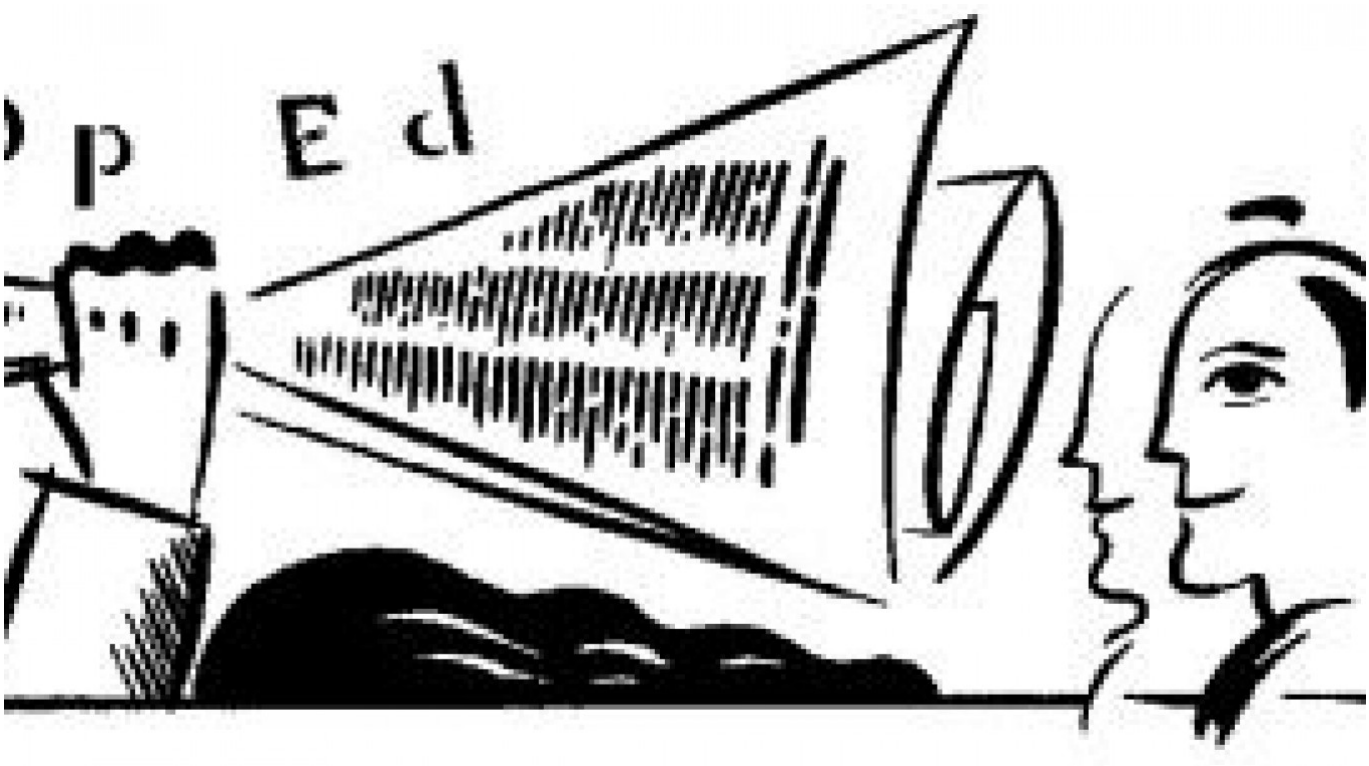
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What Europe Can Learn From the 'Iron Lady'

By Harold James

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Former British Prime Minister Margaret Thatcher was much more respected outside Britain than she was in her own country. In the U.S. and Central Europe, she is recognized as a hero, especially in the fight for economic and political freedom.

That vision of freedom and dynamism was never really all that popular — or understood — by the British people. In the end, Thatcher's achievement was also distorted by her own mistakes in dealing with the complex politics of a Europe that was rapidly changing in the aftermath of the collapse of communism.

As prime minister, she was widely disliked in Britain, mostly for bad reasons. Throughout her political life, she fought a two-front battle: against socialism, but also against the Establishment. Sometimes, the two theaters seemed to merge.

