The 'Productivity Miracle' of the Reagan-Thatcher Years in Perspective

Introduction

By both historical standards and in comparison with other European economies, the real economic performance of Britain and the United States was dismal during the 1970s. Productivity growth slumped (see Table 1) and real living standards grew more slowly than in any decade since the 1930s. Unemployment soared. Electoral faith in the orthodox 'Keynesian' remedies of demand management, prices and incomes policies and industrial interventionism collapsed. At the end of the decade, popular discontent in both countries swept to power conservative governments, committed to radical 'supply-side' programmes. These innovative policies of the 'New Right' stressed microeconomic reform; privatisation, deregulation and market liberalisation replaced the traditional dirigisme that continued to characterise policymaking in the rest of Europe.

The programmes were designed to stimulate productivity growth and thereby lay the foundations for an "economic renaissance" (Walters, 1986). Ten years on, it is widely believed that, despite heavy transitional costs in terms of higher unemployment and lost output, these supply-side policies have indeed succeeded in reversing, or at least arresting, the relative economic declines of the United States and Britain. During the 1980s, productivity growth fell dramatically in the other major European countries (see Table 1); but it picked up in the United States after stagnating between 1973-79 and accelerated even more strongly in Britain.

The divergent productivity performance of the United States and Britain on the one hand, and Germany, France and Italy on the other, raises important questions about the appropriate design of growth policy in the 1990s. The European Community's efforts to accelerate the process of economic and monetary integration, which require

TABLE 1

ANNUAL GROWTH IN OUTPUT PER PERSON EMPLOYED
(Business Sector)

	1960-73	1973-79	1979-89
United States	2.2%	0.0%	0.8%
Britain	3.6%	1.5%	2.4%
Japan	8.5%	3.0%	3.2%
Germany	4.5%	3.1%	1.6%
France	5.4%	3.0%	2.6%
Italy	6.3%	3.0%	1.6%

Source: OECD *Economic Outlook*

much closer harmonisation of members' industrial, regional, social and fiscal policies, make this issue particularly crucial to the debate about the future shape of a united Europe. This article examines the relationship between the productivity gains enjoyed by the United States and Britain and the Reagan-Thatcher policies of the 1980s. It begins by briefly outlining the supply-side policies implemented by the two administrations during the 1980s and reviews the performance of the US and British real economies over the last decade. It then considers the sources of the renewed productivity growth on both sides of the Atlantic, arguing that it stems primarily from a once-for-all reduction in 'X-inefficiency', rather than from a fundamental transformation of the real sector.

The Reagan supply-side agenda

The incoming Reagan administration had a clear supply-side agenda with three main dimensions: (i) a reduction in the growth of federal expenditure as a percentage of GNP, designed to reduce the role of government in the economy; (ii) a reduction in marginal tax rates, with the aim of increasing incentives to work and invest; (iii) the 'prudent' relief of regulatory burdens to promote competition in the private sector. In addition, the administration pledged itself to steadily reduce the budget deficit in order to avoid 'crowding out' the private sector, aiming to balance the budget by 1984 and achieve modest surpluses thereafter (Niskanen, 1987). In the case of (iii), the White House gave primary emphasis to the non-enforcement, rather than the abolition, of existing federal regulations. The stated objectives of the supply-side programme were an increase in savings, investment and the rate of labour productivity growth and the net creation of 13 m jobs by 1986 (Council of Economic Advisors, 1981, 1982).

