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**Labour Market and Inflationary Trade-offs: Assessing the Macroeconomic Implications of Labour's 2024 Victory in the UK after One and a Half Decades of Conservative Dominance**

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**ABSTRACT**

*The Labour Party's win in the 2024 UK election is one of the noteworthy political changes in the UK's economy and political scenario after almost 15 years of dominance of conservative leadership. This paper will extensively explore the economic scenario of the UK in the late 1970s when Thatcher took charge of the UK and the significant changes made by Thatcher in the UK economy. This research paper will thoroughly look at the various economic impacts of this political change and focus on job market trends and the trade-offs related to inflation. It will focus on how Labour's policy agenda—focused on wage growth, public investment, green infrastructure, and workers' rights—might affect employment, productivity, and price stability in the medium term. This research will look at Keynesian and supply-side ideas to see if Labour's approach (in contrast to Thatcher approach) to increasing spending can boost overall demand without causing long-term inflation. This paper will look at how changes in the labor laws, such as changes in minimum wages and stronger unions by Labour party might influence the macroeconomic objectives of the government, such as unemployment and inflation as explained through Phillips's curve. This paper will look at the Labour party's approach towards real wage recovery but its success will rely on managing supply constraints and keeping investor confidence high. The core objective of this research is to analyze how Thatcher dealt with the economic situation in the late 1970s and made major economic policy changes and now, after 15 years, when Labour is in the majority and the global economic and political scenario is changing, how this big political shift in the UK could change the balance of growth, jobs, and price stability in an economy.*

**Keywords:** Thatcherism (1970), Inflation, Unemployment, Labour party, Conservatism, Political shift, macroeconomic objectives

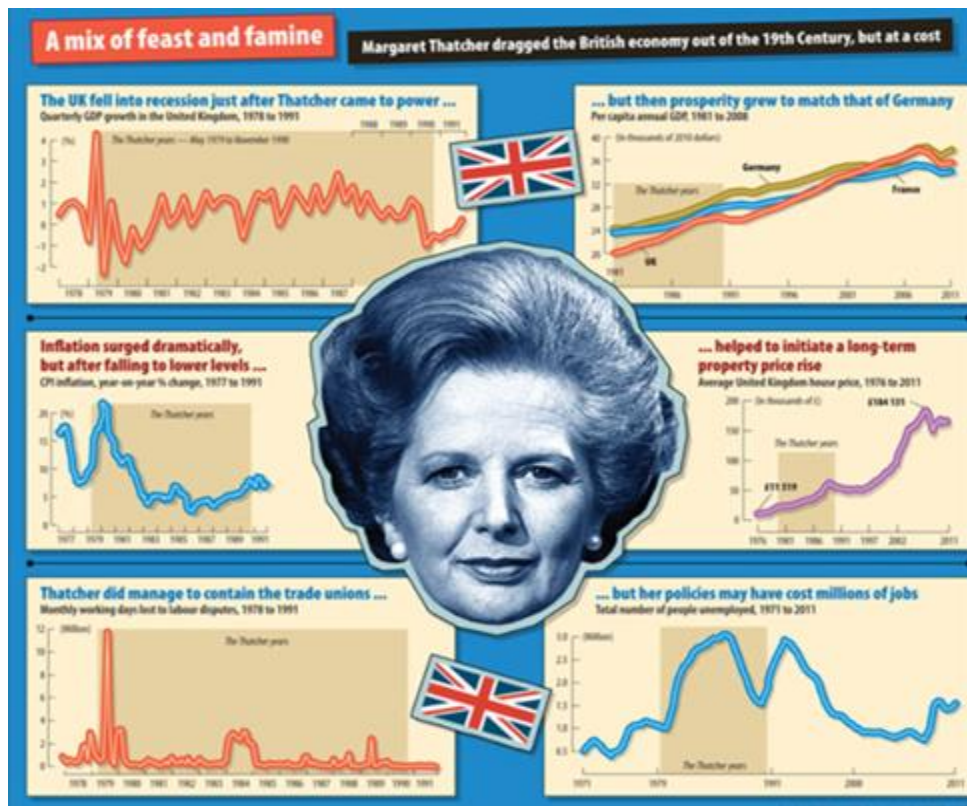
## **Introduction**

Labour market dynamics and inflationary trade-offs interact in evolving ways, giving shape to key macroeconomic outcomes that influence the economy's monetary policy and investment strategies. Labour market dynamics are related to the ongoing changes in macroeconomic aspects such as changes in employment level, wages, mobility of factor input and the market equilibrium of various skills available in an economy. These labour market dynamics are being influenced by the availability of the workforce, the number of jobs, technological advancement, globalization, demographic trends, etc. The labour market is dependent on the factors such as number of jobs available and the number of job seekers; this is an important aspect, as this will not only increase the bargaining power of trade unions but this will also result in an increase in wage growth and unemployment rates. When wages in the economy increase due to an increase in production costs for firms, this increase in the cost of production is being shifted to consumers even at a high rate. The cyclic process of this event will result in generating wage-push inflation—a scenario where upward pressure on wages contributes directly to overall price inflation. Recently, researchers highlighted that the relationship between the price level and unemployment rate can differ substantially by sector and over time: the link between wage growth and inflation is particularly pronounced in sectors with intense labour needs (for example, education, healthcare and hospitality). Inflationary trends in economics are not only considered as the increase in the price level of the economy, but this also shows the strategic allocation of assets, investments, or behaviors by market participants in anticipation of, or against, inflation. This signalling process consequently changes into production output, commodities, real estate investment or inflation-linked securities that are believed by investors to increase value during the situation of rising prices. Inflationary trends in the economy erase the real value of money, leading to an increase in the general price level; cash and fixed-income assets lose purchasing power, while real assets and certain equities are seen as more resilient. The core concept of the labor market Understanding labour market dynamics and inflationary trade is crucial for central banks, governments, and the potential investors, as these are the crucial factors that underpin fundamental economic cycles. Economic policymakers of a country rely on the indicators of the labour market to anticipate inflation. When the labour market is tight, it signals an increase in future price level (inflationary pressure) that needs to be intervened in either by government measures or by monetary interventions. For investors, understanding how factors such as inflation and wage growth will impact managing their investment portfolios during the time the prices are rising steadily. So, analyzing the interrelations in these components will not only help us to understand theory but this will also help in analyzing and providing practical advice for dealing with real-life economic and financial situations. In the context of the UK, the tradeoff happens as the shortage of labour supply will put pressure on cost. As per the estimates of the Bank of England (2024), the current non-accelerating-inflation unemployment

rate (NAIRU) is present at 4.5%, which is higher than last time during the late 2010s. In order to stabilize inflation without impacting the level of unemployment, the UK policymakers should focus on investing in skills, expanding childcare, and improving health-related support for workers.

