen weeks on strike, that they had not brought the country to its knees as they had expected. The Steel Corporation conceded a little, and so did the Unions; eventually they agreed to a three-man arbitration committee, which settled on a 14.4 percent wage increase, with productivity deals more in line with what the Corporation wanted than the desires of the Unions. The Unions had staked their reputation on 20 percent; and so were seen to have sustained a major blow. By not getting involved, the government had won its first major strike battle.

It is doubtful, however, whether British Steel will survive the blow. Steelmaking in Britain is notoriously inefficient, and has been ever since the industry was nationalized. The productivity of the British steel worker is half that of his German counterpart. It may be that the Unions have, unwittingly, dismantled a major nationalized industry which the Conservatives were not courageous enough to threaten with denationalization by law. The Trade Unions are still somewhat shocked by the "ideological" nature of the government. When TUC leaders found that they were not being invited to Downing Street to give their opinions on the state of the nation any more, they knew that things were changing; the steel strike confirmed their belief.

The results of the steel strike were grim, particularly for the Unions. The position it left was this:

- (1) Eight million man days were lost, rather more than during the same period in the winter of 1978-79 which was so much a factor in the demise of James Callaghan's government.
- (2) By continuing the strike until early April, the Unions got only a 1.6 percent increase on an offer made six weeks earlier.
- (3) The family of the average striker lost about £1200 during the strike.
- (4) The main Union involved, the Iron and Steel Trades Confederation, paid out more than £2 million in hardship grants and the organization of picketing and striking. Other major unions paid out £1 million each.
- (5) In terms of welfare benefit to strikers' families (which the government is now determined to lower), the taxpayer shelled out about £8 million during the course of the dispute.

The Employment Legislation

Although the settlement of the steel strike was a qualified success for the government, and has made other Unions think more carefully about what is known as "industrial action" - that is, strikes - the government has lost some credit on its handling of employment legislation. The legislation is something which the Tories have been anxious to introduce for years, but in the light of the steel strike it has been prompted to make initially soft legislation tougher and tougher; it has seemed that the government is cobbling together its union policy on a day-to-day basis. The final "consultative" document went through sixteen revisions of draft. It was perhaps the mass picketing outside Hadfield's, the private steel firm, which caused Lord Hailsham to point out that mass picketing can be countered by existing laws against intimidation, and the Attorney-General, Sir Michael Havers, to tell a stunned House of Commons that the police did indeed have the right to prevent large concentrations of pickets by turning back coaches or other methods.

Employment Secretary Prior assumed that the winter of 1980 would pass without any major industrial clashes, and that his moderate Employment Bill could then pass the Commons without much problem. Furthermore, by delaying the introduction of the Bill until December, he had hoped that an impending decision by the Law Lords on Union rights and immunities would prevent the government having to insert contentious passages into the Bill. As it happened, the Law Lords passed the buck back to Prior, and so the government had to decide whether to insert the amendments during the steel strike itself.

The original Bill introduced by Mr. Prior had three main objectives:

- (1) The control of secondary picketing; picketing would be lawful only at the strikers' own place of work, and pickets could not be brought in from outside in "Grunwick" or "Hadfields" style.
- (2) There would be protection against dismissal because of closed shop regulations, and compensation for those dismissed.
- (3) The government would finance secret ballots to be held before strikes and during the election of key officials.

Some critics of this bill pointed out that it did not make secondary picketing a criminal offense - that the employer would have to take alleged secondary pickets to court himself, in a civil suit. Unions would still not be liable for breach of contract - in fact they have been immune from the law of tort for many decades. Lastly, the unions were not forced to hold ballots on strikes and elections.

Shortly after the introduction of this bill, the steel strike emerged, much to Prior's chagrin. Although he was able to keep the bill moderate, a number of crucial amendments were made to it. Hard-liners had called for more, but the prevailing opinion within the Cabinet and in the business world was that the moderate approach was worth a try, provided that sterner measures would not be flinched from if needed subsequently. As it stands after this heated discussion, the new bill contains the following proposals:

Picketing: Clause 15 (1) says, "It shall be lawful for a person in contemplation or furtherance of a trade dispute to attend (a) at or near his own place of work, or (b) if he is an official of a trade union, at or near the place of work of a member of that union whom he is accompanying, for the purpose only of peacefully persuading any person to work or abstain from working." This is designed to make mass concentrations of pickets from other unions unlawful, and pickets from other parts of the same industry would similarly be unable to join their colleagues. Pickets who did would not be liable for arrest, but could be prosecuted by the affected employer.

Secondary Action: Trade Union immunity from civil action is specifically restricted to cases where action is being taken against a first supplier or customer to the firm in dispute. This would prevent steel strikers, say, from picketing the docks or blacking shipping lines.

Closed Shop: New closed shop agreements can be made only if two-thirds of those involved vote for it. If a worker loses his job because of the imposition of a closed shop, he will be compensated. The closed shop itself is not illegal.

Finance of Ballots: There will be finance from central government for secret ballots of Union membership on the question of a strike or return to work, and upon the election of key officials.

