

THE MAD MONK

Britain's Market Revolution

IT WAS ONE of the shorter emigrations on record. David Young was a businessman, self-made and very successful until the London real estate market collapsed in 1972, virtually wiping him out. By 1975, he had just about dug himself out of the financial rubble. Still, he was increasingly dissatisfied with life in Britain. It was not only that he had to go out of his way to avoid letting people know he was an entrepreneur, although that certainly was a problem. "It was not socially acceptable to work for oneself," he later recalled. "People worked for *big* companies."

What was really driving him to despair was the state of Britain itself. The country appeared to be locked into descent and decay. Indeed, it seemed to be falling apart. Inflation was running at 24 percent. The trade unions had just brought down the Conservative government of Edward Heath. Constant strikes gave unions a stranglehold on the economy and immobilized the nation. Marginal tax rates were high—up to 98 percent—destroying incentives. Britain was well along the road, people feared, to becoming the East Germany of the Western world, a corporatist state, ground down to a gray mediocrity, and one in which any kind of initiative was regarded as pathological behavior, to be stamped out. Young had had enough. He told his wife they were going to leave Britain; they were going to emigrate. Their destination—America.

Young and his wife arrived in Boston at the beginning of a weekend and checked into the Ritz-Carlton, which looks out on Boston's Public Garden. On Sunday morning, they awoke in their hotel room to the sound of sirens. Later, they set off on a walk across Boston Common. Soon there were tears in their eyes—not, however, in sadness for the country and way of life they had left behind. Rather, it was the result of tear gas, loosed by police to break

up a riot arising from court-enforced busing of school children. “You must be out of your mind,” his wife said to him as they rubbed their eyes with handkerchiefs. “You’re crazy if you think I’m going to give up my family for this.”

That very night they took a plane back to London. On the return journey, Young said to himself that there ought to be something more he could do than despair and depart. That meant politics. He had been a Labour voter until disappointed by Prime Minister Harold Wilson after 1964. Margaret Thatcher had just been elected Leader of the Conservative Party, and she appeared to have some new ideas about the dismal British economy. But could a woman become prime minister? Like many others, Young was doubtful.

Then, over the next several weeks, he started to read the speeches of a British politician named Keith Joseph. Later, others would call Joseph the “Mad Monk”; Joseph would describe himself not much differently—as “a convenient madman.” He talked about such things as enterprise, initiative, and the need for entrepreneurship. There was nothing wrong with starting a business, said Joseph; in fact, it was entrepreneurs who created the wealth for society. Joseph’s words were completely at odds with the dominant opinion of the day, but they struck a most responsive chord in David Young. He was impressed. At a charity lunch, he went out of his way to introduce himself to Joseph, and to volunteer his services. “But you don’t *believe*,” responded Joseph. Young took that as a challenge and threw himself into the cause, becoming one of the circle intent on reconstructing economic and political thought in Britain. Joseph was the man at the center. As Young later put it, “Keith Joseph was the architect of the whole thing.”¹

“My Closest Political Friend”

The “whole thing” would eventually extend far beyond Britain’s borders. But arguably, Joseph did as much as any other single person around the world to reshape the debate about government and marketplace, to take a variety of ideas and bind them together into a powerful critique of the mixed economy and, in the course of things, help shape them into a political program. That agenda, in turn, was articulated and put into effect by his most important student, Margaret Thatcher. She made the ideas “happen.” But it was Joseph who created the package over half a decade, in the second half of the 1970s, at a time when the premises of the mixed economy were hardly questioned and yet the system itself was running into such severe difficulties as to become dysfunctional. Just as the Attlee consensus of the 1940s had become the “text” for governments and politicians for more than three decades following, so what began around the seminar tables in research institutes in the 1970s and took shape in the Thatcher program of the 1980s would do much to set the global agenda for the 1990s. Keith Joseph’s name is hardly as well known

as Margaret Thatcher's. But she would give him full credit. "I could not have become Leader of the Opposition, or achieved what I did as Prime Minister, without Keith," she said. And, she would add, Joseph was "my closest political friend."

It may well be said in retrospect that the combination of high inflation, slow growth, labor conflict, and social discontent in the 1970s meant that some kind of basic change was imminent. In the mid-1970s, Lord Blake, biographer of Disraeli and historian of the Conservative Party, was so bold as to write, "There are signs of one of those rare and profound changes in the intellectual climate which occur only once or twice in a hundred years. . . . There is a wind of change in Britain and much of the democratic world—and it comes from the right, not the left." It was a daring prediction to make at the time, but Blake turned out to be correct.

Yet the balance among ideas does not just change on its own account. Events, crises, failures—these drive the shift, forcing reconsideration of seemingly unchallengeable assumptions. That is what happened in the 1970s. "A kind of torpid socialism had become the conventional wisdom of Britain," wrote Margaret Thatcher. "The succession of crises—economic, fiscal and industrial—under Labour constantly invited us to think thoughts and propose policies that deviated from both the conventional wisdom . . . and the agreed line." But at such a time there must also be people who are willing and able to press for the reconsideration. And that is what Keith Joseph did.²

"The Minister of Thought"

Joseph was the instigator perhaps because he was part politician, part intellectual, part entrepreneur of ideas. Indeed, he had the enthusiast's belief in ideas. He had grown up in considerable comfort. His father, Sir Samuel Joseph, a baronet, headed the family firm, Bovis, one of the biggest construction companies in the country, and also served a term as lord mayor of London. Keith Joseph graduated from Oxford on the eve of World War II. Unlike that of many of his contemporaries, his undergraduate preoccupation was neither studies nor politics but cricket. He came back from the war intent on catching up on the six years he had spent as a soldier. He also came back Sir Keith, owing to the death of his father. Joseph's academic record, despite his interest in cricket, had been good, and he was offered a job teaching law at Oxford, but turned it down. Yet, still attracted to intellectual life, he succeeded in becoming a fellow of All Souls College at Oxford, one of the paragons of British scholarship. But practical life also attracted him. Even while laboring away many nights on his thesis for All Souls—on the subject of tolerance—he was busy laboring during the day, digging holes at building sites for the family firm. He gave up both for politics, beginning with his father's old seat as an alderman in the City of London. Like Clement

Attlee, he was deeply moved by the poverty and distress of the East End and powerfully motivated by compassion and a drive for betterment and social reform, and he threw himself into a wide variety of charities. He was especially devoted to one that assisted middle-aged single women whom the world had passed by because they had stayed home to care for infirm parents. In this particular course, he became a fervent advocate of marriage bureaus.

Elected to Parliament as a Conservative in 1956 at age thirty-eight, Joseph delivered a maiden speech that contained the germ of the ideas that he would be promoting two decades later. The cure for inflation, he argued, was to be found not in controlling demand but rather “by increasing supply.” Corporate management, he added, must have its “proper rewards.” The 1930s were not necessarily the guide to the future. The “nightmare” of unemployment was a “totally unjustified fear,” for “we live in an expanding age.” He became a junior minister in Harold Macmillan’s government, although he never quite got used to the body blows of parliamentary debate. After his first front-bench speech, Macmillan complimented him on the performance, but added, “If it’s any consolation, it will get worse.”

Joseph was given to what sometimes seemed to be endless agonizing as well as self-criticism. He was also slightly unworldly. He refused to have a television in his house. Once, dissatisfied with a live television interview that he had just done, he asked to do it over. “I thought you realized, Sir Keith,” said the producer, “that this was to be a live interview.” “Yes, I know that,” said Joseph. “That’s why I want to do it again.” His odd obsession with ideas was soon evident to his colleagues. Some would eventually conclude that there could be no better post for him than as “Minister of Thought.”³

The “U-Turn”

Alas, no such job existed in reality; and as it turned out, when Edward Heath became prime minister in 1970, he made Joseph the minister in charge of social services. The Tories had won by a big majority, in response to how poorly the economy had performed under Labour. The mixed economy was severely malfunctioning. The wisdom and knowledge implied in a high degree of government control were proving inadequate to the reality. Inflation was high—7 percent—as were interest rates. Unemployment was also high, and rising; the welfare state and the loss-making nationalized industries were demonstrating a voracious appetite for taxpayer funds; and the costs of the national health system were increasing rapidly, reflecting what appeared to be the “infinity of demand” and the lack of any mechanism for discipline. Labor relations had turned into constant warfare, chronically disrupting society and the economy. The balance of payments was in perpet-

ual crisis; the pound, under constant pressure, and British industry simply could not compete internationally. The entire country chafed under the onerous tax burden that was destroying the incentive to work and driving entrepreneurial people into tax exile. The high tax rates also hit hard those with modest incomes. One of the ministers in the last Labour government had noted that even trade unionists—a group traditionally supportive of tax-and-spend policies—were complaining about having so much of their wages go to taxes. They wanted “more half crowns jingling around in their pockets.”