**THATCHERISM & CONSERVATISM ERA**

**FIGURE 1: THATCHER ERA OF UK ECONOMY**



Staff Reporter. "Highs and Lows of Thatcher's Iron Grip on Economic Policy." *The Mail & Guardian*, 12 Apr. 2013, [mg.co.za/article/2013-04-12-00-highs-and-lows-of-thatchers-iron-grip-on-economic-policy](http://mg.co.za/article/2013-04-12-00-highs-and-lows-of-thatchers-iron-grip-on-economic-policy)

Over the last four decades, the impact of the Conservative Party has played a crucial role in drafting the economic policy of the United Kingdom. It had started from Margaret Thatcher's election in 1979; Conservative administrations have predominantly maintained control or significantly shaped policy direction for the majority of the time leading up to the mid-2020s. Thatcher's economic policy has influenced the UK's overall economic framework, affecting the quest for growth, price stability, employment, external balance, and income distribution. During the regime of Tony Blair and Gordon Brown (1997-2010), many substantial economic reforms were implemented; however, they predominantly embraced the core principles of the economic

framework established during Conservative rule, highlighting the pervasive influence of conservative ideology in economic oversight. The cycle of economic transformation was initiated by Margaret Thatcher in 1980 (Allington and McCombie, “Special Forum on Economic Policy Studies: Productivity Growth and Unemployment Under Mrs. Thatcher Reconsidered”). During that period, the UK economy had been facing high levels of inflation, the output in industry was stagnant and to counter this situation, conservatives implemented monetarist policies, focusing on the money supply and inflation rather than focusing on employment objectives (figure 1). Thatcher increased the interest rates to curb inflation that resulted in deep recession and a huge level of unemployment exceeding three million. Though, the commitment to controlling inflation restored confidence in expectations, and the level of inflation has reached to single digit reinforcing the notion that maintaining price stability is the primary responsibility of macroeconomic policy. Labour's formal declaration of independence for the Bank of England in 1997 represents a continuation rather than a departure from the Conservative tradition (Jessop).

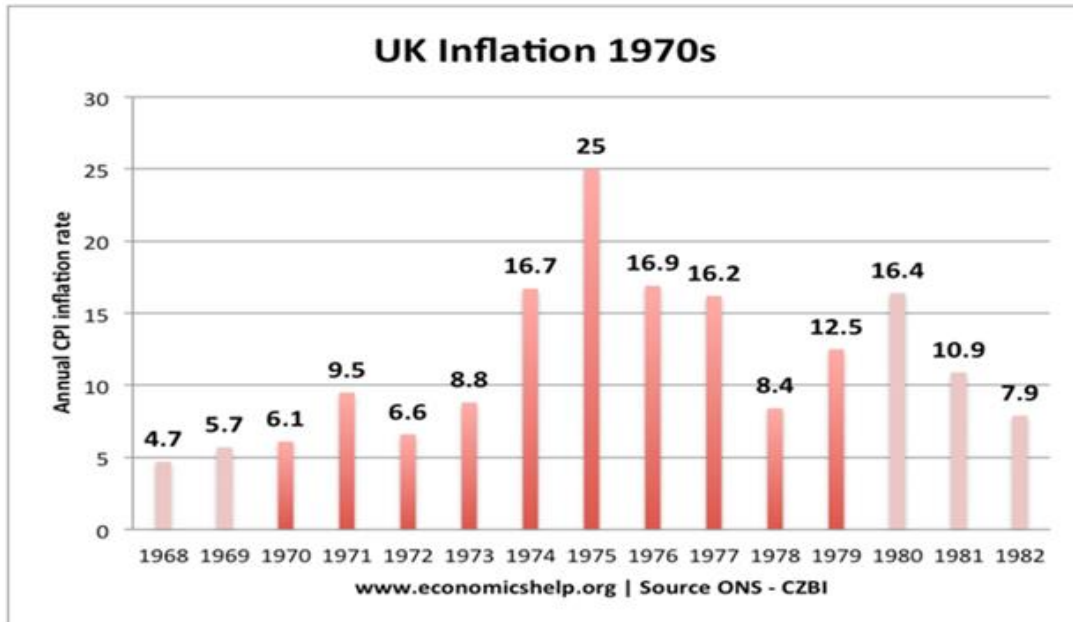
A second pillar of Conservative ideology was market liberalization. The liberalization policy Thatcher imposed ushered through many industrial sectors, such as telecommunications and aerospace, with intentions to enhance greater efficiency and productivity (Buiter et al.). Deregulation in the financial sector has made London a global financial center and deepened the economy’s reliance on services. No doubt that these reforms had led to immense GDP growth in the UK economy by 1980 but they also led to high levels of regional and sectoral disparity. The level of employment had contracted sharply in manufacturing and the UK economy had faced persistent structural levels of unemployment (figure 2).

**FIGURE 2: INFLATION & EMPLOYMENT TRENDS IN 1980s**

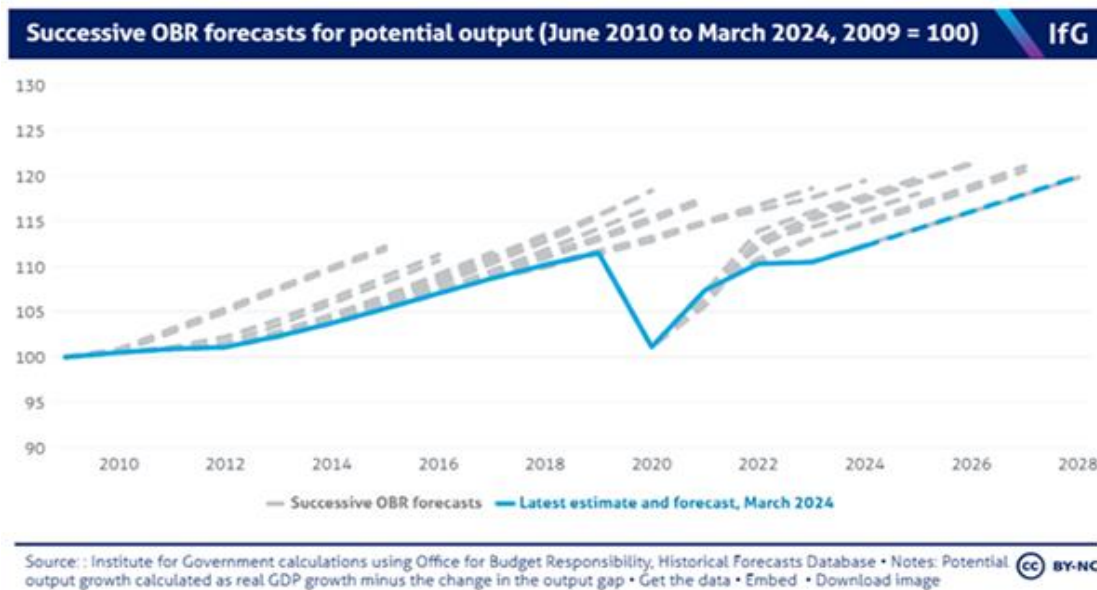
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
GDP growth (%)	-2.1	-0.7	2.0	4.2	2.2	4.1	3.1	5.4	5.4	2.4
Inflation (%)	18.0	11.9	8.6	4.6	5.0	6.1	3.4	4.2	4.9	7.8
Unemployment rate (%)	6.8	9.6	10.7	11.5	11.8	11.4	11.3	10.4	8.6	7.2

