Education Reform under the Thatcher Government and Hayek’s Thought on Welfare State: Market Mechanism and Managed Competition
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ABSTRACT
The welfare state reform under the Thatcher government in the UK has been talked in relation with F. A. Hayek. Hayek affected to her economic thinking and she has also admitting his influence. In this paper, I will examine British education policy during 1979-90 and seek some difference between its reform and Hayek’s thought. The core of Thatcher’s reform was to introduce competition among schools and evaluate its performance through comparative league tables to improve education standard. However, Hayek supported just private school and Freedman’s education voucher system. Therefore, I will compare their basic conception of education and welfare state and rethink the character of Thatcherism.

I. Crisis of Welfare State and Rise of Neo-Liberalism

In this paper, I will examine British education policy under the Margaret Thatcher government during 1979-90 in relation with the idea of F.A. Hayek. Although both the Thatcher government and Hayek seem to be typical neo-liberals, there are still some differences between Hayek’s thought and the policies of Thatcherism. I will first review Hayek’s criticism concerning a welfare state and public education, and then summarize Thatcher’s school education reform. In doing so, I will rethink the character of Thatcherism.

Education, especially school education, is a means to solve ignorance, which is one of Five Giants pointed out in ‘Beveridge Report’ (Beveridge [1942]1969). In the UK, state schools had played an important role in this field. However, in the late 1970s an ineffectiveness of the welfare state became clear and caused political debates, for example how to fund the expanded post-war social policy, in Britain and many other advanced economies (OECD 1981). Before Thatcher came to power, the Heath government had adopted a more pro-competitive economic strategy, but it failed, and Britain was forced to return to seek post-war Keynesian...
orthodoxy. After the disastrous ‘Winter of Discontent’, the Thatcher government tried to start pro-market economic policy to restore its economy and introduced market competition into the public sector and public service which were served by civil services and was financed by government expenditure.

Usually, we envisage the Thatcher government being influenced by Hayek and other Neo-Liberal thinkers and learning from their ideas and theories in its policy-making process. However, because the forms of neo-liberalization were various, the general character of the state in the era of neo-liberalization is hard to describe (Harvey 2005, 70). Though Hayek was known as one of the central neo-liberal figures, he did not join discussions of economic policy until around 1970. But he wrote that ‘[b]y the summer of 1974, however, the problem of inflation had become so alarming that I felt it to be my duty once again to speak out’ (Hayek 1978, 191). We can also see Hayek’s influence on Thatcher in her memoir,

It was only in the mid-1970s, when Hayek’s works were right at the top of the reading list given me by Keith Joseph [a leading New Right politician], that I really came to grips with the ideas he put forward. Only then did I consider his arguments from the point of view of the kind of state Conservatives find congenial—a limited government under a rule of law—rather than from the point of view of the kind of state we must avoid—a socialist state where bureaucrats rule by discretion. (Thatcher 1995, 50-51)

From the mid-1970s, *Road to Serfdom* and *Constitutions of Liberty*, which appeared in the New Right’s reading list, were typical productions for the New Right. They enhanced its influence as the right wing of Conservative Party and became the support base for the Thatcher government in the 1980s. However, there was little evidence of Thatcher’s monetarist flirtations before 1974 (Keegan 1984, 47). Thatcher and Joseph had joined the Edward Heath government (1970-74) as ministers and gradually felt the need to change policies as they faced the failure of Conservative’s economic and social policy. In this process, New Right politicians analyzed their and Labour’s failure and searched and learned new economics advocated by Hayek or Milton Freedman to form their own policy.

How do we describe Thatcherism as the ideological base of the Thatcher government? Nigel Lawson, the long-serving Chancellor of the Exchequer, noted that ‘[t]he right definition [of Thatcherism] involves a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, ‘Victorian values’ (of the Samuel Smiles self-help variety), privatization and a dash of populism’ (Lawson 1993, 64). However, during eleven years in office, various policies were gradually implemented and its method or targets sometimes changed. So it is hard to define Thatcherism as a consecutive idea or thought.
Privatization is one favorable example. We think it was a representative policy under the Thatcher government. But there was no clear mention of it in a policy paper in opposition, *The Right Approach to the Economy* (Conservative Central Office 1976).

Andrew Gamble expressed the political value of the Thatcher government as Free Economy and Strong State (Gamble 1988). Thatcher envisaged that each economic entity with entrepreneurship would act at their own peril in the market, so she utilised that state power to create an ideal free market. Ikuko Toyonaga, who focused on the governance of Thatcher administration, understood her reform had an operative effect on government responsibility. Once in power, she utilised it to break existing bi-party politics (the Conservatives and Labour) based on class consciousness through popular capitalism and gained more support to her party. Thatcher also used it to reform governmental organisations.²

In the next section, we discuss Hayek’s view on market and state and his mentions of school education. After that, we go to the Thatcher government’s education reform and its introduction of competition into education. Finally we will draw a certain conclusion.