Edward Heath had promised to turn all this around. But it didn't happen that way. Heath was not, by any means, a Tory paternalist. His origins were humble; his father had been a small contractor. Heath called for modernization and competition. But he also believed in the state and in its responsibilities and its interventionist role in the economy. He wanted to manage the system better rather than change it. The Heath government was, in many ways, parallel to the contemporaneous Nixon administration. Both came in as conservative governments intent on reducing state intervention; both ended up expanding it. In Heath's case, it came to be known as his famous “U-turn.” Like Nixon, Heath embraced Keynesianism, along with planning and social engineering. Just as Nixon had imposed wage and price controls, so Heath sought to impose the most rigid and comprehensive wage-and-dividend-control system that Britain had ever seen. In one extreme example, the minister for trade and consumer affairs even found himself personally telephoning the vicar of Trumpington, near Cambridge, asking him, in accord with the Prices and Incomes Act, not to increase the fee for burials. The public sector swelled under Heath, and his government embarked on a loose monetary policy in a “dash for growth.” Unfortunately, that dash ended up doing much more for inflation than for growth. Government's share of ownership of the economy actually increased; the only government-owned enterprises that Heath got around to privatizing were some pubs in the north of England and a travel agency.⁴

Things fell even further apart in 1973 and 1974. The 1973 oil crisis hit Britain very hard and was immediately made worse by a coal miners' strike that turned into a pitched battle. Coal and power supplies were so disrupted that British industry could work only three days a week. Travelers returning from abroad found a nation living in darkness, owing to the power cuts. Families had to dine and find their way to bed by candlelight. Clergymen debated on the BBC's Radio Four whether families should share their warm bathwater to conserve energy. One cabinet minister went on television to advise people on how to shave in the dark. Heath declared a state of emergency. Inflation hit 15 percent. In a desperate effort to win a mandate, Heath called a snap election. He lost. The blunt fact was that the coal miners had brought down a government. No party won an absolute majority, and so a minority Labour government took power, led by former prime minister Harold Wilson.

The “Conversion” of Keith Joseph

In this dismal period, confronted by the crisis, angry at his party and himself, and convinced that Britain was locked into a destructive downward spiral, Keith Joseph experienced what he called his “conversion” to conservatism. “I had thought I was a Conservative,” he remarked, “but I now see that I was not one at all.” The problem, he concluded, was not that government was not doing well; it was that it was trying to do too much. And the source of the problem was the postwar consensus, with its promotion of the interventionist state. The enemy was “statism.” What had to be changed was the political culture of the country, and the way to do it was through intellectual guerrilla warfare.

With the Tories now consigned to opposition, Joseph tried to force a postmortem in the leadership on what had gone wrong with the policies of the Heath government. But from Heath, he got only a stiff back of the hand. “The main conclusion,” Heath told his colleagues in the shadow cabinet, “is that our policies were right but that we didn’t persist in them long enough.” Sir Keith’s eyebrows shot up at that statement. Margaret Thatcher, who had been minister of education in the Heath government, showed no expression.

“I was more and more concerned,” Joseph later explained. “Put it down to a mixture of impatience with our slow progress and envy of our neighbors. I never focused on America—I thought they were outside our culture and our reach—but our ruddy neighbors. Why should they do so much better, particularly when they had been prostrate and flat on their back after the war?”

To begin with, Joseph turned up on the doorstep of a right-of-center think tank, the Institute of Economic Affairs (IEA), which had become the island of liberal economic thinking in the midst of Britain’s Keynesian consensus. Indeed, the Institute—once described as a “confounded nuisance” and originally funded by a farmer who had made a fortune from mass-producing chickens—revived traditional liberalism in Britain. Its head was Ralph Harris, who came from working-class roots in London. He taught economics at St. Andrews University and then wrote editorials for *The Glasgow Herald* until recruited to run the Institute, which was once presented to him as “an anti-Fabian society.” Harris was more than receptive. He looked back to the Macmillan government and criticized it for congealing into a “Keynesian-collectivist mold.” It was because of those policies, he once explained, that he had chosen the path of “radical reaction” and “started up” the IEA. His partner in building the new institute was Arthur Seldon, also of working-class origins, who had studied liberal economics at the London School of Economics. Seldon shaped the research program. Together, the two ran the IEA until the middle 1980s.

In its early days, the Institute battled against the *dirigiste* indicative planning that, owing to the French, had become so fashionable in the late

1950s. In due course, it aimed its analysis at all the shibboleths of the day—from the unfettered welfare state and union power to Keynesian demand management, nationalized industries, and the growth of the state sector. Altogether, waging the “trench warfare of the footnotes,” it delivered a rigorous and thoroughgoing critique of the mixed economy. It even presented a detailed comparison of the American and British phone systems that went so far as to suggest that Britain would be better off with private phone companies instead of having its telephones and service provided by a branch of the post office. One theme underpinned its entire research program: that economists, politicians, and policy makers had promised too much—much more than they could actually control or deliver. As economist Alan Walters put it, the “real thrust of the counter-revolution” was the acknowledgment “that we know little about the forces that determine detailed economic conditions . . . such as prices and employment, exports and imports, output and productivity, savings and investment.” Many highly regarded economists published under its mantle, including Colin Clark, who had done the original national income studies for Keynes.

In particular, the IEA provided a platform for two economists, both initially seen as fringe figures during the years when the Institute, in Margaret Thatcher’s words, seemed to be “bashing” its head “against a brick wall,” but who would go on to have enormous influence. One was Friedrich von Hayek, the most prominent exponent of the free-market “Austrian School” of economics in Britain. An early critic of Keynes, Hayek now renewed his assault, calling for a shift back from Keynesian macroeconomics and the world of the multiplier to microeconomics and the world of the firm, where wealth was actually generated. The other was Milton Friedman of the University of Chicago, whose monetarist theories the IEA propagated in Britain. For the IEA, Hayek’s and Friedman’s Nobel Prizes—in 1974 and 1976, respectively—would be sweet vindication. This recognition came just at the right time, for the “demand” for such ideas was high and the IEA had delineated the agenda. “Without the IEA,” Milton Friedman later said, “I doubt very much whether there would have been a Thatcherite revolution.”

Keith Joseph had sporadically worked with the Institute since the 1960s. Now, in 1974, anxious to begin anew, he asked Ralph Harris, the Institute’s director, for instruction and help. He wanted books, reading lists, critiques, and articles to educate himself. He absorbed it all.

Next, he established his own institute, the Centre for Policy Studies. Although Joseph saw the Fabian socialists as the originators of Britain’s ills, he modeled his strategy on that of the Fabians—to change culture and politics by influencing opinion makers. To differentiate it from the IEA, which was academic in its orientation, Joseph set up the Centre to achieve a very specific political objective. As he later explained, “My aim was to convert the Tory Party.” He recruited another MP to be his vice-chairman—the member for Finchley, Margaret Thatcher. Because of their political connections, it was

necessary for them to obtain Heath's approval for the new institute. Although suspicious of Joseph, Heath gave it, assuming that it would be good if the two of them actually learned something about both business and the economies of other countries. That should be enough to keep them out of his way. Some have speculated that he had a further reason for assenting: "Heath's intention must have been to give Joseph a chemistry set with which he would hopefully blow himself up."⁵

But what was the Centre to do? At the first board meeting, the directors could identify only one specific thing—Sir Keith should make speeches. Many speeches. Soon enough, however, the Centre developed its program. "Our job was to question the unquestioned," said Alfred Sherman, the Centre's director of studies and Joseph's intellectual partner during this period, "think the unthinkable, blaze new trails." The Centre developed, promoted, and sponsored a flood of ideas through an outpouring of books, pamphlets, seminars, dinners, and luncheons.

Now it was Joseph's turn to hand out reading lists. Among those to whom he provided such lists was his vice-chairman, Margaret Thatcher. And right at the top of the list was Friedrich von Hayek's *The Road to Serfdom*. She had read it as an undergraduate, but now she carefully reread it with a new comprehension. Published in 1944, *The Road to Serfdom* was the seminal work for the liberal critique—in the traditional sense—of the welfare state, the mixed economy, and "collectivism." It was the bible of Joseph and his coterie.

The Centre's aim was, in Joseph's words, to expose the "inherent contradictions" of the mixed economy. The enemy was "thirty years of socialistic fashions" and "statism"—three decades of looking to government to solve problems and run the economy. As Joseph and his partners saw it, this consensus was already turning Britain into the poor man of Europe. Equality for equality's sake meant poverty. What had to be stimulated was risk taking, with its attendant rewards for success and penalties for failure. "Wealth creation" became one of Joseph's favorite phrases, but the goal was wealth creation for society, not for individuals. Permitting individuals to make money and build up assets was, however, the necessary precondition. In Joseph's view, politics had remained too long in thrall to the 1930s and mass unemployment. He had said so in 1956 in his first parliamentary speech. He believed it even more fervently now. The objective should be the generation of wealth, not the subsidizing of employment.

Joseph and his colleagues knew that they were starting out from a minuscule minority position; they fretted and worried about even using the phrase *market economy*, for fear that such an utterance might brand them to the right of Attila the Hun. The world, they decided, was certainly not ready for a term so extreme as *market economy*, although that would become the commonplace term of the 1990s. They did talk about capitalism. But it was "compassionate capitalism."⁶

The Leadership Battle

All that was the intellectual agenda. But reading lists were not enough. There was also a political agenda. Edward Heath would have to go. He was too much a pragmatist, too much a compromiser and middle-of-the-road man. He had once denounced the activities of one company as “the unacceptable face of capitalism,” but to many, that phrase had come to denote an ambivalent attitude on his part toward the market system overall. Worse, owing to the current crises, he wanted to move further to the center-left and establish a coalition government of national unity—to be led, of course, by himself. Harold Wilson called a second election in 1974, this time winning an absolute majority. Surely Heath would now depart. But he was stubborn, and showed no sign of giving up the party leadership. Keith Joseph was seen as one of the leading challengers. It was not at all clear, however, that he had the burning ambition to be, as he put it, “out front.”

