

[Red Ken, Maggie and the North Sea Oil money](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 14 April 2013

I thought this was an interesting piece of polemic from [Ken Linvingstone](#) [3]:

Thatcher was sustained only by one extraordinary piece of luck. Almost the moment she stepped over the threshold of Downing Street the economy was engulfed in an oil bonanza. During her time in office, government oil receipts amounted to 16% of GDP. But instead of using this windfall to boost investment for longer-term prosperity, it was used for tax cuts. Public investment was slashed. By the end of her time in office the military budget vastly exceeded net public investment.

A quick read of that (or an ignorance of economics of course) would lead you to think that it was 16% of GDP each year. When of course it wasn't: it was 16% of one year of GDP spread over the 11 years of her term. Or 1.5% or so of GDP in any one year. It did bounce around quite a bit but that's what that government revenue actually was. To put that into context in today's money that's a bit more than we get from fags and booze combined, a little less than we get from fuel duty.

Strangely, we don't get told that those must be used to boost investment, do we? Which is odd, given that they're really about the same amounts of money.

It's also true that another thing gets missed: if the receipts had been 16% of GDP then we'd have needed to have a sovereign wealth fund. The point of which is not to invest in the future of the economy but to make damn certain that the cash does not enter the domestic economy in any manner at all. That would cause Dutch Disease and is the reason why Norway's fund is not allowed to invest in the Norwegian economy. It all sits offshore and is meant to stay there. And this is generally true of all resource windfalls. Either they're a nice bit of extra cash which can be used domestically or they're vast great gobs of it that must be kept offshore. There's not really any middle ground: enough to rebuild society will be too much to use domestically.

One more point: yes, of course public investment fell over those years. At the beginning the nationalised companies were nationalised. At the end of the 11 years they were private sector ones. Thus whatever investing they were doing moved from the public sector balance sheet or P&L to the private sector one.

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