(GDP data from ONS data series '[IHYP](#)', 28 March 2024; inflation data from ONS data series '[CZBH](#)', 17 April 2024; unemployment data from ONS data series '[MGSX](#)', 16 April 2024)

**FIGURE 3: INFLATION TREND DURING THATHCHERISM**



**FIGURE 4: OFFICE FOR BUDGET RESPONSIBILITY FORECAST (2010-2024)**



The macroeconomic goal of full employment was thus redefined: instead of direct job creation through public investment, policy prioritized labor-market flexibility and incentives for private hiring. Fiscal strategy under Conservative governments strengthened the long-term shift towards

lower levels of direct taxation. Thatcher reduced the level of income tax from 83% to 60% & further to lower level at 40%. This taxation shift had led to revenue loss for the Thatcher government with higher levels of VAT (value added tax). In the post-2000 era, conservatives led by David Cameron and George Osborne introduced budget discipline and debt control measures, advocating the concept that reducing deficits would secure market confidence and keep interest rates low, supporting investment and long-term growth.

Conservatives also focussed on the external balance of payments sector. The sequence of joining and exiting the European Exchange Rate Mechanism (ERM) in the early 1990s and ultimately Brexit in 2016 had introduced new trade frictions challenging the macro goal of a sustainable external position and Britain's trade diversion strategies. The monetary policy of the conservatives also remained focused on a low and stable rate of inflation not only in the 2008 crisis but also during the pandemic of 2020. The pandemic of 2020 was the era of stimulus payments to revive economic activities but during this phase also conservatives prioritized central bank independence and inflation targeting became embedded in the UK's institutional framework, guiding policy responses regardless of the party formally in power. Social and regional inequality illustrates perhaps the clearest long-term implication of Conservative dominance. Macroeconomic objectives such as overall GDP expansion and low levels of unemployment were often achieved, especially in the year 2010. Environmental sustainability, which has emerged as the most recent macroeconomic concern, has been shaped by conservatives. While the successive UK government had remained committed to net zero targets of carbon emission, the conservative policy always remained revolving around the market mechanism targeting carbon pricing and private investment. In the early 2020s the cumulative effect of the decades of conservative influence in the UK economy was characterized by a flexible labour market, a large and internationally integrated financial sector, relatively low direct taxes, and an independent central bank focused on inflation. These integral components of the inner workings of the economy contributed to periods of high economic growth, the Business Cycle for the British Economy booming throughout the early 1990s and 2000s. They also helped maintain the UK's reputation as a global investment destination. Conservative dominance reweighted the UK's macroeconomic objectives such that price stability and fiscal sustainability became the overriding priorities, while full employment was targeted indirectly through market flexibility instead of direct intervention. The growth strategy of the conservatives had been focused on private enterprise and competition rather than public planning. For the conservatives, income and wealth distribution and the regional balances of equality remained secondary consideration, even when Labour returned to power, it largely accepted the market-oriented institutional reforms, demonstrating the depth of the conservative paradigm. This shows that even though the initial political shift from the 1980s to the 2000s was poised to change the UK's economy from conservative-based ideals to labor-imposed constructs, economic policy has been

defined less by party alternation and more by the durable ascendancy of conservative economic thought. The outcome of the negligence of the shift in thought has been a macroeconomic environment generally successful at controlling inflation and attracting investment but persistently challenged by inequality, productivity concerns, and external imbalances.

The neoclassical turn involved painful short-term adjustments. The early 1980s recession saw unemployment rise substantially, peaking above 10% in some measures. Industrial output and employment levels contracted sharply as the economy revised itself. However, inflation fell drastically from the 70s to the 80s, restoring a degree of price stability and international credibility. The British economy simultaneously experienced a new focus toward services, especially financial services, after the 'Big Bang' deregulation of 1986 and a renewed emphasis on attracting inward investment. In 1980 the Thatcher government introduced the Medium-Term Financial Strategy (MTFS). This new strategy stood as a new pillar of growth for the conservatives to slow money-supply growth, consolidate public finance, and use interest rates as a principal tool for achieving price stability. High nominal interest rates in the early 1980s were used to compress monetary growth and curb demand. In order to boost supply-side performance, the government also pursued tax reforms that moved from direct to indirect taxation and started a program of deregulation and privatization. These actions were motivated by the idea that long-term stability could be restored by regulating the monetary base, fostering an atmosphere that was conducive to private investment, and undermining corporatist institutions. A unique combination of political and economic circumstances in Britain during the 1970s led Margaret Thatcher to embrace monetarism. A radical change in policy was both necessary and possible due to a confluence of factors, including stagflation, fiscal distress, international monetary pressures, and a compelling intellectual alternative in monetarism. Price stability was given top priority in Thatcher's program, which reprioritized macroeconomic goals and employed a variety of policy instruments to carry them out. While the short-term social costs were significant, the monetarist era reshaped the British macroeconomic landscape for decades. In the year 1979, the UK economy was facing a high level of inflationary pressure, as well as competently raising levels of unemployment, along with a decline in output from traditional industries, which was contributing significantly to the UK GDP. In the same year, Baroness Margaret Thatcher assumed the premiership of the prime ministerial position of the United Kingdom, a position she would hold for 15 consecutive years. In the early 1980s, Thatcher realized that a growth in Real GDP was shown to be highly dependent on the supply-side policies being implemented by the government. This initiative brings the perspective of the fact that an economy pursuing Supply Side Policies will be able to achieve rapid growth without a fluctuating price level at the full employment level of output, NRU.