Then, Joseph unexpectedly created a storm of protest with a controversial speech asking whether poor, unmarried single girls really should become mothers in such record numbers. It was likely to be bad for the country. He advocated birth control. Ironically, he had based his argument on the work of left-wing sociologists. But he was accused of being a racist and an advocate of eugenics. The press camped on his doorstep, bombarding him and his family with rude and hostile questions. The attacks shook him deeply. Disregarding the political adage “never apologize,” he published a letter in *The Times* that ran more than a column in length, explaining how he had been misinterpreted. It was to no avail. The attacks continued. He agonized over whether to challenge Heath directly.

One afternoon he appeared in the parliamentary office of his unofficial campaign manager for the leadership, Margaret Thatcher. “I am sorry,” he said. “I just can’t run. Ever since I made that speech, the press has been outside the house. They have been merciless. My wife can’t take it,” he continued, “and I have decided I just can’t stand.”

Thatcher was in despair. They couldn’t surrender to Heath’s “brand of politics.” She was ambitious; of that there was no question. But the highest dream she had ever allowed herself was that of being chancellor of the exchequer. Yet she heard herself replying, “Look, Keith, if you’re not going to stand, I will.”

That night she told her husband of her plan. His initial reaction suggested that he was not exactly persuaded. “You must be out of your mind,” he said. “You haven’t got a hope.” She was not at all sure that he was wrong. But a few days later she went to see Heath. “I must tell you that I have decided to stand for the leadership,” she said. His response was cold. He did not try to convince her otherwise. Instead, he turned his back and, with a shrug, said only, “If you must.”

She had no doubt that she must, and she did. Heath was clearly expected

to be reelected Leader. Thatcher's chances were discounted. One of the confident few was her campaign manager, Airey Neave, who had helped organize the famous escape from the Nazi prison camp at Colditz during World War II. He knew how to organize, and he privately prophesied, "My filly is going to win." And, in an upset, she did, defeating a stunned Heath and becoming Leader of the Opposition.

Thatcher was more steeled than Joseph to critics and the press. She found herself constantly under assault. The attacks came not only from the left, from outside, but also from within her own party, from Heath's men and the High Tory paternalists. The grocer's daughter was accused of promoting the hoarding of canned food and was charged with doing so herself. And then it was even reported that she had been sighted cleaning out a store in north London of large quantities of sugar, which at the time was in short supply. No matter that the reported "store" did not exist and that her family's consumption of sugar was minimal. Moreover, it was most unlikely that a male politician would have been charged with the high crime of secretly shopping for bags of sugar. But Thatcher was not going to give way. "I saw how they destroyed Keith," she told a friend. "Well, they're not going to destroy me."

For his part, Joseph had come very close to grasping the brass ring, but he had no regrets. "You see," he explained, "there's such a thing as instinct, and Mrs. Thatcher has a lot of instinct and flair and I don't, and nobody who knows me would think I had." Joseph was, however, hardly far from power. He was number three in the Opposition hierarchy, in charge of policy and research. He had indeed become the de facto shadow minister of thought, engaged full-time in "the battle of ideas."⁷

"No Time to Be Mealy-mouthed"

What both Margaret Thatcher and Keith Joseph sought was conviction politics, not consensus politics. "This is no time to be mealy-mouthed," Joseph declared. And he was the one who would speak up the loudest. Over the next few years, he talked his way from one end of the country to the other, delivering a set of speeches that, in Thatcher's view, "fundamentally affected a political generation's way of thinking." Indeed, much of what later would be called Thatcherism was to be found in those speeches. With them, Joseph had embarked on a grand cause, a campaign to "reverse the trend" of collectivism, as he put it. He set out to challenge the entire consensus upon which the mixed economy rested. His key premise was that the focus should be on the control of inflation through a stable money supply, not full employment through Keynesian demand management. Although the statism that had grown up since World War II was "well-intentioned" and undertaken out of good motives, that did not make it any less wrong or less harmful. The outcome was still a lower standard of living. Incentives had to be restored. "We

are over-governed, over-spent, over-taxed, over-borrowed and over-manned,” he declared. If the trend was not reversed, he warned, “we shall experience accelerated worsening of job prospects, the growing flight of those with professional skills, talent and ability to other countries, and an increase in the shabbiness and squalor of everyday lives.”

The critical intellectual revision was the rejection of the Keynesian commitment to full employment, which was seen as the fundamental error. If that was indeed wrong—and Joseph and his allies thought it was—then there was no longer a salutary “macroeconomic function” to public spending. Such being the case, government spending could and should be reduced, permitting taxes to be cut, and thus providing the real salutary contribution by enhancing the “supply side” of the economy—the side that Joseph had celebrated in his first speech in Parliament in 1956.⁸

Joseph’s campaign included more than 150 speeches at universities and colleges. He spoke to big audiences and small. He was often heckled, sometimes physically attacked, often boycotted. The students tried to ban him from speaking at the London School of Economics. Even when he was speaking, notices were put up saying that the meeting had been canceled, in order to discourage attendance. Yet he enjoyed this part of the campaign more than anything else—at least in retrospect. “It was lovely. Of course it was horrible at the time.” These were the audiences that he most wanted to convert—“almost to a girl or boy convinced statist if not socialists.” What he talked about was completely foreign to their education—almost, indeed, to their upbringing. One of the students in the audience at an Oxford speech recalled “going to a packed lecture hall to hear Sir Keith Joseph talk about free markets, about monetarism and the perils of corporatism. . . . they were the sort of things that a rather respectable parent would warn his son against; the sort of thing that an ambitious tutor would be worried about if his students started flirting with.”

Joseph argued that the entire thrust of postwar economic policy had been based upon miscomprehension. “Our post-war boom began under the shadow of the 1930s. We were haunted by the fear of long-term mass unemployment, the grim, hopeless dole queues and towns which died. So we talked ourselves into believing that these gaunt, tight-lipped men in caps and mufflers were round the corner, and tailored our policies to match these imaginary conditions. For imaginary is what they were.”

He spoke the unspeakable. He said that people who take responsibility and risk and make money are doing society a favor. “The private sector, the indispensable base on which all else is built, is under attack. . . . Yet we discourage those who make it work. . . . The worker on his own cannot create wealth. We need the wealth-creating, job-creating entrepreneur and the wealth-creating, job-creating manager. We treat them very badly.” He invented a term for those who promote economic growth—the “ulcer people,” he called them, appropriately enough for someone like himself who had a bad

stomach. “They have insecurity and worry. They are meant to take risks. . . . They deserve a chance of reward.”

Joseph had no doubt that he shocked his university audiences. “I’m sure they had never heard the moral case for capitalism. . . . What I always said was that it was a jolly imperfect world, and all I was saying was that capitalism was the least bad way yet invented—as Churchill said about democracy.” He warned that the incessant, single-minded drive for equality of result would result in a leveling and more general poverty. Again and again, he said something particularly shocking—“What Britain needs is more millionaires and more bankrupts.” Greater risks and greater rewards were necessary to achieve a higher standard of living and greater prosperity. He was not, however, he emphasized, saying that the state had no role. “I am not defending a free-for-all. The state must act to make and enforce rules to ensure the security of human life, protection against force and fraud and protection of those values and standards—social, economic, ecological—which represent the accumulated and current aspirations of our community.”

At the end of his speeches, Joseph would ask the students which country ran its affairs better than Britain. It was usually the same list—Cuba, China, Yugoslavia. Over time, as the truth was revealed about those countries, the questions were met with silence. At one of the last meetings, after a pause one heckler finally came up with an answer. The Paris Commune of 1871—which had lasted just three months.⁹

“There Are No Trains Today”

Joseph, as the “shadow minister of thought,” constantly questioning others and himself, filling his notebooks and then pumping out ideas, became something of a figure of fun. He appeared to be a political Don Quixote, crisscrossing the country to tilt against this windmill and then that. Could he be taken seriously? After all, wasn’t he, really, when you came right down to it, beyond the fringe? *The Economist*, at that point very much part of the mixed-economy consensus, could not resist lambasting the Mad Monk. “The trouble Sir Keith takes to leave no confusions undisputed, no misunderstandings of his pronouncements unexplained, has become well known ever since . . . he was lumbered with the roving job of refining, redefining—or re-somethinging—Conservatism. . . . A political sage must be clever as well as holy.” Joseph tried to set *The Economist* straight, writing the magazine that his advocacies had arisen “from critical re-examination of local orthodoxies in the light of our own bitter experiences in the early 1970s . . . we are practical people who judge ideas and policies by results.”

He carried the same messages into parliamentary debates. A journalist captured him giving a speech: “He crouches—festooned with his own copious notes and with such additional artillery as cuttings from the City pages,

pamphlets from various right-wing institutes and study groups, the bulky report of some American midwestern university seminar on Was Keynes a Monetarist? As he speaks, the veins are prominent on the forehead, the brows are coiled, the eyes are half-closed with concentration. The whole head comes to resemble an over-wound-up alarm clock about to go off or burst its springs. . . . He will either be speaking once more about the efficacy of free enterprise, before the glazed or baffled stares of Shadow Cabinet colleagues. Or he will be rebutting some inane intervention about Chile . . . while he is saying that capitalism is crucial to political freedom . . . a necessary, but not a sufficient, condition of freedom. After which the world will go its way with everyone believing what they did before.”

