**Economics 1 Lesson 5: The UK Economy**

**A Brief History of the UK Economy:**

The UK was once the world’s wealthiest country by a clear distance. Between about 1780 to around 1870 the UK was undoubtedly the global superpower of the time based on the strength of its huge economy, which enabled a powerful military, particularly the navy, to be maintained. The UK had got rich because of the **Industrial Revolution** and on the back of an extensive empire, including places such as Canada, Australia, India and of course, much of the United States of America. The Industrial Revolution, which you might describe as the invention of factories (which is a basic explanation, but does cover the main idea), meant that goods could be produced quicker and far cheaper than ever before, and meant that the UK was in prime position to sell to the world. **The British Empire** allowed the UK to trade all around the world, so that money poured into the country from all over. It made it easy to control markets in tea, textiles (clothes and other wool products), sugar, and to our eternal shame, people - Britain was a major player in the slave market of that era.

Whilst the US left the British Empire in 1776, it was World War Two which led to the most significant decline and eventual loss of the Empire. Whilst Britain can claim to have won World War Two, with its allies, it left the country in such a financially insecure shape that it changed Britain forever. Britain had spent all of its financial reserves fighting the War, and had also been given huge amounts of financial support from the US. Despite this, and even with **the Marshall Plan**, a US government grant to keep Europe financially afloat after the war, the UK still needed to borrow money from the US and Canada. This loan was formally paid off in 2006, over 60 years after being made, showing the level of financial support that had been required. During this time, the UK lost countries such as India, who were able to take advantage of a weak Britain to become independent.

The UK economy bounced back in the 1960s but struggled in the 1970s, and had very mixed fortunes throughout the 80s and early 90s. Britain moved towards privatisation in the 1980s and deregulated many industries, in line with Milton Freidman’s economic views, but this was not the huge success that it is sometimes believed to have been. Unemployment was at record highs, and the recession of the early 90s was the longest since the Great Depression of the 1930s. The election of a Labour Government in 1997 was a significant moment for the UK economy. They made changes that were designed to move away from the highs and lows of the recent past, and towards a more stable economy, including making the **Bank of England** independent, so that the government wouldn’t tell them what to do with interest rates anymore (again a simplistic way of looking at it, but on the right lines). They introduced a minimum wage, slashed poverty and continued some of the changes that the Conservatives had brought in. The result was a strong economy for over a decade, growing well, and without the huge lows that had been present in previous decades – well, until the largest low of them all....

**The 2008 Financial Crisis:**

The collapse of the Lehman Brothers Bank in September 2008 was an event that was unthinkable. It was the 4th largest bank (more accurately they were a financial services firm) and along the lines of Goldmann Sachs or the Royal Bank of Scotland going out of business. The impact that it had on the economy, and the wake-up call that it gave to other businesses, led to some of the largest government bail outs to companies that have ever been seen, and to changes in regulations in the banking industry.

The crisis originated in the US, where some banks had been selling mortgages to people who could not afford them. Supply and demand kicked in and with far more buyers in the market, house prices rose substantially. Banks then sold those mortgages on to other banks in huge numbers, with enormous risks involved. When people were unable to pay their debts, as they should never have been approved for mortgages in the first place, the banks did not have the money coming in that they expected, and were then unable to lend to anyone, including businesses. This led to a “Credit Crunch” and to a huge fall in house prices, meaning people now owed more than their house was worth. The impact of these forces caused huge damage to the banking sector and it took collective action by government to save the banks.

In the UK, Gordon Brown was Prime Minister, having taken over from Tony Blair in 2007. He was a trained Economist, had lectured on Economics before entering politics, and had been Tony Blair’s Chancellor of the Exchequer (Head of the UK Economy) for ten years. He took a leading role globally in saving the banks, convincing the US to create a **stimulus package** - money designed to stimulate the economy – along the same lines as the UK, which they did, to the tune of $787 Billion! The UK bought shares in several banks as a way of saving them, in effect nationalising some of the banks, such as Royal Bank of Scotland and Lloyds Bank. Today, the UK taxpayer still owns 62% of RBS, whilst almost all of the shares in Lloyds have been sold off.

**Modern UK Economy:**

Today, the UK economy is predominantly a **service sector economy**, which makes up over 80% of the GDP. This means that most of the economic activity in the UK is about providing a service rather than making something, for example financial products (banking, insurance, the stock market), retail (shops!), food and drink and cultural or entertainment services such as theatres, cinemas and the Premier League Football (worth £7.6bn to the UK GDP).

