The field of comparative politics has begun to take seriously the role of ideas in politics, but to date this interest has not clearly specified the conditions under which ideas influence public policy. The author develops an integrated framework that shows ideas about policy goals and instruments are most influential when they do not attract substantial opposition from voters and interest groups and when political institutions concentrate decision-making authority. The author tests this framework by examining the fates of three ideas, facing different degrees of societal opposition and concentrated authority, adopted by the first Thatcher government in Britain.

WHEN DO IDEAS MATTER?
Explaining the Successes and Failures of Thatcherite Ideas

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IDEAS AND PUBLIC POLICY

When do ideas influence public policy? More specifically, under what conditions do ideas have an impact on the policies governments implement that are independent of the effects of other variables, such as institutional arrangements and actors' material interests? Consider the experience of the first Conservative government led by Prime Minister Margaret Thatcher. Between election in 1979 and reelection in 1983, the government tried to implement changes to monetary policy, health care finance, and central-local government relations. Well-articulated ideas about proper policy goals and instruments motivated these changes, but only in the case of monetary policy did ideas have a strong influence on policy. What explains this variation? Recent work has generated three answers to questions such as this. The first

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holds that the failure of existing policies prompts decision makers to implement different policies in accordance with a new idea. Failure models attribute an important role to ideas and social learning when explaining policy change. The second approach views ideas as "hooks" that individuals use to justify the pursuit of material interests. Here the independent impact of ideas is small; implemented policies reflect the outcome of power struggles between actors with different interests. A third answer also downplays the independent effects of ideas, arguing that differences in institutional arrangements structure both the material interests of actors and the influence of ideas.

All of these explanations are plausible and supported by existing research, but to date little work has been done to investigate the relative importance of ideas compared to interests and institutions. This reflects the fact that the revival of scholarly interest in ideas and politics began only recently. Goldstein and Keohane (1993) hold that

> Our theories are not sufficiently well developed to limit the number of explanatory variables, and our empirical work is not sufficiently extensive to provide a large number of similar cases against which to evaluate complex theories. All we can expect at this stage is arguments that evaluate the plausibility of the view that ideas matter for policy. (p. 29)

This means that much of the burgeoning theoretical and empirical work on ideas and politics does not estimate the effects of all independent variables identified by existing theories. This could result in biased empirical estimates of the influence of interests, institutions, and ideas. Rather than trying to resolve this debate by arguing that one type of cause is more important than the others, I combine them in a logically consistent way to identify the conditions under which ideas do and do not shape policy.

In the next section, I discuss in greater detail the causal logics, strengths, and weaknesses of the three approaches identified above. I then argue that these approaches are not mutually exclusive, and combine them in an integrated framework that provides more precise predictions of the conditions under which an idea will be implemented. Briefly, my starting point is to assume that the failure of existing policies to achieve programmatic or political goals prompts decision makers to adopt new ideas. But policy failure alone is not a sufficient condition for the successful implementation of a new idea, which requires a hospitable political and institutional environment. High levels of societal opposition to the idea and low levels of concentrated authority within the state over the relevant policy area hinder implementation, and may result in continued implementation of an idea that is

intellectually discredited but politically useful. I then lay out a research design that tests this framework's explanatory power with three cases in which the first Thatcher government attempted, with varying degrees of success, to implement substantial changes—monetary policy, health care finance, and central-local government relations. The conclusion summarizes the argument, discusses the findings, and points toward how this framework can be applied to related issues such as social learning.

INTEGRATING EXISTING EXPLANATIONS

Hall (1993) defines an idea, or what he terms a policy paradigm, as "a framework . . . that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing" (p. 279; similar definitions include Farr, 1989; Goldstein & Keohane, 1993, pp. 10-12; Odell, 1982, pp. 62-63). The goals of an idea may not be Pareto optimal; indeed, the idea may define the problem and solution in a way that ignores or masks over distributional issues. A good example is the Conservative Thatcher government's ideas about preventing deficit spending and increasing the accountability of local governments, which also undermined the position of Labour-controlled local councils (Rhodes, 1988). Policy-relevant ideas differ from more general ideologies and worldviews because they have a programmatic element that indicates how to achieve the desired outcome (Berman, 1998, p. 21). According to these definitions, "Thatcherism" would qualify as an ideology that calls for reduced government intervention in the economy (among other things); monetarism is an idea, consistent with the ideology of Thatcherism, that defined a specific policy problem and solution.

Hall's (1993) definition indicates that ideas can influence policy in at least three ways. First, ideas define and prioritize the numerous concerns of decision makers. For example, Keynesian ideas identified reducing unemployment as the principal problem for macroeconomic policy, whereas monetarist ideas focused attention on the problem of reducing inflation (Hall, 1993). Second, ideas reduce uncertainty about how the social world operates by providing decision makers with simplified models of reality (Goldstein & Keohane, 1993). Versions of monetarism held that a sustained increase in inflation could be attributed to government policy rather than a failed incomes policy or any other single cause. Third, such models identify the measures that need to be implemented to solve the problem. Monetarist ideas held that a credible commitment to reduce inflation is best achieved by

following a preannounced plan for tightening monetary conditions. Despite these important roles, it is clear that ideas alone do not influence policy. As Goldstein and Keohane (1993) put it, "The most egregious error that proponents of the role of ideas have made is to assume a causal connection between the ideas held by policy makers and policy choices. Ideas are always present in policy discussions. . . . But if many ideas are available for use, analysts should not assume that some intrinsic property of an idea explains its choice by decision-makers" (p. 11).

Three strands of research identify conditions under which ideas do and do not influence policy. The first holds that decision makers learn, adopt, and implement new ideas when existing public policies fail to meet programmatic or political goals. The basic causal mechanism is (a) decision makers implement policies based on some idea, such as Keynesianism; (b) these policies fail to achieve the goal identified by the idea, such as low unemployment; and (c) failure leads decision makers to consider and implement rival ideas that hold the promise of solving or redefining the policy problem, such as monetarism (Hall, 1993, p. 278; McNamara, 1998; Reiter, 1996, pp. 19-21). The position that failure is an important spur to ideational and policy innovation is almost universal; as Checkel (1997) puts it, "Nearly all recent work in the ideas literature argues that uncertainty, failure or crisis—by delegitimizing existing policies, organizations, and beliefs—creates greater room for determinants of change" (p. xi). Scholars have used policy failure, sometimes in combination with other variables, to explain foreign policy choices (Checkel, 1997; Jervis, 1976, pp. 275-279; Levy, 1994, pp. 304-305; Nye, 1987, p. 378; Reiter, 1996), international cooperation (Odell, 1982, p. 371), economic policy (Hall, 1993), social policy (Heclo, 1974, pp. 315-318), and policy diffusion (Rose, 1993, pp. 50-76).

Failure alone is unlikely to lead to changes in policy. To see why this is the case, we can divide the causal mechanism linking ideas, policy, and implementation into three steps. In the first step, failure (perhaps along with other factors) leads decision makers to reject existing policies and to adopt a new policy idea. In the second step, decision makers translate their new idea into specific policy programs and commitments by writing legislation, creating and financing new policy tools, or reorganizing government bureaus. The third step involves decision makers trying to ensure that old policies are abandoned and that policies underpinned by the new idea are implemented fully. For every case in which one scholar identifies policy failure as causing ideational and policy innovation (Steps 1 and 2), another can point to a different case in which decision makers recognized a new idea as superior and translated it into specific policy commitments, but were unwilling or unable to implement the new policy (Step 3). Many of the authors identified in the

previous paragraph acknowledge this fact, but to date have not explained when failure allows a new idea to be translated into policy and when it does not.