Not quite, for Joseph’s message was finding more and more resonance. Britain had continued its downward spiral. Was this the best that Keynesianism, fine-tuning, and state intervention could deliver? The entire country was on the dole, forced to borrow money from the International Monetary Fund in 1976 in order to protect the pound and stay afloat. As a condition of its loan, the IMF required sizable cuts in public expenditures, setting off a bitter rebellion in the Labour Party. Labour prime minister James Callaghan, who had succeeded Harold Wilson, risked further rebellion by supporting plant closures and labor force reductions at state-owned companies. He also rejected a basic Keynesian full-employment tenet. Deficit spending, he said, would not increase employment. “For too long,” he told the annual Labour Party conference, “we postponed facing up to fundamental choices and fundamental changes in our society and our economy . . . we have been living on borrowed time. The cozy world we were told would go on forever, where full employment would be guaranteed at the stroke of the Chancellor’s pen . . . that cozy world is gone. . . . We used to think that you could just spend your way out of a recession to increase employment by cutting taxes and boosting Government spending . . . that option no longer exists and . . . insofar as it ever did, it worked by injecting inflation into the economy.” If Callaghan’s speech sounded more like the Institute of Economic Affairs than the traditional Labour Party, there was good reason. One of the speech’s chief authors was Callaghan’s son-in-law Peter Jay, economist and journalist, who, among other things, had written several IEA pamphlets.

By the end of 1978, the country was again in crisis, yet another “winter of discontent,” as public-sector employees struck. Hospital workers went out, and medical care had to be severely rationed. Garbage was piling up in the streets. Striking grave diggers refused to bury the dead. The truck drivers were on strike, too. Only shop stewards had the right to let trucks bearing “essential supplies” cross picket lines. British Rail put out a terse notice: “There are no trains today.” In 1974, the coal miners had brought down the government; now striking unions seemed about to bring the whole nation to a halt. Callaghan contemplated declaring a state of emergency, as Heath had done in 1974. Something was very badly wrong.

On March 28, 1979, a day when even the catering staff at the House of

Commons was on strike, the Labour government fell on a vote of no confidence—losing by just one vote. Callaghan had no choice but to call a general election. He knew well that the bitter circumstances would turn the election into a referendum on the mixed economy. Toward the very end of the campaign, as he drove from Parliament back to 10 Downing Street, one of his aides began explaining how Labour might just squeak through. “I should not be too sure,” Callaghan replied quietly. “You know there are times, perhaps once every thirty years, when there is a sea-change in politics . . . I suspect that there is now such a sea-change—and it is for Mrs. Thatcher.”¹⁰

“Now for the Real Battle”

The Conservatives won the general election of 1979, and Margaret Thatcher became prime minister. “We are over the first hurdle,” she wrote to one of her confidants. “Now for the real battle.” Joseph may well have been the leading promulgator of the ideas, but it was up to Thatcher to implement them. And in so doing she would be the only prime minister of the twentieth century “whose name has become synonymous with a political philosophy.”

She was born Margaret Roberts in 1925, and the roots of both her political career and her fundamental ideas went back to her childhood. “At heart, Margaret Thatcher was an extremely bright, lower middle class girl from the Midlands,” explained one of her cabinet ministers. “She believed in hard work, achievement, and that everything had to be paid for. If you don’t have the money, you don’t get it.” She was the daughter of a grocery store owner and local political activist in the Midlands town of Grantham. Alfred Roberts had wanted to be a teacher, but owing to the modest finances of his family, he had been forced to leave school at age thirteen to go to work. He saved his pennies and in due course graduated to owning two grocery stores. He was an autodidact, very much self-taught, and one of the very best customers of the local public library. He also was much more interested in local politics than in groceries.

Alfred Roberts was the most important influence on his daughter. “I owe almost everything to my father,” she said. Later, she added that she owed him “integrity. He taught me that you first sort out what you believe in. You then apply it. You don’t compromise on things that matter.” It was he who imparted to her the homilies and examples—about hard work, self-reliance, thrift, duty, and standing by your convictions even when in a minority—that she was proud to cite when prime minister. He told her that it was not enough to be a “starter.” You also had to be a “sticker” and “see it through.” “Some say I preach merely the homilies of housekeeping or the parables of the parlour,” she said in 1982. “But I do not repent. Those parables would have saved many a financier from failure and many a country

from crisis.” She was also shaped by the family’s commitment to Methodism. On Sundays, she was in church two or three times a day. The family’s life was simple, even spare. There were few toys, and they lived above the shop. Politics, she would observe, was the best and most exciting part of her father’s life, and politics was what Alfred Roberts talked about with his daughter. Along with the homilies, he also imparted to her the lasting passion for politics. The first time she worked in a campaign was when she was ten.

She went up to Oxford University, where she studied chemistry, although without much conviction. Politics was what compelled her. She ended up president of the Oxford University Conservative Association (although she did not debate in the Oxford Union because women were not yet permitted to join). She had settled on politics as her career. In 1945, she went back to Grantham to campaign for the conservative candidate. “The presence of a young woman of the age of 19,” reported the *Grantham Journal*, “with such decided convictions, has been no small factor.” Her university years were during World War II, and she came to maturity with an unembarrassed, unabashed patriotism that never left her. The war, not the Depression, was her formative experience.

After graduating, she took a job as a research chemist in a plastics factory and then in the research department of the J. Lyons food company, testing cake fillings and ice creams. She had no great interest in being a scientist, but she was determined to support herself away from home. What she really wanted was to be adopted by a parliamentary constituency. She would later acknowledge that she owed the Labour Party one debt. The Labour government raised the salaries of MPs from six hundred pounds a year to a thousand. “From that moment on,” she recalled, “it became possible to think in terms of a political career.”¹¹

She was given a constituency in the southeast of England that traditionally voted a strong Labour majority. She lost. No one had expected otherwise, and she was very pleased to have had her first shot at Parliament. On the night of her adoption for the seat, she happened to meet a businessman named Denis Thatcher, who ran a family paint and chemical company. They were both interested in politics. And, as she put it, “his professional interest in paint and mine in plastics” gave them further topics of conversation, as “unromantic” a foundation as that might have seemed.

They were married in 1951. Having had her fill of chemistry and cake fillings, she studied for the bar and became a lawyer, specializing in patents and tax. She had already achieved some prominence as a young Tory woman. In 1952, she wrote an article for a Sunday newspaper saying that women should not necessarily feel that they had to stay at home. They could pursue careers—including in Parliament, where there were only seventeen female MPs out of 625. And there was no reason not to shoot high, even in Parliament. “Should a woman arise equal to the task, I say let her have an equal chance with the men for the leading Cabinet posts. Why not a woman Chan-

cellor? Or Foreign Secretary?" In 1959, she was elected to Parliament. She had reached the first rung.

"The natural path to promotion and success at this time," she was to recall, "lay in the center of politics and on the left of the Conservative Party. Above all, the up-and-coming Tory politician had to avoid being 'reactionary.'" Prime Minister Harold Macmillan epitomized it all. He had been greatly affected by the unemployment and despair he had seen in his constituency at Stockton-on-Trent in the 1930s and had advocated Keynesianism and planning almost from the first. Described as a kind of "New Deal Conservative," he had seen it as his duty to embed the Tory Party firmly in the postwar consensus; and he embraced the welfare state, full employment, and planning—all of which he saw as the "middle way" between the old liberalism, on one side, and socialism and totalitarianism, on the other. His family firm, Macmillan, had published Keynes' most important works. Macmillan's book, *The Middle Way*, was regarded in the late 1930s as the clearest political exposition of Keynesianism, and Macmillan was strongly influenced by Keynes and Keynesianism throughout his political career. In his years as prime minister from 1956 to 1963, he worried much more about unemployment than inflation. "Inflation ran at about 2½ percent a year," he later explained, "which is what Keynes always said to me was about right. . . . Nobody would notice."

Margaret Thatcher subscribed to what she called "the prevailing orthodoxy" and moved further up the rungs. In 1961, Macmillan made her a junior minister, and she dutifully followed him as well as his successor, Alec Douglas-Home (who suffered merciless caricature in the press because he had once remarked that he worked out economics problems with matchsticks). Then, as part of Edward Heath's team, she became education minister when he led the Conservative Party to victory in 1970. It was only in 1974 that she and Keith Joseph broke with Heath and the mainstream—amid the economic and social crises, electoral defeat, and the struggle over the leadership. But she had already been much influenced by the Institute of Economic Affairs, with which she had worked since the 1960s.

As Leader of the Opposition from 1974 onward, she left no doubt that she was also one of the Conservative Party's most committed free marketers. In the mid-1970s, not long after becoming Leader, she visited the Conservative Party's research department. One of the staff was partway through his paper advocating that the Tories adopt a middle way between left and right when she brusquely interrupted him. She was not interested in refurbishing Harold Macmillan. Instead, she reached into her briefcase and pulled out a book. It was Hayek's *The Constitution of Liberty*. She held it up for all to see. "This," she said sternly, "is what we believe." She slammed it down on the table and then proceeded to deliver a monologue on the ills of the British economy.

One evening in that same period, she stopped at the Institute of Economic Affairs for a private meeting with Hayek. Following her departure, the

entire staff gathered around the elderly economist, who was unusually pensive, to ask his reaction. After a long moment of reflection, all he answered was, “She’s so beautiful.”

Now, in 1979, just half a decade after the electoral debacle and her rupture with Heath and traditionalist conservatism, she was prime minister. One of the first things she did was elevate Ralph Harris, the director of the Institute of Economic Affairs, to the House of Lords. “It was primarily your foundation work,” she wrote him, “which enabled us to rebuild the philosophy upon which our Party succeeded.”

