

FACULDADES INTEGRADAS RIO BRANCO

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The Renaissance of Economic Liberalism in the 1980s

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Abstract

This work looks for demonstrate the way in which the liberal economic practices resurged in a more presentable way in several countries in the decade of 1980, being denominated as “economic Neoliberalism”, having its main representative in United States of America, with the “Reaganomics”, and in United Kingdom, with the “Thatcherism”. For so, this paper presents the mainly characteristics of these liberal practices adopted in USA and in Great Britain, that primed for the reduction of the State action over the economy and the finances and for the support of the private initiatives, yonder demonstrating on how they revived the economy and stabilized the internal order of both countries on that age, which led to a greater rapprochement between both governments, even more stimulated for this concomitance of economic interests. Also, it will be shown how these neoliberal practices contributed to a greater fortification on the approach of the capitalist countries against socialism, essentially represented by the Union of Soviet Socialist Republics (USSR), in the end of the Cold War.

Key Words: Neoliberalism, Reaganomics, Thatcherism, Cold War.

Introduction

The following paper has as objective to clarify the phenomenon of the renaissance of the economic liberal practices, specifically in the 1980s decade, specially marked by the exponency of United States of America (USA) and United Kingdom (UK), which recurred to practices denominated “Reaganomics” and “Thatcherism” respectively (HARVEY, 2008).

These practices were totally based on a new approach of the classic economic liberalism, having as the most important theorists Ludwig von Mises and Friedrich von Hayek in Europe (belonging to the Austrian School) and Milton Friedman in USA. They preached a diminishing action of the State on the economic sphere and a great stimulus to the free enterprise.

With this in mind, this research shows the great pertinence of this subject, because after the adoption of this economic posture the western world, better represented by USA, has gained impulse in the battle against the Soviet Union (USSR). Furthermore, it will be shown that, due to this, the world in a general way adopted the economic opening tendency and the utilization of the neoliberal practices.

For the formulation of this paper, it had been recurred to the methodologies of a conceptuated bibliographic research, containing books, articles and documentaries. Majoritarily, with data already analyzed by specialists.

It had also been used methods of historical procedure, thanks to the time that this work had been focused (the 1980s), and comparative method, evaluating the manners of how the economic Neoliberalism was put into practice in USA and UK, making evidence of its similarities, benefits and negative aspects.

The work, *a priori*, will broach the characteristics of both practices and see the process of how the free market economics reborned, giving a new acceptation of the market logic.

Subsequently, it will be seen how these neoliberal practices were introjected in the governments of Ronald Reagan and Margaret Thatcher, the changes that they brought, the collateral effects and how it resulted in the intensification of the Special

Relationship between United Kingdom and United States, having as consequence the adoption of a more preemptive posture in facing the Soviet Union in the end of the Cold War.

Neoliberalism – Elocubrations

Neoliberalism is about a system based in an adaptation of the classical economic theories that emphasizes the efficiency of the private entrepreneurs, liberal trade and opened markets, looking for maximize the participation of the corporative sector in the determination of the political and economic priorities of the state, believing that the individuals can effort themselves better to achieve their own welfare (HAYEK, 2010). Even don't being academically considered a discipline; the theory started its formulation since the middle of the XX century, having the term "Neoliberalism" appearing for the first time in 1938, in the Walter Lippmann Colloque, where economists of many nationalities gathered to debate their concerns about the predominance of the Keynesian theory in many countries. This colloque was the origin of the Mont Pèlerin Society, headed by F.A. Hayek (MIROWSKY; PLEHWE, 2009).

Thus, the theory defends a minimum State intervention in economy, whilst regulator of it, making clear, nevertheless, that this intervention may occur in cases of extreme necessity (e.g. wars). Out of this situation, the state would work just as an assistant and observer (BAUMOL, 1965).

Politically, socially and economically adopted by neoconservative governments, the Neoliberalism can be observed in 1973, in Chile, and in United Kingdom, in a first moment, and USA in the 1980s. All of them looking for transferring the economic control from the public sector to the private sector, convicted that this measure would propitiate a more efficient government and the stabilization of the national economy.

The neoliberal argument focuses its attentions on market, being very common to find terms such as free market, free trade, efficiency, freedom of choice, freedom of consumption and individual autonomy, always to fundament the logic of the market's self balance.