II. Hayek’s Understanding of Welfare State and School Education

1) Hayek’s criticism of a welfare state

Hayek restarted policy recommendations at the time of acceleration of inflation. However, it was Freedman’s monetarist theory that had a huge influence on British economic policy-making in the 1980s. It was the best example that the tight control of money supply became the centre of its economic strategy during the first government. Yet, it should never be undervalued that Hayek provided many ideological inspirations for the criticism of Keynesianism and social democracy (Gamble 1996, 166). First of all, we will review the fault of a welfare state Hayek had insisted upon.

² Popular capitalism is understood as an ideology or policy which encourage peoples’ entrepreneurship and promote them to have their own house or stocks. The Thatcher government’s privatisation or selling council houses increased the number of property holders, and it contributed to widening the Conservative support base (Kobori 2005, 60),
Although Hayek is acknowledged widely as a critic of the welfare state, he did not deny the role of a
government completely. In *Road to Serfdom*, he criticised that socialism and social democracy were to be a
dictatorship (Hayek 1944). In addition to that, he assessed a welfare state and some kinds of public services
as having a possibility of fostering undesirable state intervention in *Constitutions of Liberty* (Hayek 1960).
Welfare states, developed in the post-war advanced countries, were intended to provide all the citizens with
lifelong security. The post-war policy change, which was from a night watchman state to a welfare state, had
generalized a government intervention in people’s lives. Hayek worried that such a state would be a threat to
individual freedom.

The reason why many of the new welfare activities of government are a threat to freedom, then, is that
though they are presented as mere service activities, they really constitute an exercise of the coercive
powers of government and rest on its claiming exclusive rights in certain fields (Hayek 1960, 258).

Thus, we need to see how Hayek considered the desirable form of the public sector or way to provide public
services.

Even though he accepted the necessity of minimum welfare and public services provided by the public
sector, it should be avoided that a state is taking sole charge of a particular service or is given exclusive and
monopolistic power. In other words, Hayek did not deny government provision of public service itself, but he
insisted that it should be limited strictly. Hayek’s focal point was that public service must not redistribute
resources in the name of social justice or equality, because such a way has a negative effect on individual
freedom.

In addition, Hayek acknowledged that a series of services accompanied an intrinsic expansionism in an
administration. When these services, including medicine or education, became the exclusive domain of the
state, whole professions came to exist only as unitary bureaucratic hierarchies.

It would scarcely be an exaggeration to say that the greatest danger to liberty today comes from the
men who are most needed and most powerful in modern government, namely, the efficient expert
administrators exclusively concerned with what they regard as the public good (Hayek 1960, 262).
Hayek did not refuse to provide public goods which could not identify its beneficiary in advance. However, a monopolistic state should not manage it or use a coercive power to endanger individual freedom. Then, how did Hayek think about school education where state schools had played an important role?

2) Hayek’s Idea of School Education

In contemporary economy and society, knowledge has become more and more important. Knowledge, which is a basic precondition for the working of modern society and its prosperity, is acquired socially through education. Hayek pointed out the reason why a certain minimum education is necessary.

There is the general argument that all of us will be exposed to less risks and will receive more benefit from our fellows if they share with us certain basic knowledge and beliefs. And in a country with democratic institutions there is the further important consideration that democracy is not likely to work, except on the smallest local scale, with a partly illiterate people (Hayek 1960, 377).

Hayek stressed that general education would form certain common standards of values, and without any such standards, peaceful existence would be impossible. However, if all education should be guided by definite values, it would cause real danger, which he saw as a threat to liberty. Thus, it has the possibility of endangering a society if public education causes anti-liberalistic consequences. Hayek had an insight on the adverse effect of uniform public education.

Once the meaning of a compulsory education is clear, then what education should be provided, including its contents and funding? Hayek did not think that such an education should be provided by state schools managed by central or local government. Certainly, a government-led education might attain rapid economic growth. But this means only education based on a certain value would be provided, so it means government regulations or interferences.

Even in ethically homogeneous states […] there are strong arguments against entrusting to government that degree of control of the contents of education which it will possess if it directly manages most of the schools that are accessible to the great masses. Even if education were a science which provided us with the best of methods of achieving certain goals, we could hardly wish the
latest methods to be applied universally and to the complete exclusion of others—still less that the aims should be uniform (Hayek 1960, 379-80).