On taking over as prime minister, she thought about her father, who had died a decade earlier. “I am sure that he never imagined that I would eventually become Prime Minister. He would have wanted these things for me because politics was so much a part of his life and because I was so much his daughter.”¹²

The “Wets” Versus the “Drys”

The ideas—the fodder for battle—were there. Margaret Thatcher knew exactly what she thought. Government was doing too much. “We should not expect the state,” she declared not long after taking office, “to appear in the guise of an extravagant good fairy at every christening, a loquacious companion at every stage of life’s journey, and the unknown mourner at every funeral.” She wanted to replace what she called the “Nanny State” and its cradle-to-grave “coddling” with the much more bracing risks and rewards of the “enterprise culture.” She liked Edmund Burke’s quote that politics was “philosophy in action.” But ideas were one thing. Putting them into place, into action, translating them into policy amid the immense complexities and contentions of modern government and society—all that was something else. And if judged only by its first three years, the Thatcherite revolution might have been deemed a failure. Or, worse, a non-event.

The new Tory government that took power in 1979 discovered that it had inherited an even more dire economic situation from Labour than it had anticipated. The Callaghan government had kept things together with Band-Aids. Interest rates were 16 percent; inflation was programmed to rise to 20 percent; the government deficit was destined to swell. Enormous pay increases were promised to public-sector workers, a sort of postdated check left behind by the Labour government that would guarantee still-higher inflation. The state-owned companies were insatiably draining money out of the Treasury. To make matters more difficult, Keith Joseph’s hopes to convert the Tory Party had been only partly fulfilled. At the beginning of her government, Thatcher liked to say, “Give me six strong men and true, and I will get through.” She rarely had six. Thatcher was a minority within her own government and did not have control over her cabinet.

The division was, in the argot of the time, between the “wets” and the

“drys.” The wets were the traditional Tories—partakers in the Keynesian mixed-economy consensus, traditional believers in Disraeli’s “one nation,” critics of confrontation, legatees of the now-infirm Harold Macmillan and the now-choleric Edward Heath. The drys were those who had absorbed and internalized the messages of Keith Joseph’s speeches. They were “one of us,” as Thatcher would say—the ones who wanted to make the revolution. But there were more wets than drys in Thatcher’s first cabinet.

The 1979 electoral manifesto had also been more cautious than revolutionary. But Thatcher knew what she wanted to go after, right from the beginning. “The two great problems of the British economy,” she declaimed, “are the monopoly nationalized industries and the monopoly trade unions.” To conquer them, she would have to declare war.

Coming to office in the wake of endless strikes, she was forced to focus on the powerful trade unions. Unless the unions could be curbed and a more level playing field instituted, nothing of substance could be accomplished. The government dug itself in, to varying degrees, on a series of strikes, eager to establish by “demonstration effect” that the union leadership could not do anything it wanted and that the corporatist days of clubby pay settlements over “beer and sandwiches” at 10 Downing Street were finished. It also got critical legislation through Parliament limiting the ability of unions, sometimes battling among themselves for power, to turn every disagreement into a class war.

As secretary of state for industry, Keith Joseph was at the center of the struggles over labor, including what was considered the bellwether steel strike of 1980, the first industrial confrontation of the Thatcher years. The unions finally did get their pay increase, but along with that went a reduction in featherbedding and other restrictive practices, and a commitment to restructuring. Joseph had refused to play by the traditional rules of union-industry-government horse trading. No beer-and-sandwiches deal making for him. “Talking to you,” one union leader is reported to have said to him, “is like trying to teach Chinese to a deaf mute.” Joseph also bolstered the commitment to make drastic cuts in public spending and thus reduce the ever-yawning requirement for more public borrowing.

Amid everything else, Joseph was not about to forget his vocation to convert. Early in the new government, he presented the senior civil servants in his ministry with a reading list. It amounted to a catalog of the philosophy that was meant to be put in action. A tea-stained copy, obtained by Joseph’s biographer, revealed twenty-nine items, including Hayek’s *The Road to Serfdom* and two works by Adam Smith—not only *The Wealth of Nations* but also *The Theory of Moral Sentiments*—as well as eight pamphlets by Sir Keith Joseph.¹³

“The Lady’s Not for Turning”

At the same time, the government also got busy trying to displace Keynesianism with monetarism. Instead of intervening with fiscal policy, the Tory government believed that its main economic job was to ensure a steady growth in the money supply that would be commensurate with economic growth. This was the most direct assault on consensus thinking. “We’re all Keynesians around here,” the permanent secretary of the Treasury said privately, and somewhat plaintively, at the time. “But we’ve done our best to follow the government line.” The traditional Keynesian measures of economic management—employment and output targets—were abandoned in government budgetary documents, in favor of targeting the growth in money circulation in the economy. Huge and immensely controversial cuts were made in government spending, certainly reversing the trend of almost four decades. Yet the immediate results were not economic regeneration. Inflation, already deeply entrenched, was made worse by the oil-price shock of 1979 and the programmed public-sector pay hikes. Unemployment also continued to increase. Joseph’s vision did not exactly seem to be working out as he had promised; many more bankrupts than millionaires were being created.

Some of the harshest criticism came from within Thatcher’s cabinet. One of her ministers denounced the entire intellectual agenda, warning that “economic liberalism à la Professor Hayek, because of its starkness and its failure to create a sense of community, is not a safeguard of political freedom but a threat to it.” The public would not be loyal to the state unless the state offered them protection. “Lectures on the ultimate beneficence of competition and on the dangers of interfering with market forces will not satisfy people who are in trouble.” Privately, in the cabinet, there were more apocalyptic forecasts still.

Other politicians might well have compromised. Not Thatcher. She was determined. “Oh, yes, I know, we have been recently told by no less than 365 academic economists that such a thing cannot be, that British enterprise is doomed,” she said. “Their confidence in the accuracy of their own predictions leaves me breathless. But having myself been brought up over the shop, I sometimes wonder whether they back their forecasts with their money.” Her political back may have seemed against the wall, but she almost exulted in the challenge. At a small dinner at Downing Street, she kicked off her shoes and climbed up on a chair to give an unplanned speech. “I am the rebel head of an establishment government,” she said proudly.

Still, would she not—as Heath had done—be forced to make a U-turn and reembrace the consensus? Absolutely not. That would be surrender, and that she would not do. The new approach, with its emphasis on market rather than government, might be very controversial, but the old approach had been discredited—it had failed. Yet the clamor for a U-turn, away from the body of

ideas that Joseph and she had propounded in the 1970s, grew stronger and stronger. But she would not be budged. At the annual Conservative Party conference in 1980, where many did want a U-turn, Thatcher drew the line. “Turn if you like,” she declared. “The lady’s not for turning.” It would be her most memorable line.

The cure to Britain’s ills, she said again and again, would not be painless. But the economic pain continued to mount. And as it did, her popularity declined. What her supporters saw as her resoluteness, commitment to traditional values, and willingness to speak the truth, her critics viewed as elements of a domineering, adversarial, and sometimes gratuitously uncaring personality. It was that set of perceptions that gave the extra enmity to her opponents, both in the nation at large and in her own party. To the former Tory establishment she had become “That Woman”—said with an emphatic bite. When she personally and unceremoniously fired from the cabinet the aristocratic Christopher Soames, Tory grandee and son-in-law of Winston Churchill, he unlimbered himself of a diatribe on the subject of everything that was wrong with her, a denunciation that could be heard through an open window at 10 Downing Street. Included in the catalog of wrongdoing was the fact that he had never before been talked to by a woman in the abusive manner with which she had addressed him. For her part, Thatcher thought that his fury had to do with the fact that he felt he “was being dismissed by his housemaid.”

She may well have had her doubts, but she kept them to herself. Despite her certitude, or perhaps because of it, the likelihood of success seemed to be slipping away. The Tories’ support in the polls had fallen to 30 percent, and hers, even worse, to 23 percent—she was as unpopular as any prime minister since the start of polling. That was hardly the base on which to make a revolution.¹⁴

The Falklands War: “The Unexpected Happens”

One of Thatcher’s favorite aphorisms was what she called Thatcher’s Law—“The Unexpected Happens.” Such is what occurred on April 2, 1982. On that day, Argentinian troops invaded the Falkland Islands in the south Atlantic, some two hundred miles off Argentina’s coast. Britain had ruled the rugged islands for 149 years; and something less than two thousand Britons lived there. Argentina had long claimed this bare, uninviting piece of real estate; the brutal military junta that ruled Argentina wanted it back and hardly expected significant resistance. But Thatcher decided that Argentinian aggression could not be allowed to stand. Despite very considerable risks, she dispatched an armada to retake the islands. She was very lonely, at that point, in her decisions. “I would not accept it,” she later said. “I didn’t believe in appeasement, and I would not have our people taken over by dictatorship. Yet had I fed all the factors in a computer—8,000 miles away, winter, problems

of supply, their air cover 400 miles away, we had only two aircraft carriers and if one were sunk, three to four weeks after loading soldiers before they could land—the computer would have said don't do it. But we are people of belief.”

After several naval battles, a full-scale landing, and three weeks of tough fighting, the Argentinians surrendered. One result was the collapse of the military government in Buenos Aires. The victory also transformed Margaret Thatcher's position at home. “We have ceased to be a nation in retreat,” she told her country. “We have instead a newfound confidence—born in the economic battles at home and tested and found true 8,000 miles away.” Her confidence in her own conviction and judgment had been immensely bolstered. So had the nation's confidence in her—and in itself. The Falklands War created a new political reality in Britain. Now she could much more successfully put philosophy into action. “I had a very tough time the first three years, a very, very difficult time,” she later recalled. “But after the Falklands War, people understood that we were going to do what we said we were going to do.”

