MEMORANDUM

THE WHITE HOUSE

WASHINGTON

FEB 2 6 1981

February 26, 1981

MEMORANDUM FOR SENIOR STAFF

FROM: MARTIN ANDERSON

SUBJECT: Reaganism and Thatcherism

Attached is a brief description of the basic differences between the economic program implemented in England by Prime Minister Thatcher and the economic program proposed by President Reagan.

Reaganism and Thatcherism

The Thatcher government came into office in May, 1979, with much of the same rhetoric that surrounds the Reagan Administration's economic program. However, the substance of these programs has been very different:

1) The Thatcher government did carry through with its plan to cut income tax rates--the top rate of 83 percent was cut to 60 percent, and the basic rate of 33 percent was cut to 30 percent.

However, the Thatcher government simultaneously almost doubled the Value Added Tax, increasing it from 8 percent to 15 percent, and increased some other taxes. The purpose of the increase was to make up the revenue loss of the income tax rate cut, but the effect was to offset the incentives created by the rate reductions.

Moreover, because of the serious budget projections, no further income tax cuts were proposed for FY 1980-81, though partial indexing was established. Other taxes, such as those on oil petroleum products, tobacco, and alcohol, as well as for employee social security, were increased.

In contrast, the Reagan Administration is not increasing taxes--such as a 10¢ a gallon gasoline tax, as proposed by the Carter Administration. Therefore, there will be no similar offset to the added incentive effects of the income tax rate reductions. And it intends to carry-out a multi-year reduction, to ensure that incentives are successively increased.

2) The Thatcher government did propose to cut the projected expenditures for the 79-80 budget by 2.4 percent. However, expenditures in fact overran its projections by just about that amount.

Moreover, despite planned cuts of 11.5 percent by 1983 in the Labor Party's previous projections, actual expenditures have risen sharply--both in nominal and real terms.

However, fiscal policy has actually tightened, but only because of rising tax burdens--not expenditure reductions.

In contrast, the Reagan Administration is proposing a program that significantly slows the growth of federal spending. It tightens fiscal policy by lowering, not increasing, the tax burden.

3) The Thatcher government also committed itself to controlling the growth of the money supply. However, it exceeded the target in FY 1979-80 (12.5 percent compared to a goal of 8-12 percent). It is committed to an annual growth rate of between 7 and 11 percent for the period of February 1980 to April 1981, but through January 1981, the growth rate was 19 percent.

In contrast, the Reagan Administration is committed to working with the Federal Reserve System to control the growth of the money supply.

Finally, the economies of the two countries are substantially different, including the fact that the U.S. is not so encumbered with money-losing state industries.