In the election manifesto, presented in 1979 by the Conservative Party that Thatcher was leading, an emphasis on privatization was mentioned to boost employment and efficiency. The continuous winning streak of the Conservatives against the opposition and throughout Thatcher's first and second terms, massive enterprises were privatised as an attempt for further economic growth, which included

1. British Telecom - 1984
2. British Aerospace - 1986
3. Rolls Royce - 1987
4. British Airways - 1987

The prime macroeconomic objective behind the conservatives' decisions towards privatization is to increase efficiency along with labour productivity and an increase in share capital for an equitable society and to promote equitable distribution of income and wealth along with controlled inflation and a higher growth in Real GDP (*Economics Observatory*). The Margaret Thatcher regime remained in power till 1990; by that time 40 British State-owned businesses, employing close to 600,000 workers, had been privatized. Over £60 Billion GBP of State-owned assets had been sold to private firms and unemployment contributed to a state-owned business drop of 7%. Conclusively, from Thatcher's perspective, privatization is considered a fundamental base that improved British economic performance and growth from the 1970s to the 1990s.

Margaret Thatcher's tenure as Prime Minister of the United Kingdom from 1979 to 1990 marked a watershed moment for the country's economy. The political era of her tenure is marked as "Thatcherism," distinguished by a commitment to free-market principles, monetarism, and a reduction of the state's role in economic affairs (*Muellbauer and Soskice*). This research will examine and throw light on the UK economy's macroeconomic indicators before and after the Thatcherism era and the trade-off between major macroeconomic variables. The UK economy was going through crucial macroeconomic problems before Thatcher was elected as UK prime minister. The country struggled with high inflation, rising unemployment, and slow growth, a condition known as "stagflation." Inflation rate was too high, reaching the level of 24.5% in 1975 (*"Poverty, Inequality Statistics and Knowledge Politics Under Thatcher"*), and the unemployment rate had also reached 5.5% in 1978 pushing the UK economy into recession during 1973 to 1975. Economic growth was slow and the level of GDP was around 2.9% annually in 1970. The BOP account of the UK remained persistently negative, leading to a structural deficit in the UK economy. This reduced BOP depleted the forex reserves and depreciated the value of the pound sterling. The UK national debt in 1970 had reached 40% of GDP raising concerns about fiscal sustainability and the crowding out of private investment. The government's fiscal policies, designed to stimulate demand, frequently resulted in increased borrowing, exacerbating the debt situation. Margaret Thatcher not only focussed on the policy of

privatization, but she also emphasized transforming the labour market policies to enhance the level of employment, productivity, output and growth in the economy. The policies implemented by Thatcher had been termed as Thatcherism and it has focused on the following points to fuel the power and productivity in the UK economy (*"Thatcherism Thatcherism's Triumph: How Margaret Thatcher Et Thatcher's Neoliberal S Neoliberal Policies Brought Prosperity to Britain"*). The main components of Thatcher's supply-side policies are as follows:

1. Privatisation of state-owned industries
2. Deregulation - increased competition in product markets
3. Deregulation in the financial industry
4. Reduction in Trade Union power and
5. Reduction in income tax

In the early 1980s Thatcher introduced these monetarist policies to reduce inflation by reducing the money supply in the economy through monetary policy tools such as higher interest rates and higher taxes. As a consequence, the rate of inflation fell significantly but the level of output had reduced even more. In this period the UK witnessed a sharp rise in structural unemployment and the productivity of the manufacturing sector had declined to a very low level, pushing the UK economy towards recession. The link between money supply and inflation had become unreliable. Thatcher's market-based policies, such as privatization of key public sector industries as discussed above, acted as a deregulation policy that allowed growth in competition in sectors such as gas, electricity and telecommunication those are considered natural monopolies are now becoming competitive and now it can be seen as a new economic era with a successful form of privatization. Thatcher as a measure of economic reform, Thatcher reduced the trade union powers and she refused the demands of mine workers in the year 1984 and this incident marked the rise of new industrial relation reform in the UK economy. Thatcher altered the legislation and made strikes harder, which increased industrial output in the UK economy. Thatcher also worked on top income tax cuts, cutting it from 83% to 40%. Thatcher also reduced the basic income tax from 33% to 25% in 1988. On the other hand, to enhance the government revenue, Thatcher had increased VAT to 15% from 8% but all these policies had been considered as regressive taxation and it had increased the level of inequality in the UK economy.

## **LABOUR MARKET**

The relationship between the labour market forces and the rate of inflation has been propounded by the Philips Curve, a model that establishes an inverse relationship between inflation and

unemployment: as unemployment falls, inflation is expected to rise, and vice versa. In general practice, this trade-off is not always stable, as past events like stagflation (simultaneously high inflation and high unemployment) demonstrated that the relationship is affected by factors like inflation expectations, supply shocks, and global market integration. In the late 1970s and early 1980s, the United Kingdom under Margaret Thatcher pursued a monetarist macro policy, which deliberately accepted a high short-run unemployment rate in order to achieve substantial disinflation. The approach rests on the expectations-augmented Phillips curve: in the short run, there is an inverse relationship between inflation and unemployment, but once inflation expectations adjust, unemployment returns to its natural rate (or NAIRU), while inflation stabilizes at the new, lower rate. The above-described policy of Thatcher deliberately resulted in an increase in the unemployment level to achieve disinflation. The Philip curve establishes a relationship between the rate of inflation and the rate of unemployment in the short run but the level of unemployment returns back to its natural rate (NAIRU). In 1979, When Thatcher came to power in England, during that period inflation was at an extremely high level at 15-18% and unemployment was at a moderate level. In the next few years in 1980-81 GDP growth in England contracted and the level of unemployment doubled from 5.4% in 1979 to 10.7% in the years 1982-83 and further, it reached 11.5-11.8% in the years 1983-84 but in the same period, inflation fell sharply from 18% in 1980 to 11.9% in 1981 and thereafter to 8.6% in 1982 and then again to 4.6% in 1983 and this rate was considered to be the lowest since the 1960s (*figure 2*).

Thatcherism clarifies the macroeconomic policy decision by highlighting the trade-off between increased joblessness, which led to social costs in the short term, and lower inflation, which led to stabilized price levels and increased investors' confidence (*"Thatcherism Thatcherism's Triumph: How Mar Riumph: How Margaret Thatcher Et Thatcher's Neoliber S Neoliberal Policies Brought Prosperity to Britain"*). This economic situation will lead to creating potentially more favorable conditions for investment and growth in the long run. In numeric figures the real GDP experienced a contraction of approximately -2.1% in 1980 and around -0.7% in 1981; the downfall remained consistent till 1983 when these figures turned positive, registering at +4.2%. Inflation had seen a downfall during 1980 to 1983 and during this period it had reached 4.6% in 1983 as compared to its figure of 18% in 1980. Thus, Thatcherism clarified the trade-off between inflation and unemployment by focussing on contractionary monetary and fiscal policies, prioritizing the reduction of inflation over short-term output and employment levels. The effects of the policy are effectively illustrated by shifts along a short-run Phillips curve, which are subsequently influenced by adjustments in expectations and structural changes that displace the curves, consequently modifying the long-run equilibrium.

