

## **ECONOMIC CHANGES IN THE UK SINCE 1945**



## **Introduction**

The aim of this assignment is to make comparisons between two important post WW2 decades and try to explain the differences in economy and economic policy of the two decades.

In 50s UK was a major world power, militarily and economically, but it had lost all that dominance in 70s because of the slowness in its economy and partly because of major political and economical mistakes, the other reason being was the slow economic growth of the UK compared to other industrialised countries.

Another big difference in the two decades were the economic policies, and theories used by the government. The government of the 1950s were using more of Keynesian theories and were trying to control the economic factors (e.g. Inflation, unemployment) using Keynesian theories and demand side policies. Whereas the governments of the 1970s were using and implementing Monetarist (Supply & money side policies), they were beginning to realise that Keynesian policies were ineffective. In the two decades, labour government tended to be more Keynesian and Conservatives tended to be more Monetarist.

Average inflation in 50s was 4.7 %, but in 70s it was 14.8%. The 1956 Suez crises resulted in the decreased the dominance of UK in international arena and showed how powerful USA really was. The decade also showed that the UK was about to be overtaken by the more dynamic European countries. The power of the pound went down because of the creation of EEC, also the trade between the European countries grew bigger than the trade UK had with the commonwealth countries.

## **Main Body**

When the conservative leader Winston Churchill returned to power in 1951, he had some hard tasks waiting for him. The economy was in a bad situation because of the Korean War in 1950 and the bad winter in 1951, the people were even being rationed for food. The beginning the 70s couldn't have been much more different, in 70s the

economy was enjoying a good time, the economy was in the middle of a short lived economic boom.

One of the major differences between the two decades for the UK was the defence budget. In 1950s the defence budget was at a record post-war high, this was because of the development in Korea and the start of the cold-war between the NATO countries and the communist states. The UK economy was taking enormous straits to fund this enormous need. In 50s a third of the motor manufacturing factories had to be converted for the production of defence equipment. But 70s was a decade of low defence spending, the cold war was going on between Soviet Union and America therefore UK did not need to spend a lot on defence. This was good news for the economy as they had less straits and more freedom.

The shock of the 70s decade came towards the end of 1973 with the first oil shock which affected the world, this period also coincided with the hostile affairs government had with the mine workers. This was the day that was called the 'End of the Golden age'. The Golden age was a post-war period when the UK had never been better, this period also included the 50's, in this period inflation was low, unemployment was low and the economy experienced a long consistent boom. The years after 1973 were much more different, the inflation went up sky rocketing, the unemployment passed the 1 million mark and the GDP shrank for consecutive two years.

70s also experienced a similar shock in 1979 when the oil prices went up, this time doubling in value, but the production and the increase in inflow of North Sea oil meant that this time UK benefited from this. The economy in 70s was much more volatile than the 50s which more much more stable economic activity.

The Golden Age was not era enjoyed by the UK alone; all the other industrialised nations also experienced a similar long lasting expansion in their economy. Comparing the rate of growth of the UK with other industrialised countries it could have been predicted then that UK would have been overtaken soon, the dynamic economies such as Germany and the USA were growing at a faster rate.

I think the 50s were also a decade of lost opportunities. When in 1958 the EEC was formed, went up and running, all UK did was sit and watch, actually (thanks to government errors in the time) UK only joined the community in 1973. We see that this was a big loss in terms of opportunities for UK if we look back today; the rate of growth and the competitive pressure inside the union was much higher than compared to commonwealth countries that UK chose to trade with at that time, UK would have been much better off choosing the EEC rather than commonwealth long before.

The governments of 1950s had a lot of confidence from businesses and workers then the governments of 1970s, there are couple of reasons for this, mainly it was because of the difference in economic stability of two decades, 70s governments especially the conservatives made many 'U' turns in their policies, for example in 1970 when Mr Heath came in charge he promised a policy of 'disengagement' in the economy, but in 1974 he broke that promise and nationalised some key companies, and took other contradicting actions. You could say he was forced and justified to do what he had to do because of development outside his power and outside UK (the oil crisis of late 1973). The 70s saw a lot more of the strikes and frictions between the government and the unions. This was not the case in 1950s

The source for both oil shocks were the activities that went on mainly in the Middle East. The affects of both oil shocks were different for the nations that imported and the nation that exported oil. The exporters (OPEC countries) enjoyed a high income due to sales in higher price and the importers (inc. UK) saw a lot more of their money being spend in oil, this resulted in UK buying less oil (because the economy could not afford to buy more). This resulted in higher demand compared to supply of oil, hence inflation went up, and GDP went down.

In 1974 the economy experience large external deficit and confidence in the pound was decreasing. Labour government of the time saw the only option to improve the situation was to borrow money from the IMF. IMF agreed only at the condition that the government should deflate the economy and to reduce inflation, convinced that the government was doing this IMF agreed to lend the money. Inflation and unemployment were the main government concerns in 70s as they were so high, but

the main concern in 1950s was the balance of payments deficits, as it was fluctuating violently, but inflation and unemployment at that time was non-existent.

Another major difference in the two decades started when the Breton-Woods adjustable peg exchange rate system (which was used throughout the 50s) was replaced by the pound being allowed to be floated in the exchange market. The fixed exchange rate system was giving difficulties to UK because of occasional run on the pound, but this was not happening after 1972 because of the new system where the pound could adjust itself naturally. And now the government didn't even need foreign currency reserves.

## **Economic Statistics**

When we look at the GDP of 1970s we can see that the rise was much higher in the first and the last parts of the decade but in 74 and 75 there was a decrease in the GDP and a rather large one, the reason for this was the increase of the oil prices, development of mine strikes in the same period, and a really large boom in 73 which made things go out of hand. Comparing this to the 50s we can see that the rise in GDP was a lot more smaller but the variance was much less, there was only one year of decline. This was reflected in the rise of unemployment and the rising deficit.

During the 1950's unemployment levels in the UK were much lower and stable compared to the unemployment levels in the 1970's. The unemployment levels in the 1950's were around 2% and were stable; however during the 1970's this figure had doubled the amount. After the mid 1970's unemployment levels in the UK was constantly at an increase and had reach up to almost 12% during the start of the 1980's. *(These figures are illustrated in appendices)* The reason for the increase in the level of unemployment during these periods was because of the internal and external shocks the country experienced, UK was not the only country to experience a rise in unemployment, the developments also happened in Europe.

During the 1950's Inflation levels in the UK were much lower and stable compared to the inflation levels in the 1970's. The inflation levels in the 1950's were around 8% and were stable; however during the 1970's this figure had increased over three times

the amount. After the start of the 1970's inflation levels in the UK was constantly at an increase and had reach up to almost 27%. *(These figures are illustrated in appendices).*

Both the levels of unemployment and inflation in the UK were quite low and stable during the 1950's, however dramatically increased during the 1970's. The rapid increase of unemployment moved the government to take reflationary measures a little ahead of the great international boom of 1973 so that unemployment tumbled from 900,000 to 500,000 a t the end of 1973 and output grew faster (by 7.3 %) than in any post-war year.

The Economy of both decades shows a very parallel progress with other industrial countries, showing us how interdependent Economies of countries really were and this is still true today.