Neoliberalism in USA during the 1980s

In United States of America, in particular, the Neoliberalism makes itself notable after the election of president Ronald Reagan¹, adopting an economic policy based in four pillars: reduction of the government spending, reduction of taxes over income of the workers and investors, reduction of regulamentation and reduction of inflation controlling the constant increase of public money supply, according to William Niskanen (1998). This economic policy was denominated Reaganomics.

“These major policy changes, in turn, were expected to increase saving and investment, increase economic growth, balance the budget, restore healthy financial markets, and reduce inflation and interest rates.” (NISKANEN, William A. Reaganomics, 1998)

In the period that precedes the Reagan government, USA lived a decade of economic stagnation and inflation, high levels of unemployment, and moral decline (due to the Vietnam War² and the Watergate Scandal³). Reagan lived the end of this economic situation, and thanks to its neoliberal approach, the process of restructuration of the North American economy was accelerated. However, the consequences of the political reforms implementated by Reagan, having a mixed content, provoke both compliments and critics. Taking the premise of HARRISON (1981, p.07),

“Despite these potentially successful approaches, the Reagan conception of the world contains a major flaw. A limited revival of U.S. global leadership in the 1980s is possible and desirable. But no foreign policy of global leadership based on the resumption of a pervasive Soviet-U.S. rivalry can restructure world politics into the simple, sometimes appealing, but anachronistic hierarchy of the Cold War.”

The author proceeds stating that, in the Reagan’s politics, the countries that don’t follow the North American international rule, being them allies or not, can be

¹ Ronald Wilson Reagan (1911 – 2004) was the 40th president of United States of America.

² The Vietnam War (1955 – 1975) was a conflict between USA and the North Vietnam communist government. In the end USA retreats its troops, Vietnam was reunified into a communist government and Democratic Kampuchea and Laos fall to the communist influence.

³ The Watergate Scandal (1972) was a political scandal when it was discovered that Richard Nixon’s government were spying the Democratic Party headquarter. In the end, president Nixon resigned, being the first North American president to do so.

disciplined and put in an alignment with the USA economy. With this, there's the intention to centralize the international authority around the military power of United States, propitiating a hierarchy where USA project itself as leader, exercising a centripetal force over the others. The North American administration presumed that this policy would instigate an aggressive posture of USSR, looking for validating the USA presuppose.

HARRISON (op. cit) criticizes the isolationist foreign policy adopted by Reagan, saying that it disconsidered great part of the third world countries, as well as the concernings of domestic actors. The greatest problem of this was in integrating USA in a multipolar world, accepting that they would lose part of their relative power, without allowing the Soviet Union to superpose them in this system.

For this, the intense investments on the security area were of great value, once that the bellicose competition between USA and USSR made impracticable the soviet model. Having the capitalist economy a dynamism and profit production much more favorable, USSR haven't endured a continuing competition related to the armaments production, and resulted in the economic sphacelating.

Amongst the economic policies included in the Reagan plan, it is appropriate to elucidate the economic acts, such as the "1981's Economic Recovery Tax Act", the "1982's Tax Equity and Fiscal Responsibility Act" and the "1986's Tax Reform Act".

The "1981's Economic Recovery Tax Act" was a federal law that reduced the tax levels over income and promoted incentives to the enterprises, including an adjustment of the depreciating taxes. The law resulted in the increasing of the federal deficit, leading to the revision on the "1982 Tax Equity and Fiscal Responsibility Act" (InvestorWords.com). It constituted in a federal law that reverted some tax cuts of the previous year, retaining, specifically, 10% for dividends, revogated the growing depreciation deductions used by corporations, augmenting the base salary and the federal unemployment tax aliquot.

The "1986's Tax Reform Act" could be interpreted as a contradiction of the Reaganomics principles, once that it finished the tax exemption to the high class

citizens and the tax levels on the capital revenues were equalized with the other budgets.

Nevertheless, despite the critical elements present in the Reagan economic policy, one cannot limitate itself just looking to the negative aspects of Reaganomics and ignore the positive consequences. As matter of fact, around eight million jobs were created during Reagan's government. And even with the unemployment levels arising during the 1981-82 recession (in the beginning of his presidential mandate), jobs started to be continuously created in the seven subsequent years.

And the augmentation of the government's expenses with security investments, additioned to the simultaneous tax cuts, resulted in significant deficits during the 1980s. Precisely, this is what motivates the critics on the Reaganomics. But when one studies the Neoliberalism in United States in the 1980s, it is indispensable to have in mind the historical context of that time and the situation that the country faced, as well as the solutions found through Reaganomics and the expectations achieved until the end of that decade, with the end of the Cold War.