The Falklands War transformed British politics, and thus helped set the scene for the Thatcher Revolution. Thatcher herself was no longer an unpopular, almost sectarian figure. She had also, by the by, proved that a woman could be prime minister. But the true test would come with the general election of 1983. The Opposition inadvertently did its part to bolster her new position. Moderate leaders split off from a Labour Party unable to extricate itself from the past and established a new Social Democratic Party. The result was to divide the Opposition, a political reality that overrode the high unemployment numbers and the lack of clear public support for the Tory economic strategy.

Despite what seemed to be the Conservatives' strength, Thatcher spent some of her precious personal time before the election in the private apartment at 10 Downing Street, packing things up, just in case she lost and had to move out overnight. The preparation proved unnecessary. She won with a huge landslide—a 144-seat majority—the largest since the Labour victory that ushered in the “New Jerusalem” in the summer of 1945.

Now Margaret Thatcher was in a position to pursue a program that would deserve to be called Thatcherism. It would comprise the many elements already prefigured in Keith Joseph's speeches—a rejection of Keynesianism, a constraining of the welfare state and government spending, a commitment to the reduction of direct government intervention in the economy, a sell-off of government-owned businesses, a concerted drive to reduce absurdly and punitively high tax rates, and a commitment to reduce the government's deficit. The whole package also came with a sharpness of certitude and what seemed to be a repudiation of the compassion of the nanny state; and it was that, perhaps, which seemed to polarize and get in the way of a more dispassionate assessment of Thatcherism.¹⁵

The Decisive Battle

The two victories—in the Falklands and at the polls—now gave Thatcher the opportunity to fight the next war, to confront head-on the challenge that had to be overcome if the British economy was to be redirected. That was the overwhelming power of the unions, which had become a great force of inertia. The confrontation took the form of a standoff with the National Union of Miners, led by a Marxist militant named Arthur Scargill. The ensuing struggle was dramatic and protracted. It also proved to be the decisive battle.

The coal industry, nationalized in 1947, was losing money at a horrendous rate; the government subsidy had risen to \$1.3 billion a year. The industry desperately required rationalization; mines had to be closed and the workforce shrunk if there was to be any hope of revival. Scargill and his militants were unwilling to compromise. Mine pits could not be closed, they said, no matter how large the losses. For them, it was not a battle over modernization but a class war.

Thatcher and her colleagues knew, from personal bitter experience, how a coal strike had precipitated the downfall of the Heath government almost exactly a decade earlier. Out of that event had come the popular assumption that the National Union of Miners could make or break governments. Thus, a confrontation with the miners seemed inevitable and necessary. For Thatcher, too, compromise was not a possibility. In preparation for the campaign, Thatcher's generals made certain that the Central Electricity Generating Board began, quite early, to stockpile coal inventories to see itself through a cutoff of new production. There was to be no repetition of the blackouts and power cuts of 1974.

The strike began in March 1984. It was angry and sometimes violent—thousands were arrested during its course. Not only miners who wanted to continue working but also their families were subject to constant intimidation. The strike became an international cause célèbre. Social democrats in Western Europe collected money on street corners to support the striking workers. The National Union of Miners solicited funds from Libya's Colonel Qaddafi and received money from the "trade unions" of Soviet-controlled Afghanistan and, apparently, from the Soviet Union itself. Despite the intense pressure and the disruption, the National Coal Board and the government held firm. It took a year, but the strike finally petered out, and in stark contrast to 1974, this time the miners' union capitulated. The government had won. The outcome meant a new era in the basic relationship of labor, management, and government—in short, in how Britain fundamentally worked. The decades of labor protectionism—which had cost the British economy heavily in terms of inflexibility, red ink, and lost economic growth—were over.

The Birth of Privatization

The battle with the coal miners was the most visible representation of the turn in economic arrangements. But the most decisive element of Thatcherism, and the one—along with the philosophy itself—that would have the greatest impact around the world was what was to become known as privatization. It represented the sharpest break with the postwar Attlee consensus. Indeed, what has become commonplace in the late 1990s was considered so radical prior to the 1979 election that even Thatcher's most committed supporters dared not raise the idea. The most that could be advocated for state-owned industries was the introduction of "inflexible" financial targets, the exclusion of ministerial meddling, the promotion of efficiency, and the ending of government subsidies. Privatization itself was only a small passing reference in the 1979 election manifesto. Going any farther would mean frightening the voters on the eve of the election.

The first major sallies after the 1979 victory were along the same lines. State-owned companies, some said, should be "commercialized" and made to operate more like private companies. The policy unit at 10 Downing Street investigated "corporatization" of state companies. But others in the government, beginning with Margaret Thatcher and Keith Joseph, thought that was not sufficient. They wanted to go much farther. They thought that getting a state-owned enterprise to "imitate" a private firm was much like trying "to make a mule into a zebra by painting stripes on its back." They had something far more radical and original in mind: They wanted to get the government out of business. To do so, they had to invent a new kind of business, for there were no guidelines in either the developed or the developing world for what they intended.

To complicate matters further, this new "business" needed a name. One obvious candidate was *denationalization*—as in returning to private hands companies that had passed into state ownership through nationalization. But there was a problem. Some companies, like the phone service, had never been nationalized in the first place; they had begun life as adjuncts to government departments. Moreover, *denationalization* had a decidedly negative and unappealing connotation. So instead they reached for another term—*privatization*, although some considered it not much less ugly. Its use in this context went back more than a decade. In the late 1960s, a young Conservative politician named David Howell was charged with working out a plan, as he put it, "to unravel Britain's huge state sector and at the same time widen capital ownership in British society." Scouring the United States for ideas, he ran across the word *privatization* in the work of the economic and social theorist Peter Drucker. Howell thought it was an unattractive word; nevertheless, he also thought it described what he had in mind, and he deployed it in a 1969 pamphlet, "A New Style of Government." But then, as Howell put it, the idea lay "dormant," until Joseph and Thatcher picked it up.

The odd thing about the word was that its proponents found it both so ugly and yet so useful. “I don’t like it,” said Thatcher. “It’s free enterprise. But we had to accept it. It was one word.” In fact, Thatcher disliked the word so much that for some time she refused to use it at all. But like everyone else, she gave in. “None of us could come up with anything better,” wrote Nigel Lawson, who served as both energy minister and chancellor of the exchequer. “And, as this word, or quite literal translations of it, is now used from Siberia to Patagonia, we may as well stick with it.”

Thatcher adopted the concept, if not the word, because she saw in it something much more than a means to raise revenue for the Treasury or rein in the unions. It was about changing the balance in society. “I wanted to use privatization to achieve my ambition of a capital-owning democracy. This is a state in which people own houses, shares, and have a stake in society, and in which they have wealth to pass on to future generations.” Out of that ambition came her fervor.

The Labour politicians had promoted state-owned enterprise, before and after World War II, as an almost altruistic undertaking. “The public corporation must be no mere capitalist business, the be-all and end-all of which is profits and dividends,” Herbert Morrison, the Labour politician who had so much influence on the postwar nationalization program, had said. “Its board and its officers must regard themselves as the high custodians of the public interest.” But in practice, argued the Thatcherites, that higher vision could not be attained. Was government going to be any better in figuring out the future than private business? It did not have access to a higher level of knowledge. Indeed the Thatcherites disbelieved in government knowledge. As Lawson put it, governments “enjoy no unique hot line to the future.” The record suggested just the opposite—inflexibility in the face of change.

Whatever the vision, state companies had often proved in practice to be highly inefficient, inflexible, poorly performing employment agencies, politically pressured to maintain and expand employment far beyond what was needed. They were also unable to resist the wage pressure from public-sector unions, thus becoming major generators of inflation. Because of their inefficiency, their weakness in the face of union pressure, and their insulation from competition in the marketplace, they piled up huge losses, which they solved by turning to the taxpayers or, as Lawson put it, by “recourse to the bottomless public purse.” Every kind of decision ran the risk of becoming a political decision, driven not by the interests of the firm but by the desires of politicians in power, whether it was wage settlements or new investments in plant location, major projects, and equipment. What was missing was exactly what the Labour promoters of national industries had most disliked—the discipline of the market. “What public ownership does,” Lawson declared in 1982, “is to eliminate the threat of takeover and ultimately of bankruptcy, and the need, which all private undertakings have from time to time, to raise money from the market.” Public ownership British-style also

meant that output and products were not adapted to the marketplace and that the needs and desires of the consumer, the buyer, did not count for all that much.

For the Thatcherites, privatization became a cause. It would embody the turning of the tide that Keith Joseph had lectured about up and down the country. Widening ownership and thus giving people a vested interest in private property would change the political culture of the nation. It would decisively limit the role of the state and make at least part of the Thatcher agenda virtually irreversible. It would also make the companies themselves more efficient and deliver more value to consumers. It would eliminate the industries' call on the "bottomless purse" and reduce government's share of the GNP. And, by the way, it would provide for a considerable inflow of money that would, in turn, help finance tax cuts.