The UK was once the leading manufacturer in the world, but today high labour costs (wages) mean that developed countries tend to focus on services, and most UK manufacturing is now high end, such as new technology and medicine. The UK has a global reputation for research (with world class universities) and for technical innovation.

The five largest companies in the UK give a broad snapshot of the range of the UK economy, they are; BP (oil, gas, petrol), HSBC (banking), Tesco (Retail), Vodafone (telecoms) and GlaxoSmithKlein, the second largest pharmaceutical company in the world.

The UK is the 6th largest economy in the world, according to the International Monetary Fund (IMF), having been recently surpassed by India into 5th (USA, China, Japan and Germany are the others with larger economies). It is inevitable that the UK will be overtaken by other economies which can benefit from cheaper wage costs or are still to fully develop, such as Brazil, Russia and South Africa, and it was 2006 when China overtook the UK (and has since overtaken Germany and Japan too). Despite this, the UK remains one of the wealthiest nations on earth and one of the easiest in which to trade, though Brexit makes that less certain.

**Brexit and Beyond:**

The UK has now left the European Union, which if it was a country would be second between the USA and China, but the future trading arrangements between the UK and Europe have not yet been decided. This next stage of the Brexit process is crucial to the relationship that will exist into the future. Will the UK have to take the rules made in the EU, or will it have its own rules, and if so, will that make it harder to trade with Europe? Will the UK be part of the common market, which has no fees for trading between nations, or will the UK be excluded (or choose to be out of it) and so need to negotiate new terms, which could mean taxes being applied on imported and exported goods (known as tariffs, and one of the biggest causes of wars before the 20th century). Like Coronavirus, Brexit is a fast-moving situation, and so it is difficult to have any certainty at all about the long-lasting impact that it will have on the UK economy. The only thing that is certain is that Coronavirus was forced on the UK, but the UK chose Brexit, and will now have to make the best deal it can of it.

**Economics 1 Task 5: The UK Economy:**

Please complete this week’s task as a word document and return it as an attachment on teams. The document title should be PUPIL NAME Economics week 5.

**Part A:**

Nobody debates that the 2008 Crisis had a devastating impact on the UK economy at the time, and for years to follow, but there is debate over what the long-term impact was. Read the following article - <https://www.ifs.org.uk/publications/13302> - and use it to answer the following question – **In your opinion** (and prior to Coronavirus) **has the UK economy recovered from the 2008 Great Recession?** Use your own judgement on the appropriate length of this response.

**Part B:**

As Scotland was broadly opposed to Brexit, it is easier for us to find negative material about it; however, there are those who see it as an opportunity. Regardless of what you think of Brexit personally, using the following two resources – <https://www.nytimes.com/2020/02/01/world/europe/brexit-britain.html> and <https://www.youtube.com/watch?v=_wsvhlrYQec> - answer the following question: **According to those who support Brexit, what are the opportunities that it presents to the UK economy?** (answer in less than 200 words)

**Part C:**

Finally, if you wish to maintain a glossary of economic terms, then the words in bold from the lesson would be a good addition to that. Once again this part of the task is voluntary.

**Next Time:**

In the next lesson we will conclude our short course on Economics by taking a look at some of the main economic theories which have defined the last century and remain important today.

**Further Reading:**

If you are interested in learning more about the Industrial Revolution then this video is well worth your time - <https://www.youtube.com/watch?v=zjK7PWmRRyg>

If you wish to read about the Marshall Plan, a starting point could be this reflective article by Henry Kissinger, a prominent figure in US politics, who writes this article for Harvard University’s Magazine - <https://news.harvard.edu/gazette/story/2015/05/reflections-on-the-marshall-plan/>

For more on the origins of the 2008 Global Financial Crisis I cannot recommend the film *The Big Short* highly enough, it is a funny, but clever movie in which you will learn about economics (or the stock market) at the same time as watching a great movie (it’s on Netflix).

If you are interested in how football and the economy meet, or want to know more about the economics of the football industry, then listen to the podcast, *The Price of Football* which has new episodes every few days.

Finally, The London School of Economics, one of the most prestigious universities in Europe, has a Brexit Blog which can be found here - <https://blogs.lse.ac.uk/brexit/> and which naturally is aimed at providing detailed economic coverage and analysis around the issue of Brexit.