In the event, the administration faced enormous Congressional hostility to its attempts to curb federal expenditure (Stockman, 1986). Taken in conjunction with the President's commitment to strengthening national defence, the result was that federal spending as a percentage of GNP actually rose over the two Reagan terms (see Table 2). Reductions in marginal tax rates between 1981-88 were, however, broadly implemented as planned. ('Fiscal drag' and other changes to the tax system kept the overall tax burden as a percentage of GNP stable between 1981-88). The most significant tax change was enacted during the President's first term (the 'Kemp-Roth' tax cuts), when personal income tax cuts of 10%, 10% and 5% were phased in over a three-year period, lowering the top rate to 33%. The corporate income tax rate was cut from 48% to 34% and new, shortened depreciation lives for capital equipment and enhancements to real estate were introduced under the 'Accelerated Cost Recovery System'. But the administration's failure to contain the growth of spending, or to offset this growth with higher tax receipts, led to a sharp rise in the budget deficit as a percentage of GNP, which averaged 4.0% over the two Reagan terms (Grieder, 1987).

TABLE 2

US FEDERAL EXPENDITURE, TAX RECEIPTS AND BUDGET DEFICIT
(% of GNP)

	Expenditure	Receipts	Deficit
1973-76	21.3%	19.2%	2.1%
1977-80	21.4%	19.8%	1.6%
1981-84	23.9%	19.9%	4.0%
1985-88	23.8%	19.8%	4.0%

Source: COUNCIL OF ECONOMIC ADVISORS.

In the case of deregulation, or at least the non-enforcement of government regulation, three developments were particularly prominent. First, in the area of mergers and acquisitions, the US

Justice Department adopted a new, 'laissez-faire' attitude. Secondly, the controls governing the financial system were lifted in almost wholesale fashion, unleashing a wave of financial innovation as banks and savings and loans institutions (quasi-banks historically restricted to lending for the purpose of private house purchase) began to offer new services and products. And thirdly, the administration took an explicitly anti-union stance, refusing to arbitrate in major strikes and actively supporting private sector employers in struggles against organised labour. This constituted a significant departure from previous practice, when large-scale industrial conflicts had invariably been settled with government aid. An early example of this new approach was the President's decision to summarily dismiss government air traffic controllers during a dispute in 1982.

The performance of the US real economy

In general terms, US economic performance during the Reagan years was in line with historical experience (Wills, 1988). Table 3 shows that real GNP growth averaged about the same level as the Carter era (1977-80) and slightly above the Nixon-Ford years (1973-76), although the growth in employment was initially well below the average rates achieved in the 1970s. (This slowdown was reflected in temporarily higher unemployment rates during Reagan's first term). What was remarkable, however, was the substantial improvement in productivity growth during the Reagan era. This was particularly true in the manufacturing sector, which averaged 3.8% pa in the Reagan years, over double the rates of the 1973-80 period. But as Table 3 shows, the same increase was evident for total non-farm business productivity growth generally. The causes of this strong productivity growth are examined further below.

The Thatcher supply-side agenda

Like the Reagan programme, the supply-side strategy pursued by Thatcher Government had three main elements: (i) a reduction in government spending as a percentage of GNP, with the aim of

TABLE 3

SELECTED US REAL ECONOMIC INDICATORS
(% Change, Average Annual Rates)

	1973-76	1977-80	1981-84	1985-88
Real GNP Growth	2.1	3.1	2.5	3.6
Non-Farm Business Output Growth/Hour	1.0	0.1	1.1	1.5
Manufacturing Output Growth/Hour	2.3	1.4	3.9	3.8
Employment Growth	2.0	2.8	1.4	2.2
Unemployment	6.7	6.5	8.6	6.4

Sources: Economic Report of the President, US Bureau of Labour Statistics.

'rolling back the frontiers of the state'; (ii) tax cuts, coupled with reforms to the system of unemployment benefits, to increase incentives to work and invest; and (iii) measures to promote competition through a mixture of deregulation and market liberalisation (see Matthews and Minford, 1987). In contrast to the Reagan policy, scaling back 'big government' included the privatisation of publicly-owned assets and promoting competition entailed the outright abolition of existing regulations and, where appropriate (*e.g.* in the labour market), new legislation designed to liberate market forces. The Thatcher programme was also accompanied by a commitment to steadily eliminate the budget deficit.