Welfare for Strikers' Families: The government will assume that Unions are giving some support to strikers during a trade dispute, and will reduce welfare benefits to their families by a corresponding amount. This measure will reduce benefits to about half.

The bill is now making its way through various committee stages in the House of Commons, and is expected to be law by the summer. To those of the "Thatcherite" breed, it seems very much like a soft approach, and there have been objections from Conservatives to the persistence of the closed shop. Britain is one of the only European countries to tolerate it at all, in fact. In Germany, the "Basic Law" guarantees positive and negative freedom of association; in Italy, Article 39 of the Constitution guarantees complete freedom and makes the closed shop unlawful; in Norway, even the Unions recognize the right not to belong; in Sweden, dismissal on grounds of nonmembership of Unions is unlawful; and the same is true in many other countries.

In Britain, the closed shop has often been misused. Until now there has been no legal restraint on the method of introduction of a closed shop; and once it is introduced, a Union need only deny a Union card to a worker (for whatever reason, since complaints can only be heard before an "independent" tribunal selected by the Trades Union Congress) and he is out of a job. Religious conviction is a legal ground for non-membership of a Union, but there has never been a successful withdrawal on these grounds. It seems plain that with the obvious abuses in the system, if the Prior "softly softly" approach does not have an effect on Union conduct, that much larger guns will be brought out of the government's arsenal in the future.

Perhaps the first test for the government's approach will come when a determined picket plays the martyr and is put in jail. What the outcome will be is anyone's guess.

DENATIONALIZATION

Sir Keith Joseph, perhaps weighted down by the cares of the steel strike in recent weeks, has made slow progress in his bid to return large chunks of industry to the private sector. Not the least of his problems is that much of British nationalized industry is so unprofitable that no private capitalist is foolish enough to buy it!

The Post Office

The postal service in Britain is in a bad way. Unions refuse to agree to greater productivity, and oppose the use of seasonal staff (around Christmas, for instance). They have also refused to allow flexibility, by moving mail to offices with spare capacity. Now, the cost of a first-class letter is 12p (about 22¢), and a second-class letter costs 10p. The Mail Users Association's survey in October 1979 showed that only 60 percent of first-class mail arrived the next day (as it is supposed to) in London. Of mail posted outside London, only one-third arrived the next day. Less than half the second-class mail in London, and 20 percent elsewhere, arrived within three days, which is the time promised by the Post Office. In large cities, people are using private "messenger" services at an increasing rate; although these are probably contrary to the Post Office's legal monopoly of the mails, it has not sought to challenge them and expose its own weak position.

The government was committed in their manifesto to splitting the Post Office, which handles mail and telephones. By itself, that would have done little good, but there are now proposals to make incursions into the Post Office's monopoly of the mails.

In April, the Monopolies and Mergers Commission argued that the London mail monopoly should be ended. The volume of letters the region handles has in fact dropped by 30 percent since 1968 (the time of the introduction of the "two-tier" system of first and second class letters). But the man hours of the post office workers handling them have dropped by only 10 percent. The report recommends encouraging the private firms which offer same-day delivery within London; permitting firms to carry bulk mailings out of London to less congested offices; encouraging document exchange schemes (private mini-post offices where firms can become members and exchange documents centrally). Despite the criticisms voiced in the report, the government are well aware that the true position is worse - that unions have resisted the introduction of mechanical sorting, and that when it does come, it will already be superseded by optical character recognition machinery, which will mean another fight. The London monopoly, at least, is very likely to be scrapped by Sir Keith Joseph in the near future.

In addition, the private document exchange scheme will be extended to every important commercial city, including not only London but Liverpool, Bristol, Leeds and Edinburgh.

As yet, there are no proposals to denationalize the telephone system, or to set up a system of regional monopolies such as that in existence in the United States.

British National Oil Corporation

The government has found itself backtracking on the proposed sale of stock in the British National Oil Corporation. BNOC was coming under criticism, because it had failed as the instrument of effecting government policy in the North Sea. Due to the unpredictable behaviour of the British government, exploration had begun to slacken, and production was about 5 million tons below the forecast. In 1978, twenty exploration rigs left UK waters to explore elsewhere, causing a drop of 40 percent in drilling from the average in the previous four years. Why? The simple reason is that the more oil was discovered, the more the British government cashed in with taxes and license fees. BNOC's inefficient trading policies did nothing to help this situation or make Tory hearts warm to it.

The Conservatives, then, decided that BNOC's powers would have to be curbed, partly because of this, and partly to encourage concentration on other sources of energy such as coal and nuclear fuel. But the most controversial proposal was the scheme to sell off £400 million worth - and possibly up to £600 million worth - of its capital assets. This would raise cash for the Treasury during the financial year of 1980-81. But BNOC discovered that it was getting into a very sound financial position, selling oil forward to private oil companies. In fact, the Corporation made £610 million from this last year; and as the price of oil continues to rise, it expects to raise an equal or similar amount next year. The troubles in Iran have improved BNOC's position enormously, since a disruption in supply improve the forward rate.