Recognition that failure is not the only factor conditioning the implementation of new ideas has pushed research in two other directions. A second approach focuses on institutional arrangements. Particularly important here is the degree to which authority over implementing policy is concentrated within the state and subject to few veto points. As Hall (1989) notes, "The official reception given to a new economic theory can be conditioned by the way in which power over economic policy making inside the state itself is distributed among agencies with different biases" (p. 374). Bureaucracies and subnational governments that favor particular ideas facilitate their adoption and implementation, and their institutionalized routines serve as road maps that guide policy in particular directions under conditions of uncertainty (Goldstein, 1988, 1993; Sikkink, 1991; see also Yee, 1996, pp. 88-92). A new idea is most likely to be implemented when it is adopted by the leadership of a bureaucracy that has sole authority over the relevant policy tools. Conversely, institutional arrangements that diffuse authority over public policy among different bureaucracies can impede the implementation of new ideas. Decision makers in different bureaucracies may not embrace the policies prescribed by a new idea if they conflict with their self-defined missions and priorities. It may be difficult to implement the idea's programmatic elements if they do not coincide with the technical and administrative capacities of the implementing agency, a problem that is likely to be compounded when multiple agencies share authority and must coordinate their actions (Checkel, 1997, p. 7; Risse-Kappen, 1994; Weir, 1992, pp. 19-22).

The third approach concludes that a new idea will be implemented only when it has sufficient political support from powerful individuals and groups outside of the state. This view of ideas as hooks for actors' material interests is strong in parts of the pluralist and rational-choice approaches to politics (e.g., see Bentley, 1908/1967, p. 169; Shepsle, 1985). Gourevitch (1989) summarizes this position well: "To become policy, ideas must link up with politics—the mobilization of consent for policy. Politics involves power. Even a good idea cannot become policy if it meets certain kinds of opposition, and a bad idea can become policy if it is able to obtain support" (pp. 87-88). Ideas must not only be technically feasible in the sense that they propose solutions to the relevant policy problem, but also politically feasible in the sense that they do not mobilize high levels of opposition from groups in society (Rose, 1993, pp. 44-45, 140; see also Jenkins-Smith & Sabatier, 1993; Robertson, 1991, p. 68). Because there are always competing ideas that cannot be compared and evaluated in advance solely on their intellectual merits,

decision makers are less likely to implement an idea that conflicts with the preferences of important groups. Conversely, decision makers have more autonomy to implement policies based on their ideas, beliefs, and ideology when societal groups do not oppose an idea or are uncertain about their interests (Berman, 1998, p. 34-35; Heclo, 1974, pp. 315-316; Krasner, 1978, pp. 15-17, 138, 323, 337-347).

In each of the three cases that follow, the material interests of some decision makers coincided with their policy ideas. For example, implementing monetarism or privatizing health care finance likely would have benefited wealthier voters who in turn supported the Conservative party. Although I do not address the question of why decision makers select some ideas over others, the evidence indicates that material interests were not the only determinant of the specific policy proposals embedded in the ideas that decision makers tried to implement. Ideas did help decision makers define, prioritize, and tackle policy problems. For example, the government could have achieved the goal of controlling local government spending simply by reducing grants to local governments across the board. Instead, it worked diligently to influence not only the amount but also the type of local government spending. It could have tried to reduce inflation in any number of ways other than targeting the rate of growth of the money supply, such as targeting the exchange rate, focusing more on fiscal consolidation, using price controls, and so forth.

Little existing research is designed to distinguish simultaneously the causal effects of ideas, institutions, and interests on implemented government policies. Some works focus only on a single cause, but even more sophisticated specifications of the scope conditions of ideas tend to analyze only one or two independent variables. A good example of this is Garrett and Weingast (1993), who hold that ideas are important for coordinating and enforcing international agreements only in situations of overlapping interests. Similarly, Krasner (1978) concludes that decision makers' ideas and ideologies drive foreign policy only in the absence of clear threats to the national interest. These works imply that the causal influence of ideas will be modest compared to that of interests. In a similar vein, institutionalist accounts occasionally suffer from a preoccupation with demonstrating how institutional variation helps or hinders the implementation of a new idea. Checkel (1997), for example, demonstrates that concentration of authority eases implementation, but devotes relatively little attention to the role of organized interests outside of the state.

These studies all shed light on the influence of ideas, and I combine their insights in a framework suitable for empirical testing that specifies more precisely the combined influence of interests, institutions, and ideas. The

		Concentration of Authority Over Implementation	
		Low	High
Societal Opposition to New Idea	Low	Ideas have weak influence on implemented policies *Central-Local Government Relations*	Ideas have strong influence on implemented policies *Monetary Policy*
	High	Ideas have weakest influence on implemented policies	Ideas have weak influence on implemented policies *Financing Health Care*

Figure 1. **The influence of ideas on policy.**

framework, presented in Figure 1, builds on Lowi's (1964) insight that different policy areas have distinct political and institutional characteristics. The vertical axis draws on interest-based approaches, which hold that ideas are most likely to be implemented if they do not attract high levels of opposition from society. The horizontal axis forecasts successful implementation if institutional arrangements concentrate authority within the state. In combination, these independent variables have the following relationships with implemented policies.

Low societal opposition/high concentration of authority. In situations resembling the upper right cell of Figure 1, societal opposition to a new idea is low and authority is concentrated. This maximizes the possibility that a new idea will be implemented. Decision makers are relatively unconstrained by groups outside of the state and are in a position to ensure that the relevant agencies carry through with implementation. Debates among decision makers are driven by the consequences of policy failure, and focus on the technical rather than political aspects of implementation.

Low societal opposition/low concentration of authority. The upper left cell of Figure 1 includes cases where societal opposition to an idea is low but responsibility for implementation is not concentrated within the state.

Relevant bureaucracies that are unconvinced of the merits of the new idea and the policies it prescribes can use their institutional position to delay implementation.

High societal opposition/high concentration of authority. The lower right cell of Figure 1 includes cases of concentrated authority within the state but high levels of opposition from society to the new idea's policies. Concentrated authority makes it possible for decision makers to implement their idea because they can lead and oversee the relevant governmental machinery. But strong societal opposition makes implementation politically dangerous and leads decision makers to moderate their commitment to the new idea, compared to situations where they face weak societal opposition.

High societal opposition/low concentration of authority. The impact of ideas on policy is weakest in situations resembling the lower left cell of Figure 1 for two reasons. First, societal opposition to the idea is high, and attempting to implement it might undermine the decision maker's political position and ability to achieve other goals. Second, authority over implementation is diffused among different bureaucracies of the state. This increases the possibility that some of those responsible for implementing the idea can use their position in the policy process to delay or dilute the decision maker's program.

To influence policy choices, ideas must reach and persuade decision makers whose roles include evaluating the overall goals and tools of policy, initiating policy change, and overseeing implementation of new policies. The integrated framework presents these actors as state, typically executive branch, officials. This assumption proves realistic for the cases that follow, because in general British political institutions assign these roles to state officials such as the prime minister or departmental ministers. But it may be unrealistic in settings where state officials share authority over policy initiation. An example is federal systems where the federal government shares authority over initiation with subnational governments in many policy areas (such as education in the United States and Germany). Although the ideas and institutions literature typically focuses on formal institutional arrangements, such as the nature of executive-legislative relations or the allocation of functions within the state, more informal institutions such as policy networks or corporatist relations also could diffuse authority over policy initiation. An example is corporatist systems, where employers and unions may influence new policy ventures in areas such as vocational training. The model should apply in such settings only when authority over policy initiation is concentrated, as is typically the case with foreign policy.