Neoliberalism in United Kingdom during the 1980s

In May 1979, Margaret Thatcher becomes the first female prime-minister of Great Britain, holding the post for eleven and a half years. Her government will be marked by the ironlike neoliberal practices privatizing many state owned sectors, and based "in a right wing philosophy, a belief in the free market, low taxes, minimum government and strong defense" (The Downing Street Years, 1993) being, in this way, the fundamental characteristics of the Thatcherism.

These practices incurred in a strong alignment between United Kingdom and United States of America in the 1980s decade. The similarities of the interests seeked for both countries in the economic area, and this orthodoxy to the neoliberal economics with Reagan and Thatcher leaded to what Andrew Marr (2007) denominate a "diplomatic love affair".

United Kingdom in the 1970s was dominated by the Labour Party that, since post World War II restructuration, adopted economic interventionist measures and an extremed Welfare State, which led Britain, over the years, to enter in a process of

growing decline, lack of economic dynamism, increasing taxation, unemployment, inflation, augmentation of the union's power and the bankruptcy of many enterprises. Even distorting some sectors of the Conservative Party, as well shown in the 1970-74 Edward Heath's government (Tory! Tory! Tory!, 2006).

Such situation served as a strong blow for Great Britain, where the citizens' moral was totally down, with the social chaos, protests and the low international expression of UK. This period was denominated "The Winter of Discontent"⁴ (GARFINKEL, p.34, 1987), marked by the accumulation of social problems in the winter of 1978-79.

With these problems, the Thatcherite practices looked for containing the union's strikes, being very severe with them.

After a determined social control, the economic changes consisted in the privatization of several sectors, such as petrol, gas, electricity, water supply, steel, airlines, phones and railways (MARR, 2007).

The continuous neoliberal actions on the Thatcher government allowed the pound sterling value to be stabilized, recovering the dynamism and the breath of the british economy, caused by the immense stimulus to the private initiative through a drastic reduction of the taxes, the exorbitating level of consumption and the increasing number of shareowners. Consequently, the unemployment rates were down, such as the inflation rates. Notably, it was in this age that the financial centre the City of London developed and modernized itself.

In the international level, United Kingdom passed through an intensification of the approach with the USA government, once that Reaganomics had a profound neoliberal affinity with Thatcherism. Furthermore, both countries seeked to form a more preemptive approach with USSR. The constant expansion of economy and the increasing investment in national defense was very well introjected by the British government, supporting United States in the arms competition against the Soviet Union, leading to a subsequent disruption of the soviet economy.

However, for more significant benefits provided by the British Neoliberalism, some wounds would appear. The child poverty in UK tripled, reaching the greatest levels in Europe. Problem that would only be solved in Tony Blair's government. Not mentioning the growing social disparity. Whilst the economic prosperity and

⁴ Inspired by the opening of William Shakespeare's Richard III.

consumption were notable in certain social segments, many others lived a period of poverty, very well observed in the increasing number of beggars in the streets of London (MARR, 2007).

And in the end of Thatcher's government, looking for making a reform in the tax system, the British government put the Pool Tax into practice, defining an equal percentage of the adult citizens income totally reverted to the public services. Due to the inequality on the values that would be paid for each person, this tax crated massive protests, helping, with many other factors, to finish with the Thatcher government. Despite of this, it is a fact that the Thatcherite conservative government left a great legacy, being profound enough to change the opposition to a more right wing orientation (new Labour) and for maintaining the international importance of UK.

Conclusion

With this paper, it became evident that the United Kingdom of Great Britain and Northern Ireland and United States of America used in a very intense way all the neoliberal practices, obtaining various benefits from this.

Observing in general, the Reaganomics and Thatcherism models based themselves in a diminishing participation of the State in economy, in a intense privatization, in a great stimulus to the free initiative and enterprise, in the reduction of taxes and the growth of consumption. This reflected in the finances of both countries very positively, revigorating the trade, reactivating the importance of the financial centres, intensifying the Special Relationship, stabilizing the currency and serving as a supreme potential to National Defense granting the victory in the Cold War, once that the Soviet Union haven't handled the competition and dynamism of the neoliberal capitalism. And as direct consequence, the economic liberalism became almost an apanage in the economic approach of all countries in the world.

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