Government Policy and the Labor Market
The Case of the United Kingdom

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I. INTRODUCTION

Government policy under Thatcher has been based on two main elements. The first element, deflation through control of the public sector deficit, became operative in the early stages of the first Thatcher administration and was continued throughout most of the first two periods of office. However, even within the first period of office, the scope for further major reductions in public spending was seen by the cabinet as highly constrained and partly self-defeating because it causes a shrinking of the tax base (Ward & Nield, 1978). In 1987, there was a reversal of the policy, funded by selling off nationalized industries. Meanwhile, the second element in the government’s policy has come to the fore, that of “freeing-up” the labor market. This policy has taken longer to come to fruition because of the extent of institutional and legislative changes required to stimulate low-paid employment. Deregulation involved reducing trade union rights, legal controls over employment, and privatizing public sector services. In the first part of the chapter, we describe and assess the Thatcher government’s policy toward specific aspects of the labor market against a background of previous governments’ policies and changing economic, political, and social conditions. Four areas of policy with specific relevance to the labor market are identified: macroeconomic, industrial and labor market, industrial relations, and social security and family. In the second part

of the chapter, we consider the political and industrial response to these policies, and we conclude by considering their impact on labor market organization in the United Kingdom (UK).

II. GOVERNMENT POLICY AND THE LABOR MARKET

A. Macroeconomic Policy: Unemployment, Inflation, and Income Distribution

Until the middle of the 1974–1979 Labor government, all UK governments had espoused a broadly Keynesian full-employment policy, although inflation had been increasingly regarded as the main economic problem. As inflation accelerated and the balance of payments deteriorated in the 1960s and 1970s, macroeconomic policy became more consistently deflationary. The Labour government was elected in 1974 on a policy program that included a commitment to full employment but in 1976, under pressure from the International Monetary Fund (IMF), implemented a monetarist deflationary policy based on controlling the money supply and the size of the public sector borrowing requirement by public expenditure cuts. The Conservative government elected in 1979 completed the transition to monetarism and portrayed it as the only rational policy program.

Unemployment rose steeply under the 1974–1979 Labor government (rising between 1973 and 1980 from .6 to 1.6 million) followed by an even more rapid increase to 2.5 million between 1980 and 1981. Unemployment continued to rise up until 1986 to a peak of 3.29 million.¹ Although unemployment rose throughout the late 1970s, the main impact on the number of jobs came in the 1980s when the dramatic rise in unemployment was accompanied by a major collapse of employment, particularly in manufacturing. Thus, although in the 1970s the rise in unemployment took place against a rising labor supply (mainly female), from 1979 the growth in the labor force slowed, and so the increase in unemployment meant a declining employment base.

One justification for the pursuit of monetarist policies has been the search for a "leaner, fitter" industrial structure, and evidence of an increase in productivity per person employed in 1982/1983 provided a major element in the Conservative government's reelection campaign. However, there has been no dramatic increase in productivity growth since 1979. Investment has remained low,² so that much of the recorded productivity growth is statistical—the effect on the average of scrapping old plants. Moreover, much of the investment behavior reveals "short termism," aimed at cost cutting through minor adjustments and not radical change aimed at increasing capacity and output. Thus the macroeconomic deflationary policies have not provided a sound microbasis for further growth, even among those firms that have survived.

¹See section D for changes in the definition of unemployment introduced in the 1980s.
²Investment in real terms in manufacturing was 35% down on its 1979 level in 1983 and was still below 1979 levels in 1987.