Societal opposition and low levels of centralized authority both constrain the ability of decision makers to change policy in directions consistent with their ideas. Nordlinger (1981) shows that decision makers do have long-term strategies to overcome or partially mute societal opposition. Examples include taking decisions in secret, prolonging decision making about and implementation of new policies to make it more costly to organize and sustain political opposition, and undermining existing policies by changing seemingly minor administrative guidelines or reducing budgets. Although Nordlinger does not explicitly consider the difficulties for implementation posed by institutions that diffuse authority, it is straightforward to extend his argument to this area. Senior decision makers can alter budgets, internal rules, operating procedures, and so forth to reduce opposition from state bureaucracies. We should expect to see decision makers embark on these strategies in cases of both societal and bureaucratic opposition. Whereas Nordlinger focuses only on societal opposition, the empirical evidence presented below indicates that such strategies are most effective in cases that involve altering the resources and political power of agencies within the state over which decision makers have some direct authority. The Thatcher government could not easily alter the interests and power of the majority of voters who opposed its reforms for the National Health Service. But over time, it could reduce the autonomy, funding, and political power of local governments that opposed its ideas and policies.

IDEAS AND IMPLEMENTED POLICIES IN THE FIRST THATCHER GOVERNMENT

RESEARCH DESIGN

This integrated framework has two methodological advantages over current work on the influence of ideas on implemented policies. First, it does not suffer from the problem of omitted variable bias, in which the failure to consider the influence of all independent variables identified by existing theory can lead to incorrect estimates of the causal influence of the included independent variables (King, Keohane, & Verba, 1994, pp. 168-176). As the quotation from Goldstein and Keohane (1993, p. 29) cited in the previous section indicates, this has been a shortcoming of some earlier work exploring the influence of ideas. The problem also plagues much research that uses as its starting point analysis of interests or institutions but that does not include ideas as an independent variable or dismisses their influence without undertaking serious empirical study (e.g., Frieden, 1991). The framework pushes

empirical work beyond simple correlations between one or two independent variables (interests, institutions, or ideas) and the dependent variable (implemented policies). Instead, it incorporates all three independent variables to estimate the size and direction of their effects in combination and in comparison with the other independent variables.

Second, the framework eases the selection of cases based on the value of the independent variables. This is recommended as the best way to evaluate a theory when the number of observations is small, as is almost always the case when analyzing ideas and policy (King, Keohane, & Verba, 1994, pp. 140-141). Monetary policy exhibited low societal opposition to decision makers' ideas and high concentration of authority, so implementation should be rapid in this area. I compare two other cases to monetary policy to test the influence of societal opposition and low levels of centralized authority. Both societal opposition and the concentration of authority regarding the government's health care finance idea was high, whereas central-local government relations exhibited lower levels of societal mobilization and a low concentration of authority among different levels of government. I expect more problems with implementation in these cases than in the monetary policy case. Comparing the health care finance and local government cases allows estimation of the relative influence of interests and institutions in hindering implementation.

Note that as presented, the ideas variable does not vary among the cases. In each case, decision makers adopted ideas that, if implemented, would mark fundamental rather than marginal changes to the status quo. Decision makers proved to be committed enough to translate each idea into specific policy commitments, and tried to proceed with implementation despite the fact that doing so would attract some opposition. The reason for this is methodological; I am not claiming that ideas have no independent impact on implemented policies. Limiting the number of cases required for a sound empirical analysis requires that one variable not change in value across the cases. I chose to analyze only cases in which decision makers had adopted a particular idea to determine the conditions under which ideas are implemented as policy. It would be possible to construct the model so that, for example, societal interests or institutional arrangements are constant while varying the presence, intellectual sophistication of, or commitment of decision makers to policy-relevant ideas. As the cases demonstrate, ideas certainly mattered for decision makers; the question this article addresses is when they mattered for implemented public policies.

I use two methods to evaluate the validity of the posited causal relationships: the congruence procedure and the process tracing procedure (George & McKeown, 1985). The congruence procedure simply compares the predicted

and actual relationships between independent and dependent variables in each case. Although a small number of cases cannot provide a definitive test, the three chosen for analysis do represent an optimal combination of values on the independent variables of the degree of concentrated authority over implementation and of societal opposition to a new idea.

Process tracing allows a second estimation of how variation in the independent variables influenced outcomes through a detailed reconstruction of "the decision process by which various initial conditions are translated into outcomes" (George & McKeown, 1985, p. 35). Answers to two questions are particularly important. First, did decision makers and close observers identify the independent variables as a constraint on implementation? For example, does the historical record reveal that decision makers understood unified societal opposition to be a crucial constraint on the implementation of their ideas for reforming the National Health Service? A positive answer to this question provides additional support for this hypothesis. Second, did the participants identify some factor not included in the framework as having an important influence on implementation? A positive answer to this question not only undermines the explanatory power of the framework, but also might identify additional independent variables that can be generalized to other cases in future research. The information in the cases is drawn from a number of published sources, including official documents and reports, newspapers and trade journals, memoirs, and secondary literature. Many of the senior decision makers (such as the relevant cabinet members and the Prime Minister herself) have either published memoirs about these events or have given extensive interviews after leaving office. To complement the published record, I conducted interviews with current and former politicians, bureaucrats, bankers, business people, lobbyists, and academics. Wherever possible, I use multiple sources of evidence to create an accurate summary of the decision-making record. I organize each case into three parts: a description of the relevant idea and why decision makers were persuaded that it promised outcomes better than the status quo and rival ideas, a description of the institutional environment and the level of societal opposition to the idea, and a reconstruction of the decision-making and implementation processes.

I limit the analysis to the first Conservative government led by Margaret Thatcher (1979-1983) for two reasons. First, analysts are divided over the role that ideas played in the actions of this government. Some hold that the Thatcher administration marked a strong break with traditional Conservatism by rejecting consensus, advocating great reliance on market mechanisms, and emphasizing personal responsibility and law and order (Gamble, 1988). Others argue that Thatcherism was more rhetoric than reality, and that in practice the ideas and policies of the first Thatcher government were quite

similar to those of preceding Tory administrations (Butcher, Law, Leach, & Mullard, 1990; Pym, 1984). Relatively little work has tried to discover the conditions under which Thatcherite ideas succeeded and failed to be implemented (an exception is Rhodes & Marsh, 1992), and the integrated framework developed here allows a more nuanced interpretation of Thatcherism. Second, limiting empirical analysis to one country and a relatively brief period partially holds constant many other, possibly confounding, effects, including the government's parliamentary majority, major political institutions, the personalities and ideologies of key decision makers, the state of the British and international economies, and so forth.

MONETARY POLICY

Content of the Idea

The Conservative party developed its monetary policy ideas while in opposition in the 1970s, and the first Thatcher government translated these ideas into policy commitments in the Medium Term Financial Strategy (MTFS) of its first full budget in 1980. The basic argument was that the Keynesian ideas that had guided macroeconomic policies of both Labour and Conservative governments since World War II now resulted in rapid inflation. The Thatcher government substituted for Keynesianism three interrelated monetarist ideas that, if fully implemented, would represent a complete reordering of the goals and tools of macroeconomic policy. First, monetary policy was the primary cause of inflation, but had little immediate or positive effects on employment or growth. Therefore, the only goal of monetary policy should be to reduce inflation. Second, monetary policy causes inflation by raising the rate of growth of the money supply above the rate of growth of gross domestic product; therefore, reducing inflation required slowing the rate of growth of the money supply, not, for example, stabilizing the exchange rate or engaging in corporatist incomes policies. Third, fiscal policy should support monetary policy by minimizing the public sector borrowing requirement (PSBR) rather than using budget deficits to maintain full employment (Burns, 1988; see also Lawson, 1993, pp. 68-72).

This brand of monetarism did coincide with the personal beliefs of Thatcher and the material interests of many Tory voters. But it also had intrinsic properties that seemed to facilitate the choice of superior economic policies. It was an elegant explanation for the failure of Keynesianism, it proposed a straightforward framework for redefining the economic problem as inflation, and it identified the choice and setting of policy tools. Before the

1979 election, Thatcher and some other senior Conservative politicians were convinced that implementing monetarism was the best way to solve Britain's economic problems.