In 1979, Thatcher's administration focused on reducing the inflation rate, reducing public borrowing and encouraging privatization. So, monetarism, privatization, deregulation and tax

reforms are the key components of Thatcher policies. Thatcher followed tight monetary measures with high interest rates with a reduced money supply. She also focussed on deregulation of industries to promote entrepreneurship and investment. These policies became successful and by the mid-1980s inflation had stabilized around 5%, where it was in double digits during the 1970s. The only negative impact of Thatcherism is seen when the level of unemployment reached 11.9% in 1984; it occurred due to Thatcher's industry restructuring and closure of uncompetitive firms in the UK economy. As shown in the above figures, during 1980 economic growth picked up, and the average growth rate averaged around 3.5% annually. This has been a result of an increase in investment in the service sector that allows it to grow due to a favorable environment due to the deregulation policy of Thatcher. In the late 1990s (*Tomlinson*). The UK's debt-to-GDP ratio reached 29% but the UK's trade balance was still negative all the time during 1980 and 1990; So, despite major changes in the economic structure by Thatcher, the UK economy remained reliant on imports and had difficulties in increasing export competitiveness. Privatization became a hallmark of Thatcher's economic policies and she had key public industries of the UK such as British Telecom, British Gas, and British Airways.

No doubt the UK economy remained highly impacted due to the privatization policy of Thatcher, as it has increased efficiency and profitability in some sectors, but it also increased consumer costs and raised concerns about the quality of public services. According to a Commonwealth report, the UK public has contributed £200 billion to shareholders in the essential industries of the economy during the process of privatization; consequently, it led to a rise in costs and deteriorating service quality in sectors such as water, energy, and rail.

Thus, the UK economy had seen a phase of challenges in the early stages of Thatcherism but the results of Thatcherism resulted in reduced inflation and a transition towards a more market-driven economy. However, these positive results of Thatcherism had been accompanied by an increase in unemployment and various social issues. The economic era of Thatcherism will remain a subject of debate, with the supporters of Thatcher's policy keeping the focus on economic revitalization and detractors emphasizing the social costs associated with the reforms. The experience of the UK during this period illustrates the intricate nature of economic policymaking and the necessary trade-offs required to attain macroeconomic stability.

### **UK ELECTION IN 2024 & CHANGING ECONOMIC SCENARIO IN UK**

During the last forty years of Conservative dominance, many significant changes have been ushered into the British political and economic system. Thatcher's economic policy embedded a market-oriented framework that has endured across changes of government and major global shocks. Thatcher's appointment had come with high inflation, sluggish growth, and powerful trade unions, which created a sense of national economic crisis. She discarded the Keynesian

approach and adopted monetarism to curb inflation, raising interest rates and restraining public spending. This was accompanied by an ambitious program of privatization, selling off nationalized industries in telecommunications, energy, steel, and transport to broaden share ownership and increase competition. Thatcher's initiatives give rise to the 1986 "Big Bang" deregulation of the City of London, transforming financial markets and helping to establish London as a global financial center. The footprints of Thatcher have been followed by John Major (conservative party) continuously in the year 1990 following Britain's exit from the Exchange Rate Mechanism in 1992. John Major pursued additional privatisation strategies especially in railways to target inflation and the reforms initiated by Thatcher do not only exist to the extent of the conservatives but have also been carried forward by the Labour party's leader, Tony Blair in 1997. When Blair assumed the premiership from 1997 to 2007 the UK economy kept going on the same path that had been initiated by the conservative regime in the 80s. In a nutshell, the main opposition party endorsed the central pillars of Thatcherism, demonstrating how deeply Conservative ideas had redefined the economic mainstream. These policies had seen a shock in the UK economy in the year 2008 during the global financial crisis. When the conservative party assumed power of the state once again in 2010, they doubled down on fiscal conservatism (*Lacey*). In this period, conservatives pursued austerity: large reductions in public spending, cuts to welfare benefits, and an explicit goal of deficit reduction. Conservatives used the strategy of lowering the taxes on corporations and HNIs to encourage investment not only within the domestic sector but also from abroad to increase foreign business confidence and Foreign Direct Investment (FDI) into the British economy. The incentives influencing institutional priorities, regulatory priorities, and fiscal decisions all shift when the political regime does. The 2024 UK election results had witnessed this change—the Labour party is focused on putting more emphasis on active industrial policy, increased public investment, improved worker protections, and redistributive measures as compared to conservative party. Conservative party had focussed on macroeconomic goals, such as spending control and low inflation. In July 2024, the Labour party of England showed a significant win over conservative leadership, representing a major shift in British politics. Keir Starmer's party won 412 seats out of 650 seats and one more unique thing happened in this election: the voter turnout was only 60%, which is the second-lowest since 1885. The results are depicting a clear indication that the UK's voters now have a strong desire to change the government with effective and efficient leadership after a long era of conservative dominance that made economic errors and brought the Brexit challenge. One of the most severe fiscal consolidations in developed economies resulted from Cameron's austerity measures following the financial crisis, which put strain on public services and decreased investment. In addition to creating economic uncertainty, Cameron's opposition to the 2016 Brexit referendum caused the UK's real GDP to drop by an estimated 2-3 percent as compared to staying in the EU. Conservatives were not able to follow the path of

Thatcher and Britain stood last in the G7 for business investment and struggled with weak productivity growth, while households dealt with ongoing cost-of-living pressures.

At present the UK economy is facing many deep-rooted economic issues -slow productivity, flat real wages, and ongoing underinvestment. The Labour party's main growth initiative is dependent on attracting private investment and specific deregulation efforts. A proposed publicly owned "Great British Energy" company aims to boost investment in local renewable energy, reduce household energy costs, and reach 100 percent clean electricity by 2030—connecting climate objectives with job creation and energy security. Starmer has promised to reform planning to boost housing supply and infrastructure projects, while Reeves aims to cut red tape for investment and create a modern industrial strategy. The National Health Service is facing a waiting list of more than seven million patients; this sector is also facing an acute level of staff shortage. In this sector, labour party has promised to boost employment of forty thousand additional weekly NHS appointments and an additional recruitment of six thousand five hundred teachers. Welfare policy shows similar challenges: after years of Conservative cuts and stricter eligibility rules, the social safety net is weakened, but significant expansions would clash with Labour's commitments to reduce debt (*Williams*). Whether this moment leads to a long-lasting shift in British politics or is just a short-term change depends on how well Labour can use its skills to make things better. The economic situation of England may not get desired results due to the efforts of Labour, as the global prospects, such as changing energy prices around the world, geopolitical risks, and a history of low investment, might impact the economic scenario of Britain.