In contrast to the United States, government expenditure as a proportion of GNP was successfully reduced over the 1980s (see Table 4). The role of the state in the economy was further curtailed via privatisation. By value, over half the stock of public assets was transferred to private ownership, including telecommunications, natural gas distribution, the national airline (British Airways), water distribution and 1.5 m public housing units. Electricity generation and distribution followed in December 1990. 'Contracting out' (*i.e.* the small-scale privatisation of specific activities like garbage collection) was extended to a range of services in the local government and public health care fields.

On the tax front, the inherited structure of income tax rates spanning the range 25-98% was trimmed to only two, a basic rate of 25% and a top rate of 40%. Personal tax deductions were systematically over-indexed to increase their real value and capital gains tax amended to remove inflationary gains from the net, while company taxation was completely revised to bring the marginal rate down from 53% to 35%. As in the United States, fiscal drag and an increasing reliance on indirect taxation ensured that tax receipts as a proportion of GNP remained buoyant, so that, with the slowdown in the growth of public spending, the budget moved from deficit to surplus over the 1980s. The Government also initiated a reform of the social security system, which was primarily designed to reduce 'replacement ratios' (*i.e.* the ratio of unemployment benefits to expected post-tax income from work) for the unemployed and to moderate the 'poverty trap' (*i.e.* the disincentive to work caused by the withdrawal of benefits as income rises) for the low-paid.

Table 4

UK GOVERNMENT EXPENDITURE, TAX RECEIPTS AND BUDGET DEFICIT
(% of GNP)

	Expenditure	Receipts	Deficit
1979-80	43.5	38.5	5.0
1989-90	38.8	40.8	−2.5

Source: Autumn Statement, CSO Financial Statistics.

Finally, far-reaching legislative changes to liberalise the labour, capital and goods markets were implemented. All prices and incomes controls, which had been almost continuously in force in Britain since the early 1960s, were abolished as soon as Mrs Thatcher took power in 1979. A series of employment acts severely limited the power of labour unions to pursue industrial action and several large unions had their assets seized for failing to comply with the new codes of conduct. In the financial markets, international capital controls were scrapped in 1979 and all direct banking controls phased out between 1979-81. In 1986, 'Big Bang' deregulated the City of London and building societies (equivalent to US savings and loans institutions) were permitted to compete on an equal footing with banks in a range of services. In the goods markets, a number of statutory monopolies were legislated into history.

The performance of the British real economy

Table 5 shows that the turnaround in the real British economy was superficially impressive. Labour productivity in manufacturing grew at an historically unprecedented rate of 5,48% pa 1982-89, compared with a sluggish 1.9% pa 1973-79. A similar, if less dramatic, improvement was apparent for the economy overall. GNP per person employed grew at 2.7% pa 1982-88, compared with 1.3% pa 1973-79. Output growth averaged an even brisker 3.3% pa 1982-89 (compared with 2.0% pa 1973-79), reflecting the increase in employment that has taken place since 1982. However, demographic trends and increasing female participation in the labour force meant that, despite modest employment growth, unemployment only began to fall in 1986, averaging 9.6% over the period 1982-89.

Table 5

SELECTED BRITISH PERFORMANCE INDICATORS

	1973-79	1979-82	1982-89
GNP Growth	2.0%	0.1%	3.3%
GNP Growth/Person Employed	2.2%	1.7%	2.7%[1]
Manufacturing Output Growth/Person Employed	1.9%	1.7%	5.4%
Employment Growth	−0.2%	−1.6%	0.6%
Unemployment	3.4%	6.7%	9.6%

[1] 1982-88.
Source: CSO Economic Trends, Employment Gazette, OECD *Economic Outlook.*

Has 'supply-side' policy been a success?

