

Assess The Underlying Thinking Behind Conservative Economic Policy 1979-97

The long term economic goal of the Conservative Government between the years 1979 and 1997 was non-inflationary economic growth with full employment, they employed a number of different policies in the attempt to achieve this state, which would have been considered a complete economic success by the Conservative Government, their critics and the general public.

One of the policies that the Conservatives introduced was the end to the commitment to full employment. They refused to intervene during the mass unemployment of the early eighties when over three million people in the UK were unemployed. Their reason for this was justified in that the Thatcherites of the party argued that the operation of the free market caused unemployment. They thought that tackling distortions elsewhere in the market place would solve the unemployment problem and there was no requirement for it to be addressed directly. Therefore a return to Keynesian economic policy was rejected as a solution. This also follows the conservative ideology that every person should look after themselves so could be the reason why they were reluctant to do anything about the obvious unemployment problem.

For the Conservatives the most important area of economic policy was inflation. They revolved their whole policy around the reduction of inflation with the introduction of Monetarism. By reducing inflation the Conservatives believed that businesses would become more competitive and that by making the economy more competitive it would benefit industry as a whole. In the fight to reduce inflation and control the money supply the Government raised interest rates and cut public spending wherever possible this of course further added to unemployment. The Conservatives dropped monetarism in 1983 as they found their targets for the monetary supply near on impossible to attain. Although monetarism was scrapped the commitment to keeping down inflation was not and the Government achieved minor success in this area mainly due to the recession and mass unemployment. The government took credit for lowering inflation but it did not stay down for long as the economy began to grow after the recession so did inflation.

In another later attempt to lower inflation and keep a stricter control on the money supply Chancellor Nigel Lawson introduced a more rigid exchange rate policy. To begin with the pound was made to shadow the German Deutsch Mark. The plan was that interest rates would be set so that the pound retained its value next to the strongest currency with the lowest inflation in Europe at the time, the Mark. Hopefully this would keep import prices down and allow the government to tackle inflation. It would also raise the prices of exports requiring businesses to keep their costs down and become more competitive.

Again, with the primary goal of reducing inflation the Government moved its concentration away from exchange rates and on to interest rates. The Conservatives published their inflation target of 4% and also published the advice given to them on economic policy by the Bank of England. They believed that doing this would put them under pressure to perform by the media, the other parties and such like, failure was not an option any longer as their reputation was at stake and mistakes regarding economic policy could not be covered up. This was what the Government wanted as it required them to stick to the tough policies needed to drive down inflation. The one time that they did ignore the Bank of England's advice they did receive criticism but luckily inflation and unemployment fell during this time, standards of living rose and

the economy generally grew, however the Conservatives received little praise for these changes even though this was their economic goal.

The Conservative Government also put an end to the incomes policy in the private sector. Although in the public sector it had to continue leading to more inflation, increased public spending and higher taxes. The underlying thinking behind this change was that an incomes policy in the private sector would be an unnecessary interference in the free market economy. Another reason for this that the Conservatives were not so keen to publicise was that it gave the Trade Unions a greater role in politics, which the Conservatives did not want. They took other measures to reduce the political role of Trade Unions later on attacking them with legislation that made it more difficult for them to strike, picket or gain any recognition at all.

Mrs Thatcher also wanted to control public spending and taxation. Publicly the Conservatives thought that public spending was inflationary which is why they were making cuts, however part of traditional conservative ideology is that the Government should have as little input as possible. In cutting their public spending the Conservative government are following this ideology and also by making cuts in specific areas such as healthcare and the welfare state they are following the idea that everyone is responsible for themselves and the government is not there to look after people in this respect.

By ending their commitment to further equality the Conservatives increased the gap between rich and poor. They cut higher levels of income tax and increased VAT by over ten percent. The Conservatives had always believed that a degree of inequality was natural and it would make the poorer people and businesses work harder in order to become more affluent. This of course was their justification for ending the commitment to further equality.