Given that BNOC has turned out to be so unexpectedly lucrative recently, the energy minister, David Howell, "executed an elegant three-point turn," in the words of the National Westminster Bank Review. He put off the sale of BNOC assets indefinitely, but reaffirmed the intention to sell some kind of oil shares or bonds linked to the price of oil, to private speculators. Altogether, the choice of BNOC as a public industry for sale was a most unfortunate one.

British Aerospace

Another state-owned industry, this time the aero equipment manufacturers, was announced as a target for "privatization" about the same time as BNOC. It too, has been less than successful. The sale of shares is still intended for 1980-81, but British Aerospace is having difficulties with its order books - particularly its costly HS 146 aircraft, for which there are as yet no buyers. As an investment, British Aerospace shares currently look decidedly poor.

British Airways

BA is one of the most efficient of the nationalized industries, its rate of return on capital being almost up to the average of the private sector. But it has capital problems also, needing about £15 billion or £20 billion to replace its aircraft fleet. With its profits on the way down (from £10 million in 1978-79 to £9 million in 1979-80) it may be that this will not even be put up for sale.

In summary, one might say that the government's plans to sell the nationalized industries is faltering because of the profitability of one of them (BNOC) and the unprofitable nature of the others. As yet, the government does not seem to have noticed this paradox; nor to have convinced itself that (as Tory philosophy predicts) even the most unprofitable company could be made profitable if returned to the private sector and the free market.

PUBLIC EXPENDITURE

To clear the main disappointments out of the way, it is necessary now to remark upon the biggest. That is, the attempt to control public expenditure. One could cite five major reasons for this problem:

- (1) The bureaucracy is particularly entrenched and secure. When cuts are made in any department, they tend to come in non-essential services, rather than in central bureaucracy.
- (2) Local authorities, similarly, are fiercely independent. Even the Conservative ones have been increasing their spending and putting up local property taxes. Once again, where cuts are made, it tends to be in politically unpopular services rather than in town hall officials.
- (3) The nationalized industries have a great capacity to absorb as much finance as can be raised for them. These absorb about £2.4 billion from the exchequer at the moment, although the Tories intend to reduce this financing requirement to less than zero by 1984 - so that the industries will have to keep afloat out of their own profits.
- (4) High interest rates, seen by the government as a necessary instrument in monetary control (the Bank of England Minimum Lending Rate is now at an all-time record of 17 percent) have slackened industrial investment, particularly since industry has been used to cheap money for several years. Hence, the extra tax base and revenue generation which the government had hoped for has not yet arrived.
- (5) A worst than expected deficit from the outgoing administration.

Central Bureaucracy

Before the election, Conservatives noted to one another that the department store Marks and Spencer made substantial cuts in its expenditures at a critical time just by coming to grips with waste and overmanning. In a stroke of some elegance, Mrs. Thatcher announced the appointment of Sir Derek Rayner, the Managing Director of Marks and Spencer, as a part-time advisor on central government waste and inefficiency.. So far his main task has been getting ministers in a position to be able to work out the true costs of their departments. In memoranda to the Prime Minister, he has advanced schemes for the abolition of two ranks of civil servants, as well as 8,000 senior officials and 600 of the highest paid. Ministers, even those from the highest-spending departments, are taking his suggestions very seriously.

One of the most surprisingly effective has been Michael Heseltine at the Department of the Environment. This Department has some 50,000 staff, and is responsible for about £8 billion of public expenditure each year. Its budget is more than the entire nation of Finland. Heseltine has a habit of prowling around the Department and asking officials he meets in the corridors "And what do you do?", going back their office to check the answers. He required the head of each directorate in the Department to produce for him - on no more than one side of paper - an explanation of what each directorate did and how it proposed to solve its problems. He set up a three-man team to go through his Department and systematically reduce staff. The numbers of circulars issued by the Department was cut to one-tenth. The approach seems to work; when he took office in May 1979, his staff was 52,122. Now it is less than 50,000, without a single person being made redundant, but with a tight rein on recruitment.

A similar restraint was imposed over all civil service recruitment during the first few months of the Thatcher administration. Civil service recruitment was frozen for three months, and is now proceeding at a slower rate than originally predicted.

Some government departments have been cut out completely. The abolition of exchange controls meant that 700 people at the Bank of England lost their jobs. The abolition of the Price Commission meant another 500 were redundant. Out of a total of 700,000 civil servants, this may not seem much, but is an important start.

The government advisory bodies and other control groups, the "Quangos" are also being limited. There is often very little Parliamentary control over these agencies, and a report by the Adam Smith Institute pointed out that there were some 3,068 such bodies, all drawing salaries and expenses from the public purse. Michael Heseltine cut 22 in response, and Mrs. Thatcher appointed a senior official to look into the issue and to make recommendations for cuts. Of the 3,000, whose expenditure is about £11 billion, some 246 are definitely to be axed, and tighter controls are to be exercised over the others.

Local Government Expenditure

The government has also taken on the local authorities in their determination to cut expenditures. By far the largest proportion of local government expenditure goes on education, and so Education Secretary Mark Carlisle is responsible, together with Environment Secretary Michael Heseltine, for this part of expenditure. Soon after the election, they informed the local authorities that they should shave 5 percent from their proposed expenditure for 1980-81, amounting to about £600 million. There are plans to offset some of this reduction with increased charges for local authority services - such as charges for planning applications.

