

## PROBLEMS OF ECONOMIC DEVELOPMENT OF BRITAIN SINCE 1970s TO NOWADAYS

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**Abstract:** *The current situation in the economy and the problems of Britain economic development in 1970s is described in the article. The internal and external factors, their interaction and impact on the economic situation of the country in the period that lead up to the so-called "ten year" crisis were investigated. In article was analyzed a number of economic indicators reflecting, in particular on the crisis state of the British economy, showing their impact on the economic development of England and the way out of such situation. The British could not accept the loss of the title of world's largest colonial empire and the enormous loss of possessions, which for more than a century meant that they had a higher standard of living than in other countries. The UK economy becomes increasingly taking corporate traits, when any economic solution acceptable on the basis of agreements between government, trade unions and employers in their own interests, which impede progress. Now all the British need to learn about the new conditions of the new world and only rely upon their own strength, in fact, it is the main their problem.*

**Keywords:** *national security, economy, economic policy, economic crisis, decade of crisis, energy crisis, inflation, inflation rate, pace of development*

### INTRODUCTION

Since the formation of the first states as political institutions of society, their main purpose was to protect the vital interests of government and society. Today, this statement appears in the concept of "national security". From the beginning, statement "national security" was constantly expanding and changing. The present stage of development this concept means not only protecting the spiritual, moral, ethical, cultural, historical, intellectual and material values, but also ensure stable economic development, foreign policy and increasing credibility in the international arena. Economic issues take leading position in the concept of "national security". It is important to study, analyze and follow up the development of European countries in this area.

Countries, which have great historical experience of economic development and show the most impressive economic results, are the most interesting for studying and researching for today. Among these countries, we want to point the UK, which is known for the beginning of the industrial revolution that subsequently spread throughout Europe, North America, and eventually the world. Nowadays this country has one of the most developed economies in the world. Britain along with big rises, like any other countries, was influenced by crises caused by external and internal factors. One of the most interesting and scantily explored time is period of the 1970s decade.

### MATERIALS AND METHODS

This period was described by S. Morris [1], K. Leys and M.J. Oliver [4], S. Holland and G. Cameron [2], as well as R.L. Harrington [3]. Considerable attention of these scientists was to the problems of foreign economic and political processes that occurred during this period in their research and publications. For example, R. Harrington [3] considered structure of the economy, employment rates, inflation and GDP in that time. M. Oliver [4] described and evaluated the political events of that time. Particularly he separated out the impossibility of

Labor and Conservative Parties to stabilize the situation in the country by adoption of new laws and control spending of budgetary resources. G. Cameron [2] analyzed industrial facilities of England during the 1970-80s in his article. He also explained main reasons of recession in the manufacturing sector and stabilization of the situation after coming of Margaret Thatcher's government.

The *aim of our article* is to search for reflection of the main problems in the cyclical development of the British economy in 1970s. The *main task* is to analyze economic events in England that took place during that period.

## RESULTS

At the beginning of 1970s the "decade of crisis" came to Britain. That crisis combined a number of related factors. First of all it was the financial crisis, which started from crash of the old gold standard, and in fact the whole Bretton Woods system; second, population was totally disappointed in the Keynesian methods of state regulation and finally, third, the energy crisis that ultimately made heavy England industry to kneel down.

Besides, the industrial development of Britain was slowed by a number of parallel negative factors. The most important were:

1. Increased competition from USA, Japan and FRG. Fall of competitive ability of British goods and reduce investment in industry.

2. Slowdown in growth of the economy. During the 1960s, GDP growth was only 2.89% per year, while in Japan 11%; France 5.8%; FRG 4.8%. The proportion of England's total industrial production in developed countries significantly decreased: from 8.3% in 1965 to 5.8% in 1972. Total volume of England industrial production dropped from 2<sup>nd</sup> place, which is occupied after the war, to the 4th losing not only the US but also Japan and FRG [3, 8].

3. Enormous expenditures for maintenance and funding of the Army presence of British troops abroad.

4. Significant budget payments for social and welfare programs. Their size still undecided in the colonial period and after the collapse of the empire greatly exceeded the capacity of the state. The Conservative government of Edward Heath, which had won parliamentary elections in 1970, immediately tried to pass law that reduced expenditures for social needs, because the economy wasn't able to stand such pressure. All attempts to decrease costs provoked massive displeasure and sharp protest of trade unions.

5. Excessive costs created state budget deficit and money supply growth, which were unsecured with goods. As a result, inflation and price increasing became constant. Despite the slight slowdown in inflation after the devaluation of the pound in 1967, its growth remained at a high level. From 1965 to 1971 consumer price index had increased to 37%, while provision prices only during 1971 increased on average 12.4% [8].

6. Slow rate of development and decline of competitive ability of British goods which was a cause of trade deficit. Britain had the largest trade deficit in history in 1972 to 1973. It was about 90 million pounds per month from January to February in 1973 and 197 million pounds in March. Britain share in world exports fell from 12.1% in 1948 to 6.6% in 1972 [5, 7].