Largely due to the limitations imposed by a presidential, as opposed to a parliamentary, system of government, the Reagan administration proved far less successful in implementing its original supply-side programme than Mrs Thatcher's Government. Most notable was the failure of the White House to achieve its planned reductions in federal spending and the budget deficit as a share of GNP. Nevertheless, in both the United States and Britain, the 1980s witnessed a radical change in the conduct of supply-side policy and productivity performance, both relative to the 1970s and to that of other major European economies, improved markedly. A meaningful assessment of the new supply-side policies is, however, complicated by the 'counterfactual problem'; that is to say, it is impossible to be certain how the real economy would have performed over the same period had more traditional policies been continued. During the 1980s, both economies were buffeted by a host of unique internal and external forces (*e.g.* the exploitation of North Sea oil in Britain and the introduction of new, microchip technologies) and their real sectors' behaviour would have diverged from past trends and from trends in Germany, France and Italy, even if domestic policies had remained unchanged. Logically, therefore, the impact of supply-side policies can only be properly assessed by comparing actual productivity growth with what would have obtained under previous, dirigiste policies, rather than with either historical figures or economic performance in other, similar economies.

One popular response to this difficulty has been to simulate the development of the real economy over the 1980s on the basis of alternative policies using large-scale macroeconomic models, but the results of such work have been disappointingly mixed and highly sensitive to the specification of the models used. In the analysis that follows, the success of US and British supply-side policies is judged against the administrations' stated economic objective, namely to shock their economies out of the low productivity 'rut' of the 1970s and on to a new, permanently-higher growth path. As noted above, there are important limitations in using history as the main basis for comparison. But given that the Reagan-Thatcher administrations will be judged by future generations on their economic records *relative* to those of their predecessors in the 1970s, an historical benchmark has a strong intuitive appeal.

Against this crude measuring rod, it seems clear (at first sight) that despite failing to carry through their original programmes as fully as planned, the Reagan-Thatcher administrations nevertheless delivered a sufficiently powerful boost to productivity growth for their programmes to be deemed a success. However, the intention of the supply-siders was not simply to achieve a once-for-all jump in productivity, but rather to reshape the microeconomic foundations of their economies and thereby pave the way for a higher rate of productivity growth in the long term. To be judged successful in this

broader sense, it requires that the policies should not just have reduced X-inefficiency, so wringing higher output from existing inputs, but more importantly that they should have led to an increase in the quality and quantity of inputs (Haskel and Kay, 1990). Successful supply-side policy therefore means creating the conditions for three critical breaks with the low-growth past: increased research and development (R&D) in new products and processes; increased investment in physical capital; and increased investment in human capital. The following sections consider the records of the United States and Britain in each of these three areas.

1. *Research and Development*

Table 6 shows that, once military-related research spending is deducted from the total, the proportion of GNP devoted to R&D in Britain and the United States is considerably lower than in Germany and Japan. Moreover, in Britain, the ratio of total R&D to GNP actually fell during the 1980s (Englander and Mittelstadt, 1988). Table 6 also shows that the government's contribution to civilian R&D in the United States is the lowest of the major industrialised nations.

TABLE 6

R&D EXPENDITURE AS A PERCENTAGE OF GNP (1987)

	Total non-military R&D	of which: government funded
Britain	1.8	0.6
United States	1.8	0.4
Japan	2.9	0.6
Germany	2.7	1.0

Source: OECD, Cabinet Office.

2. *Investment in physical capital*

An increase in business investment was an explicit goal of the Reagan programme. Tax cuts for individuals and businesses, particularly in the form of accelerated depreciation, were intended to stimulate personal and business savings, which the administration argued would then be invested. In fact, Table 7 shows that as a percentage of GNP, personal saving fell from 4.8% during the Carter years to 2.8% of GNP during the second term of the Reagan administration, while business savings over the two Reagan terms were broadly stable. And non-residential investment as a percentage of GNP during the Reagan years was actually considerably less than that in either the Carter or the Nixon-Ford years.

Table 7

US SAVINGS AND INVESTMENT
(% of GNP)

	1973-76	1977-80	1981-84	1985-88
Personal Saving	6.3	4.8	4.6	2.8
Business Saving	12.5	13.1	13.2	12.7
Net Non-Residential Investment	3.1	3.4	2.5	2.6

Source: Economic Report of the President.