Education is to suffer cutbacks, although falling numbers of school students now that the "baby boom" has worked through the system justifies this. But there will be politically unpopular increases in the charges for school meals and other services. Just how sensitive such issues are is indicated by the debate in the House of Lords over the issue of whether to charge for school buses. The Lords said yes, despite its Conservative nature. Mr. Carlisle retorted that the cuts would still be made, but bite that much harder in other areas of education if school buses were to remain free.

Overall Expenditure

When Sir Geoffrey Howe looked at the books on coming into office, he had to count backwards just to stay where he was. The deficit which he inherited from the Labour government was far in excess of his expectations, and capital expenditure on roads and other large items had all but come to a standstill. This made the job of reducing public expenditure even harder, and it has been a task which the government would admit has not gone well.

The proposal was to stop the real increase in the totals of public expenditure which had been planned by the outgoing Labour government, and to add another £3,500 million in cuts. However, these calculations were made on the assumption that the outgoing Chancellor of the Exchequer, Denis Healey, had correctly predicted that the Public Sector Borrowing Requirement (PSBR) would not exceed £8.5 billion. The real PSBR, however, turned out to be about £10 billion. To reduce the borrowing requirement - which is financed out of borrowing from citizens or other countries, by raising taxes, or by the inflationary expedient of increasing the money supply - to the Tories' target would have meant halving it, which even a determined Conservative government found it could not do in one year alone. Many of the government's commitments, in salaries, pensions and other payments, are legally committed anyway - at it would be a difficult political job to shave such a large amount of the public services.

The government found that it was making severe cuts but not actually making much of an impact of the actual position. Its

strongest weapon was John Biffen, the Treasury minister responsible. He looked for a reduction averaging about 7 percent in Departments' budgets. Even the most politically problematic suggestions by the Departments (such as the proposal to end the World Service of the BBC, which broadcasts to iron curtain countries) was accepted by Mr. Biffen as he struggled to meet his targets. There were major Cabinet objections to the scale of the cuts proposed. Eventually, the targets were set a little lower. Instead of £5 billion the current year, £4 billion began to be discussed. Additionally, the Civil Service Department was to make cuts of 10-20 percent on its annual salary bill of £4 billion.

This figure, too, was reduced in the course of time. Mrs. Thatcher made little progress in convincing European heads of state that Britain's £1 billion annual contribution to the Community budget was unfair and should be scrapped. The early cost-cutting efforts of the government generated unexpectedly great outrage from local government and from those affected by the cut in services, even though the cuts were only cuts in the rate of increase, and not in real expenditure. When cuts were imposed, it was services, rather than bureaucrats, who went, making the cuts even more unpopular. The government was also committed to a number of pay promises made by its predecessor, which it rashly chose to stick with.

At the end of the day, the brave attempt to cut was reduced from £5 billion to just over £1 billion. Professor Milton Friedman, on a visit to London just before the Budget of April 1980, commented that this failure to make real cuts in public expenditures was the single biggest error of the Thatcher government.

Criticism from the Tory Backbenches

The Conservatives' own supporters criticized this poor performance. They argued that:

- (1) Because of the continuing high public expenditure programs, the government has been forced to borrow and put up interest rates to a level which stifles business.
- (2) Public servants are doing very well out of pay settlements and inflation-proofed pensions which were decided under previous governments.
- (3) The indexation of welfare benefits and other benefits has put up government expenditure and has made it less worthwhile working.

Expenditure White Paper

The government spelled out the cuts it would be making in a White paper published on November 1, 1979. Its objective was to reduce the level of public expenditure by £3.5 billion from what they would have been under the plans of the previous government

(which, as we have seen, would have entailed an increase in public spending). The following table illustrates the growth of public spending over the last few years, with the proposals for 1980-81:

Table 1
PUBLIC EXPENDITURE 1974-75 TO 1980-81
(£ million at 1979 survey prices)

	1974-75 Outturn	1975-76 Outturn	1976-77 Outturn	1977-78 Outturn	1978-79 Provisional Outturn	1979-80 Expected Outturn	1980-81 Plans
1. Central government	48,139	49,016	47,700	46,080	49,882	51,985	51,857
2. Local authorities	20,662	20,576	19,463	18,373	18,427	18,693	17,850
3. Certain public corporations	1,401	1,460	1,328	1,083	1,012	1,098	1,022
4. Expenditure on programs	70,202	71,052	68,490	65,536	69,321	71,776	70,729
5. Contingency reserve	--	--	--	--	--	271(a)	750
6. Debt interest	1,298	1,569	2,041	2,375	2,921	3,100	3,200
7. Total public expenditure before shortfall and special sales of assets	71,500	72,621	70,531	67,911	72,242	75,147	74,679
8. Expenditure on programs and contingency reserve (4+5)	70,202	71,052	68,490	65,536	69,321	72,047	71,479
9. Net overseas and market borrow- ing of nationalized industries(b)	1,388	770	1,567	1,009	446	-500	-150
10. Special sales of assets(c)	--	--	--	-697	--	-1,000	-500
11. Planning total(d)	--	--	--	--	--	70,547	70,829
12. General allowance for shortfall	--	--	--	--	--	-750	-1,000
13. Outturn (actual or projected)	71,590	71,822	70,057	65,848	69,767	69,797	68,829
Percentage change on previous year	--	+0.3	-2.5	-6.0	+6.0	0.0	0.0

(a) Balance remaining at 31 October 1979 in the contingency reserve for the current year.

