“The Legacy of the ‘Great Woman’: Thatcherism or Thatchernomics?”
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For some politicians, it seems, their names just naturally combine with ‘economics’ to make a memorable slogan: In the US it was famously Reaganomics; here we followed up with Rogernomics. As a result these two politicians – Ronald Reagan and Roger Douglas – are forever associated with a particular economic doctrine that marked their term in high political office.

Before either of them came “Thatchernomics”. However, it was “Thatcherism”, rather than “Thatchernomics”, that tripped more easily off the tongue and hence joined the lexicon of political epithets of the 1980s.

While the death of Margaret Thatcher this week will trigger a flood of nostalgic sound bites (and some bitter ones), about her political contributions, she will also be remembered as presiding over one of the most transformative economic eras of the twentieth century. Her *economic* ideology, and the policies that flowed from it, were radical at the time and have largely stood the test of time both in the UK and across much of the industrial world.

So, what *economics* will she be remembered for?

First and foremost, she transformed the arguments for and against the public sector. Her 1979 election followed an episode of burgeoning public expenditure with a building public debt problem (in 1976 the Labour government had had to ask the IMF for a massive bail-out, and by 1978 public sector strikes over pay were commonplace). Until the recent public spending cut-backs of the current UK government, Thatcher’s public expenditure cuts were by far the biggest since the end of World War II. More importantly, she transformed the political climate, and the economic arguments around sustainable fiscal policy. Never again would UK governments (and many others around the globe) think that they could raise public spending at will, and simply keep raising taxes to pay for it.

Secondly, Margaret Thatcher was the ‘mother of privatisation’ in the modern era. Putting state owned and operated enterprises (back) into private ownership became a central plank of her economic policies. Numerous famous companies – many of them more infamous than famous for their economic performance – were sold to the private sector. Traditional ‘public’ industries such as airlines, gas and water utilities, and telecoms were all sold, as well as iconic individual British firms like Rolls-Royce and Rover cars.

Thatcher’s economic advisers recognised, however, that putting big monopolies like British Telecom into private hands would need careful regulation to prevent abuse of their economic power. So the 1980s privatisation became the catalyst for rapid advances in the economics of regulation and the introduction of new political institutions - ‘industry regulators’ – to oversee the behaviour of these new private giants, and intervene where necessary. The subsequent rise of now-famous companies such as Virgin owe much to Thatcher’s opening up to industrial competition of sleepy, inefficient state firms and state-dominated industries.

Thirdly, Margaret Thatcher will be forever remembered for two key reforms to the British tax system. One that has largely persisted and spread: lowering income tax rates in favour of rising GST (VAT). And one that has infamously entered the annals of failed reforms – the 1990 poll tax.

On income tax, almost no-one today argues for top income tax rates of 60% plus, but they were much more common in pre-Thatcher Britain and other countries. Thatcher reformed the complex multi-rate UK income tax by lowering not just the top rate (for which she is mostly remembered) but also the lower rates, and raised VAT to compensate. Many have argued that such changes were ‘anti-poor’, but the Thatcher government recognised that taking a smaller tax share of a bigger economic pie could deliver more tax revenues overall, and that the welfare system provides the best instrument for redistribution. Interestingly, subsequent UK Labour governments have chosen largely to leave Thatcher’s tax reforms intact.

But the Poll Tax was quite another story. Based on the belief that everyone who uses public services should pay something towards them, Thatcher’s approach to local government taxation was to replace local property-based ‘Rates’ (pretty much like the New Zealand system today) with a ‘community charge’ that was approximately the same for everyone. The ‘poll tax riots’ in 1989-90 put an end to that experiment almost before it began, and the demise of Thatcher’s Premiership in 1990 is often attributed to that particular failure.

Though debate over Margaret Thatcher’s economic contribution usually focuses on her ‘cutting back the public sector’ legacy, her approach to macroeconomic policy was perhaps equally important for the UK’s subsequent economic performance. An instinctual believer in the benefits of competition, Thatcher was determined that Britain retain the Pound Sterling and neither tie its exchange rate to the Deutschmark (or any other currency) nor join the emerging Euro.

It generated a vigorous power struggle within her government – between Finance Minister, Nigel Lawson (father of cookery guru, Nigella) who wanted a less flexible exchange rate, and Thatcher’s chief economic adviser, Professor Alan Walters – a ‘free floating’ advocate. That ended in political turmoil with Lawson’s acrimonious resignation from the government and Walters’ return to the private sector.

But the decision to keep a floating Pound, backed later by the Labour Finance Minister, Gordon Brown, is now proving to have momentous consequences for the UK economy. As Eurozone countries struggle with the fiscal and other consequences of their common currency, Britain has other options to help resolve its particular post-GFC financial and public debt problems.

Perhaps the biggest surprise of ‘Thatchernomics’ is that it didn’t include the granting of independence to the Bank of England in setting interest rates to help combat inflation. That would come later under Gordon Brown’s impetus, and follow New Zealand’s example. Central bank independence would certainly have been in tune with Thatcher’s economic instincts of more competition and policies that respond to, rather than try to direct, market forces. More likely it was the <u>political</u> independence that would have gone with it, that Thatcher found hard to swallow. After all, making sure that *her* views prevailed – in whatever sphere – seems to have been her modus operandi!

So, “Thatcherism” does indeed seem to trump “Thatchernomics” and not just because it works better as a sound bite. Truly her legacy goes well beyond economics and, polarising as she may have been, she certainly merits the eponymous ‘-ism’ that only a select few politicians attain!

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