Influence of the economy on uk government

The UK economy has undergone structural, financial, and political change over the last thirty years. Different ideologies and policies have served to shape the relationship between government and economy in varying directions. Some elements, such as state intervention, have remained as a point of debate. Other factors, like globalization, have just recently developed. The policy of UK governments as a whole has been shaped quite heavily by major economic events during this period, and the legacy left by the Conservative and Labor governments can still be seen today. The context of this relationship is concerned with the theory of political economy. This is the idea of rationality and growth of the ‘ free market.

First, it is key to outline the characteristics of the relationship the government and the economy share. Clearly, a government influences the way an economy works via it’s policies. The government uses two branches of policy, fiscal and monetary. Fiscal policy entails government spending whereas monetary policy involves manipulation interest rates. Both policy instruments are designed to achieve growth. The attempts of a government to influence economic activity in the national economy are defined as macro-economic measures.

Even the government itself is run as a typical business in a free market economy. It has a limited budget, and it has to prioritize quality and cost. It sets itself certain monetary and economic targets which it aims to meet each financial year. The state also plays a crucial role in providing a welfare state, where transfer payments are an important part of a circular flow of an economy. Transfer payments are aid given to people who are unemployed, or for any other reason, are economically inactive. Aside from this, the government will play other roles of importance. The regulation of markets and the encouragement of competition and entrepreneurship are all different areas in which the government contributes to the economy. If you break the relationship down further to involve the firms, the government still maintains influential involvement. The tax system and enterprise schemes are just two of a long list of programs with which government and business stay inter-connected. The association between the government and its economy is a crucial and significant aspect of any dominant nation around the globe.

One of the key changes in this relationship between governments and economies hasn't risen from external events. One of the components of this relationship has undergone significant change since 1979. When looking at the time period just before this, there had been various approaches to political economy which had begun and then collapsed. The Keynesian orthodoxy collapsed in the face of a persistent and unpredicted rate of inflation. Each ideological change brought about it's different effects on the relationship between government and economy. To generalize the change before and after 1979, it is appropriate to state that the size and style of government had changed, from big to small. Big government, where regulation of markets, state intervention and command economics were the central characteristics, had been abolished. In came small government, where practices such as deregulation, privatization and free market economics were encouraged and integrated. Under small government, the state would take a step back from economic affairs, and adapt, to a small extent; a ' laissez-faire' approach. This change in government would be preferred by business and other capitalists. Certainly, this change was a landmark event in the economic theory of the state, and would shape the economic policies of the following governments.

The tenures of Thatcher and Blair may have been under different parties, but towed the line of small government, less government intervention. A new wave of neo-liberal or neo-classical practice had begun. The change in government style has been noted. Now, the effects of this change need to be assessed, and more importantly, the critical elements need to be analyzed. First, the notion of state intervention and market failure has to be critically put under the microscope. The argument over whether the state should intervene in the country’s economy has been a drawn out affair. Certainly, under the new Thatcher government in the early 80’s, state intervention in economic matters was the norm. Under Thatcher ‘ there was a real attempt to deregulate markets and to transfer assets from public to the private sector’. This policy of privatization, ‘ the sale of public sector firms to the private sector’, had become the hallmark of the 1980’s Conservative tenure. ‘ Indeed, for many the overriding impression given by the Thatcher government was it’s interventionist … stance in a wide variety of markets’.

The idea behind this privatization program was that first, opening up large monopoly type companies allowed the implementation of private expertise and involvement, which wasn’t initially present. This would lead to a great level of efficiency and productivity. Second, privatization would show that ‘ even natural monopolies were better handled by arms’ length regulation that committed the government to intervene perpetually’. Other Thatcher projects like the Private Finance Initiative (PFI) and Public-Private partnerships invoked the idea of bringing a isolated private sector into the fray, and tapping it’s knowledge and expertise to bring a positive effect. The Public Finance Initiative used private finance to build projects and private management to run them, with the government paying a service charge for the use of the asset.