With all that said, there was never a sense that privatization had broad popular support. For their part, civil servants did nothing to hinder the process. Their experience with the state-owned companies in the 1970s had been so painful that even those intellectually attracted to the mixed economy had come in practice to despair of its proper functioning. Moreover, they did not have any good alternatives to offer. The traditional ideas were exhausted. "One of the real driving forces for privatization," recalled Thatcher cabinet minister John Wakeham, "was the consensus among bureaucrats that they did not know how to determine anything anymore. Planning, nationalization, and so on—it had all failed. The state-owned industries were running massive deficits. There was willingness to try something new. You found that the response within the bureaucracy to the new conservative government was that 'it could not get any worse than it had already got.' "

Keith Joseph initiated privatization at the Department of Industry, and on the first day of the new government, he appointed David Young to be his special adviser on privatization. "The new government was determined to roll back, to reduce government's spending, and that meant to privatize," said Young. "The big risk was that we had to get companies into a fit state to be privatized. It turned out that it was not the commanding heights of the economy but rather clapped-out coal mines and other industries that were losing lots of money. We intended to sell off those that could be sold, and meanwhile work on the others to reduce losses, to do the necessary closures, to establish management."

In such circumstances, the initial steps toward privatization would be rather modest compared to what came later. Cable & Wireless and British Aerospace were among the first. Also disposed of were gas stations along motorways, hotels belonging to the state-owned railway system, and a company that manufactured radioactive isotopes for medical treatment. As it turned out, the most significant form of privatization in the early years was the sale of "council" (i.e., public) housing units to the people who lived in them.

Sometimes even a small step toward privatization would meet a torrent of opposition from the press, parts of the public, the unions within the state companies—and from the managers of those companies, too, who did not want to see their purview and their realm reduced. It almost did not seem to matter what it was that was being sold off. British Gas's monopoly was far-reaching. The creation of that state-owned company had been the means of creating a modern, integrated gas supply system in the country. Its market was very broad. It even held the exclusive right to sell gas-fired stoves and other appliances through its nine hundred showrooms around the country. In 1981, the government announced that it intended to sell off those stores, because the monopoly reduced competition, led to higher prices, and also discouraged exports. Moreover, the existence of that kind of monopoly was rather ridiculous: What special skill did the government have that it should be the custodian of the nation's gas ranges?

But little did the Tories realize what awaited them. British Gas's unions, egged on by a management that did not want to lose any of its empire, no matter how tangential, joined together with Labour MPs and even some Conservative ones in denouncing the planned move to dispose of the showrooms. "Few of us realized," wrote Nigel Lawson, "what a storm would be unleashed over what could scarcely be called one of the commanding heights of the economy." The government's opponents, he added, were "remarkably successful in portraying the privatization of this state-owned chain of shops . . . as an ideologically inspired attack on the British way of life. The heart of every community, it appeared, was neither the church nor the pub, but the local gas showroom." In this case, Lawson, caught unprepared by the fury of the attack, negotiated a temporary, face-saving retreat by saying that the sale of the showrooms would be put aside until some new safety legislation could be passed.¹⁶

But How to Do It?

After the Falklands War, the government had the muscle to begin to privatize what were truly the commanding heights of the economy. But one of the biggest difficulties, Lawson recalled, "was the fact that, to all intents and purposes, it had never been done before . . . there was no departmental dossier to dust down." There were many questions to decide. Should shares in the companies be distributed free to all citizens? Emphatically not, said Chancellor Lawson, citing the American revolutionary patriot Tom Paine: "What we obtain too cheap, we esteem too lightly." How to price the shares so that they were not too high (discouraging investors) and not too low (meaning that the government would give up too much value) but still—of critical importance—low enough to ensure that the prices would go up, not down, after the initial offering? How to foster incentives for employees and small investors to

buy into the “float”? To facilitate that desire, they created a series of television commercials that urged a fictional modern Everyman named Sid not to miss this chance to become a shareholder.

One of the most urgent challenges, it turned out, was to create meaningful and accurate financial histories for the companies that corresponded to conventional and intelligible accounting standards. “When we first examined the nationalized British Telecom,” said Lawson, “we discovered that, in true East European style, the corporation had not the faintest idea which of its activities were profitable and which were not, let alone any finer points of management accounting.” Added David Young, “British Telecom was a total mess.” One small unit, with five hundred people, had “a clunky accounting system. Everything else was in one great big pot. You didn’t know regional costs, or any costs. Once something was bought, you forgot about it.”

This pointed to a larger challenge. Companies could not be privatized until they had been “fixed”—loss-making activities reduced, organization restructured, and the basis for profitability established. Otherwise, why would anybody buy stock in the enterprise? British Steel would prove to be an excellent case study. The company lost over \$10 billion from the mid-1970s through the mid-1980s. Restructuring was first undertaken to stem the draw on public funds. Only in the 1980s did privatization become a goal. By the time the company was finally sold to the public, its labor force had already been drastically reduced and its productivity dramatically increased, its facilities rationalized. And it was profitable—and internationally competitive.

But there were also special cases with issues that went beyond the “bottom line.” How, for instance, when it came to “strategic” assets like oil, to ensure that they did not fall into foreign hands? After all, privatization was following only a few years after the oil crises of the 1970s, which had, in the first place, precipitated the partial nationalization of North Sea oil. On this subject Lawson proved to be very creative. He recalled “the curious voting structures” he had encountered a decade earlier, when working as a stock market columnist for the *Financial Times*, that enabled someone with a “very small slice of equity to exercise quite disproportionate power.” As a journalist he had been disapproving. But as a politician he found it a godsend. Thus he came up with the “golden share”—“a special share which would be retained by government after privatization, and which would enable the government to prevent control of the company from falling into unsuitable hands.” The term *unsuitable* was a euphemism for *foreign*. However euphemistic, it did the political trick.¹⁷

A Far Bigger Program

Ultimately, the Thatcher government was able to carry out a privatization program far bigger than anyone would have expected at the start, and one that

pushed back the frontiers of the state. In 1982 and 1984, the government's ownership share in North Sea oil and gas was privatized, creating among other things Enterprise Oil, today one of the world's largest independent oil companies. The government disposed of its share in British Petroleum—acquired by Winston Churchill on the eve of the First World War. Ports and airports were privatized. Heathrow and other airports are now owned and operated by a private company, BAA, which also operates airports in the United States.

The first truly massive privatization was the hiving off of the state telephone system into British Telecom. It, more than any other, shifted the balance from production to the “consumer.” It would also be the real breakthrough for privatization. Whether the oil and gas reserves of the North Sea were in the hands of the state or private industry did not directly affect people in their daily lives. Telephones did. Relatively few people actually paid attention to the oil and gas privatizations; almost everybody knew that something dramatic was going to happen to the phones. The telephone system, part of the post office until separated by Keith Joseph, embodied many of the worst traits of state-owned companies. Bureaucratic state control repressed innovation. The customer did not count. It took months to get a new telephone. There were only two choices—the design offered or nothing. The only way to get a phone fixed in any reasonable time was to pay a repairman, who freelanced after hours, under the table. The red call boxes were relatively rare, sometimes malodorous, and often out of order.

“When we went into the telephone offices to talk to the staff,” David Young recalled, “they talked about office conditions, pensions, and many other things. No one ever mentioned the customers. If British Telecom wanted to move a group out of a run-down office building into a new building, unions extorted compensation—a few hundred pounds for each employee for the ‘disturbance’ of giving them better working conditions. And when it came to installing new phones, they came along when they were damn well ready.”

Other steps were taken prior to privatization. A competitive long-distance service, Mercury, was launched, which stimulated further innovation. On a Tuesday in Thatcher's first term, Keith Joseph stood up in Parliament and announced that in the future, shops would be allowed to sell telephones. Two days later David Young, on the way to work, passed a shop on Lower Brook Street whose windows were filled with hurriedly imported telephones, although such sales were not yet legal. Arriving at the ministry, he rushed into Joseph's office to make an excited announcement, “The market is working.”

The actual privatization of British Telecom took place in November 1984. The first tranche, just over 50 percent, was sold to the public for \$6 billion. A huge popular market for privatization had been created. Curiously enough, the public's complaints about service rose after the privatization, but with good reason. “In the good old days before privatization, no one complained because there was no point,” Young said. “No one was listening.”

Now there was someone to complain to. British Gas, British Airways, and British Steel followed. Later came British Coal and British Rail. The state-owned water system was privatized in the form of a series of regional water companies. Most massive of all was the breakup of the state-owned electric power monopoly into twelve regional distribution companies,* three generating companies, and one open-access grid company.

The process of privatization encountered many criticisms over a decade and a half. With the larger transactions, there always seemed to be a refrain that the capital markets would not be able to absorb the deal. In practice, that never proved to be a constraint. The pricing of stock was generally criticized, for being either too low or too high. Former prime minister Harold Macmillan, the Tory proponent of the mixed economy and the middle way, weighed in to voice the complaints of many when he declared that the “family silver”—the state companies, all of whose names began with *British*—was being sold off. The obvious reply was that the “family” could not afford to maintain the silver anymore.

Some pointed out that a number of the state-owned companies had become more efficient and raised their productivity prior to privatization. Here the reply was that those improvements were driven by necessity, by the discipline and pressure of impending privatization. After the fact, the growth in compensation—salary and options—of senior managers and board members in the newly privatized companies became a hot staple on front pages, made all the more vivid by the sharp downsizing in employment levels in what had formerly been the woefully overmanned state companies. The recipients of these benefits became immortalized as the “fat cats” and the target of popular rage. Employment in many privatized companies was often slashed by 20 to 40 percent. Beyond question, the quality of service improved and operations became more efficient. But it would be difficult for many of those who lost their jobs—often late in their careers—to find new opportunities. The rationalization that privatization brought about fed for a time a growing tide of unemployment in the new “lean” Britain. Yet the growth in unemployment proved temporary. By the late 1990s unemployment was much lower than on the European continent.