The British Establishment had adhered to a pact rooted in the experience of the Great Depression and World War II. It would accept high tax rates and enormous redistribution

of resources in exchange for being permitted to retain its quirky rituals, antique hierarchies, lofty titles and fine distinctions. The result was widespread inefficiency, an appalling record of labor unrest, low productivity and economic stagnation.

Thatcher wanted to remake Britain according to the best aspects of the American way of life: a belief in the potential of individual initiative and entrepreneurship and a can-do approach to life.

There was an element of fortuitousness about Thatcher's political experiment. She had been elected as Conservative Party leader because the more plausible and better-known right-wing candidate had ruled himself out with an ill-judged and controversial speech.

She played ruthlessly on her femininity. As leader of the opposition, she visited the oldest and most conservative college at the University of Cambridge to address the rather small minority of conservative-inclined academics. The wood-paneled room was lit in the evening only by candles, masked behind reddish-yellow shades. She began by remarking that the room looked more like a night club than a university, and then she took her jacket off and whirled it around her head as if she were about to begin a striptease.

She was quite intolerant of other women in politics and liked to be surrounded by men. Part of her standard mode of political operation depended on flirting. Personal emotions were also part of her foreign policy. She got on very well with German Chancellor Helmut Schmidt, a Social Democrat, but notoriously poorly with the Christian Democrat Helmut Kohl. (Indeed, the obvious personal chemistry between her and Schmidt led one staffer to observe that had this not been the British prime minister and the German chancellor, they would have gone off hand in hand to the bedroom.)

As for the other side of the Rhine, she intensely disliked the snooty and aristocratic French President Valery Giscard d'Estaing and developed quite good contacts with the initially very radical socialist Francois Mitterrand. Above all, she had a great rapport with the charming and courteous U.S. President Ronald Reagan, a former film actor, but developed a poor relationship with the patrician conservative George H.W. Bush.

The strength and unconcealed character of her personal feelings should not lead to the assumption that her politics were entirely instinctual. She also understood political psychology and political practice. In driving Britain to fiscal good sense, she never allowed a pure market ideology to undermine the interests of her key political constituencies.

There was also a good deal of old-fashioned morality. At a time when Western European politicians and the British foreign policy establishment were worried that Solidarity in Poland would endanger stable relations with the Soviet Union, she boldly and correctly recognized that engaging the Polish opposition was an opportunity to promote freedom there.

The critical part of her fiscal and economic legacy came at the beginning, in her first term in office. Faced by a worldwide recession in the early 1980s, she nonetheless insisted on a rigorous budgetary retrenchment. Academic economists were outraged, and a letter signed by 364 prominent scholars, protesting against the folly of Thatcher's apparently pro-cyclical policy, appeared in The Times of London, then the Establishment's journal of record.

Moreover, Thatcher successful liberalization of British industry became an inspiration for Central Europeans wrestling in the early 1990s with the economic legacy of Communist central planning. But not only there. Thatcherism also looked like a plausible model for policy stabilization in France in 1983, following two crisis-ridden years of experimentation. Jacques Delors' success as French finance minister then set in motion a process of rapprochement between France and Germany.

On a European level, the British vision of liberalization also formed a crucial ingredient of the 1986 Single European Act, which was decisively influenced by Thatcher's appointment of Lord Cockfield as Britain's European Commissioner. Delors' European Commission took competition very seriously as a way to boost economic growth and prosperity.

Logically, though, the Single European Act also required a new approach to monetary policy on the European level. Belief in the power of the market and competition thus underpinned a powerful new push in the direction of European integration, something that Thatcher deeply and instinctively distrusted.

When Thatcher fell from power in 1990, it was a consequence of a revolt by her own party, caused by the deep policy divisions produced by European integration. In a way, she was the victim of her own policies' success as a model for other countries — and as a challenge to the European order.

Today, it is tempting to see parallels between the first female British prime minister and Angela Merkel, the first female German chancellor. Both have been widely ridiculed, especially by economists, for their attachment to what have been called simple-minded ideas of fiscal rectitude in adverse circumstances.

Making the case for fiscal discipline and market economics is not a guarantee of political success. In the European context, it is not only difficult domestically but also inevitably leads to hard choices about the future of the integration process.

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