Certainly, this program brought to the end the idea of heavy state control. The economic policies of Thatcher were a definite change from the period before. Labor would continue the main theme of free market policies. However, the period under Labor also the nationalization of some of Britain’s big companies. The Financial Crisis of 2007 saw Labor bring the Royal Bank of Scotland, Northern Bank and Lloyds TSB into government ownership. The government was forced to pump emergency funds into the banks to restore confidence in the banking system and to avoid a complete collapse. The need for government intervention wasn’t favored by either the banking sector or the general public, but this intervention was one of the risks which came with a free market economy. As free market economies involve little regulation, the banks in this case, went past many of their remit when it came to what practices they could and should carry out. In such an economy, it is often assumed that the market should be left to regulate for itself, but such an assumption failed completely here. Alongside the banking crisis, the government was forced to introduce other macro-economic measures, such as quantitative easing designed to increase money supply and consumer spending, and other more micro-economic based measures such as the car scrappage scheme, which concentrated on boosting car sales.

Government intervention was quite successful during this period, with Britain return to relative growth by 2009 and the banking sector beginning to recover. The period highlights the issue of whether state intervention is ever invisible to the economy. The idea behind dropping a command economic model is that you want an economy to work in a way for which it aims to maximize profit and creates growth and enterprise. Taking out the notion of state intervention means that individual companies and markets will have to work more efficiently and more professionally then they would if state assistance was on hand to help on any time. Regulation and risk-taking would have to be at an acceptable level, as the responsibility and successfulness of a business will depend solely on it’s management. Thus, should the business fall into trouble, and the government doesn’t intervene, it will be the company’s bosses that will feel the wrath of it’s shareholders. However, when the situation at stakes involves a sector which the whole country depends on and uses a lot of the time, e. g. banks, it becomes increasingly difficult for the government not to take action. The banks were a big concern for the public and small businesses, as there would be a high chance of savings being lost and businesses losing investment. It was important for all people involved to see the banks recover and be halted from the verge of collapse. The period has shown two things. Firstly, the UK economy has definitely assembled a free market and neo-liberal economic agenda, with markets allowed to act as they wish within an appropriate limit.

Secondly, the government has the tools and the power to intervene in markets which grossly abuse the power allocated and allowed to them. Another aspect of political economy which has developed over the last thirty years is globalization. The term globalization ‘ more accurately describes a number of processes by which products, people, companies, money and information are able to move freely and quickly around the world, unimpeded by national borders or other territorial limitations’. The effect of globalization is developing as each day goes by. The global economy has undergone significant change over the last few years, with workers and businesses all around the world being influenced by events happening in other parts of the globe. Trade and labour are some of the key parts of how globalization has developed. Trade between countries has grown quite extensively, with the European Union a good example of how trade relations have lengthened. Also, companies are now beginning to locate businesses abroad because of cheap labour and favorable tax incentives. All these events have led to a rapid rise in global economic theory and policy.

Globalization has helped create TNC’s (transnational companies) whose brand name is known all around the world. The effect of globalization is that the communication and influence of national government in it’s can break down easily. For example, if a company in the UK feels it is being taxed unfairly, or feels that it’s UK labour force isn’t as efficient as it could be in other countries, it may now have the ability to leave without causing itself much damage financially. If the government knows that it’s hand can be forced easily by the developing global market, it will be forced to succumb to the any demand of it’s domestic businesses. Ironically, globalization can also be classed as an argument for state intervention. Globalization will lead to some businesses failing due to increased competition – more reason to support other firms which could be successful in the future. Also, globalization may not be such a bad thing economically. Yes, a country is at risk with its businesses willing to relocate to the country that suits them best, but global competition means more emphasis on firm's to become competitive. This can lead to more jobs and more growth in the domestic economy. The advancement of globalization has led to a decrease in the influence of government and moved up a notch, the power of business in national economies.

In conclusion, over the last thirty years, the relationship between government and economy has fluctuated many times. The policy and style of government, and other external crises' and events have led to different styles in handling public sector economics. External events such as the financial crisis and globalization have brought up the debate of the free market and whether attempts to keep the government in the background will ever be successful. Monopolies were the created of privatization, but deregulation was a creator of nationalization. This has seen a fine line having to be struck between the government's roles in the economy. Globalization has seen individual firms within an economy boost their status and influence, in turn, shutting out government power in their respective economies. Different parties have brought their respective philosophies into power in the UK. Enterprise, freedom of choice and increased competition in individual markets has been the driving force in most action taken by government during this period. In my opinion, it is fair to say, that the UK economy and the UK government have undergone structural, political and geographical change, which has led to Britain maintaining a stranglehold in the battle of the developed and developing economies.