Privatization also introduced the new challenge of regulation. The nationalized industries had operated under the control—often ineffective, to be sure—of the government ministries. Now the provision of basic public services—gas, electricity, water—was being entrusted to private enterprises guided by profitability, not universal service at any cost. To work, this new system required a regulatory body that could ensure competition and protect the consumer. The establishment of such regulation was essential to public acceptance of the new arrangements. Sure that they could improve on the American experience, the Tories sought a solution that would keep regulation

*Eleven of them have since been bought, seven by American electric power companies.

as “lite” as possible while still being effective. After all, excessively burdensome or interventionist structures would run counter to the goal of making government smaller. So they appointed for each industry a single individual—known as “The Regulator”—with the mandate to monitor industry practice and set pricing rules with as lean a staff as possible.

But what started out as “regulatory lite” soon grew into much larger regulatory establishments. There had been an underestimation of the regulatory needs posed by the movement from state monopoly to private firms. The risks of private monopolies or “duopolies” forming were great; and on the technical side, the sophisticated pricing mechanisms for industries such as electric power proved complex to run and monitor. For all these reasons, the original conception of “The Regulator” came under fire, and a drift began instead toward full-fledged regulatory agencies, some staffed by hundreds of people.¹⁸

“A Bit of an Institution”

Margaret Thatcher’s third electoral victory, in 1987, confirmed that Thatcherism was not an aberration but a change of direction. “I think I have become a bit of an institution,” she said shortly afterward. “People seem to think, ‘She isn’t so bad is she, this Maggie?’ ” In the aftermath, she was drawn to add a private project to her manifold of duties—reading the Old Testament from beginning to end and reporting daily to her staff on her progress. “I’ve been told that the Old Testament is about laws, and the New Testament about mercy,” she later said, “but I’m not sure I agree.”

But the 1987 victory was also the beginning of the end of an era. The Tory government created a domestic furor by “bashing on” to make a radical change in local taxation in the form of the poll tax. And Thatcher became increasingly nationalistic and angry in her attacks on the moves to strengthen the European Community. She reviled what she saw as a new bureaucratic monster rising up in Brussels that would drain sovereignty away from Westminster. She was particularly enraged about plans to create a single European currency, which, she was convinced, would lead to German hegemony over Europe. Her strident stance did more than anything else to alienate some of those who had been her most important allies in creating the Thatcherite revolution. They were convinced that Britain should be inside Europe helping to shape it, not sitting outside and attacking it. All of this was made worse by the style of Thatcher’s leadership. She appeared to have become increasingly confident of her own opinions, increasingly isolated from other points of view. She showed little willingness to brook opposition, and she humiliated even those who had been closest to her. She had become a divisive figure, not only in national politics but within her own party.

There was a brief respite. When Saddam Hussein invaded Kuwait in August 1990, she was attending a conference in Aspen, Colorado, with

George Bush and she took the opportunity to ensure that there was to be no acceptance of a *fait accompli*. “Remember, George,” she said to the president, “this is no time to go wobbly.” The lessons of the Falklands—and of appeasement—were still much in her mind.

At home, however, her own political position was definitely becoming wobbly. Nigel Lawson, the champion of privatization, resigned as chancellor of the Exchequer in 1989. One of Thatcher’s closest allies over the years had been Geoffrey Howe, who had served as chancellor in the first four years of her government and as foreign secretary for the next six. Deciding that he was not sufficiently anti-European, she forced him out as foreign secretary, consoling him with the posts of Leader of the House of Commons and deputy prime minister. After a little more than a year, he had had enough. He could no longer tolerate Thatcher’s domineering leadership or what he saw as her crudely nationalistic opposition to the European Community. His resignation speech in November 1990 regretfully but clearly laid out his disagreements. The speech precipitated a contest for the leadership of the Conservative Party. Thatcher was in Paris when she learned that she had come out at the top of the first ballot but without the required majority. That evening, she attended a wonderfully elegant ballet and dinner hosted at Versailles by President François Mitterrand. She demonstrated enormous aplomb. But to another leader who wished her well in the unfolding contest, she replied, “No, it’s all over.” Warned that she would eventually lose, and anticipating the humiliation that would follow, she withdrew her name from the second ballot. A few days later the new leader of the Conservative Party, John Major, son of a vaudeville entertainer-turned-businessman, succeeded her as prime minister.

The Thatcher era was over. She did not go out amid a great outpouring of sentimentality. Her unpopularity extended right across the political spectrum and into a large segment of her own party. She was seen as self-righteous, rigid, and uncaring. Her strength—her convictions—had also been her downfall. She was, Geoffrey Howe said afterward, “a great prime minister.” But, in his view, “her tragedy” was “the recklessness with which she later sought to impose her own increasingly uncompromising views. For Margaret Thatcher in her final years, there was no distinction to be drawn between person, government, party, and nation. . . . The insistence on the undivided sovereignty of her own opinion dressed up as the nation’s sovereignty was her own undoing.”

Yet her legacy proved powerful and lasting in a way that eludes most politicians. She recast attitudes toward state and market, withdrew government from business, and dimmed the confidence in government knowledge. Thatcherism shifted the emphasis from state responsibility to individual responsibility, and sought to give first priority to initiative, incentives, and wealth generation rather than redistribution and equality. It celebrated entrepreneurship. Privatization became commonplace. Labor unrest no longer continually disrupted the economy. For a number of years Thatcherism

seemed anathema almost everywhere. But by the 1990s, it would turn out that Margaret Thatcher had established the new economic agenda around the world.

Numbers give a sense of the economic change in Britain. By 1992, some two thirds of state-owned industries had moved into the private sector. Altogether, 46 major businesses, with 900,000 employees, had been privatized, and the government's take was well over \$30 billion. What was once a massive drain on the public purse had turned into a major source of tax revenue. The number of people owning shares tripled to 9 million—20 percent of the adult population—although many of those 9 million owned only a few shares. But the most important consequence of privatization was that, together with labor union reform, it changed the basic institutional relationships that had defined Britain since 1945—and that had brought the country to a standstill by 1979. In that year, 1,274 working days were lost to strikes for every thousand people working. By 1990, that figure was down to 108—less than one tenth. The political and economic culture in Britain had been permanently altered; Keith Joseph's intellectual revolution had, in good measure and despite all the controversies, worked. David Young, the would-be emigrant of 1975, was four years later Keith Joseph's special adviser and then, under Margaret Thatcher, a member of the cabinet. Looking back from today's perspective, he said, "The Thatcher years turned the United Kingdom from being a producer-led into a consumer-led economy, and it was becoming a competitive economy. Conviction drove the process."¹⁹

"Always with Beliefs"

With the passage of time, the bitterness over Thatcherism has ebbed away. What Joseph and Thatcher started is no longer radical but rather very much the heart of a new consensus in Britain. "New Labour" came into power in 1997 not by attacking Thatcherism but by embracing much of its rhetoric and its policies, although leavened with an emphasis on compassion that was distinctly non-Thatcher.

Ideas and politics were the topic one morning with Baroness Thatcher, as Margaret Thatcher has been known since 1992. "Years ago, ordinary people became Labour to get a better life," she said, poised on a small settee in the second-floor drawing room of the elegant Belgravia row house that is home to the Thatcher Foundation. "Now they understand that freedom and enterprise under law is better than massive government control over industry and people. New Labour has an understanding of what socialism was and how it doesn't work, that somehow you have to create wealth before redistribution. Socialism started with redistribution before wealth.

"Socialism was the flavor of the time for a long time," she continued. "We in this country had an experiment in socialism. The Conservatives, when in power, did nothing to reverse it. I myself never had any sympathy for so-

cialism. For me, it was so simple. The state ought not tell us what to do. My experience reinforced my beliefs. It was becoming obvious to people that the socialist way meant accepting decline.” She shook her head. “Can you imagine—people accepting decline?”

And what then are the tasks of government? “First, keep finances sound. Second, ensure a proper foundation of law so that industry, commerce, services, and government can all flourish. Third, defense. Education, the fourth, is the road to opportunity. The fifth is the safety net. Society is more complex and needs to be more sophisticated in how it responds to fundamental questions. How is it to provide an effective safety net without creating or strengthening the dependency culture? How are we to uphold the virtues of civil society? And a certain amount is to be spent on infrastructure and a certain amount on pure research. . . .

“And,” she added, “don’t forget Thatcher’s Law: The unexpected happens. You had better prepare for it.”

For Margaret Thatcher, one of the “unexpecteds” has been the global impact of the program she launched in Britain. “In 1981 a finance minister came to see me,” she remembered. “We’re all very interested in what you’re doing,’ he said, ‘because if you succeed, others will follow.’ That had never occurred to me.” As it turned out, the others—whether acknowledging the impact of Thatcherism or distancing themselves from it—have indeed followed.

At the top of the stairs, she stopped to reflect on the morning’s discussion. The Thatcherite revolution itself was unexpected. Who in the mid-1970s would have anticipated the degree of change? “It started with Sir Keith and me, with the Centre for Policy Studies, and Lord Harris, at the Institute for Economic Affairs. Yes, it started with ideas, with beliefs.” She paused. “That’s it. You must start with beliefs. Yes, always with beliefs.”²⁰