Political and Institutional Environment

Monetary policy was characterized by divided preferences in society and concentrated authority in the state. The most important division within society was a product of the weak ties between industry and finance, which led them to have different interests regarding interest rates and the exchange rate (Hall, 1986, p. 59; Henning, 1994, pp. 17-26; Longstreth, 1979; Zysman, 1983). British industry met much of its external financing needs through retained earnings and sales of equity and bonds to investors, and borrowed only short-term operating funds from banks. It was rare for banks and institutional investors to invest directly in, or lend to, industrial firms on a long-term basis. Finance and industry existed "in distinct spheres from which they venture forth to meet as autonomous bargaining partners," and finance lacked interest and expertise in the long-term concerns of industry (quoted in Zysman, 1983, p. 70). These weak ties led industry and finance to hold different monetary policy preferences. Industry favored low interest rates to contain its borrowing costs and to prevent currency appreciation that reduced its international competitiveness. The primary interest of finance was to keep inflation low, because unexpected increases in inflation reduce the spread between the prices of liabilities (such as borrowed funds and deposits) and returns on assets (such as loans and bonds). Banks and financial firms preferred higher interest rates and currency appreciation that reduced domestic inflation and import prices.

There was a high level of concentrated authority over monetary policy. Major decisions about targets for monetary aggregates, changes in interest rates, participation in international monetary regimes, and so forth were made by the Prime Minister and Chancellor. Other members of the government usually were not consulted in advance about specific monetary policy actions, and the Prime Minister and Chancellor frequently did not describe to their colleagues the rationales for policy changes in great detail after the fact. This domination of monetary policy weakens only if the Chancellor and Prime Minister hold different opinions and each tries to gain the support of other members of the government. Such divisions would arise between Thatcher and Chancellor Nigel Lawson later in the decade, but during the early 1980s, Thatcher, Chancellor Geoffrey Howe, and then-Financial Secretary Lawson all supported full implementation of the MTFS. Implementation

of the government's monetary policy decisions is the responsibility of the Bank of England. The bank had little autonomy from the government until the mid-1990s. The governor and other officers of the bank served as advisers to the government and did not chose longer term policy goals and instruments themselves.

Implementation

Shortly after taking office in the spring of 1979, the Conservative government reduced the existing target band for the rate of growth of the money supply, raised the minimum lending rate by 2%, and cut the projected PSBR substantially. The government formally introduced the MTFS in its first full budget in March 1980. The MTFS included forward targets for the rate of growth of the monetary aggregate M3 and the reduction in the PSBR, but did not contain targets for the exchange rate, economic growth, or employment.[1] The government pushed the minimum lending rate to the unprecedented level of 17%, and kept it high thereafter, to meet the monetary growth targets and to reduce inflation. High interest rates encouraged a sharp appreciation of sterling (see Figure 2). Senior decision makers recognized and accepted that appreciation was not only the natural consequence of higher interest rates, but that it helped lower inflation by inducing a sharp recession, reducing the prices of imports, and constraining employment and wage increases (Lawson, 1993, pp. 56-59; Riddell, 1991, pp. 18-22; Smith, 1987, p. 90; Thatcher, 1993, p. 93). This commitment to domestically oriented monetarism went so far that government officials vetted Bank of England press releases announcing changes in interest rates to ensure that they contained no references to the exchange rate.[2] Although the government publicly placed the blame for sterling appreciation on British petroleum exports, it did not support this argument with significant intervention on the foreign exchange markets, and ignored the fact that other petroleum exporting countries, such as the Netherlands, did not see their currencies appreciate as significantly (Keegan, 1984, p. 148).

Within a year of taking office, senior decision makers had taken the unpopular steps of raising interest rates to record-high levels, trying to cut the budget deficit during a deep recession, and presiding over sharp increases in

1. The targets were for M3 to grow by 7% to 11% in 1980-1981, a range that would decline by 1% annually for 4 years, and for the PSBR to be cut from 4% of the gross domestic product (GDP) in 1980-1981 to 1.5% of GDP in 1983-1984.

2. Many officials in the Treasury and the Bank of England thought that the government's explicit rejection of any exchange rate targets was "doctrinaire" and "theoretical," but were unable to convince them to change policy (interviews with former Bank of England officials).

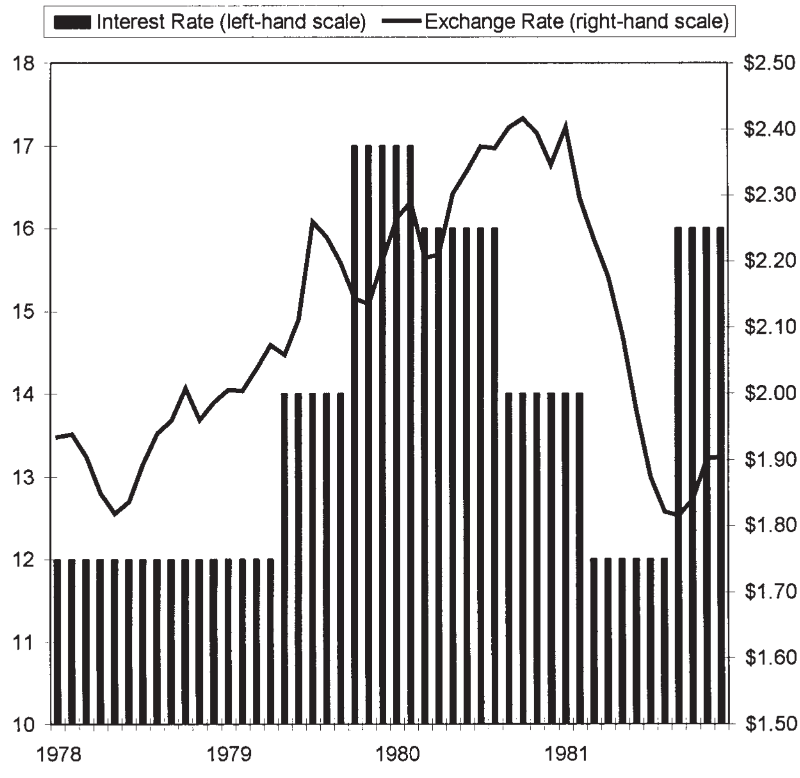

Figure 2. **Bank of England interest rates and sterling dollar exchange rates, 1978-1981.**
Source: Calculated from Bank of England, "Changes in Bank Rate, Minimum Lending Rate, Minimum Band 1 Dealing Rate and Repo Rate" (January 14, 2000), and Federal Reserve Bank of St. Louis, Federal Reserve Economic Database (available at http://www.stls.frb.org/fred/).

unemployment and the exchange rate of sterling. But no one inside or outside of the government was powerful enough to force a change in policy. Not surprisingly, these developments attracted opposition from the Labour party and the Trades Unions Congress. More disturbing for the government was the fact that its policies also produced public complaints from employers and senior members of the Conservative party. In the spring of 1980, the president of the Confederation of British Industry (CBI), Sir John Greenborough, attacked high interest rates as stifling for British firms, and by the fall British industrialists had begun a sustained campaign against the government's monetary policy. Many of the Prime Minister's friends in industry privately

told her that interest rates and sterling were too high, and in an unprecedented move Maurice Hodgson, chair of ICI, visited Thatcher privately to inform her of the company's first quarterly loss. In November, the CBI annual conference approved a motion criticizing the government's interest rate and exchange rate policies and advocated an active policy to depreciate sterling. The CBI's director-general, Sir Terence Beckett of Ford, emphasized the devastating effects of rapid sterling appreciation on British manufacturing firms. Sir Michael Edwardes, chair of British Leyland, argued that if North Sea oil were the cause of sterling appreciation, he would prefer to "leave the bloody stuff in the ground." In response to such criticisms, Thatcher replied disdainfully that many firms' management was "patchy" and "found it convenient to be regulated by government and saved by subsidies" (quoted in Holmes, 1985, pp. 155-156). Senior decision makers agreed that a tight monetary policy and currency appreciation, as well as reductions in subsidies to nationalized industries, would force firms to cut costs, shed labor, and become more competitive (Howe, 1994; Lawson, 1993, pp. 56-59; Smith, 1992, p. 91; interview with former minister). Most representatives of the City, as well as the Institute of Directors, supported the government's priority of reducing inflation quickly. Members of the Treasury's panel of outside academic and City economists consistently expressed more concern about a premature loosening of monetary policy than did the CBI. Financial firms in the City, as well as some prominent economic journalists, were strong and early supporters of monetarist ideas, and used their positions to convince investors that adherence to monetary targets should be an important element in their assessments of government policy (Hall, 1993, p. 286; Holmes, 1985, pp. 157-158; Prior, 1986, p. 123; interview with former minister).

