

**FREE ENTERPRISE IS  
ECONOMIC DEMOCRACY**

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# I FREE ENTERPRISE IS ECONOMIC DEMOCRACY

By

LADY MARGARET THATCHER\*\*

Economic freedom is real freedom. Just as coercion exercised on economic grounds is no less real coercion.

Free enterprise works because, like democracy, it gives real power to the people. Indeed it can be described as economic democracy. It limits the power of government, by maximizing the power of the people. It removes industry and management from the hands of the state by selling off companies and business to those who will buy them, mostly through the stock market. Free enterprise capitalism is a necessary - though not a sufficient - condition for political democracy itself. Perhaps we in business have been too slow to point out that capitalism is therefore not only about material things, it is about the human spirit and its creativity. In seeking to liberate people from poverty and servitude it is the business ethic in action which is the cutting edge of progress.

The Role of the State

The role of the State should be limited but strong

\*\* Excerpts from the keynote address by Lady Margaret Thatcher, former British Prime Minister, delivered on 9th September 1994 in Bombay under the Citibank Leadership Speaker Series, exclusively hosted by Citibank India. The excerpts are reproduced with kind permission from Citibank.

"Free Enterprise was born with man and shall survive as long as man survives".

**-A.D. Shroff**  
1899-1965

Founder-President  
Forum of Free Enterprise

to do those things which only governments can do. First government should be strong to keep the finances and the currency sound.

We need to preach and practice the wisdom of thrift as a virtue in itself, and of high savings as necessary for high investment and that public spending must be strictly limited. This is common sense. Every businessman and housewife knows that they have to live within their income. The laws of arithmetic are not suspended merely because you are working in billions or because you are in government. But these things do not come naturally to all politicians. Interest groups are very strong and vociferous, particularly in the public sector, and there is a constant temptation to increase public spending to appease them or to postpone awkward decisions.

### **Privatizing - Transforming Britain**

A system like state control which is fundamentally bad because it denies people the power to choose and the opportunity to bear responsibility for their own actions, can't be made good merely because it is run by 'clever' people who make the arrogant assertion that they 'know best' and that they are serving the 'public interest' - an interest which of course is determined by them.

Privatisation shrinks the powers of the state and free enterprise enlarges the power of the people.

### **Asia - Great Expectations**

The world has never seen such a rapid economic expansion as it is witnessing today. The age of automation has been even more radical than the age of mechanization. 'Smart' machines now transfer

technology instantaneously from one country to another. Development which used to take years can be achieved in months.

Hence the economic miracles in the countries of Asia, both large and small. A hurricane of change has swept across Asia, carrying millions out of poverty and bringing new hope. The people of the Asia Pacific are out-stripping much of the rest of the world in growth, investment, new technology and trade.

Today the Asia Pacific region has the highest growth rates in the world in spite of the world recession.

### **India - Looking Ahead**

What does all this mean for India, for her place in the wider world?

Your influence and example are crucial to the future. While Russia has democracy but struggles for economic reform, China has economic reform but resists democracy. But India has the advantages of both economic reform and an established democracy.

In some ways this may make reform even more difficult as every move is publicly debated and sometimes the arguments are distorted. Nevertheless, once the decisions are taken they are all the stronger because of the openness of parliamentary democracy.

Also you have large, enterprising middle-class, with an enviable capacity to exploit the advance of science and to attract the requisite investment. Add to that your international trading links and it would seem from the outside looking in, that your success is assured.

## II

# THE NEW WORLD ORDER\*\*

The Fraser Institute is very similar to the Institute of Economic Affairs in London, which had a tremendous influence on the whole of economic and political thought in Britain. Second, I'm delighted that Alan Walters of your Editorial Board was here to share it with us. He was my economic adviser, and we wouldn't have got it right without him. When he mentions that 364 economists were against him, they didn't matter at all; it was the half-dozen led by Alan who were with us who prevailed.

I find, as I have been interviewed in Canada, in the few brief hours I've been here this time, that all commentators seem to regard one as something of a phenomenon because one set out in politics with convictions. They don't quite understand them. They say "Well, here we have pragmatism." To this I say, if you are embarking on a great voyage across the oceans, you have to have some stars to steer by, and the stars have to be constant. It's no good steering by shooting stars. So, yes, I had convictions.

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\*\* Excerpts from a Lecture on "The New World Order" delivered by Lady Margaret Thatcher, former British Prime Minister, at the 20th Anniversary round table luncheon of The Fraser Institute, Vancouver, Canada, and subsequently reproduced in the June 1994 issue of "Fraser Forum" a monthly publication of The Fraser Institute. These excerpts are reproduced with kind permission of The Fraser Institute and "Fraser Forum".