Thus, Hayek supported parents’ and each school's autonomous decision making. These arguments are important to discuss about education reform and management of state schools under the Thatcher government. Hayek appreciated Milton Freedman’s proposal of vouchers covering the cost of education.

Though the choice of the parents would have to be limited to a range of schools meeting certain minimum standards, and the vouchers would cover fully the fees of only some of these schools, the system would have the great advantage over schools managed by authority that it would allow parents to pay for the additional costs of a special preferred form of education (Hayek 1979, 61).

The advantage of the voucher system in education is to encourage private schools to take part in a compulsory education, and is to secure an individual’s right to choose his or her children's school freely. But a compulsory education should be provided to all the people wherever they live. In that context, it may still be desirable that government directly provide schools in a few isolated communities where the number of children is too small (Hayek 1960, 381). Parents should be guaranteed to choose a school for their children and if they want more, they pay additional fee to schools they want. Hayek insisted that a voucher system would contribute to defending individual freedom.

III. The Thatcher Government’s Education Reform

1) Education Policy in the Post-War era and ‘Comprehensive School’

The 1944 Education Act shaped the post-war British school education. State schools were to be run by the Local Education Authority (LEA) and private schools continued to provide their own education. The compulsory schooling consisted of elementary education for five- to eleven-year olds and secondary education for four more years. The character of this system was based on the idea that school education was
to improve each child’s ability. To achieve its end, various education programs had been developed. State schools had been controlled by LEAs, but headmasters and teachers basically had power to decide on its curriculum, instructional method or education organisations.

Concerning secondary education, students had to choose from different kinds of secondary schools, according to their result of the eleven-plus test. Secondary schools were grammar schools for going to higher education, technical schools for job training, and secondary-modern schools for other pupils. It became clear that British sedentary education, which was decided at the end of elementary education, remained solidly class-bound and faced criticism. Although many students born in the professional and managerial classes still went to a grammar-school education, those born in the unskilled working class had to try hard to pass the eleven-plus. Thus, such statistical facts indicated a complex of intractable social influences as a much product of cultural aspirations as of economic inequalities (Clarke 20004, 284). It was the case for comprehensive schools under the Labour government in the 1960s.

In Labour’s education reform, Anthony Crosland, then education minister, steered secondary schools to go comprehensive (Crosland 1982). The Conservatives criticised his reform whose comprehensive system was one of less meritocracy. Thatcher herself also criticised it in relation with malady of egalitarianism. She admired grammar-schools because they had produced many leaders in Britain, so she supported the going system, but she insisted that Crosland’s reform would only serve to demolish it. Originally the idea to go comprehensive was to to abolish discrimination deriving from secondary education. To set up comprehensive schools meant British secondary education would change from a multi-stream system to a single-line system. Moreover, British secondary education had not achieved high performance and had shown low university advancement rate in international comparison. These facts increased the number of enrolment in private schools. At the end, the Labour government had to acknowledged clearly too much diversification of education program created problems and recognised the necessity to enhance the performance of secondary education.4

Thatcher worked as the Secretary of Education in the early 1970s. She gave clear instructions to LEAs to stop going comprehensive. She noted,

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3 Among secondary schools, the highest twenty-five per cent students went to grammar-schools, next some per cent to technical schools, and others to secondary-modern schools in the mid-1950s (Clarke 2004, 284).
4 Michael Sanderson also criticised the post-war education system was undervalued in terms of technical education (Sanderson 1999).
when you stop selecting by ability you have to select according to some other inevitably less satisfactory
criterion. In practice, this would usually be income, because families with sufficient money would move
and buy houses in middle-class areas where a well-run school was available for their children (Thatcher
1995, 158).

Thatcher pointed out that ‘comprehensivization’ only resulted in bringing a grammar-school standards down,
and rather they should keep the existing system and increase the standard of secondary-modern schools. In
such a statement, we can see some seeds of her ideas embodied under her government, that is to provide
people a right to choose their schools and to force service providers to compete so as to enhance students
performance.

2) Education Reform under the Thatcher Government

The Thatcher government focused on resource allocation of public service. It identified as inefficiency of
public sector the main problem. Although private firms faced competition, forcing them to improve
efficiency and productivity to survive, public sectors did not, because it is usually in a monopolistic position,
thus no need to increase performances or standards. The Thatcher government tried to reduce the roles of
public sector as possible utilised deregulation, privatisation or a market-testing. According to Wilman, since
the 1980s, the government view had changed that ‘public services should be cheap and minimum, for people
who could not afford to provide for themselves (Wilman 1994, 65).