The Wets, or moderates, in the government shared the concerns of the CBI but had little influence on cabinet discussions of economic policy. The Wets were never able to come up with a viable alternative to the monetarist program of Thatcher, Howe, and their advisers. British industry lacked a champion in the cabinet since the first Minister for Industry, Sir Keith Joseph, opposed government intervention and was intellectually wedded to the MTFS. His successor, Patrick Jenkin, feared being too outspoken on industry's behalf for fear of being tarred a Wet and seeing his influence reduced. The complaints of the Wets infuriated Thatcher, and she successfully undermined them through cabinet reshuffles and by refusing to make them privy to detailed discussions of monetary policy, which were contained to herself, Howe, Lawson, and a few advisers from No. 10, the Treasury, and the Bank of England (Gilmour, 1992, pp. 17, 20, 31, 36; Howe, 1994, pp. 133, 207-208, 222-225; Lawson, 1993, p. 96; Prior, 1986, pp. 118-119; Thatcher, 1993, pp. 51-52, 127-128, 130-131, 148-153; Walker, 1991, pp. 159-161).

Technical considerations—the failure of the monetary aggregates to provide a consistent guide to the appropriate level of interest rates—played a larger role than these political complaints in driving subsequent policy choices. The heated arguments that arose between prime ministerial advisers, Treasury ministers and officials, and to a lesser extent officials of the Bank of England, were conducted among individuals committed to the goals and general techniques of the MTFS but who differed over the importance to be attached to particular monetary aggregates or the exchange rate. On November 24, 1980, Chancellor Howe reduced the minimum lending rate by 2%. This marked the first shift from strict adherence to monetary targets as the guide to interest rate policy. Although the preferred monetary aggregate, M3, was growing more quickly than its target rate, this overshooting was blamed on distortions produced by the elimination of controls over bank lending. The Bank of England, the Prime Minister's informal economic adviser Alan Walters, and outside consultant Jürg Niehans agreed that other indicators, including the rapid appreciation of the exchange rate, indicated that monetary policy was clearly anti-inflationary. The government also decided to shift some of the burden of reducing inflation from monetary policy to fiscal policy by raising taxes and reducing government spending in the 1981 budget (Keegan, 1984, pp. 157, 159; Smith, 1987, p. 96; Thatcher, 1993, pp. 134-139). The next shift in the evolution of the MTFS occurred in late 1981. Until September the government reduced interest rates gradually, acquiesced in the overshooting of its money supply targets, and saw sterling's effective exchange rate depreciate gently by about 10%. The Bank of England and the Treasury became concerned about inflation when depreciation accelerated in September, and responded by raising interest rates to 16%. This was the second time the increasingly unreliable behavior of the monetary aggregates was not the underlying reason for changing interest rates. When the (still overvalued) currency threatened to depreciate precipitously, decision makers raised interest rates to defend the currency. Henceforth depreciation would play a much more important role in determining interest rate policy, although decision makers did not adopt an explicit exchange rate target (Cosgrave, 1985, pp. 140-141; Howe, 1994, pp. 226-227; Keegan, 1989, pp. 106-107; Smith, 1987, p. 109).

Summary

The Thatcher government came to office with a well-developed set of ideas about the conduct of monetary policy and succeeded in overcoming opposition to their implementation. There was no effective institutional constraint on implementation, as the senior decision makers—Thatcher, Howe,

and Lawson—had control over the relevant policy instruments and were able to prevent opposition from developing within the Cabinet by controlling its agenda, refusing to discuss policy in detail, and reshuffling ministers. Societal groups were divided on the merits of the MTFS. Industrial and trade union leaders criticized its effects on employment and the exchange rate, whereas financial firms and investors supported the goal of reducing inflation through targeting of the money supply. The process tracing of decision makers' attitudes indicates that they believed it was possible to ride out the opposition, and they only deviated from the MTFS when it became clear that targeting the rate of growth of the money supply was ineffective. This is especially clear when we compare the experience of monetary policy with the case of financing health care, where political and public opposition was strong and decision makers quickly abandoned their ideas for policy change.

FINANCING HEALTH CARE

Content of the Idea

Three general ideas underpinned the Thatcher government's social policies: shifting spending from the state to the individual, increasing the role of the private sector in welfare provision, and giving individuals more responsibility for determining the social services they wished to receive (Allsop, 1989, pp. 53-54; Klein, 1985, pp. 189-190). This marked a sharp break with the bipartisan consensus in place since the 1940s about the size and organization of most of the welfare state. During the 1980s, the government implemented these ideas by privatizing almost all of the state's transport and industrial holdings, and in the area of social policy by extending the importance of private pensions schemes and selling council housing as ways for individuals to opt out of state provision (Chandra & Kakabadse, 1985, pp. 3-8; Pierson, 1994). The government also challenged the consensus that health care should be financed with general tax revenues and free to the user at the point of delivery through the National Health Service (NHS) (Chandra & Kakabadse, 1985, p. 35; Klein, 1984). Senior members of the party were committed to the idea of financing health care with private insurance rather than general tax revenues, and in the 1979 election manifesto the party promised to examine the issue (Klein, 1983, p. 134). Patrick Jenkin, the Conservative party's shadow secretary for the Department of Health and Social Security, stated in 1977 that "I believe that we should seek ways of transferring more of the cost of the National Health Service from taxes to insurance" (quoted in Krieger, 1986, p. 97).

Thatcher (1993), in discussing reforms to the NHS that her government implemented in the late 1980s, outlined her ideas in the following terms:

> There was no reason why doctors, nurses or patients should be in a monolithic state-provided system. . . . If one were to recreate the National Health Service, starting from fundamentals, one would have allowed for a bigger private sector—both at the level of general practitioners (GPs), and in the provision of hospitals; and one would have given much closer consideration to additional sources of finance for health, apart from general taxation. (p. 607)

From the perspective of Thatcher, Howe, and other senior decision makers, full or partial privatization of health care finance would solve two problems identified by their overarching principles. First, it would make it difficult for future governments to respond to political demands for more services and technology in one of the largest areas of public spending. Second, privatizing health care finance would reduce the cost and improve the quality of existing services by promoting competition among insurers and providers.

Political and Institutional Environment

The political problem with this idea was that financing the NHS from general tax revenues was very popular with the electorate and powerful interest groups. As Krieger (1986) puts it, the NHS had become "a habit for more than 90 percent of the population. Of course, the NHS is the only way of life for a growing proportion of the electorate who are NHS babies and now adults, for whom 'socialized medicine' doesn't seem socialist at all, but a minimal condition of civilization and convenience" (pp. 96-97).