Margaret Thatcher policies led her government away from the post-war consensus of demand management and collective bargaining, following a monetarist view of the economy effectively & she approached to break the vicious wage-price spiral (*Buiter et al.*). The traditional Keynesian macroeconomic theories weren't effective and unemployment and inflation were at their heights. During this scenario, Thatcher's economic policy advisers agreed with Milton Friedman and the idea of a "natural rate of unemployment." During that period, Thatcher argued that the ongoing inflation was a consequence of excessive and rapid money supply and robust trade unions securing wage increases that exceeded productivity improvements. Thatcherism targeted at reducing the money supply along with the relaxation of regulation of the labour market. She adopted the policy of privatization to enhance efficiency and she targeted eliminating the numerous employment benefits that are disrupting the wage setting (*Buiter et al.*). Thatcherism is the period of economic change where inflation has been impacted by structural changes in the job market.

In the early 1980s, the "disinflationary shock" caused the unemployment rate to rise above 11%. At the same time, inflation dropped from over 20% in 1980 to less than 10% within a few years.

As per researchers, policymakers, and economists, this move is considered a planned move along an eventually downward shift of the short-run Phillips curve: the government accepted higher unemployment to re-establish inflation expectations and show that wage increases would no longer be allowed with an increased money supply in the economy (*Jessop*). During this period the UK economy's non-accelerating inflation rate of unemployment (NAIRU) might have reduced, allowing room for lower inflation and moderate job growth by the late 1980s.

The economic impact of Brexit had changed the priorities of conservationists and Thatcherism ideology. The conservatives' euroskepticism had been changed and it led to the policies of trade sovereignty and trade agreements. The economic scenario changed during COVID – 19 pandemic and it led to an increase in fiscal expenditure due to medical emergencies but despite these shocks, UK authorities quickly brought cautious budgeting and a preference for market solutions to the economy. Conservative dominance has entrenched low direct taxation, restrained welfare spending, flexible labour markets with limited collective bargaining, and many other economic policies that protect London's status as the world's financial hub. Even during periods of Labour governance, these economic parameters have been taken into consideration and were acknowledged by the authorities, demonstrating the enduring political influence of the Conservative Party in establishing a resilient neoliberal framework. Despite the Brexit challenge and the pandemic, which resulted in strategic shift in the economic priorities of the UK and created new pressures, the predominant trend over the last four decades continues to be characterized by market-oriented reform, fiscal discipline and a dominating belief in privatisation—an economic legacy that is intrinsically linked to the Conservatives' significant influence in contemporary British politics (*"The Economic Legacy of Mrs Thatcher"*). The United Kingdom's labour market dynamics have undergone significant transformation after the Labour party's win in 2024. This win initiated the journey of the UK economy's departure from neoliberal economic policies associated with Thatcherism.

## **CHANGE IN LABOR MARKET DYNAMICS AFTER THE MASSIVE WIN IN 2024 GENERAL ELECTION**

### **1. Unemployment Trends**

When Keir Starmer took over the prime minister office the unemployment rate of 4.7% for individuals aged 16 and over was reported as per official UK resources. As this rate is a bit higher than the previous year, it indicates a sign that the UK should apply employment strategies. Hence, the UK government adopted employment policies focusing on youth and long-term job seekers. This will include expanded apprenticeship programs and incentives for businesses to hire from underrepresented groups.

## **2. Wage Growth and Minimum Wage Adjustments**

Labour's economic policy had been established on the enhancement of workers' wages. In April 2025, the National Living Wage for individuals aged 21 and over was increased to £12.21 per hour, up from £11.44. This rise in wage rate surpasses the inflation rate, enhancing the real income for low-wage workers.

## **3. Increase in employment opportunities in public sector**

Labour has expanded the employment opportunities in the public sector and the public sector employment is at 6.17 million, marking a 1.2% increase from last year [1]. The National Health Service (NHS) has been seen as the top employer, with employment reaching 2.07 million, a 2.1% increase from June 2024. So, these figures are speaking loudly about the labour party's investment in public services and its commitment to reducing unemployment through state-led job creation.

## **4. Labour Force Participation and Economic Inactivity**

The employment rate for individuals aged 16 to 64 was estimated at 75.2% in May to July 2025 reflecting an improvement in this part [2]. This data is showing that the labour inactivity rate in the UK has been reduced by 0.2 percentage points to 21.1%. This change in trend is being seen due to factors including targeted retraining programs and incentives for older workers to remain in employment.

## **5. Inflation & Economic Growth**

Despite these developments seen in the labour market, the UK still faces challenges related to inflation and economic growth. In August 2025, inflation remained steady at 3.8%, which is a very high level of investment as targeted by the Bank of England. The reason behind rising inflation is seen due to an increase in food prices and an increase in cost in sectors that have higher wages. To curb these inflationary pressures, the Bank of England has maintained interest at 4%.

## **Labour's pre-election manifesto and Policy implementation**

In the 2024 election manifesto, the Labour party had promised to focus on the policy framework that will focus on increasing investment, enhancing public services, improving productivity, and promoting a more active industrial and green agenda (*Baker McKenzie, UK General Election Manifesto and Policy Tracker*). The government aimed to provide 1.5 million homes during the current Parliament to help with housing supply issues. Labour party will also keep the footprints of the present government and follow the fiscal rules that require balancing the current budget,

meaning day-to-day spending won't need to rely on borrowing, and they will ensure that net financial debt decreases as a percentage of GDP by around 2027–28, mid-parliament. In their manifesto, Labour party had anticipated that the growth in public sector productivity will see 1% growth every year with OBR (Office for Budget Responsibility). Forecasts indicate that public sector net borrowing will decrease from approximately 4.5% of GDP in 2024–25 to about 2.1–2.2% by 2028–29 (*Baker McKenzie, UK General Election Manifesto and Policy Tracker*). Meanwhile, gross debt is expected to stay above 100% and may peak around 106% in the initial years, but it is projected to gradually decline as a share of GDP if these plans are carried out effectively.