In Britain, investment in physical capital was also disappointingly low in the 1980s. Overall, the capital stock in industry and agriculture rose by only 1.2% pa in real terms between 1979-87 – the worst performance in the entire postwar period. Despite a modest improvement in the late 1980s, investment performance in all industrial sectors was weaker than in the previous decade. Table 8 shows the declines in gross investment that took place between 1979-87 in many sectors, as well as the annual average growth of the gross fixed capital stock over this period. In sectors critical to longer term productivity gains like construction and transport, the capital stock was either stagnant or shrinking.

3. *Investment in human capital*

Table 9 shows that US government spending on productivity-related items such as elementary, secondary and vocational education, higher education and training in employment fell substantially during the Reagan years. In Britain, investment in human capital was also disappointing (see Ashton *et al.*, 1989). Despite an attempt by the Government to reform industrial training programmes, the proportion of manufacturing workers in training slumped sharply during the 1980s, from 4.5% in 1979 to 2.1% in 1988 for males and from 2.4% to 1.1% for females (see Table 10). Britain has the lowest proportion of 16-25 years old in further education of any advanced country and the least qualified managerial class (Haskel and Kay, *op. cit*).

Table 8

BUSINESS INVESTMENT IN BRITAIN

	Gross Investment (% change, 1979-87)	Growth of Gross Fixed Capital Stock (% annual average, 1979-87)
Agriculture	−36.9	−0.3
Oil and Gas	−22.4	6.5
Energy	3.0	0.9
Manufacturing	−9.5	1.0
Construction	−41.8	0.0
Distribution	39.3	4.0
Transport	−19.7	−2.3&
Communication	−49.9	2.5
Banking and Finance	122.1	7.5

Source: CSO UK National Accounts.

Table 9

US GOVERNMENT INVESTMENT IN HUMAN CAPITAL

Federal Expenditure (at 1982 prices, $bn)	1980	1988	Change
Elementary, Secondary and Vocational Education	8.8	8.2	− 6.5
Higher Education	8.0	7.8	− 3.4
Research and General Education Aids	1.4	1.2	−14.9
Training and Employment	11.4	4.6	−59.7

Source: Budget of the United States Government, Historical Tables.

Table 10

TRAINEES IN BRITISH MANUFACTURING INDUSTRIES

	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total ('000)	290	266	240	210	180	150	122	112	100	95	93
% Male Employees in Training	4.5	4.5	4.4	4.2	3.8	3.3	2.6	2.4	2.2	2.2	2.1
% Female Employees in Training	2.5	2.4	1.9	1.5	1.6	1.4	1.3	1.3	1.2	1.1	1.1

Source: Employment Gazette.

Productivity and the rate of net business formation in the United States

In the United States, much has been written about the contribution of the small business sector to productivity growth in the 1980s. In fact, the data presented in Table 11 do not support this view. The index of net business formation has shown little change over the past eighteen years, with the Reagan record slightly less favorable than that of the Carter administration. Business failure rates, moreover, accelerated sharply during the first term of the Reagan administration. And despite this lacklustre performance, financial assistence to the fledgling business sector via the 'Small Business Administration' was cut by over $2bn in real terms between 1980-88, a reduction of over 85% in its funding.

TABLE 11

NET US BUSINESS FORMATION
(% Change, Average Annual Rates)

	1973-76	1977-80	1981-84	1985-88
Index of Business Formation	0.4	2.1	–1.8	0.6
Index of Business Failure	–1.7	8.4	27.4	–1.8

Source: Economic Report of the President.