A large body of survey evidence from the late 1970s and early 1980s supports this view that overall public support for state finance of health care was high and increasing. In May 1979, the electorate was split almost equally between voters favoring tax cuts combined with lower health and social spending, those preferring the status quo, and voters favoring higher taxes and more social services. But by February 1980, 7 months after the election of the Conservative government, a majority favored the last option, and this proportion would change only slightly over the next 3 years (Rose, 1983). Taylor-Gooby (1985, p. 27) reaches similar conclusions from a detailed survey in 1979, in which 52% of the respondents thought it was very important and 35% thought it was fairly important to increase spending on the NHS. The social attitudes survey of 1983 found that a large majority of respondents opposed changing to private health care insurance for those who could afford

it (Bosanquet, 1984, p. 84). Evidence such as this led many to conclude that whereas the political atmosphere in the late 1970s turned against parts of the welfare state (especially programs assisting women, the unemployed, or immigrants), the NHS was largely immune from such attacks (Krieger, 1986, p. 96; Pierson, 1994; Taylor-Gooby, 1985, p. 52).

In addition to strong support among the general public, some powerful interest groups sustained state funding for the NHS. The Service itself had about 1 million employees, most of whom belonged to well-organized unions that supported public financing. Klein (1984, p. 104) argues that this is an important reason why the Conservatives had so little success implementing even minor changes, such as the contracting out of ancillary services. By the early 1980s, physicians organized in the British Medical Association allied with the NHS unions to oppose the development of a health care system financed by private insurance, holding that "the private sector should not be allowed to develop in such a way that it could damage the NHS" (Klein, 1984, p. 104).

Political institutions concentrated authority over key health policy decisions among the Prime Minister, Treasury, and the Secretary of State for the Department of Health and Social Security (DHSS). Health policy in general, and the NHS in particular, was a politically and electorally sensitive issue and frequently attracted the intervention of the Prime Minister. The Treasury had a substantial say over the level of health spending because the NHS is paid for out of general tax revenue (Wilsford, 1994, pp. 266-268). The DHSS Secretary of State was torn between two conflicting demands during the Thatcher government. Departmental demands lead him to request more funds from the Treasury. But in a government committed to limiting spending growth, secretaries of state such as Patrick Jenkin and Norman Fowler obeyed the spending constraints set by the Prime Minister and Treasury if they wanted to be promoted to a more prestigious department. Departmental civil servants had an incentive to moderate their funding requests for similar reasons; failure to toe the government and party line on public spending might have led to the installation of a weak or hostile Secretary of State and undermined the department in its negotiations with the Treasury (Small, 1989, pp. 5, 12).

Implementation

Senior politicians considered but rejected the option of moving toward private health insurance during the government's first 3 years in office. Minister of Health Gerard Vaughan consulted with specialists at the Centre for Policy Studies and the Adam Smith Institute on the issue, and in July 1981 DHSS Secretary of State Patrick Jenkin commissioned a working party to

study alternative finance. The government also implemented a number of minor health policy changes in its first 2 years in office that gave more scope to the private sector, including tax breaks on employer-provided medical insurance, encouraging the development of private hospitals, allowing all NHS consulting physicians to treat private patients, and permitting pay beds in NHS hospitals. Subscriptions to private health insurance grew very rapidly after the government took office—by 26% in 1980 and 13% in 1981—which further encouraged ministerial interest in alternatives to state finance (Klein, 1983, p. 134, 1985, p. 202; Le Grand, Winter, & Woolley, 1990, pp. 92-93; Timmins, 1996, pp. 386-387).

The government considered replacing tax revenues with private insurance as the primary source of finance for health care in 1982. Early in the year, Chancellor Howe commissioned a study of spending patterns through 1990 as a way "to get us all to examine how the long-term momentum for the expansion of the state and public spending might be curbed and reversed" (Thatcher, 1993, pp. 276-277). The central conclusion was that further reductions in public expenditure or tax increases would be necessary to achieve this goal. Howe and Chief Secretary Leon Brittan presented the Treasury paper to the Cabinet in early September 1982, along with another paper written by the government's internal research organization, the Central Policy Review Staff (CPRS). The CPRS paper proposed instituting universal private health insurance for employees with rebates for the poor and unemployed (Fowler, 1991, pp. 183-189; Lawson, 1993, p. 303; Timmins, 1996, p. 392; Young, 1989, p. 300).

The majority of the cabinet refused even to discuss the CPRS paper, arguing that it was "a guaranteed election-loser." Lawson (1993) goes on to describe their reaction as "the nearest thing to a Cabinet riot in the history of the Thatcher administration" (p. 303). DHSS Secretary of State Norman Fowler (1991) would later write that the reaction of the Cabinet was "entirely hostile" and "that politically we would reap the whirlwind if we could be portrayed as moving away from [the NHS]" (pp. 185-186). Howe (1994) subsequently described the paper as "manifestly dangerous" and reports that "most colleagues recoiled so fearfully from the CPRS report. . . . The fundamental debate that I had hoped to start was postponed at least until after the general election, and fundamental thinking about, for example, health service reform for a good deal longer than that" (pp. 258-259).[3]

3. Thatcher (1993) later reported that the Central Policy Review Staff (CPRS) paper "contained a number of very radical options that had never been seriously considered by ministers or me. . . . I was horrified by this paper" (p. 277). Young's (1989) extensive interviews led him to dispute this account and conclude that Thatcher, rather than Cabinet Secretary Sir Robert

To the dismay of Thatcher, the CPRS paper was leaked to the press and attracted a public outcry. This response led the government to drop the proposal of changing the method of financing the NHS and to affirm its commitment to the Service's existing structure. At the Conservative party annual conference the next month, Fowler (1991) stated that "taxation will remain, as now, the predominant way of financing [the NHS]. . . . What this Government wants is partnership, not apartheid, between the private and public sectors." At the end of the conference, Thatcher reinforced this position by stating, "Let me make one thing absolutely clear. The National Health Service is safe with us" (Fowler, 1991, pp. 186-187; Keegan, 1984, pp. 192-193). The attitudes of the Cabinet and public led party leaders to drop the discussion of private insurance that had appeared in the previous campaign manifesto when preparing for the 1983 general election, and instead to "defend our record" regarding the NHS (quoted in Thatcher, 1993, p. 279).

Summary

Replacing state finance of the NHS with private health insurance would have been in accordance with the government's goals for reducing state intervention and spending and promoting competition. The government proved willing and able to engineer major alterations to other social programs, including the effective privatization of pensions. But opposition to the proposal for changing the manner of financing health care among voters, cabinet members, and employees of the NHS was so strong that Thatcher withdrew it from political discussion and affirmed the government's commitment to the existing system of finance.

CENTRAL-LOCAL GOVERNMENT RELATIONS

Content of the Idea

Rhodes (1992, pp. 51-53) holds that the Thatcher government adopted two ideas about relations with local government. The first flowed from the monetarist prescriptions for macroeconomic policy, according to which an increase in the PSBR led to an expansion of the money supply and inflation and crowded out resources that otherwise would be available to the private sector (Bacon & Eltis, 1976, served as the intellectual inspiration for this

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Armstrong, authorized circulating the paper to the Cabinet and that she was committed to its ideas until after it had been leaked and "the majority of ministers told her she had made a terrible blunder" (p. 300).

position). Because local governments accounted for about one fourth of total public spending, the central government would have to influence their fiscal stance to reduce the PSBR and the size of the state (Lawson, 1993, p. 565; Newton & Karran, 1985, p. 20). But controlling authorities' financial positions was not the only motive for restructuring relations between central and local government; the Thatcher government also wanted to influence the content of local government spending and taxes. This would be achieved by strengthening the accountability of local authorities to their electorates: "To encourage efficiency and safeguard against extravagance by local authorities, local electors need to be aware of decisions about expenditure and revenue and the effects of those decisions on the level of local taxes that they pay" (quoted in Her Majesty's Stationary Office [HMSO], 1981, p. 6; see also Thatcher, 1993, p. 645). Greater accountability and transparency also would encourage local governments to compete to attract residents and investment by improving the efficiency with which they delivered services. An additional (and implicit) motive was to "bury socialism" by undermining or abolishing local governments controlled by Labour, which was out of power at the national level but controlled many urban councils (Rhodes, 1992, pp. 52-53; see also Thatcher, 1993, p. 644).