Labour's manifesto, encapsulated in the "Plan for Change," outlines a comprehensive strategy for economic transformation (*Change Labour Party Manifesto 2024*). The Labour manifesto has promised investment in clean energy to achieve "Clean Power 2030," focusing on homegrown energy sources. Labour had promised in their manifesto regarding the provision of multi-year funding settlement to local councils so that the wasteful competitive bidding would be avoided and this will ensure smooth and stable financing for public services (*Baker McKenzie, UK General Election Manifesto and Policy Tracker*).

### **CONTRASTING TO THATCHERISM ERA**

The economic policies of the Labour government represent a significant departure from Thatcherism, which focused on free-market capitalism, reduced state intervention, and the primacy of individual enterprises. Thatcherism had focussed on privatization and reduction of government intervention and focused on lowering the inflation rate through contractionary monetary policy. On the contrary, Labour has focussed on expansionary fiscal policy instruments characterized by increased public sector investment, higher wages and an approach to reducing income inequality. The focus of labour is on expanding public sector employment and increasing the minimum wages that the government aims to ensure that economic growth benefits a broader segment of the population. Additionally, policies aimed at reducing economic inactivity and promoting inclusive employment reflect a commitment to social equity and economic justice.

The Labour Party's victory in 2024 has ushered in a new era for the UK's labour market, characterized by a shift towards greater state involvement, higher wages, and a focus on social equity. While challenges such as inflation persist, the government's policies aim to create a more inclusive and sustainable economy. By moving away from the neoliberal tenets of Thatcherism, Labour seeks to build an economy that works for all, ensuring that prosperity is shared and that public services are adequately funded and accessible to all citizens (*"Labour Party Manifesto"*). The 2024 victory of the Labour Party marks the dawn of comprehensive changes in the UK political scenario since the early years of 1990 when conservatives were either ruling alone or

sometimes in coalitions that formed the macroeconomic policies for growth of the UK in that era. This shift in the UK economy comes to light when the economy is struggling with low productivity growth, weak business investment, an extremely high rate of inflation and massive public debt. The conservative party period has seen many ups and downs; this period witnessed the global financial crisis, fiscal austerity, Brexit and the unprecedented shock of the COVID-19 pandemic, consequently, UK economy has seen a low level of growth in which real wages, infrastructure quality and regional equality all lagged earlier expectations. During the period of 1997 to 2007, the output per hour in the UK has increased 2% annually. The same has averaged only 0.4% annually since then. In the 1<sup>st</sup> quarter of 2014, the data provided by the office of national statistics show that the output per hour was only 2% higher than that of 2019; these figures are in stark contrast to the 10% increase seen during the same time period at the beginning of the millennium (*Lacey*). The weak economic growth had been seen in this period and this slowdown had led to the weak real wage growth in the UK. Average weekly earnings adjusted for inflation were still roughly 2 percent below its 2008 level at the time of Labour's election win, despite a modest pickup in nominal wage growth to above 5 percent during 2024 (*Economics Observatory*). The UK economy had seen a mere growth of 0.4% in 2023 in the post-pandemic period of 2021. As per the expectations of the Office of Budget Responsibility (OBR), the growth would be about 1.1% in 2024, and in March 2025, they predicted that growth would be about 1.6% per year on average from 2025 to 2029.

The per capita GDP situation was even worse and it had to go up by 0.6% per year for the next five years, which isn't rising as rapidly as the rate of population is rising in the UK which stands around 5% during the same period. The inflationary pressure is also skyrocketing and more than 11% of consumer prices went up in late 2022 due to an increase in energy prices. In 2025 these figures had only gone down to 3.8% year-over-year. The core rate of inflation, which excludes food, remained close to 4% and the annual growth of wages remained at 5.5% and this made the the Bank of England have to keep its policy rate at 4.25% for most of 2025, this rate is in contrast to the rates that were applied in the 2010s and those rates were also close to zero; as a result, it became more expensive for the government to pay its debts and for people to get mortgages. In early 2025, the net debt of the public sector excluding the Bank of England was about 93% of the GDP of the UK; it was 65% of GDP in 2010. When the Bank of England was added, this figure had touched 101%. The figure related to the borrowing of the public sector was at 4.5% of GDP (approximately 125 billion sterling pounds). The level of public spending was an all-time low and before the labour party won the election, the capital spending figure had

stood at 1.7% of GDP (*"The Economic Legacy of Mrs. Thatcher"*). this figure was relatively quite lower than that of the OECD average that is usually seen with strong productivity growth<sup>1</sup>.

Labour's fiscal framework focussed to reverse the concept of Thatcherism while maintaining market credibility. The Labour party is dedicated to balancing the current budget by keeping a check on day to day spending from the earned revenue in the period of five years and they are also dedicated to ensure that the public sector net debt as a share of GDP will fall by the end of parliament period. The Autumn Budget of 2024 raised planned public sector net investment to an average of 2.6 percent of GDP per year through 2029, up from the Conservative plan to reduce it to about 1.7 percent. Departmental capital spending for the year 2025-26 has been projected at 131 billion sterling pound, Labour party has focussed on economic infrastructure and they had directed £35 billion for transport, energy grids, and large-scale housing projects. These figures are almost 35% higher than the conservative's expenditure (*Labour Party*). Large amount of investment is intended for the economy's productive potential. OBR (Office for Budget Responsibilities) estimates that sustaining net public investment at 2.6 percent of GDP could add about 0.4 percent to the level of potential output after a long period of 10 years. Labour also seeks to raise public-sector productivity—output of services per unit of input—by 1 percent annually through 2028–29, compared with a historical average of only 0.2 percent from 1997 to 2019 and about 0.7 percent from 2010 to 2019.

## **Conclusion**

In 2024, the Labour Party won a clear majority in Parliament. This could mean the end of "Thatcherism," a long-standing set of policies that included deregulation, market-first solutions, budgetary austerity, and a weak role for collective bargaining. Instead, it might change macroeconomic and labor market policy to a mix of public investment, active labor market intervention, and industrial strategy. The years of Thatcher (1979–1990) and Blair's "New Labour" (1997–2007) indicate that when the political landscape changes, existing institutions don't go away right away. But Labour's 2024 platform and electoral mandate provide them the political capital and tools they need to make real changes to how wages are set, how jobs are created, and how the government deals with the trade-off between inflation and unemployment. These shifts will likely make managing demand and strengthening the supply side (via training, regional investment, and industrial policy) increasingly critical. This will increase the danger of short-term inflation, but a well inflationcalibrated mix of monetary credibility and focused fiscal measures can keep it under control. Privatizing firms, reducing the authority of labour unions,