(b) Includes short-term borrowing and capital value of leased assets, which were not included in the planning totals in Cmnd. 7439.

(c) The precise treatment of the sales in relation to public expenditure and the public sector borrowing requirements depends on the exact nature of the transactions.

(d) The planning total (line 11) differs from total public expenditure (line 7) by excluding debt interest (line 6) but including all net borrowing by the nationalized industries (i.e., including line 9 as well as Government lending to nationalized industries in line 1) and special sales of assets (line 10).

Table 2
PUBLIC EXPENDITURE BY PROGRAM: 1974-75 TO 1980-81
(£ million at 1979 survey prices)

	1974-75 Outturn	1975-76 Outturn	1976-77 Outturn	1977-78 Outturn	1978-79 Provisional Outturn	1979-80 Expected Outturn	1980-81 Plans
1. Defense	7,462	7,830	7,721	7,550	7,509	7,824	8,062
2. Overseas and other overseas Services:							
Overseas aid	628	699	671	718	786	790	782
EEC contributions	-13	16	281	632	774	918	1,000
Other overseas services	699	412	393	486	400	426	409
3. Agriculture, fisheries, food and forestry	2,454	2,210	1,394	1,068	896	986	993
4. Industry, energy, trade and employment(a)	5,213	4,300	3,886	2,461	3,267	2,753	2,870
5. Government lending to national- ized industries	1,187	1,450	351	-238	693	1,700	900
6. Roads and transport	3,820	3,913	3,505	3,023	2,980	3,118	2,914
7. Housing	7,141	6,293	6,253	5,507	5,226	5,380	5,078
8. Other environmental services	3,541	3,703	3,344	3,262	3,330	3,303	3,213
9. Law order and protective services	2,172	2,311	2,352	2,284	2,370	2,454	2,542
10. Education and science, arts and libraries	9,584	9,756	9,722	9,362	9,567	9,657	9,246
11. Health and personal social services	8,326	8,634	8,713	8,775	9,055	9,109	9,194
12. Social security	14,146	15,333	15,774	16,595	18,213	19,058	19,289
13. Other public services	949	1,078	1,012	975	973	1,010	997
14. Common services	965	1,060	1,054	1,022	1,048	1,073	1,088
15. Northern Ireland	1,928	2,057	2,064	2,054	2,232	2,215	2,150
Total programs (see Table 1, line 4)	70,202	71,052	68,490	65,536	69,321	71,776	70,729

(a) Includes purchase of British Petroleum shares in 1974-75 but excludes sales of British Petroleum shares in 1977-78 and 1979-80 (see line 10 of Table 1).

Money Supply

Although firmly committed to monetary control, the government has found it less than easy to maintain. Persistently high levels of public expenditures have not helped. The upward trend in the money supply which began in mid-1977 has not abated. The Chancellor set targets of 7-11 percent for growth of money supply on the broad definition, but the record slightly exceeds this level, at about 12 percent.

The effect of such targets depends on many things, however. The abolition of exchange controls means that money can come into the country or flow out without restriction. The "corset" restrictions on bank lending have rarely been very effective; other

forms of credit, such as credit cards, have sprung into more popular use, and there have been increases in the size of suppressed loans. Some argue that a radical new method of monetary control is needed, but the Chancellor has chosen to stick to the present system at the moment. But he is mindful that the first way to control the money supply is to reduce public spending.

THE PROMOTION OF PRIVATE ENTERPRISE

On a more optimistic note, the government has taken many steps to encourage private initiatives and restore incentives. One of Mrs. Thatcher's first acts upon taking office was to call an end to the "proletarianization" of Britain by announcing wage increases for teachers and other professional people in the public sector, who had seriously lost out under Labour, in favor of lower grade workers.

Enterprise Zones

By far the most imaginative proposal of the new Chancellor, announced in his Budget speech of May 1980, was the establishment of six new "enterprise zones" throughout the United Kingdom. Although he steered clear of suggestions that taxes and union legislation should not apply in these areas, the Chancellor announced a number of enticements for people to set up business, including 100 percent capital allowances on industrial commercial property, exemption from the Development Land Tax (which increases the costs of new buildings) and from property taxes which normally apply to commercial property. The system of licensing industrial developments is to be scrapped, and the government is to require only a minimum of paperwork for statistical purposes from enterprises in the new zones.

The zones themselves are all in run-down city areas with high rates of unemployment, including Clydeside, East London, Manchester and Salford docks, Liverpool and other sites in the North of England. In addition to the proposals which apply specifically to enterprise zones, limits on Capital Transfer Tax have been raised nationally, which will make it easier for small businessmen to give property to their heirs without attracting tax.