Political and Institutional Environment

The textbook view is that Britain is a unitary state in which "the power to delegate or revoke delegated power remains in the hands of the central authority" (Rose, 1976, p. 50). This central authority is Parliament; because the British party system polarizes around two major parties, and these parties have strong internal disciple, the majority party directly dominates Parliament and indirectly controls the structure of local government.

Most analysts accept that Britain is a unitary state but that in practice certain powers are delegated to elected local governments. Grant (1985) concludes that local government's autonomy is based on three constitutional principles. First, "local authorities are multi-purpose agencies of government over a geographically defined territory. They are units of government, not purely of administration" (p. 239). Second, local governments' formal accountability is to a local electorate, not to the central government. The Thatcher government did acknowledge this; in a description of the policy changes instituted in the early 1980s, it stated that "conscious of the long-established tradition of independent, democratically-elected local authorities in this country, it [the Government] has tried to achieve this objective [of expenditure restraint] not by direct control from the centre but by measures designed to enhance the accountability of local government to its

electors and taxpayers" (HMSO, 1986, p. 76). Third, since the passage of the Poor Relief Act of 1601, local governments have had an independent source of revenue in the power to levy taxes (or rates) on local property (Grant, 1985, p. 239; see also Hepworth, 1972). Local governments also had substantial autonomy from the center because of their responsibilities for implementing many policies decided at the national level (Rhodes, 1988).

This diffusion of authority over policy and its implementation is important, because central and local governments might have different priorities for at least two reasons. The first reason is institutional; all other things equal, we would expect local governments to resist attempts by the central government to reduce financial transfers or policy autonomy. Thus, even some Conservative local governments expressed serious reservations about the Thatcher government's policy initiatives.

A second source of conflict flows from the possibility of different social bases and electoral mandates for central and local governments. Local councilors ultimately are beholden to their local electorates and, when there is a conflict between the policy preferences of the local electorate and the central government, are likely to side with the former (Chandler, 1996; Elcock, 1982, pp. 56-57). Political conflict may emerge when the party controlling the local government differs from the party controlling the central government. The best-known example of this was the Labour-controlled local governments in large urban areas that wanted to maintain or increase expenditure. This new urban Left (termed the "loony Left" by the government) made strong electoral gains at the expense of traditional Labour in local elections in 1980 and 1981. Led by radical councilors, party members, community activists, and some local government professionals, the new urban Left pushed for traditional Labour's goals of better services, such as housing and education, as well as the inclusion of women and minorities into politics, and the decentralization of local government decision making (Boddy & Fudge, 1984). Labour-controlled local authorities exhibited the most public and vocal opposition to the Thatcher government's ideas. Conservative local governments joined their Labour counterparts in opposing all of the first Thatcher government's policy initiatives regarding central-local relations. This is evidence that local governments were more concerned about retaining their autonomy than about conforming to their national parties' platforms.

Implementation

The Conservative electoral manifesto of 1979 committed the government to reducing overall public expenditure while maintaining health and social security spending and increasing defense spending in real terms. This meant

that expenditure cuts would be concentrated on local government, nationalized industries, and a few other programs. Shortly after taking office, Secretary of State for the Environment Michael Heseltine reduced the principal block grant to local government, Rate Support Grant (RSG), by £300 million for 1979-1980 to encourage local authorities to cut spending. However, reducing the RSG was a crude weapon to influence the spending patterns of local governments, because the center could not determine how the authorities allocated the RSG or require them to make selective cuts (Travers, 1986, p. 84, 1989, pp. 8-9).

The Local Government, Planning and Land Act of 1980 moved to solve this problem in England and Wales (different legislation achieved a similar result in Scotland). It replaced the RSG with a new system of block grants that allowed the government to reduce its transfer to a local authority that spent more than a standard level of expenditure, known as Grant Related Expenditure (GRE). Newton and Karran (1985) characterize this as “a change of fundamental importance” because

> the principle that local authorities could spend and tax according to their decisions about local circumstances and resources was firmly established as a right of local government. Under the provisions of the 1980 Act, however, ‘overspenders’ would be punished by a reduction in grant . . . and consequently would have to levy proportionately higher rates to support the higher spending. (p. 117)

Overspending was defined as spending more than 10% above the national average GRE per capita; in practice, this meant that for authorities with above-average GREs (mostly urban and frequently Labour-controlled), the real threshold was substantially lower (Travers, 1986, p. 97). The Act also gave the government more control over the type of expenditure by requiring central approval for both levels of capital expenditure and borrowing (Grant, 1985, p. 247). Even the local government associations with Conservative majorities—the Association of County Councils, the Association of Metropolitan Authorities, and the Association of District Councils—joined together to oppose the Act because it would decrease their autonomy (Travers, 1986, pp. 88-89).

Block grant began operation in 1981-1982, but local authorities continued to exceed the overall level of spending set by the center. Local governments, especially in urban areas, proved willing to increase rates to finance social spending and to refurbish the large stock of public housing built in the 1950s and 1960s. The more radical Labour councils also saw these actions as demonstrating the advantages of state intervention and local autonomy

(Cochrane, 1993, pp. 39, 43; HMSO, 1986, p. 3; Travers, 1989, pp. 9-10). In early 1981, the government introduced a new system of spending targets under which an authority that spent above its target would see its block grant cut. In June, Heseltine imposed additional hold-backs on grants to overspending authorities, but local governments in the aggregate still exceeded spending targets. The 1982 Local Government Finance Act provided a legal framework for these targets and penalties, eliminated the right of authorities to impose supplementary rates, and established the Audit Commission, whose members were appointed by central government with the goal of promoting efficiency in local government finances (Stoker, 1991, pp. 164-165; Travers, 1986, pp. 104-106).

The central government continued to have difficulty controlling local government revenue and expenditure. Although it succeeded in reducing capital expenditures by more than one third between 1979 and 1984 (Stoker, 1991), the government's own retrospective demonstrated that between 1979 and 1985, current local expenditure grew as a percentage of gross domestic product; that local governments reduced manpower by only 4%, which was "modest compared with achievements elsewhere in the public sector" (p. 14); that the center increased its overall expenditures on local government every year after 1979; and that many authorities had adopted methods of creative accounting to mask the true extent of their spending. Local governments also increased their rates, raising them much more rapidly than the increase in retail prices in every year from 1979 to 1984 (HMSO, 1986, pp. 4-5, 82; other evaluations include Cochrane, 1993; Rhodes, 1988, pp. 382-383; Stoker, 1991).

The government announced its response to these problems in the 1983 electoral manifesto, which called for centrally imposed limits on rate increases of councils that exceeded their GRE and for abolishing the Labour-dominated Metropolitan County Councils (MCCs) and the Greater London Council (GLC). The manifesto described all the targeted local governments as "grossly extravagant Labour authorities whose exorbitant rate demands have caused great distress both to businesses and domestic ratepayers."