I would have liked to have read to them a favourite quote, but I hadn't got the quote with me, but I've got it now. It's by a French 19th century politician, who said : "There go my people. I must find out where they are going so that I can lead them."

Well we didn't start that way. We knew where we were going, we knew the reason why, and we were prepared to persevere until the policies showed good results.

The other thing that I find, is that your commentators are all sold on the idea that politics is the art of the possible. Now my friends, if you take that view in any sphere of life, you will soon lower your sights as to what is possible.

The task that I had ahead of me was enormous, because Britain in 1979 was a country not only in decline but whose people had accepted decline. The task upon which I embarked was to say, politics is the art of making the impossible happen. And that is precisely what we did. I would like in the time available to consider just three examples of making the impossible happen.

I'm going to start off with the economic side of politics. You must get your economics and enterprise right. For, if you do not, first you'll have no standing in international affairs, and secondly no one else will listen to you at all. So we knew we had to get the economy right. We had to do four things pretty well immediately.

First, we had to get the rate of income tax down. When I took over, the top rate of income tax on earnings was 83 percent, and the standard rate was 33 percent. That was much too high. I believed in incentives, and so in the first budget those rates had to come down immediately and we had to pick up the lost revenue by indirect taxes. Nevertheless, with the extra incentive, people right through the whole piece began to work with more will when there was something to work for. When they knew full well that the lion's share of the earnings would go to them, to enable them to look after themselves and their families and their future standard of living.

Next, we were all tied up with far too many regulations. Even my own party had been prone to enact more regulations. You couldn't determine your prices; there was a Prices Commission. You couldn't determine your incomes; there was an Incomes Commission to determine what was the norm for increase in wages, regardless of the performance of the company. You couldn't, in fact, determine your dividend, and you couldn't get the amount of foreign exchange that you wanted. You couldn't develop your factories where you wanted to because there were Development Certificates.

All of these things went in our very first budget, which was weeks after we'd taken over. And even some of my best friends said, "Oh come off it, don't you think you're going a bit fast?" I tell you that because it is surprising how socialism penetrates even good conservatives sometimes.

Well now those were the first two things, but that wasn't the end. We had to tackle trade union law. The trade unions had virtually taken over Britain. It had been strike after strike after strike. And gradually I noticed that the trade unions began to understand that although any one of them could attempt to bring Britain to a halt, none of them could protect their own members from the ravages of another trade union. There lay my hope; and in the belief I had that most people would far rather go on working, doing a decent day's work for a decent day's pay, given the chance, than they would come out on strike.

I had a great deal of opposition in changing the Trade Union Law. Opposition which was often based on the idea that one shouldn't do anything very radical; that one shouldn't upset things. Well I took the view that the trade unions had upset enough, and I really had to cope with what they had done and to change things so that we wouldn't have to continue just to cope. And so, we in fact brought forward four different pieces of legislation, one after another, which altered the whole balance of trade union law, as between employer and union, and also altered the whole balance between the ordinary member of the union and the trade union boss. You know we had got to the position where any trade union could bankrupt any employer, even though their own members had no quarrel with that employer. I don't know what your own labour law provides, but we found ours to be intolerable and destructive for the ordinary

workers who were the alleged beneficiaries of those laws.

So after the changes, the ordinary member of a trade union could decide by ballot, secret ballot, whether they went on strike, and the officials had to be elected by secret ballot. We stopped the closed shop. It gave the trade union bosses far too much power. And in the end we brought in a law that a trade union's funds could be sequestered by order of the Court, if that trade union did not obey the law. Now that took us until about 1985. We actually got the coal strike, to which Alan has referred, in 1984. You now know that we won it. I had to live through it every day for a year; every day had to decide the tactics. We decided right at the beginning that the task of the police, as we reminded them, because they're independent, was not merely to keep the peace by saying, "Look, don't try to go to work through the picket lines at a colliery, there'll be demonstrations, it'll make it difficult." They had in mind keeping the peace, in that sense.

We took the view, and the Attorney General made the appropriate speech to reflect this view, that the task of the police was to keep the law abiding citizen able to go to his place of work at the time when he was due there. So even though there were terrible pickets, even though there was violence on the picket line, the task of the police was to get through the picket line those miners who wished to go to work. And they did. My belief in the ordinary member of

a trade union was upheld many times over, because about one-third of them insisted on working and going through to their pits day after day after day. And my faith in the British character boomed to great heights, as these miners behaved as I had always believed they would. And so we won that.