Competition Bill

One of the most enterprising newcomers to the Tory front benches, John Nott, lost no time in introducing his Competition Bill in the Commons. The effect of this is to wind up the Price Commission (which had powers to peg prices) and to allow closer scrutiny of the monopolistic practices of the nationalized industries. Nationalized industries can now be referred to the Monopolies and Mergers Commission, which is perhaps not the most pro-market body itself, but whose reports can form the foundation for further action. There seems no doubt that Sir Keith Joseph and

John Nott between them will make sure that, slowly but surely, the nationalized industries are made subject to at least some competition in the future.

Income Tax

In his first budget, Sir Geoffrey Howe cut the top rate of income tax from 83 percent to 60 percent, which should do a great deal to boost incentives among businessmen. This is particularly so when the tax on "unearned income" (that is, from investments) attracts tax at 15 percent over the normal rate of tax: so that previously, an investor would be paying a marginal rate of 98 percent on large investment incomes. The lowest rate of tax was simultaneously reduced from 33 percent to 30 percent. In his second budget, Sir Geoffrey hoped that the tax rates could be reduced further, but the poor showing over public expenditure made this impossible. Nevertheless, he did raise the tax-free allowances to offset the element of "fiscal drag" caused by recent high inflation.

HOUSING AND LAND

Britain is a country which has been suffering from the effects of Rent Control. A stream of measures designed to protect tenants was piloted through by the first Wilson administration in 1964-70, in the wake of the "Rachmanism" scandals about unscrupulous landlords. In the intervening years, the supply of rented accommodations has dried up, the number of derelict properties has rocketed, and house prices have soared as people scramble to buy their own properties.

Yet there is a very substantial public housing sector in Britain, with some 42 percent of the country living in local authority-built, rent-subsidized accommodation. The Conservatives adopted a scheme long ago to sell these houses - which constitute a large tax burden on private homeowners and landlords - at a discount to their occupiers.

Council Housing

The disposal of this local authority housing, "council housing" as it is known, will be "the sale of the century" in the words of Environment Secretary Michael Heseltine. His plans are going through Parliament, and aim to sell up to 250,000 each year, out of the total stock of some 5.2 million houses. Where a tenant has been a resident for three years or more, he will be entitled to a discount of at least a third, and depending on the length of time he has rented the accommodation, up to one half, of the historic valuation of the house. This is a substantial incentive to buy, and Conservatives have been describing it as the largest transfer of property since the dissolution of the monasteries by Henry VIII. They are right, but this sale is very much a transfer a property from the government to the people.

Some local authorities have already begun selling council houses, while others firmly resist it. Yet more offer houses for sale but meet with a poor response - London has sold only 7,000 - through lack of effort and communication. Mr. Heseltine wants every tenant told in writing of his right to buy his council house; and he has written into the bill an element of compulsion so that he can force councils to sell and to push for higher sales.

Rented Accommodations

Private rented accommodation has also suffered over the fifty years and more of rent control. In the period since 1930, the private rented sector has dwindled from 60 percent down to 10 percent of the total accommodation. To compensate, Heseltine's measures include a new "shorthold tenancy" arrangement, whereby the full rigors of the existing housing law (which makes it almost impossible to dislodge a tenant once he is over the threshold) are suspended for short tenancy contracts. It is quite probable that the government will soon introduce additional incentives for people in owner-occupied accommodations to rent out spare rooms.

Community Land Act

The Community Land Act was designed by Labour administrations to squeeze out private property speculators, and turn local government housing departments into land developers. It has, contrarywise, simply dried up the development of land. The Conservative government will repeal the Act. Some specific powers of local authorities, special powers over docklands, for example, will also be repealed.

Property Taxes

Mr. Heseltine is to penalize local authorities who set increases of property taxes above a norm established by him.

Looking over these developments, one must say that the Conservatives' housing policy is on the right track. Furthermore, they believe that it is the basis of a revolution in attitudes in Britain. With so many people living in local authority subsidized accommodations, there is a large group with a vested interest in preserving the powers of the state; every Parliamentary constituency is dominated by these pressures from council house tenants. By turning them into owner-occupiers, with a useful asset behind them, it is expected that their attitudes will turn away from state provision and towards the principles of the free society.

THE NATIONAL HEALTH SERVICE

The National Health Service is overbureaucratized, and is suffering from the effects of overdemand for its limited resources.

The Health Service is now one of the biggest arms of government costing over £6200 million each year. It is seriously undercapitalized, with few new hospitals being built. Doctors are emigrating from Britain, to be replaced by foreign ones, often from India and Pakistan. The average waiting time for non-emergency operations is two years, which includes many who will never be treated at all. There are three-quarters of a million people waiting to go into a hospital at any one time. Kidney transplants are never given to anyone over the age of 45, and kidney machines are in such short supply that panels of doctors have to decide who will use one, and who will not. The practice of coronary bypass surgery is ten times more prevalent per head in the United States than in Britain. Often, the only way that older people can get essential surgery is through political pressure via their MPs.