Three things are interesting about the subsequent 1984 Rates Act that capped the rates of overspending authorities and the 1985 Local Government Act that abolished the MCCs and GLC. First, their major components came at the direct urgings of Thatcher and her closest advisers. The Secretary of State for the Environment, Tom King, opposed rate-capping and wanted to retain the GLC and MCCs; William Whitelaw's committee had only raised the possibility of abolishing the GLC and MCCs. Thatcher responded by

establishing a new Cabinet committee that endorsed abolition and, with the support of Chief Secretary to the Treasury Leon Brittan, decided to cap rates (Forrester, Lansley, & Pauley, 1985, pp. 64-66; see also Thatcher, 1993, p. 284). Second, these changes were not motivated solely by a desire to curb overall public spending. The government did not provide an estimate of savings that would accrue from abolishing the GLC and MCCs, and limiting the rates of individual local governments might have increased the PSBR unless their spending could be controlled more rigorously. Instead, the ideas of reducing the role of the state and of bashing Labour's remaining strongholds motivated these institutional changes. Third, the 1984 Act was strongly but unsuccessfully opposed by both Conservative and Labour local governments. The Conservative-dominated Association of County Councils objected that it "would result in an unacceptable centralisation of power . . . and the further weakening of local democratic control," and the Tory-controlled Association of District Councils and Labour-controlled Association of Metropolitan Authorities adopted similar positions (quoted in Travers, 1986, pp. 155-156).[4]

Summary

The first Thatcher government had difficulty implementing its ideas for reducing the spending and increasing the accountability of local government. Conservative and Labour local councils opposed these ideas that reduced their autonomy and were able to use their institutional position to delay implementation. For example, they responded to the reduced central government grant by raising their rates, and evaded detailed control over expenditure and revenue with accounting subterfuge. This led the government to use its parliamentary majority to change the institutional autonomy of local government in major pieces of legislation in 1980 and 1982. It did not achieve much success until after reelection in 1983, when it limited local governments' ability to raise rates and abolished some tiers of government controlled by Labour.

4. The government also implemented two less direct policy changes that limited the autonomy of local government. First, it increased the proportion of its overall grants to local authorities intended for specific purposes; specific grants as a percentage of all government grants increased from 16.3% in 1979-1980 to 23.1% in 1984-1985 (Travers, 1989, pp. 6, 14). Second, it privatized local government functions to give more scope to market mechanisms and private firms and to reduce the powers of local authorities. The most significant privatization required local authorities to sell council houses to tenants under certain conditions (Stoker, 1991, pp. 201-209).

SUMMARY AND CONCLUSION

This article builds on and integrates existing theorizing about the influence of interests, institutions, and ideas on implemented policies. My goal is to avoid emphasizing only one or two of these causes and to create a framework that specifies the impact of each. The integrated framework anticipates two important differences across the cases in the influence of ideas (see Table 1). First, the fact that opposition to the Thatcher government's ideas for private financing of health care and altering central-local government relations was stronger than the opposition to the government's monetarist ideas made it easier to implement the MTFS. The consequences of the MTFS did attract opposition from industry, trade unions, and the unemployed, but never enough to lead the government to abandon implementation in any fundamental way. Opposition to privatizing health care finance was more universal, coming from physicians and employees of the NHS as well as from the general public. In contrast to monetarism, which benefited financial capital by reducing inflation quickly, there were few obvious or immediate beneficiaries of the government's health care finance ideas. There were similar differences between the cases of monetary policy and central-local government relations. Most local governments, regardless of partisanship, opposed the government's attempts to implement the government's ideas. Tracing the decision-making process provides further evidence of this difference. Decision makers believed that the opposition to monetarism was politically bearable but privatizing health care finance was not, and they abandoned monetarism for technical reasons while dropping health care finance changes because of the political backlash.

The second expected difference is between the health care and local government cases. The values of the dependent variable—the degree to which the idea was implemented—varied across the two cases. The government quickly dropped its ideas regarding health care finance in the face of strong opposition from the public, interest groups, and Conservative party members. It persisted in implementing its ideas regarding central-local government relations despite opposition from local authorities. This means that societal opposition, which existed in the health care case, had a larger causal impact than institutions that diffused authority, which existed in the case of central-local government relations.

Although the cases exhibit a proper variation on the values of the independent variables, the fact that there are only three cases makes any conclusions provisional. In addition to adding more cases to increase confidence in the results, future research could include cases of low concentration of authority/high societal opposition. Decision makers should have the most

Table 1
Ideas, Policy Areas, and Implementation

Policy Area	Content of the Idea	Political and Institutional Environment	Policy Implementation
Monetary policy	Monetarism: Monetary policy cannot reduce unemployment but can reduce inflation by targeting rate of growth of money supply, raising interest rates, and encouraging currency appreciation	Political institutions centralized authority in Prime Minister and Chancellor; finance strongly supported monetarism, but industry and labor opposed it because of higher interest rates and exchange rate	Government quickly and fully implemented monetary targeting in Medium-Term Financial Strategy (MTFS), but abandoned MTFS because of technical problems with measuring rate of growth of the money supply
Financing health care	Privatization: Change from free and universal health care financed by tax revenues to universal private health insurance	Political institutions centralized authority for major decisions in Prime Minister, Chancellor, and Secretary of State for Health and Social Security; large majority of public, as well as political parties and relevant interest groups, opposed private finance	Thatcher and Howe proposed privatization in 1982, but almost all of the Cabinet opposed this step on political grounds; the government was forced to commit itself to maintaining the existing financing system
Central-local government relations	Reduce local government spending, make local councils more accountable to their electorates for taxes and spending, and undermine urban authorities controlled by Labour	Political institutions diffuse authority because local governments have an electoral mandate, independent source of revenue in property rates, and responsibility for implementing policy; Conservative and especially Labour-led local governments opposed government ideas	Legislation in 1980 and 1982 tied central government grant to local government performance and spending, but local councils evaded controls with rate increases and creative accounting; government then capped rates and eliminated metropolitan governments.

difficulty implementing their ideas in these cases. This reveals some of the strengths and weaknesses of my decision to use policy type as the unit of analysis. The strategy's strength is that it allows structured variation in the independent variables while attempting to hold constant other possible

effects, which should make it easier to draw valid conclusions. A weakness of the strategy is that controlling for other variables limits the number of possible cases. The fact that British political institutions concentrate authority (with few exceptions such as central-local government relations) makes it difficult to generate a larger number of appropriate cases. But the framework could usefully be evaluated in a series of comparisons across countries (or other units of analysis with different institutional characteristics, such as autonomous regions) with differences in institutional arrangements and societal interests.

An important difference that process tracing uncovers is the strategies that decision makers adopted in the face of societal and institutional resistance to implementation. Societal opposition to changes in health care finance led the government to introduce quite modest reforms, such as internal markets within the NHS for the provision of services. But the overwhelming focus of policy after 1982 was to persuade the public that it could trust the Conservatives to manage the NHS. The central government's failure to reform local authority finance between 1979 and 1982 led it to adopt a strategy of institutional change that reduced the autonomy of (or eliminated entirely) local government. Here, the government was able to challenge its opponents more directly, using its parliamentary majority to institute fundamental changes such as rate-capping and abolition. In this case, diffused authority forced the government to delay implementation by first drafting, debating, and passing complex legislation, but in the end the government implemented some of its ideas. As Nordlinger (1981) implies, the strategies adopted by decision makers will differ based on the type of resistance they encounter. This is another reason to take the institutional context seriously, because in the case of local government the context allowed the government to achieve its goals over time, but this was not the case with health care finance.

A final limitation deserves emphasis. I deliberately chose cases in which the relevant decision makers already had adopted a specific idea, and analyzed the situations under which this idea would and would not be implemented as public policy. Future research could alter this research design and investigate how societal interests and institutions direct the process of social learning. Existing literature on ideas implies that policy failure is the principle mechanism through which new ideas discredit existing ideas in the minds of decision makers. This insight into the sources of social learning could draw on more complex models that try to understand how learning is shaped by the political, administrative, and institutional environment (see Kingdon, 1984). An example relevant for the cases in this article is Hall's (1992) analysis of why the Conservative party leadership rejected Keynesianism and

adopted monetarist ideas in the 1970s. Two political and institutional factors encouraged this shift: Monetarism gave the party an economic strategy distinct from that of Labour, and the growth of government debt markets increased demands on the government to change interest rates in a predictable manner.

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