How did the government introduce a competition between schools and seek to attain an efficient resource
allocation? The key was the incentive of parents who were interested in their children. The Thatcher
government enacted the Education Reform Act in 1988, in which a competition among schools was included.
It had four pillars, namely (1) parental choice for children’s school (open enrollment), (2) setting up the
national curriculum and publishing its performance, (3) giving more power to headmasters and school
executives concerning financing and appointment, (4) allowing schools to opt-out from LEAs and to be an
independent grants-maintained school.

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5 In the public sector reform under the Thatcher government, the service of cleaning, catering, or laundry
categorized additional services in hospital forced to compete with other private providers for contracts in the
form of compulsory competitive tendering. If public sector failed to contract, such a division was asked to
close. (Cultler and Waine 1994)
The public sector reform under the Thatcher government was to redefine citizens, who enjoy the service and pay tax for it, as consumers or customers of its service and ask service providers to increase ‘customer satisfaction’ like the health service (National Health Service) reform. In school education, it was parents, who were interested in their children’s performance, that were given a greater voice on school management. In 1980, the government sought to activate ‘Assisted Places Scheme’ that was intended to encourage working class students to enter private schools. Nevertheless, ‘in practice, the places largely went to the children of educationally advantaged families in relative financial difficulty’ (Benn 2011, 67).

It was more important for the government to improve state schools because most compulsory education was provided by them. Keith Joseph, Thatcher’s first education secretary, investigated the idea of vouchers that were advocated by Freedman and supported by Hayek. In reality, school budget was to be allocated on the number of enrolment. This was to stimulate schools and teachers to improve their students’ performance so as to recruit more students. If a school failed, its budget would be reduced. In doing so, the performance would increase automatically.

We can say it was an introduction of ‘a quasi-market’ into education, in which school budget was tied to the number of students, namely the market evaluation. However, to secure this mechanism, it is necessary to settle a certain precondition, that is, ‘open enrolment’, in which each school should accept students up to its limit according to parental choice. Thus, information discovery is also important.

To secure parents’ choice, the government settled the National Curriculum and national tests. Traditionally the performance of British secondary education did not evaluate its number of enrolment to higher education or further education solely like the Japanese case. The performance was to be assessed by outside tests, students would take an exam, such as CSE or GCE O-level, implemented by independent organisations. The British evaluation system contributed to reduce the gap between classes (Morishima 1977, 105). The Thatcher government introduced more unified performance indices so as to compare its performance easily.

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6 The Audit Commission reported that after the introduction of a market mechanism, teachers were more sensitive to its performance (HM Inspectorate 1991, 9).

7 In a quasi-market, independent providers compete for consumers. State or government provides the possible consumers with vouchers, or appoints agents to overcome information asymmetry. So state only takes a role to control and provide budget (Le Grand 2006, 10).

8 According to Le Grand, the student selection was implemented only in case the number of applicants exceeds the enrolment limit, and in many cases, such a selection depended on not only scholastic performance but also geographical factors (Le Grand 2006, 164).
The National Curriculum, which covered a compulsory education period from five to sixteen years old, comprised course programs consisting of core subjects, including English or math, and foundation subjects, history, geography or foreign languages. Its contents were attainment targets, learning programs, and evaluation methods. And its performance would be measured by tests for seven, eleven, fourteen and sixteen year-olds and A-level tests for enrolment to universities for eighteen-year-olds. In addition, the certification of secondary education unified as the General Certification for Secondary Education (GCSE). This performance was to be published based on schools or areas so as to provide information to parents for their choice of their children’s schools.

Moreover, the government enhanced the voice of parents so as to attain more self-governing school management. For example, each school could opt-out and become a Grant-Maintained School if many parents asked. Grant-maintained schools leave from the control of LEA and can set their own admission policy. It meant the break in a link between local authority and each school, by doing so to reduce the power of local governments. Thatcher thought that ‘even more vital, the very fact of having all the important decisions taken at the level closest to parents and teachers, not by a distant and insensitive bureaucracy’ (Thatcher 12993, 592). Although the Thatcher government accepted Hayek’s idea of competition among schools to some extent, it also enhanced a central government control, whereby each school could compete to gain their budget in a certain quasi-market settled by the government.

The meaning of the Thatcher reform was to introduce and enhance competition among schools and increase incentive to improve its service by giving parents, who were interested in their children’s performance, more power. This school education intended to improve the quality of education from three directions, (1) from the Department of Education which set a curriculum and published its performance, (2) from parents who have rights to choose their children’s school, and (3) from autonomous governance (to opt out and become a grant-maintained school). In this reform, the government did not intervene in education directly, but set out targets to be attained through curriculum, publishing its results to increase transparency and accountability. We can see the same idea embedded in other public sector reform.