Nevertheless, the government is prepared to try a course of limited surgery and analgesics rather than complete amputation. The last health service reorganization (paradoxically, carried out by Sir Keith Joseph as Mr. Heath's health minister) put an extra layer of bureaucracy into the services which the present government, with Sir Keith's warm approval, is determined to remove. The middle tier of bureaucracy, the area of health authorities, are to be abolished entirely, saving perhaps £30 million each year. In addition, there will be rationalization of the present provision of health care where, in London for example, 30 percent of the acute-case hospital beds are in an area containing only 15 percent of the population.

Private Medical Care

The government has been a little slow in encouraging private alternatives to the National Health Service, but these are blossoming on their own. The health reorganization gives the minister power to put private beds into National Health Service hospitals, from which they had been removed by previous Labour administrations. But private hospitals continue to be built, and private health plans proliferate. The largest, British United Provident Association (BUPA) covers about three-quarters of the private insurance market and has some 2 million individuals on its books. This is despite the fact that BUPA subscribers have to pay a health service insurance contribution in addition to their private insurance premium. One possible development in government policy will be the ending of this system, or the reduction in NHS contributions for those with private coverage.

An amusing case helped the government's reorganization effort. It was discovered that Mr. Frank Chapple the leader of the electrical workers union, had negotiated a very good private insurance deal for his 40,000 workers - which took the edge off other Union leaders' heated objections to private health provisions. The militant union of hospital porters and technicians was particularly irritated at this exposure.

LAW, ORDER, IMMIGRATION, DEFENSE

Four issues on which the Conservative Party's grassroots is consistently tough are law, order, immigration and defense. There was initial doubt, however, whether William Whitelaw as Home Secretary would be firm enough to meet the demands of his party. The signs are, however, that he is.

To begin with, the government has made it known that one area they will not economize on is the police. Pay raises were announced soon after the government was installed. Recruitment drives are being launched to bring the police up to strength. The task of governments these days is perhaps easier than before, since the number of private security operatives in Britain has only just exceeded the number of official police - something which happened in the United States about five years ago. Although the police have been conducting an internal inquiry into corruption, and have been challenged for acts of violence against those in their custody, the Home Secretary is sticking firmly by their side and has no plans for a major reform of the force. His firmness was echoed in the budget of March 1980, at which it was formally announced that spending on law and order would rise by 3.4 percent to £2.53 billion in 1980-81, and by an increase averaging 2½ percent over the next three years. Police manpower was to be increased by 8,000, and the prison population was similarly expected to increase.

Northern Ireland

A particular case of the "law and order" issue is Northern Ireland, which comes jointly under the responsibility of Mr. Whitelaw and Northern Ireland Secretary Humphrey Atkins. There have been no major changes in policy here, and the army continues to maintain its presence in Northern Ireland, which the government sees as essential if a bloodbath is to be avoided. However, Atkins is exploring political solutions, and attempted to get the parties which are divided in Northern Ireland together around a conference table, along the lines of the Rhodesian effort of Lord Carrington. It is doubtful whether this will meet with great success.

Young Offenders

Whitelaw demonstrated his firmness by new proposals for the treatment of young offenders. He promised a "short, sharp shock" for juvenile delinquents, and two centers have already been set up to administer this. The centers will be "no holiday camp" in his words, and will feature drill, parades and inspection, and encourage discipline, tidiness, and respect for those in authority. Progressive thinkers blanched at this suggestion, but it has gone through without difficulty.

The other aims of the government's policy for young offenders are essentially these:

(1) Magistrates are to be given wider powers to place young offenders in custody and juvenile homes.

(2) Fines for non-appearance at probation meetings and in other circumstances are to be increased.

(3) There will remain a distinction between the treatment of young offenders and those over 16. The object is to keep youngsters out of prisons where they can learn, from other inmates, even more avenues of crime.

Immigration

Because of its earlier imperial wanderings, Britain finds that the citizens of many countries are entitled to British passports, and can enter the country without restriction. Many of these are settled in countries such as India and Pakistan, and the most celebrated case in recent times was that of the "Ugandan Asians" who were expelled by Idi Amin, and who came to Britain in thousands, using their British passports. The existing rules say that family of people now resident in Britain are also entitled to enter the country, so that the number of people with the right to immigrate to Britain is, literally, limitless.

Towards the end of its term in office, the Callaghan government began to restrict the flow of immigrants. Still, the figure runs at about 12,000 men per annum from new commonwealth countries and Pakistan. Mr. Whitelaw is considering a ban on the entry of the husbands of women currently in the United Kingdom, together with restrictions on the entry of grandparents, parents, and mature children. Work permit rules are also to be tightened up. There will be a register of the dependents of each family, designed to avoid large numbers of "dependents" of questionable validity joining immigrants once they are in Britain. This package of measures could reduce immigration by about half. It is difficult to know what the saving to the social services and welfare agencies will be.

Defense

The "Iron Lady" has ensured that Britain's defense expenditure will rise by 3½ percent in real terms in the coming year, much higher than it has been in the past (where it did not keep pace with inflation), and slightly higher than the 3 percent average to which Europe is committed. The boost amounts to some £273 million in 1980-81.