7. One of the indirect effects of the aggregate factors mentioned above was the decline of business activity.

Overall, the 1970s could be described as a decade of economic crisis. The global financial crisis, which took place in 1972, had a negative affect for economic condition of England. The "free floating" exchange rate was implemented for the Pound to stabilize the situation. It resulted in decrease of its value for 5-6%. In fact it meant a new devaluation and a final parting with the gold standard, therefore gold and foreign exchange resources of the country felled by 1 billion pounds in the 1973. There was a rapid increase of inflation in the UK, along with this state was in fact bankrupt and need an international loan of 5 billion pounds. The complete collapse of the economy was saved by concurrence of circumstances. Oil fields were discovered in the North Sea. All sectors of the economy were exposed by considerable blow. Between 1974 and 1975 the economy was actually shrinking, the level of inflation was

higher than in previous years and reached a mark of 26% in July 1975 [6]. This trend was observed until 1983, when it was stabilized at the level of 1970 and amounted to 8%. Combination of inflation with the temporal levels of unemployment, which was observed in those years, can be described as stagflation. Balance of payments deficit continued to grow, for example, a budget surplus of 261 million pounds in 1971 became a deficit of 2.3 billion in 1973 [1]. This deficit continued to grow and in 1974 was 3.6 billion pounds. In the period from 1970 to 1973, deposits in foreign direct investment were doubled, lead companies "voted with two hands" for moving assets to more profitable locations. All of these economic problems made the British government force the issue joining the "common market", which was effected in 1973 [4]. However, the global energy crisis started at the same time, caused by actions of the Gulf, which acted as the initiator of the increase in oil prices. It hit hard to Britain economy, because Britain was one of the main consumers of Middle Eastern oil.

Colin Leys talked about a worldwide accumulation crisis, based on four main factors: the exhaustion of the impulse of technological innovation which had been reached by the Second World War; Japanese competition in all the most advanced area of production, the movement of manufacturing capital to cheap-labor in countries such as Taiwan and Brazil and finally the oil prices increases after 1973 [1]. In 1975 was the first time since 1948, when world trade did not grow. However, it doesn't explain Britain's position as a special case, because it was especially vulnerable for two main reasons.

Firstly, manufacturing capital was greatly centralized, with the largest 100 companies accounting for 50% of total output in 1970 (compared to 15% in 1910). In the late 1970's the structure of the economy determined by the six largest public corporations (in electricity, metallurgy, gas and coal, and infrastructure) with assets that exceeded 1 billion pounds [2]. Additionally, it allowed the government announces the prevalence in the country "mixed economy", and the state assigned the role of regulator of social and economic relations.

Secondly, business was highly internationalized; 50 of the top 100 companies were multinationals, accounting for over a quarter of all Britain's visible export. In 1979, 19.5 % of visible exports were from American-owned firms, while one third of the profits of British multinationals came from overseas.

S. Holland's related theory includes the rise of a "meso-economic" sector between the macro and micro level. The sheer scale and complexity of these companies was to disrupt the conventional wisdom about state economic management; companies had become partly immune to state policy. In 1975, Britain contained 140 of the top 500 European companies, yet its economic performance was very low; according to S. Holland: "leading, multinationals have written Britain off as the main location for their expansion, and are shunting investment and jobs in modern industry abroad" [1].

In this view, Britain had become just a "location" in the global division of labor, and an increasingly unattractive one for business at that. An interesting factor is that during the crisis new conditions were created for the economic transition from the sphere of heavy industry to services. This transition is comparable to the Industrial Revolution, which was carrying in his introduction of new technologies and innovations. Nowadays, innovation is one of the main moving forces that contribute more sustainable and effective development in the long term period. If we analyze the dynamics from 1970s we can see that these years were a turning point in the distribution of productive forces in Britain. Thus, the manufacturing sector, which occupied 32% of GDP in 1970 in 12% 2010 while, public sector had a small dynamic change and in 1970 was 14% while is now 19% in 2011. The greatest evolution has occurred in the financial and business services sector in 1970, it was only 16% but in 2010 38% [9]. This trend is the transition from the manufacturing sector to service sector: and definitely has some positive results. This economic policy has led to greater autonomy economically and improved better protection against external factors. Britain is an island, so the question of autonomous existence in emergency events in the world is the first.

Nowadays Britain's economy is one of the most powerful and stable in the world. But it still has sectors, with low protection. Going back to the energy crisis of the 70s, we can say

that in the present fuel-energy complex of England is quite vulnerable. Britain attachment to import raw material oil and gas is still quite large. At this stage in case of repeated misunderstandings with countries of OPEC, as recent events have shown the world it is quite possible, in the UK is only one hope for oil from the North Sea.

So, the only direction of development in this sector is the introduction of innovation in the fuel-energy sector, namely the development of alternative sources of energy. These sources include solar energy, wind energy, the energy of sea waves. Good examples in this respect can be called such countries as China, Japan, Germany and Spain. Ability to produce electricity using renewable energy sources in a secure and reliable way should be the aim for each country, which in turn will increase the level of "national security" of each country and the whole world.

## CONCLUSIONS

The 1970s have provided a great experience for Britain. These years were catalyst for neoconservative economic development strategy of the country in 1980s. Advantages of the public sector is seriously hampered by progressive development of industry, ship building industry made the production-capable uncompetitive on world markets. The systematic increase in spending on social needs in society gave the rise to psychological imbalance. The British could not accept the loss of the title of world's largest colonial empire and the enormous loss of possessions which for more than a century meant that they had a higher standard of living than in other countries. The country economy becomes increasingly taking corporate traits, when any economic solution acceptable on the basis of agreements between government, trade unions and employers in their own interests, which impede progress. Now all the British need to learn about the new conditions of the new world and only rely upon their own strength, in fact, it is the main their problem.

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