Explaining the 'productivity miracle'

The analysis above suggests that there has been little change in the real economic fundamentals of either the United States or Britain. A more compelling interpretation is that the impressive productivity growth of the 1980s was primarily due to a sharp change in the balance of power between capital and labour. Over the last decade, tax reductions and deregulation sharply increased the strength of big business, while structural change and higher unemployment combined to weaken the position of organised labour. The result was an intensification of work effort and the abolition of restrictive labour practices on both sides of the Atlantic, thereby boosting worker productivity through a reduction in X-inefficiency (see also Cross, 1988; Metcalfe, 1988).

1. *The increasing power of capital*

A key factor strengthening the position of capital in the United States was the unbalanced nature of the Reagan tax reductions. Although marginal tax rates for individuals were cut, changes in allowances and fiscal drag meant that the share of total federal revenues contributed by personal taxes remained unchanged between 1980-88 (see Table 1 above). In contrast, corporate tax cuts, particularly accelerated depreciation, depressed the share contributed by businesses from 14.3% during the Carter years to 9.2% during Reagan's second term.

As noted above, this increased cash flow to business during the 1980s was not matched by the anticipated upturn in non-residential investment. One common use of funds was for corporations to buy back their own stock, thereby insulating management from shareholder control. Another was to finance corporate takeovers, which increased dramatically in the new, unregulated enviroment created by the Reagan administration. The wave of merger activity was further strengthened by financial deregulation, which encouraged the growth of leveraged buy-outs (LBOs), financed by so-called 'junk bonds'. The 1980 'Monetary Control Act' and the 1982 'Garn-St. Germain Act', which abolished certain restrictions on savings and loans institutions, both fuelled this particular practice.

Between 1980-86, the reported value of mergers and acquisitions rose from $33bn pa to $190bn. The total for the seven-year period amounted to $66 7bn. The number of takeovers of $1bn or greater rose from 3 in 1980 to 34 in 1986, a total of 106 for the whole period (Adams and Brock, 1988). There is little doubt that, in the United States, the acceleration of takeover activity greatly strengthened the hand of management. In firms that were taken over, the incoming management could impose new work practices and rationalisation programmes, while in firms that were threatened, incumbent managements could demand concessions from the labour force as the price of fighting off the potential predator. In Britain, the same forces enhancing the position of capital were apparent. The budget of 1984 introduced a new, more liberal tax regime, reducing the marginal rate of tax paid by corporations from 53% to 35% in a series of annual steps, while by 1986, financial deregulation in Britain was almost complete. A record number of LBOs and hostile takeovers followed during the late 1980s.

In both the United States and Britain, business also benefitted from the new, relaxed government attitude to regulations which had formerly constrained corporate activities in a variety of areas. Under the Reagan administration, for example, real federal expenditure on consumer and occupational health and safety programmes slumped by 22.6% between 1980-88. The reduction in spending on official supervision and monitoring is also widely blamed for the US savings and loans crisis. In Britain, the Thatcher government abolished a raft of health and safety regulations, with the intention of easing the 'burden' on business.

2. *The declining power of labour*

In the United States, a number of important factors combined during the Reagan administration to dramatically weaken the position of American organised labour, reducing its influence to the lowest point since the 1920s. Although slowed by an immigration reform bill in 1986, legal and illegal immigration in the 1980s was at its highest level for 60 years, with the flood of new workers tending to move into non-unionised jobs, thereby putting downward pressure on real wages. The growth of low-paid, part-time service jobs, the increasing participation of women in the workforce and the slowdown in the growth of government employment all had the effect of reducing the proportion of workers in industries covered by union agreements. In the manufacturing sector, the appreciation of the dollar in the mid-1980s put tremendous pressure on many companies, which responded by cutting wages and salaries. The demonstrable inability of unions to defend their members against such assaults on their living standards further accelerated the demise of the labour movement.

The result of all these pressures, taken together with the Reagan administration's generally hostile attitude to labour unions, was a sharp fall in union density in the United States. In 1980, 23.2% of all non-agricultural employees were union members. An employment survey, conducted by Louis Harris and Associates for the AFL-CIO, showed that, by 1985, the proportion had slumped to only 14.1%. The most graphic symptom of the weakened position of labour was the dramatic fall in real wages during the 1980s, which took place against the backdrop of an upturn in productivity growth (see Table 12).