In addition, Britain is taking more of its share of the Pershing and Cruise missile launchers than originally planned for Europe. Although plans for the replacement of the outmoded Polaris submarines have not yet been announced, there will be a substantial upgrading of Britain's air defenses and strike capability. A new squadron of Lightning aircraft is to be formed; the Hawk aircraft is to be adjusted to accommodate Sidewinder

heat-seeking missiles; Phantoms equipped with laser targeting equipment will be improved.

FOREIGN POLICY

The government is taking a tough line on foreign policy, doing its best to point out the threat of the Soviet bloc, attempting to improve Britain's trade position in the EEC, and settling longstanding disputes in its affiliated countries.

Rhodesia

The settlement of the Rhodesian issue can be viewed both ways. There is no doubt that Lord Carrington gained much credit for his skilled handling of the Lancaster House talks. Originally, it seemed that his conduct of the proceedings was designed to favor the success of Mr. Nkomo, but the succeeding events in the Rhodesian election show that if this was his purpose, it was a failure.

The events of the Lancaster House talks are well known and need little comment. The first problem was to get the warring factions to the conference in the first place, and Lord Carrington skillfully used the front-line states to help in this. When the talks dragged on and on, the next problem was to keep the parties there, which Lord Carrington also did with some skill. Deciding the order of the agenda was important; the Patriotic Front wanted to talk about transition arrangements first and the Constitution next; but Lord Carrington, much more than a Chairman, insisted the opposite - hoping that once the Constitution had been settled, transition problems would fade away. The British public got used to Carrington announcing his suggestion, the Patriotic Front rejecting it out of hand, and then coming back two days later to accept it in full.

As it happened, the elections split Rhodesia directly along tribal lines, except for the provinces around Salisbury, which voted for Bishop Muzorewa. Robert Mugabe's initial moves have been conciliatory, and it remains to be seen how much he will live up to his reputation as a Marxist. Among Conservatives, Lord Carrington has perhaps lost ground following the election of Mugabe in Rhodesia.

The Common Market

One part of public expenditure which Britain hoped to be able to cut out was the £1 billion contribution it makes to the EEC budget every year. By far the greater part of this is used in farm subsidies, and France is the greatest beneficiary. After some table-thumping in Dublin, it became clear that the rest of the EEC was not going to let Britain get out of its contribution. Mrs. Thatcher's case showed some merit, however; in terms of GNP per head, Britain is the fourth poorest nation of the EEC, but it

pays the largest contribution to the budget. Since its farming community is very small, it receives only a small proportion of the total payments from the Community. In addition to a once-and-for-all reduction, Mrs. Thatcher is campaigning for a new budgetary system for the EEC so that contributions will be based on relative wealth.

It is likely that Mrs. Thatcher will win a good deal of her fight, and that the EEC will knock perhaps 600-700 million pounds off the British contribution, leaving it about the same as France's at £250 million. This would have been a considerable victory for the Iron Lady, and would enable her administration to cut 2p off the basic rate of income tax. But progress in the EEC is painfully slow, and it is not clear whether any change in the budgetary system will in fact ever be made.

CONCLUSION

Overall, the progress of the Thatcher government has been slow, but it has been remarkably consistent to the Thatcherite philosophy. Britain is still reeling from many years of inflation (which reached a peak of 26 percent), malinvestment, the feather-bedding of large state industries in engineering and shipbuilding, public expenditures on wages and public bankruptcy in capital equipment such as hospitals and roads. The Conservatives were shocked when they became fully aware of the poor situation Britain was in, and prophesied that times were going to be very tough for the next three years at least.

This poor economic position was one of the key reasons why the government of Britain found itself in real difficulties about reducing public expenditure. They have lopped over £1 billion off expenditure, and have reduced it by £3.5 billion from the increases planned under Mr. Callaghan. If interest rates are to be reduced and taxes cut, however, this saving is still inadequate. It is unfortunate that the Thatcher government, by cutting expenditure in nominal terms as fast as it can, has incurred all the wrath of local government officials and the recipients of public servants.

On the bright side, the government remains firmly committed to monetary policy and sees the ending of inflation as its major target. The Chancellor has made some bold moves to encourage enterprise, despite the tight money policy, and has restored incentives by reducing taxes. He intends, before the next election, to reduce taxes to 50 percent at the top rate and 25 percent at the lower rate; he is obviously disappointed at not being able to do that quite yet, but nothing is surer than that he will.

The dissemination of public wealth back to the people will continue. Although in its early stages, the changes in the housing market could be very profound indeed if it turned state-dependent council house tenants into home owners in large numbers.

The sale of shares in nationalized industries is very much in its experimental state, but more breakdown of the nationalized corporations is being planned.

The progress of the Thatcher government is promising, but it will take another year before we can be certain of its eventual success or failure. Very few of Mrs. Thatcher's proposals are even on the statute book at the moment, although most are fully worked out. In some areas, such as Trade Union reform, the government has wisely resisted the urge to foist hasty legislation on a nation deeply steeped in socialist ideology. As Mrs. Thatcher said herself after negotiating about Britain's contribution to the EEC budget, "If there's one thing I have learnt in this job, it's patience."

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