Fourth, we had 46 major industries in the hands of government, that is, they were nationalized. I took the view that governments don't know very much about running industry. The people who do know are the ones who are in it. What is more, it gives governments far too much power to have control over those industries, and it gives them far too much temptation, as when you want to make the appropriate changes or get rid of surplus labour and people would come streaming to their MP to ask for extra subsidies. That's not how you build a prosperous economy. So we had to privatize 46 major industries. Most of them are now privatized.

In that privatization process, I also carried out one of my other great ambitions. It had not hitherto been possible for ordinary people with an ordinary wage or salary to build up their own capital, except perhaps through purchase of a house, which was restricted to far too few. So, first we managed to start to sell council houses at a very reduced rate to sitting tenants, so that people could buy their own house, reasonably, over a period of years. Secondly, when we privatized, we always held a block of shares for the people

who worked in that industry, so they could buy those shares at a discounted price.

In this process, we doubled and trebled and quadrupled the number of shareholders that we had in Britain, and it became obvious that an ordinary person, earning ordinary wages or salary, could build up their own capital and therefore have an interest in the progress of the economy generally and through their share holdings an interest in the future.

All of those things we did, all of those things we had great opposition in doing, but it did transform Britain. We did get rid of the many, many restrictive practices, we did get rid of the regulations. And as we got the tax rates down, government's revenues did not fall. Indeed, we noticed that as we got the top tax rate down from 83 percent ultimately to 40 percent, the top 5 percent of income tax payers at a 40 percent tax rate actually contributed a bigger proportion of tax to the Exchequer than they had when they were paying 83 percent. That is the power of incentives. And I can tell you on both sides of the border here in North America, that you will find the same thing.

So, by tackling things which other people had found they couldn't or wouldn't tackle, we did in fact transform Britain. And there's one further point about this that I want to make to you. Alan referred to moral courage. I found that as we started to build up prosperity in Britain, we were actually growing faster

than they were in Germany. We got another attack, "Oh don't you think your society is too materialistic?" and I said, "Don't be so absurd. If a Labour Government had managed to have that prosperity they'd have all been dancing in the street and shouting it from the housetops." (If you can do those two things at the same time.)

You simply have to give people the opportunity to do better. It enriches their lives, they have money left over to give to preserving historic sites to the arts, to the sciences, to music, and so on. Most importantly, we all want to get other people out of poverty, and you can only do it by the wealth you have created.

But there is another point, in this connection, which is not so very frequently stressed as it should be: capitalism is the moral way of running an economy. Socialism is the planning by the few over the lives of the many. You have seen where it ultimately led to in the Communist society. The many had no freedom. Everything was exercised by the few at the top.

Everyone is born with some God given talents and abilities, and he has a fundamental right to develop those within a rule of law. In other words, freedom has a moral quality. Developing it is moral attribute. You can only do that within a civil society, and you have to have a strong rule of law and a rule of justice.

The creative factor in society is a direct result of the responsible exercise of freedom, which is the moral quality. In the context of freedom you can only produce goods and services by the voluntary joint action of a group of people acting together. You can only satisfy people in a capitalist society if you produce what they want to buy, or a service which they also want to buy. People prosper in a capitalist society by serving the needs of others, which are expressed through the market place. We must never forget that it is in fact capitalism which has the moral quality in society, not socialism, which is the elevation of the power of the government over the people.

This moral quality of freedom is reflected in a true democracy in that the people give power to the government so that the people can achieve certain things through government that they might find difficult to do in ordinary ways. But the key is that this power that they give they can also take away and give it to someone else, as you know, from time to time.

My overriding conclusion from my own experience is that in seeking to be rewarded by the people with this gift of power the most important thing is to get your convictions right. Ensure they are based upon the very best values, in the very best traditions, in the very best character of your country, and you'll find there's a good deal of conservatism in a nation.

*The views expressed in this booklet are not necessarily those of Forum of Free Enterprise*

**"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".**

**-Eugene Black**



## FORUM OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions and other means as befit a democratic society.

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Published by M.R. Pai for the Forum of Free Enterprise,  
"Piramal Mansion", 235, Dr. D.N. Road, Bombay 400 001.  
Laser Typesetting by GRAPHTECH, Tel.: 261 7479, 267 8060  
and printed at Vijay Printing Press,  
9-10, 3rd Floor, Mahalaxmi Industrial Estate,  
Gandhi Nagar, Lower Parel, Bombay 400 013.