TABLE 12

US GROWTH IN REAL WAGES[1]
(Annual Increase in Average Weekly Earnings at Constant Prices)

1950-59	1960-69	1970-79	1980-88
2.54%	1.45%	−0.27%	−1.00%

[1] Non-farm business sector.
Source: US Department of Labor, Bureau of Labor Statistics.

In Britain, the Thatcher government inherited an economy in which the power of organised labour was far stronger than in the United States. In 1980, union density was over 58%. But many of the same forces undermining the position of labour were at work. Structural change, hastened by the appreciation of the real exchange rate in the early 1980s, was far more pronounced in Britain. In employment terms, the manufacturing sector contracted by 20% between 1979 and 1982, eliminating approximately 2 m blue-collar, full-time manual jobs in occupations that had been highly unionised. Total union membership fell by almost 2 m over the same period. Employment growth in the 1980s, in contrast, was predominantly in the service sector, which has traditionally been unorganised in Britain, and many of the new jobs were taken by women on a part-time basis, rather than full-time male employees, further militating against a recovery in union strength.

The British Government for its part, pursued an aggressively anti-union approach in its dealings with the labour unions, typified by its handling of the protracted coal miners' strike of 1984-85, during which the Government refused to negotiate with the miners' union and resorted to the force of law to keep mines operating. More seriously, the Thatcher administration introduced powerful new legislation to curb the power of unions to conduct strike action. Secondary picketing was outlawed, as was the mass picketing of workplaces. Unions were obliged to hold secret, postal ballots before strike action could be legally undertaken.

By 1988, union density had fallen to 45%, as structural change robbed unions of members and government action reduced the perceived advantages of belonging to a labour union. The persistence of historically unprecedented levels of unemployment throughout the 1980s further undermined the willingness of union members to support the initiatives of their leaders at times of industrial unrest. As in the United States, one manifestation of the weakening power of organised labour was a decline in the real wages of unskilled manual workers. In Britain, however, employers tended to take advantage of the reduced resistance of labour to push through job-shedding changes in work practices, rather than imposing wage cuts, and so unemployment and productivity growth were both higher than in the United States.

Conclusions

At the end of the 1970s, the United States and Britain elected new administrations pledged to revitalise the real economy via revolutionary supply-side programmes. These policies differed radically from the dirigisme that had previously characterised postwar policymaking in both countries and which continued to be the norm, albeit in diluted form, in the rest of Europe. Over the following decade, there were indeed substantial gains in productivity in the United States and Britain, while productivity growth fell in Germany, France and Italy. These developments raise crucial questions about the design of supply-side policy, particularly against the backdrop of greater economic integration within the European Community and all this implies for the harmonisation of industrial, regional, social and fiscal policy.

This article assesses the contribution of the Reagan-Thatcher policies to this improvement, considering the extent to which the productivity gains of the recent past can be sustained into the 1990s. It concludes that the evidence shows no significant increases in R&D expenditure, personal and business saving, business investment in plant and equipment and investment in human capital, all vital prerequisites for a transformation in the long run prospects of the real economy. What is common to both countries, however, is that the power of capital has been greatly enhanced at the expense of labour, by a combination of legislative action, deregulation, tax policy and unofficial government attitudes which have been generally pro-capital and anti-labour. The position of unions and labour generally has been further undermined by the higher unemployment which characterised

the 1980s. Under such circumstances, the observed gains in productivity which took place in the United States and Britain during the 1980s are unsurprising. It is important to recognise that such gains are exhaustible and it seems probable that the 'productivity miracle' of the Thatcher-Reagan era will peter out in the new decade. While the sharp reduction in X-inefficiency that has stemmed from the 'New Right' policies is entirely welcome, all other things equal, it provides no blueprint for the supply-side agenda of an economically-unified European Community as the new millennium approaches.

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