So, have the performance increased? Howard Glennerster judged that the result of national tests moved steadily upward after 1995, and the regional gap was also narrowed (Glennerster 2002). Although there are wide discussions how to measure the performance of government reform, we can say it has achieved some positive result.
IV. Thatcherism in the Concretization of Hayek’s Thought

1) Hayek’s influence on Thatcher and her policies

As explained above, it seemed that the Thatcher government accepted Hayek’s idea and implemented its own policy which seemingly was based on his suggestions. If so, was their personal relationship close? Gamble wrote that ‘his [Hayek’s] main influence was through the dissemination of his ideas and approach to the analysis of economic and political problems by the think-tanks and the new intellectuals of the Conservative party’ (Gamble 1996, 167). Allan Ebenstein, his biographer, said that ‘[t]he depth of Hayek and Thatcher’s personal and political […] relationship can be overemphasized’ (Ebenstein 2003, 292). In fact, Hayek himself realised that his thinking was limited to abstract and philosophical field, not to practical politics. In the following-section, we shall see the political agenda and government policies in the 1980s correlating with Hayek’s policy prescription.

The first Thatcher government tightened economic policy. In particular, Medium-Term Financial Strategy (MTFS) and the 1981 Budget were intended to control the money supply and regain sound finance. But Hayek criticised such government policies, because he thought that it was impossible to reduce inflation gradually. He stated that

I’m afraid Mrs. Thatcher is following the advice of Milton Freedman. […] He thinks in terms of statistics, aggregates and the average price level and does not really see that inflation leads to unemployment because of the distortion of the structure of relative prices. (Ebenstein 2003, 278)

Meanwhile, in employment policy, the government legislative assault on the closed shops, in which all the employees are required to join certain trade unions and contributed to the reduction in the number of unionists and its organisation rate. In addition, the government intervened in the internal affairs of the unions, which required ballots on the election of all officers and on the unions’ political funds, so as to reduce their power. Moreover, in the welfare and social security sphere, some benefits and supplements were reviewed and the same criteria were applied. Those were similar to Hayek’s criticism of a welfare state, so we can say that the Thatcher government tried to restore a ‘free market’ as Hayek advocated and implemented a drastic reform.
On education, Hayek acknowledged the need of a certain compulsory education to keep social stability. The reason is twofold, that a certain basic knowledge is beneficial for all the members in a contemporary society and a precondition to keep democracy workable. But he paid keen attention to government intervention in schools or school management because it holds a possibility to be a threat to individual freedom, so he proposed to generate competition among schools through a voucher system. He thought that a competitive environment would increase its quality automatically, which provides useful knowledge and skills required in an advanced economy. Thatcher also had a belief, that was why her government enacted the 1988 Education Reform Act, which would allocate resources to schools depending on the numbers of enrolment and empower parents to have influence on school management. It increased parental influence and choice on the one hand; it also weakened a control of LEAs, which supervised state schools, on the other hand.

Although the main topic was to introduce ‘competition’ in the series of education reform, the government was aware of the need to keep the ‘market mechanism’ workable. Thus, it decided to set the National Curriculum and publish the information of test results. At the same time, we saw a new development, that was the ‘School Inspectorate,’ which aimed to regulate and supervise schools. It would be the Office for Standards in Education (OFSTED) in the early 1990s. In short, it strengthened a government regulation to schools, notwithstanding, it stressed the independence and autonomous governance of each school.

2) Hayek’s Idea and Thatcherism

In the foundation of the Thatcher government, we can see Hayek’s influence. Both of them preferred a free market and competition. However, in its practice or concretion, the government adopted a differing method, apparently partly abandoning its ideal. The typical case is a central government control of schools in education reform so as to promote a competition and increase its efficiency. It was more clear in the 1990s under the John Major government in which the public services left to the hand of government were regulated, a form of ‘governance’ to improve its productivity. ⁹We can understand it was started in the Thatcher reform.

⁹ In the 1990s, both John Major and Tony Blair government took the same method. The government set only target and publish its attainment to increase transparency based on New Public Management. This was intended to increase quality in the public sector where a competition does not work and supplement a market mechanism (Hirakata 2012).
The Thatcher government policy was strongly affected by Hayek’s proposal to recreate ‘a free market.’ However, its experiment did not only rely on ‘a market mechanism’ or ‘a competition,’ but the external supervision by the government or public organisations. In the process of its privatisation or de-regulation, the Thatcher government found the need to create a new system to ensure the effective work of a market mechanism. This caused the great difference between Hayek’s idea and Thatcher’s policy.

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