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<sup>1</sup> English, Bill, et al., editors. "Monetary Policy Responses to the Post-Pandemic Inflation." *CEPR PRESS*, CEPR PRESS, 2024, [cepr.org/system/files/publication-files/197150-monetary\\_policy\\_responses\\_to\\_the\\_post\\_pandemic\\_inflation.pdf](https://cepr.org/system/files/publication-files/197150-monetary_policy_responses_to_the_post_pandemic_inflation.pdf).

emphasizing on market discipline, and keeping a tight handle on state budgets were all parts of "Thatcherism" that made neoliberalism the norm. It was politically stable because it introduced market-based governance into public utilities, welfare reform, and labour law—changes that lasted longer than Conservative election cycles. The Labour Party's victory in 2024 is vital because it provides them a majority in the legislature and a clear vow in their manifesto to undo some of the things that Thatcher did by investing in the state, re-regulating critical sectors, and giving workers greater power through collective bargaining. In real life, this doesn't mean that everything will be nationalized straight away. Instead, Labour's policy is based on an active industrial strategy, more public capital spending, and measures that allow workers more power to negotiate. These are all things that can affect how businesses act and how the market works during the length of a parliamentary term. "New Labour," led by Tony Blair, took a "Third Way" that mixed social investments (such as health and education) with a practical pro-employment position and accepted many of the market processes of Thatcherism. Blair's most important trait was that he was able to balance budgetary restraint with the growth of social policy (*Table 1*).

**TABLE 1: BLAIR (1994-2007): ADOPTION & CONTINUITY OF THATCHERITE POLICIES**

<b>Year / Period</b>	<b>Key Policies</b>	<b>Thatcher-style Continuities</b>	<b>Relevant Economic Data</b>
<b>1994-1996</b>	Labour under Blair begins “modernisation”: Cancelling of Clause IV in the year 1995 , effectively ending the formal commitment to state ownership.	This is a symbolic move away from traditional socialism aligning with Thatcher’s market-friendly stances and acceptance is seen that the market plays a central role.	By the mid-1990s inflation had been subdued compared to the 1980s; real GDP growth in 1994 was robust, around 4% before election and unemployment was high.
<b>1997</b>	Blair’s party has seen a massive win in parliamentary majority and started implementing new labour policies.	Maintains macroeconomic discipline by putting a check on inflation; deregulation remained in continuation.	GDP growth in 1997 was strong (around 5% annually), and the level of unemployment fell.

<p><b>1998-2001</b></p>	<p>Focus remained on public investment, social inclusion, pension reforms, private initiatives and welfare reforms, maintaining low inflation as a new part of Labour.</p>	<p>Blair focused on market mechanism policies and not on nationalization. He maintained those sectors which are not regulated and encouraged the private sector in health, education, etc.</p>	<p>Unemployment fell steadily in the early 2000s, whereas GDP remained solid. Inflation remained at a moderate level.</p>
<p><b>2002-2006</b></p>	<p>Emphasis is on stability along with public sector reforms; trade union restrictions remain as usual, and global expansion is being allowed.</p>	<p>During this time Blair focused on a smaller, more efficient state with reduced adversarial industrial relations and a flexible labour market.</p>	<p>Economic growth remains moderate: annual GDP growth is between 2.5% and 3.5%, and the level of unemployment remains around 4-5%.</p>

This was a middle ground between Thatcherism and a rejection of it. The Labour program for 2024, on the other hand, is clearer about seeking to use the power of the state to change markets (via industrial strategy, targeted public investment, and strengthening labour standards) instead of just making market results less harsh. So, while Blair made Thatcherite institutions better (more stability and social investment), it looks like Labour will be able to adjust the balance of power between the market and the government after 2024 to make structural rebalancing more likely. This shows both continuity (keeping inflation expectations in check and keeping investors' trust) and disruption (more direct state involvement in sectors and labour relations).

Labour's policy toolkit will affect the job market in at least three ways (*Manning*):

- (a) Wage formation—policies that support collective bargaining, raise minimum pay, and extend sectoral wages put upward pressure on wages;
- (b) Employment composition—industrial strategy and public investment focus on creating higher-skill jobs, apprenticeships, and retraining, which changes the composition of labour supply and demand.
- (c) Regional labor markets and public sector employment—more investment in a region and more hiring by the government can help fix spatial mismatches and get people back to work.

In the short run, these methods can get more people involved and relocate workers to areas with higher productivity. But in the near term, they will boost the cost of labor per unit relative to a low-cost, market-led equilibrium. In the short term, any policy that boosts salaries or increases demand by investing in public goods puts additional pressure on inflation. This is due to the resurgence of the classical Phillips curve tension, particularly if supply-side capacity requires an extended period for adjustment. But the trade-off beyond 2024 is not the same as what transpired during the Thatcher years in two aspects. First, Labour wants to move the long-run aggregate supply curve outward by focusing on investments that boost productivity, like training and capital deepening. This lowers the risk of a wage-price spiral. Second, an operationally independent central bank with credible inflation targeting is nevertheless a limit and a tool: monetary policy can help restrain demand from growing too high, while fiscal and industrial policy can help solve structural problems. To be credible, Labour needs to have a plan for the economy as a whole. This means that during a well-planned investment-led transformation, inflation can run above target for a short time. There should also be defined productivity goals and institutional anchors to keep the money credible. Thatcherism brought down inflation and transformed how businesses were rewarded. However, it also made some markets more concentrated and caused disparities between areas. New Labour showed that social investment can improve job outcomes when linked with macroeconomic stability, without completely rejecting market methods. However, it did not fix the fundamental power imbalances that exist in many labor markets. The Labour plan for 2024 seems to take both lessons to heart: it wants to address market failings and balance out bargaining power while keeping macro credibility. This mixed strategy has worked in the past and makes sense in theory, but it will only work if the stages are completed in the appropriate order (investment first, redistribution later), if institutions are constructed (sectoral bargaining frameworks, skills systems), and if markets can trust what is being communicated. If the Labour Party wins in 2024, Thatcherism could no longer be the main way to organize things. This won't happen right away. Instead, it will happen via shifting the balance of power in institutions to give the government more control, a better industrial strategy, and more representation for workers. This move will have a huge influence on the job market. It will raise wages, change the mix of different sectors, and place greater focus on public investment that promotes productivity. It will also bring back a genuine but controlled trade-off between jobs and prices. The best way to do this is to use a coordinated, evidence-based approach: front-loading supply-side upgrades and public capital to boost productive capacity; keeping monetary credibility to keep expectations in check; and using targeted labor market institutions (training, bargaining frameworks, selective public hiring) to make the transition easier. Historical experience from Thatcher and Blair illustrates both the hazards and the available tools: success hinges on appropriate sequencing, credible commitment, and unequivocal institutional reform.

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