7. Great Britain

**The British Experience**
- known as Thatcherism
- a sharp turn away from a welfare state (European model) to a laissez-faire economy (US model)
  - reduction ______________
  - reduction ______________
  - reduction ______________
- lessons for other privatizing countries (transition economies)

**Motives**
- post WWII – strong growth, low inflation, low unemployment
- still lagged the growth rates of Germany and Japan (why?)
- Poor(er) economic performance in the 1970s
  - heavily progressive tax on income and capital
  - comprehensive welfare state → ______________
  - unionized and militant workforce
  - inefficient public sector – ______________
- Conservatives replace the Labour gov’t in 1979 – Margaret Thatcher
Privatization

- transfer of __________, deregulation, franchising (contracts), private production
- reduce the involvement of gov’t in the economy
- improve overall __________
- Reduce __________
- ______ the power of trade unions
- ______ the ownership of shares
- BP, British Aerospace, public utilities
- gov’t production 1979: __% → 1997: __%

Privatization

- techniques:
  -
  -
  -
  -
- Productivity improved somewhat
- Private __________
- Fall in employment
- Wages of workers __________
- Pay to top executives __________

→ overall low benefits of privatization

Other reforms

- Welfare state:
  - quasi-markets in education and health
  - contracting out the provision of public services
  - reforms in social services were not very effective
- Tax reform:
  - drastic reduction in top marginal tax rates
  - redistribution → payment for benefit
- Labor Unions:
  - were not considered social partners, but a menace
  - lost influence during the rule of Margaret Thatcher
### Public Sector

<table>
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<tr>
<th>Country</th>
<th>Spending % of GDP</th>
<th>Transfers % of GDP</th>
<th>Taxes % of GDP</th>
<th>Employment % of labor force</th>
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</table>

### Lessons

- Governance more important than ownership, but SOEs burdened with SBCs
- More flexible labor markets:
  - Lower unemployment
  - Higher inequality (graph)
- Privatization of monopolized sectors may require regulation
- What can transition economies learn?